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THE WHITE HOUSE
WASHINGTON

NOV 26 1975

Date: _____

TO: Jack Marsh

FROM: Max L. Friedersdorf

For Your Information X

Please Handle _____

Please See Me _____


Comments, Please _____

Other

THE WHITE HOUSE
WASHINGTON

M

November 26, 1975



MEMORANDUM FOR THE PRESIDENT

FROM: MAX L. FRIEDERSDORF *M. L.*
SUBJECT: New York City Reaction

Congressional reaction to the President's New York City statement tonight included the following:

Senator John Tower - Strongly endorsed the Presidential message, indicated he would issue supportive comments. Particularly pleased that the assistance will be loans.

Senator Bob Griffin - Not enthusiastic but indicated he would not be critical and realizes the President had no choice. I am taking a fact sheet by his house tonight.

Senator Garn - "As you know, I've been very opposed, but I do prefer loans to loan guarantees. If you guaranteed that would make New York's paper more valuable than Salt Lake City's AAA." Was very pleased to have been called.

Senator Young - "It won't be popular out here, but I guess he had to do it. I doubt if I could vote for it unless my vote was the deciding one. He has forced New York to make some basic changes."

Representative Barber Conable - Excellent statement and will lend all possible support. Believes that the President's firmness has resulted in the best possible solution.

Representative Bill Stanton - Supports the President all the way. Will issue statement and "Dear Colleague" letter to Republicans urging support. Will personally contact the Minority Members of House Banking & Currency Committee.

Representative Lud Ashley - Get the bill up right away. Will consider substituting the President's bill for the Committee bill now scheduled for House Floor action on Tuesday, December 2.

Senator Bellmon - "Let them default. They got into the mess. The President must make a case of having forced New York City to put its house in order. Hopefully, it is not a long-term commitment into perpetuity. What will he (the President) do on common situs and energy?"

Representative Lou Frey - Oscar Juarez, Frey's AA, called from Orlando and asked for a reading. He was very pleased and felt it would be acceptable to Frey and Floridians generally. Oscar felt the emphasis on essential services and monthly granting of the loan money was good.

Senator Hruska - "Will he ask for bankruptcy legislation? It should be part of the package. They may still try to postpone and bring on default so they can get larger federal help. I am pleased that Simon is the Federal official who will administer the program. I will listen carefully and try to say something helpful. We should really stress the bankruptcy legislation. I am pleased about the monthly provision."

Representative Caldwell Butler - Believes the President's announcement is a graceful retreat from his earlier position. Supports the legislative proposal as the most satisfactory, available solution to the New York City problem. Foresees this proposal as precluding further Congressional action on pending bankruptcy legislation. Will support the President's new position.

Representative Jim Cleveland - "I know Bill Loeb, the Governor and Reagan will call it a bailout. I plan to duck calls on it tonight. I will cogitate tomorrow and plan a press conference on Friday. I have been traveling the state for three days and it's not good at all. I'm not saying we will get licked, but it is a lot of things like that crazy Nessen remark about skiing in New Hampshire." (I read Cleveland the good reports we are getting, particularly from Frey's AA in Florida, and urged him to take a positive attitude, but Cleveland remained skeptical.)

Representative Norman Lent - "That's great. It will be a big help to New York City. I will embargo the information, but I heard essentially that on the radio a few moments ago."

Representative John Rhodes - Fine statement. Will issue supportive statement indicating he recommended these steps recently and pleased that the President forced New York City to take responsible financial steps.

Representative Bob Michel - Non-committal. Just returned from the District and wonders about pollsters who report public turning around on New York City. His people still strongly opposed to any assistance. People told him the President shouldn't give in on New York City. "I'm glad Reagan waffled and seemed soft on this issue because I'm afraid he could hurt us."

CONGRESSIONAL REACTION TO PRESIDENT'S NEW YORK
CITY ANNOUNCEMENT

The Speaker

Enroute to North Carolina. Gave message to Mike Reed. He was non-committal, but seemed satisfied.

Chairman George Mahon

Enroute to Dallas. Nancy Langston will relay message. Was enthusiastic. Believes the Chairman will approve of this approach.

Chairman Henry Reuss

In Africa. Gave message to James Galbraith, Banking and Currency Committee Counsel. He seemed to buy the approach and felt the Chairman would want to convene the Committee speedily to report out the legislation as a committee amendment which could be offered to the pending bill under the open rule.

Rep. Jack Wydler

Very supportive. Urged that the President's statement expresses sympathy for the people of New York City who have been the victims of their elected leaders.

Rep. John Anderson

Enroute back to Washington. Gave message to Mike Masterson, who felt the Congressman would support this approach and issue a statement.

Rep. Stewart McKinney

Could not be reached at his home in Connecticut. Left message with Mrs. McKinney and with Jerry McKiernan, his Press Aid here. McKiernan was enthusiastic.

Rep. J. William Stanton

Already had essence of the plan from Max.

Rep. Joe Waggoner, Jr.

Initially reacted with the following questions:

- Will New York City retirement plans be made contributory?
- Will New York City impose salary freezes for City employees?
- Are Federal audits planned for New York and New York City in order that we may be assured of their financial positions?
- Will New York City's previous abuses of welfare programs, higher education and retirement plans be corrected?
- Will the Federal government be assured that "essential services" will not be allowed to go on strike while being Federally financed?
- In the event of default on seasonal loans, does the Federal government have a means to retrieve loaned monies -- i.e. withholding of commensurate amounts of revenue sharing monies, etc.?

The Congressman indicated he did not feel the President's announcement would be warmly accepted throughout the country. However, he stated that he would do everything he could to lend public support to the President on this matter and all others.

Rep. Ed Hutchinson

As a result of the President's announced loan program, believes Congress will forego action on pending bankruptcy legislation.

In travelling through his district, the Congressman has found that his constituents will only support amendments to the Bankruptcy Law. They do not believe Federal assistance of any sort should be made available to New York City. Therefore, the Congressman stated he would not be able to publicly support the President's announcement.

Thomas P. O'Neill, Jr. (D-Mass.)

Will this require legislation? Yes. I'm delighted at the President's action. I won't be critical. "I'm in Cape Cod and don't expect any calls but if he does he'll say that the President has done the right thing and thank God for the nation."

Peter W. Rodino, Jr. (D-N.J.)

Spoke with Francis O'Brien, A/A - Rodino will probably have a reaction but don't know what that reaction will be until he sees the fact sheet on the President's statement.

Thomas L. Ashley (D-Ohio)

He talked to Seidman and wants fact sheet this afternoon and hopes that's understood so he can coordinate the necessary legislative action. Ashley bill put onto the Senate calendar to avoid filibuster. If he has to start with new language or bill then something has to be done to keep the number of the bill, understand the legislative situation and act accordingly. He talked to Burns and says Ford exposing himself a little on direct loan -- politically he's exposed himself on direct loans and budget implications. There also may be problem because this doesn't discourage other cities as the Ashley bill does by setting conditions so onerous that they wouldn't consider it. This smacks of direct bail out and people will shake their heads. He'll make no commitment until he sees the fact sheet and language of the bill. Bill Seidman told him that Ed Schmultz of the Counsel's office is to meet with him on Friday, November 28.

John J. McFall, (D-Calif.)

Is this going to require going back to Committee with new legislation? Hope not, we should be able to work something out legislatively. Glad its worked out this way and hope we can work out the legislative situation next week.

Norman F. Lent (R-N. Y.)

Could not be reached.

<u>SENATOR</u>	<u>PLACE</u>	<u>TIME</u>	<u>REACTION</u>
Scott, H.	D. C.	4:15 *	His reaction is favorable. The action to continue the viability of New York City is desirable. Will support it.
Buckley	New York	4:20	Spoke to A.A. He will transmit message and advise us of reaction.
Brooke	D. C.	4:20	Senator and A.A. unreachable. Spoke with Secretary, Sheila Crowley, but did not read the message to her.
Mansfield	Florida	5:15	Fine! The President played this just right. The situation could have been chaotic. N. Y. now has a chance to work out of a situation on a firm basis.
Javits	New York	5:30	The President has done well. I will issue a statement in support.
Proxmire	Milwaukee	5:40	Sounds alright to me. Will the loans be direct treasury loans? If so, they will require authorization and appropriation. The figures sound a little low.

* all times P. M.

NOV 21 1975

November 21, 1975

Dear Congressman Ashley:

Your letter of November 20 to the President concerning New York City has been received and please be assured that I will bring it to the President's attention without delay.

With kindest regards,

Sincerely yours,

Max L. Friedersdorf
Assistant to the President

Honorable Thomas Ludlow Ashley
House of Representatives
Washington, D. C. 20515

MLF:jg

bcc: Bill Seidman w/incoming for appropriate action.
Dick Cheney - FYI
Jack Marsh - FYI
Alan Greenspan - FYI
Virginia Olson - FYI



THOMAS LUDLOW ASHLEY
9TH DISTRICT, OHIO

2406 RAYBURN BUILDING
WASHINGTON, D. C. 20515

COMMITTEES:

BUDGET

BANKING, CURRENCY AND
HOUSING

MERCHANT MARINE AND
FISHERIES

Congress of the United States

House of Representatives

Washington, D.C. 20515

DISTRICT OFFICE:
FEDERAL BUILDING
234 SUMMIT STREET
TOLEDO, OHIO 43604

November 20, 1975

Honorable Gerald R. Ford
President of the United States
The White House
Washington, D. C. 20500

Dear Mr. President:

In your statement on New York City yesterday, you said that "the bail-out bill now before the House of Representatives is irrelevant because it does not address the current situation" and that you would veto it. You went on to say that if New York continues to make progress toward fiscal responsibility, you will review the situation early next week to see if any legislation is appropriate at the Federal level.

As principal author of the bill pending before the House, permit me to offer some comments on this measure which I believe are pertinent.

H. R. 10481 is the product of hearings which even opponents of Federal assistance to New York City agree were extensive, impartial and of uniformly high caliber. The bill reflects the testimony not only of Secretary Simon and Chairman Burns, but also was shaped to accommodate your Press Club promise to veto any bail-out bill for New York City. While it permits the use of limited guarantees either pre-default or post-default, the bill does not mandate such assistance. On the contrary, even after satisfaction of the strict requirements which must be met as pre-conditions to Federal assistance, the ultimate discretion and final decision rest with your Administration.

It is no accident or coincidence, Mr. President, that the positive steps taken by Governor Carey which you praised in your statement are the very steps necessary to meet the conditions of H. R. 10481.



The bill requires that credit markets be closed both to the City and State involved.

This is precisely the situation today.

The bill requires the creation of a State receivership.

Such a receivership -- the Emergency Financial Control Board -- has been established by the New York Legislature and is now handling the financial affairs of New York City.

The bill requires the submission of a detailed financial plan for fiscal solvency.

The Emergency Financial Control Board has approved such a plan, incorporating increased revenues from new City taxes together with substantial reductions in City payroll and municipal services.

The bill requires additional State aid to the City not exceeding one-third of the City's deficit.

Such additional State aid is now being acted upon by the New York Legislature in emergency session.

The bill requires the renegotiation of both outstanding City obligations and wage contracts, including fringe and other benefits.

Renegotiation has already taken place, resulting in a stretch-out of MAC bonds and a reduction in take-home pay of 2-1/2 percent for City employees. In addition, the State Legislature has enacted a moratorium involving an exchange of approximately \$1.5 billion in notes for long-term MAC securities.

In addition, the bill requires that either of two purposes must be met before Federal aid can be approved. to enable the City to continue to provide essential public services or to prevent or mitigate a serious adverse effect on the general economy or on the marketability of tax-exempt securities.

Even your close Administration advisors agree that both of these purposes are met at this time.



In short, Mr. President, the series of conditions contained in H. R. 10481 are demonstrably relevant to the current situation. In meeting these conditions, commitments have been entered into by the City, the State, the unions and pension trusts, the obligation holders, the Emergency Financial Control Board and MAC which have reduced the amount of Federal guarantees needed to \$2-1/2 billion -- a reduction which is reflected in Committee amendment to the pending legislation.

Under the circumstances, I can find no rational reason for your characterization of the bill as "a bail-out" or as being "irrelevant." But if the measure is not deemed to be responsive to the situation, could not my Subcommittee be so advised, with some guidance offered, as to how it might be more so? This is what I suggested in my letter to you of November 6 and I still believe that such course would be far more constructive than simply repeating the threat of veto.

Surely there is agreement that the Federal government must provide temporary assistance if a New York City bankruptcy and concomitant disaster are to be avoided. This will require prompt affirmative action by both the Congress and the White House, as well as New York City and State. Please, Mr. President, let's work together in cooperation to achieve a solution which clearly is essential in the national interest.

I will be at your disposal at any time during the current Recess.

Sincerely,



Thomas Ludlow Ashley, M. C.

TLA:sr



NOV 19 1975

THE WHITE HOUSE
WASHINGTON

November 19, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: MAX L. FRIEDERSDORF
SUBJECT: New York City

When the President's statement on New York City was delivered and read into the Rules Committee record, Chairman Rodino requested that he be allowed to reconsider his request to allow the bankruptcy measure to be incorporated into the loan guarantee bill.

The Democrats on the Rules Committee reacted to the President's statement by indicating they did not want the White House dictating to them how legislation would be considered on the House Floor.

At 12:00 noon, the Rules Committee adjourned, subject to the call of the Chair.

The following are one minute speeches on the House Floor in reaction to the President's statement:

McKinney - Concerned with the President's statement, hopes that the Executive and Congress will pull together in order that our Nation will be best served in this instance.

Reuss - Regrets the President's statement, asks the leadership to withdraw his loan guarantee legislation from House Floor consideration.

Rhodes - Shares Reuss' regrets that they had to withdraw the loan guarantee bill today. He supports the concept of loan guarantee plus bankruptcy. He then requested the Majority leadership to bring up the bankruptcy bill as a single legislative item.

Reuss - Then stated he opposed having the bankruptcy legislation considered separately.



Ottinger - Stated the President is playing Russian Roulette with the financial condition of our entire country. The default of New York City will incur a domino effect in other cities throughout the country. Feels the President's move was exceedingly unwise.

Wylie - Tremendously applauds the action by the President.

Bauman - The President represented the view of a vast majority of Republicans in the House and of people throughout the country. Strongly applauded the President's action today.

Tip O'Neill announced the following legislative schedule for today in view of the fact that New York City is off the schedule.

H.R. 8578 - (CAP legislation)

Price/Anderson bill

...and a resolution for adjournment to be followed by an informal session for tomorrow.



THE WHITE HOUSE

WASHINGTON

November 26, 1975

MEMORANDUM FOR: DICK CHENEY

FROM: MAX FRIEDERSDORF

M.F.

I recommend the following members of Congress be notified today prior to the announcement on New York City.

House

Albert
O'Neill
McFall
Reuss
Ashley
Rodino
Mahon
Brock Adams

Rhodes
Michel
Al Johnson
John Anderson
Bill Stanton
Ed Hutchinson
Cederberg
Latta

Wydler
Lent
Fish
Peyser
Gilman
Conable
Butler

Senate

Mansfield
Byrd
Proxmire
Eastland
McClellan
Muskie

Hugh Scott
Griffin
Curtis
Tower
Brooke
Hruska

Buckley
Javits
Young
Bellmon

cc: Marsh
Seidman
Simon
Lynn

Determined to be an administrative marking
Cancelled per E.O. 12356, Sec. 1.3 and
Archivist's memo of March 16, 1983

THE WHITE HOUSE

WASHINGTON

By EMD NARS date 1/16/86

December 2, 1975

MEMORANDUM FOR: DICK CHENEY

FROM: JACK MARSH 

The following is a summary of items which I wish to bring to your attention. Some of these we may have discussed in our phone conversation.

1. The New York City bill passed the House by a vote of 213 to 203. The reports I have are that the measure is basically that which the Administration proposed with certain amendments which are believed to be acceptable. A more detailed report follows.
2. I met with John Rhodes this afternoon and he raised the following points:
 - What would be the attitude of the Administration if he were to make a motion to recommit on the pending tax reform bill for a straight extension of a year of the existing tax law without the \$395 billion ceiling. He suggests consideration be given this straight extension to keep the tax rates at the present level for 12 more months.
 - He pointed out his concern about situs picketing and I advised him that although the President was aware of his views, I would relay his continuing concern.
 - Rhodes has been talking with Tip O'Neill about the Congressional calender and he asked me to sound out the President's views on the following possibility:



Adjournment	December 19
Reconvene	January 19
State of the Union	January 20
Budget Message	January 26

Although the adjournment date will probably hold it is not definite on any of the other dates just mentioned. Appreciate guidance on this proposal.

3. The House Armed Services Committee today failed to approve a proposal to add the Secretary of the Treasury to the NSC by a vote of 15 to 15. Senator Symington, who was a sponsor of the provision, is very upset and apparently an effort is being made in the House Armed Services Committee to reconsider the House action with Bob Wilson leading the anti-Administration forces in support of the bill.
4. A rather difficult situation may be developing in reference to Richardson and Zarb concerning Chairmanship of the Energy Resources Council. Max Friedersdorf advises, and there is a similar report from the Vice President, that when Elliot testifies for confirmation on Thursday (here) before Magnuson that he plans to say that in addition to his duties as Secretary of Commerce, he will also serve as Chairman of the Energy Resources Council. Zarb has requested that Elliot not so testify, to which Richardson responded that the Chairmanship of the ERC was offered to him by the President and was one of the reasons that he agreed to accept the Cabinet post and that in his testimony he would so advise the Committee. Do you have any special guidance on this one?

5. Max advises that the unacceptable version of the rail bill was reported by the House Commerce Subcommittee this afternoon but an attempt to improve the legislation will be made in full Committee. The attempt to substitute the more desirable natural gas bill lost in full Commerce Committee by a vote of 19 to 19. However, an attempt will be made to obtain a rule permitting it to be offered on the Floor and the close vote in Committee indicates some chance for success on the Floor.
6. The move in House Commerce to cite Secretary Morton for contempt has been delayed until Thursday and we are working with the Republicans and friendly Democrats to defeat this attempt. The vote looks very close at this time.
7. In reference to the Energy Conference Report, there has been a further delay with no report expected until early next week. Apparently the conferees have fallen into serious disagreement as to what they had agreed upon, particularly on the pricing mechanism. Bud Brown reports that Jackson's staff is putting together language that differs substantially from the Republicans understanding of the agreement.
8. The Stevens matter is moving well. Max took him to meet with the House leaders today and reports a very fine reaction. He will complete his final Senate courtesy calls on Wednesday morning and there is still a possibility of hearings starting on Thursday, but in all events, not later than Monday. Thus far, no significant problems appear to be developing.
9. I have called a meeting in my office tomorrow morning with key legislative staff from the White House and State to develop a strategy and build support against the contempt citation in the event it is brought to the Floor next week.

10. See O'Neill Attachment Re
NYC.



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

ok!
jm

December 2, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: PAUL H. O'NEILL

O'Neill

SUBJECT: NYC Legislation - Budget Impact

As we understand the legislation that has been adopted by the House, they have incorporated the provisions we requested, allowing us to sell NYC loan paper to the FFB, thus insuring that there will not be any significant budget impact from these transactions.

The House did insist that a separate appropriation be provided for administrative expenses to run the revolving fund. This should be no problem. Expenses should not exceed \$1 - 2 million.

In addition, the House modified the authority we had requested to enable withholding of other Federal funds in the event of NYC default on their loan obligations. Under the House formulation, any future withholding actions will require positive action by the appropriation committees.

This change will not impact the budget. Ed Schmults is providing more details on this change.

Imm
PRECEDENCE

Secret
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: Jack Marsh
TO: Dick Cheney
(Peking)

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INFO:

DTG: 030201Z DEC 75

RELEASED BY:

DN

TOR: 030222Z

SPECIAL INSTRUCTIONS:

Hold for Cheney's return
from sightseeing.

75 DEC 2 PM 9.23

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11/11/75

1975 DEC 3 02 01

Determined to be an
Administrative Marking

By 48D NARA, Date 3/20/14

THE WHITE HOUSE
WASHINGTON

M

December 2, 1975

MEMORANDUM FOR:

JOHN MARSH
WILLIAM SEIDMAN
MAX FRIEDERSDORF
CAL COLLIER

FROM:

ED SCHMULTS



Here is the latest version (12:30 PM) of our New York bill as it will be submitted to the House. The only change from the version I described this morning is that Treasury will have to seek an appropriation for its expenses in administering the Act.

(R)

COMMITTEE PRINT

DECEMBER 2, 1975

94TH CONGRESS
1ST SESSION

H. R. 10481

AN ACT

To authorize the Secretary of the Treasury to provide seasonal financing for the city of New York.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SHORT TITLE

4 SECTION 1. This Act may be cited as the "New York
5 City Seasonal Financing Act of 1975".

6 FINDINGS AND DECLARATIONS

7 SEC. 2. The Congress makes the following findings and
8 declarations:

9 (1) It is necessary for the city of New York to obtain
10 seasonal financing from time to time because the city's
11 revenues and expenditures, even when in balance on an

J. 62-335

1 annual basis, are not received and disbursed at equivalent
2 rates throughout the year.

3 (2) At the present time the city is or may be unable to
4 obtain such seasonal financing from its customary sources.

5 (3) It is necessary to assure such seasonal financing,
6 in order that the city of New York may maintain essential
7 governmental services.

8 **DEFINITIONS**

9 **SEC. 3.** As used in this Act:

10 (a) "City" and "State" mean the city and State of New
11 York, respectively.

12 (b) "Financing agent" means any agency duly author-
13 ized by State law to act on behalf or in the interest of the city
14 with respect to the city's financial affairs.

15 (c) "Secretary" means the Secretary of the Treasury.

16 **LOANS**

17 **SEC. 4.** (a) Upon written request of the city or a financ-
18 ing agent, the Secretary may make loans to the city or such
19 financing agent subject to the provisions of this Act, but in
20 the case of any loan to a financing agent, the city and such
21 agent shall be jointly and severally liable thereon.

22 (b) Each such loan shall mature not later than the last
23 day of the fiscal year of the city in which it was made, and
24 shall bear interest at an annual rate 1 per centum per annum
25 greater than the current average market yield on outstanding

1 marketable obligations of the United States with remaining
2 periods to maturity comparable to the maturities of such
3 loan, as determined by the Secretary at the time of the loan.

4 SECURITY FOR LOANS

5 SEC. 5. In connection with any loan under this Act, the
6 Secretary may require the city and any financing agent and,
7 where he deems necessary, the State, to provide such security
8 as he deems appropriate. The Secretary may take such steps
9 as he deems necessary to realize upon any collateral in which
10 the United States has a security interest pursuant to this sec-
11 tion to enforce any claim the United States may have against
12 the city or any financing agent pursuant to this Act. Not-
13 withstanding any other provision of law, the Secretary may,
14 to any extent provided in Acts making appropriations, with-
15 hold any payments from the United States to the city, either
16 directly or through the State, which may be or may become
17 due pursuant to any law and offset the amount of such with-
18 held payments against any claim the Secretary may have
19 against the city or any financing agent pursuant to this Act.

20 LIMITATIONS AND CRITERIA

21 SEC. 6. (a) A loan may be made under this Act only if
22 the Secretary determines that there is a reasonable prospect
23 of repayment of the loan in accordance with its terms and
24 conditions. In making the loan, the Secretary may require
25 such terms and conditions as he may deem appropriate to

1 insure repayment. The Secretary is authorized to agree to any
2 modification, amendment, or waiver of any such term or con-
3 dition as he deems desirable to protect the interests of the
4 United States.

5 (b) At no time shall the amount of loans outstanding
6 under this Act exceed in the aggregate \$2,300,000,000.

7 (c) No loan shall be provided under this Act unless
8 (1) the city and all financing agents shall have repaid
9 according to their terms all prior loans under this Act which
10 have matured, and (2) the city and all financing agents
11 shall be in compliance with the terms of any such outstand-
12 ing loans.

13 REMEDIES

14 SEC. 7. The remedies of the Secretary prescribed in this
15 Act shall be cumulative and not in limitation of or sub-
16 stitution for any other remedies available to the Secretary
17 or the United States.

18 FUNDING

19 SEC. 8. (a) There is hereby established in the Treasury
20 a New York City Seasonal Financing Fund to be admin-
21 istered by the Secretary. The fund shall be used for the
22 purpose of making loans pursuant to this Act, ~~and to pay~~
23 ~~any expenses incurred in the administration of this Act.~~
24 There is authorized to be appropriated to such fund the sum
25 of \$2,300,000,000. All funds received by the Secretary in

All income from loans and investments made from the Fund shall be covered into the Treasury as miscellaneous receipts.

5

1 the payment of principal of ~~or interest on~~ any loan made
2 under this Act shall be paid into the fund. } Moneys in the
3 fund not needed for current operations may be invested in
4 direct obligations of, or obligations that are fully guaranteed
5 as to principal and interest by, the United States or any
6 agency thereof. After all loans made pursuant to this Act
7 have been repaid, ~~and all administrative expenses in connec-~~
8 ~~tion therewith have been paid,~~ the balance of the fund shall
9 be returned to the general fund of the Treasury.

10 (b) The Secretary is authorized to sell, assign, or
11 otherwise transfer from the fund any note or other evidence
12 of any loan made pursuant to this Act to the Federal
13 Financing Bank and, in addition to its other powers, such
14 Bank is authorized to purchase, receive, or otherwise acquire
15 the same.

16 INSPECTION OF DOCUMENTS

17 SEC. 9. At any time a request for a loan is pending or a
18 loan is outstanding under this Act, the Secretary is author-
19 ized to inspect and copy all accounts, books, records, memo-
20 randums, correspondence, and other documents of the city
21 or any financing agent relating to its financial affairs.

22 TERMINATION

23 SEC. 10. The authority of the Secretary to make any
24 loan under this Act terminates on June 30, 1978. Such ter-
25 mination does not affect the carrying out of any transaction

(c) There are authorized to be appropriated such sums as may be necessary to pay the expenses of administration of this Act.

1 entered into pursuant to this Act prior to that date, or the
2 taking of any action necessary to preserve or protect the
3 interests of the United States arising out of any loan under
4 this Act.

[COMMITTEE PRINT]

DECEMBER 2, 1975

94TH CONGRESS
1ST SESSION

H. R. 10481

AN ACT

To authorize the Secretary of the Treasury to
provide seasonal financing for the city of
New York.

NOVEMBER 26, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I would like to comment briefly on recent developments in New York. Since early this year, and particularly in the past few weeks, the leaders of New York State and of New York City have been working to overcome the financial difficulties of the City which, as a result of many years of unsound fiscal practices, unbalanced budgets and increased borrowing, threatened to bring about municipal bankruptcy of an unprecedented magnitude.

As you know, I have been steadfastly opposed to any Federal help for New York City which would permit them to avoid responsibility for managing their own affairs. I will not allow the taxpayers of other States and cities to pay the price of New York's past political errors. It is important to all of us that the fiscal integrity of New York City be restored and that the personal security of eight million Americans in New York City be fully assured.

It has always been my hope that the leaders of New York would, when the chips were down, face up to their responsibilities and take the tough decisions that the facts of the situation require. That is still my hope, and I must say that it is much, much closer to reality today than it was last Spring. I have quite frankly been surprised that they have come as far as they have. I doubted that they would act unless ordered to do so by a Federal Court. Only in the last month, after I made it clear that New York would have to solve its fundamental financial problems without the help of the Federal taxpayer, has there been a concerted effort to put the finances of the City and the State on a sound basis. They have today informed me of the specifics of New York's self-help program. This includes:

One, meaningful spending cuts have been approved to reduce the cost of running the City; Two, more than \$200 million in new taxes have been voted; Three, payments to the City's noteholders will be postponed and interest payments will be reduced through passage of legislation by New York State; Four, banks and other large institutions have agreed to wait to collect on their loans and to accept lower interest rates; Five, for the first time in years, municipal employees will be required to bear part of the cost of their pension contributions and other reforms will be made in the pension funds; Six, the City pension system is to provide additional loans of up to \$2.5 billion to the City. All of these steps--adding up to \$4 billion--are part of an effort to provide financing and to bring the City's budget into balance by the fiscal year starting July 1, 1977.

Only a few months ago, we were told that all these reforms were impossible and could not be accomplished by New York alone. Today they are being done.

This is a realistic program. I want to commend all those involved in New York City and New York State for their constructive efforts to date. I have been closely watching their progress in meeting their problem. However, in the next few months, New York City will still lack enough funds to cover its day-to-day operating expenses.

This problem is caused by the City having to pay its bills on a daily basis throughout the year, while the bulk of its revenues are received during the spring. Most cities are able to borrow short-term funds to cover these needs, traditionally repaying them within their fiscal year.

Because the private credit markets may remain closed to them, representatives of New York have informed my Administration that they have acted in good faith but that they still need to borrow money on a short-term basis for a period of time each of the next two years in order to provide essential services to the eight million Americans who live in the Nation's largest city.

Therefore, I have decided to ask the Congress when it returns from recess for authority to provide a temporary line of credit to the State of New York to enable it to supply seasonal financing of essential services for the people of New York City. There will be stringent conditions. Funds would be loaned to the State on a seasonal basis, normally from July through March to be repaid with interest in April, May and June when the bulk of its revenues come in. All Federal loans would be repaid in full at the end of each year. There will be no cost to the rest of the taxpayers of the United States.

This is only the beginning of New York's recovery process and not the end. New York officials must continue to accept primary responsibility. There must be no misunderstanding of my position. If local parties fail to carry out their plan, I am prepared to stop even this seasonal Federal assistance. I again ask the Congress promptly to amend the Federal bankruptcy laws so that, if the New York plan fails, there will be an orderly procedure available.

A fundamental issue is involved here: sound fiscal management is an imperative of self-government. I trust we have all learned the hard lesson that no individual, no family, no business, no city, no State and no Nation can go on indefinitely spending more money than it takes in.

As we count our Thanksgiving blessings, we recall that Americans have always believed in helping those who help themselves. New York has finally taken the tough decisions it had to take to help itself. In making the required sacrifices, the people of New York have earned the encouragement of the rest of the country.

A BILL

To authorize the Secretary of the Treasury to provide and facilitate seasonal financing for the City of New York.

WHEREAS it is necessary for the City of New York to obtain seasonal financing from time to time because the City's revenues and expenditures, even when in balance on an annual basis, are not received and disbursed at equivalent rates throughout the year; and

WHEREAS the Congress finds that at the present time the City is or may be unable to obtain such seasonal financing from its customary sources; and

WHEREAS the Congress finds that it is necessary to assure such seasonal financing, in order that the City of New York may maintain essential governmental services.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "New York City Seasonal Financing Act of 1975".

Section 1. Definitions.

The words and phrases used in the Act have the following meanings:

(a) The terms "City" and "State" mean the City and State of New York, respectively.

(b) The term "Financing Agent" means any agency duly authorized by State law to act on behalf or in the interest of the City with respect to the City's financial affairs.

(c) The term "Secretary" means the Secretary of the Treasury.

Section 2. Loans.

(a) Upon written request of the City or a Financing Agent, the Secretary may make loans to the City or such Financing Agent subject to the provisions of this Act, provided that in the case of loans to a Financing Agent, the City and such Agent shall be jointly and severally liable thereon.

(b) Each such loan shall mature not later than the last day of the fiscal year of the City in which it was made, and shall bear interest at an annual rate determined by the Secretary at the time of the loan, based upon the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the maturities of such loans, adjusted to the nearest one-eighth of one percentum, plus one percentum per annum.

Section 3. Security for Loans.

In connection with any loan under this Act, the Secretary may require the City and any Financing Agent and, where necessary, the State, to provide such security as he deems appropriate. The Secretary may take such steps as are necessary to realize upon any collateral in which the United States has a security interest pursuant to this section to enforce any claim the United States may have against the City or any

Financing Agent pursuant to this Act. Notwithstanding any other provision of law, the Secretary may withhold any payments from the United States to the City, either directly or through the State, which may be or may become due pursuant to any law and offset such withheld amounts against any claim the Secretary may have against the City or any Financing Agent pursuant to this Act.

Section 4. Limitations and Criteria.

(a) A loan may be made under this Act only if the Secretary determines that there is a reasonable prospect of repayment of the loan in accordance with its terms and conditions. In making the loan, the Secretary may require such terms and conditions as he may deem appropriate to insure repayment. The Secretary is authorized, without regard to Section 8, to agree to any modification, amendment or waiver of any such term or condition as he deems desirable to protect the interests of the United States.

(b) At no time shall the outstanding amount of loans hereunder exceed in the aggregate \$2,300,000,000.

(c) No loan shall be provided under this Act unless: (i) the City and all Financing Agents shall have repaid according to their terms all prior loans under this Act which have matured, and (ii) the City and all Financing Agents shall be in compliance with the terms of any such outstanding loans.

Section 5. Remedies.

The remedies of the Secretary prescribed in this Act shall be cumulative and not in limitation of or substitution for any other remedies available to the Secretary or the United States.

Section 6. Funding.

For the purpose of making any loan or the payment of any expenses under this Act, the Secretary is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the making of such loans and payments.

The Secretary is authorized to sell, assign or otherwise transfer any note or other evidence of any such loan to the Federal Financing Bank and, in addition to its other powers, such Bank is authorized to purchase, receive, or otherwise acquire the same.

Section 7. Inspection of Documents.

At any time a request for a loan is pending or a loan is outstanding under this Act, the Secretary is authorized to inspect and copy all accounts, books, records, memoranda, correspondence, and other documents of the City or any Financing Agent relating to its financial affairs.

Section 8. Termination.

The authority of the Secretary to make any loan under this Act terminates on June 30, 1978. Such termination does not affect the carrying out of any transaction entered into pursuant to this Act prior to that date,

or the taking of any action necessary to preserve or protect the interests of the United States arising out of any loan under this Act.

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.

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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*/	\$ 3.95 Billion
<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:

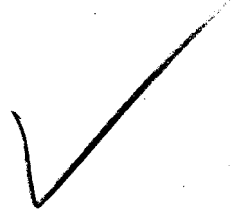
	Cumulative Needs (dollars in millions)		
	<u>FY 1975-76</u>	<u>FY 1976-77</u>	<u>FY 1977-78</u>
July	--	\$1100	\$1041
August	--	1462	1413
September	--	1197	1237
October	--	1585	1293
November	--	1614	1325
December	\$141	2063	1670
January	465	2062	1697
February	775	2017	1645
March	1275 peak	2120 peak	1994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

DEC 2 1975

THE WHITE HOUSE

WASHINGTON

December 3, 1975



MEMORANDUM FOR:

ED SCHMULTS

FROM:

MAX FRIEDERSDORF *M.F.*

SUBJECT:

New York City Bankruptcy Bill

I concur in your bankruptcy strategy.

Nino Scalia and I have discussed.

Nino will provide us fact sheets for distribution and we will check Senator Hruska about his sponsoring the 1,000,000 population amendment.

House will be tied up rest of the week on the tax bill and a Senate filibuster is underway on New York City seasonal funding bill, so bankruptcy bill consideration is unlikely until next week in either body.

cc: Jack Marsh

THE WHITE HOUSE

WASHINGTON

December 3, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF
BILL SEIDMAN
ROGER PORTER

FROM: ED SCHMULTS 

Cal Collier and I recommend that the Administration's position on the pending bankruptcy bills be as set forth in the attached memorandum from Justice. We would like clearance on this before noon today.

Max's office and Justice should confer to work out a strategy. In particular, we should find out what problems will occur if we attempt to amend the Senate bill to include a 1 million population limitation. Perhaps we could have Bill Simon call Senator Hruska on this point.

Assistant Attorney General
Department of Justice

Washington, D.C. 20530

DEC 2 1975

MEMORANDUM FOR CALVIN J. COLLIER
Associate Director for Economics in Government
Office of Management and Budget

Re: Administration position with respect to bankruptcy
bills pending in the Senate and House

I attach copies of two of the three amendments to H.R. 10624 which Mr. Butler intends to propose on the floor. They deal, respectively, with a required finding, before the plan can be approved, that the petitioner's budget will be in balance within a reasonable time after adoption of the plan; and with provisions enabling the avoidance of preferential transfers made within four months of bankruptcy, the avoidance of fraudulent conveyances and certain other technical aspects of the city's rights against creditors. Mr. Butler's third amendment (not attached) revises the entire bill so as to form a new chapter XVI instead of an amended chapter IX, limiting its availability to cities over 1,000,000 in population. The first two of these provisions already appear in the Senate bill. The third does with respect to the separate chapter feature, but not with respect to the limitation to cities over 1,000,000 in population.

As far as I know, there are no amendments currently proposed with respect to the Senate bill.

Mr. Butler and his Republican colleagues would rightly feel aggrieved if we did not support them in their amendments 1 and 3, since they exerted great efforts on behalf of the Administration's proposal which contained these provisions. (We have no objection to amendment 2, but need not actively support it, unless as a courtesy to Mr. Butler.)

Having adopted that position in the House, our position on the Senate bill is foreordained in one respect: We must protest its extension to cities smaller than 1,000,000. I think we should want to do this in any event, but we are effectively forced to do it by reason of the situation with our friends in the House—and this should be pointed out to Senator Hruska and any of the other senators



who may be reluctant to reopen battles already fought in committee. How hard we should press the point in the Senate is another matter. Perhaps we should seek to win it in the House and have the House version prevail in conference. This course should be followed if there is any risk that proposing the population limit amendment would trigger other amendments to weaken the Senate bill (which overall is the stronger of the two).

To sum up: We should support Butler's proposals 1 and 3 vigorously in the House. In the Senate, we should take the formal stance of desiring a population limitation—but whether we should seek introduction of a floor amendment to achieve that end depends upon tactical considerations that I cannot evaluate from here.

I attach a proposed statement of the Administration position on the two bills.



Antonin Scalia
Assistant Attorney General
Office of Legal Counsel

Encl:

HOUSE BILL

The Administration urges prompt enactment of H.R. 10624. Two amendments, however, are of crucial importance: First, one of the conditions for court approval of the bankruptcy plan must be that the city's budget will be brought into balance within a reasonable time after its adoption. Second, the form of the bill should not be an amendment of the present chapter IX, but a new chapter XVI, available only to municipalities with populations over 1,000,000. This last change is necessary because several features of the bill only make sense as applied to major governmental units; overall revision of municipal bankruptcy law should not be considered in the present narrowly-focused context; and facilitation of bankruptcy for small governmental units which do not have intense political disincentives against resorting to bankruptcy may seriously impair the marketability of their securities.

SENATE BILL

The Administration urges prompt enactment of S. 2597 with a single important change: The new bankruptcy process it establishes should only be available to cities with a population in excess of 1,000,000. Several features of the bill only make sense as applied to major governmental units; overall revision of municipal bankruptcy law should not be considered in the present narrowly-focused context; and facilitation of bankruptcy for small governmental units which do not have intense political disincentives against resorting to bankruptcy may seriously impair the marketability of their securities.

AMENDMENT IN THE NATURE OF A SUBSTITUTE TO
H.R. 10624, As Reported
OFFERED BY MR. BUTLER

Section 94(b) is amended as follows:

- (1) on page ¹⁹ 18, line ¹⁰ 15, strike out "and";
- (2) on page ¹⁹ 18, line ¹³ 18, strike out the period and insert "; and
- and
- (3) on page ¹⁹ 18, immediately after line ¹³ 18, include the following

new paragraph:

"(6) it appears from petitioner's current and projected revenues and expenditures that the budget of the petitioner will be in balance within a reasonable time after adoption of the plan.

AMENDMENT IN THE NATURE OF A SUBSTITUTE

TO. H.R. 10624, As Reported

OFFERED BY MR. BUTLER

On page 9, immediately after line 21, insert the following new subsection:

"(h) Avoiding Powers.--Subsections 60(a), (b), (c), section 67, and subsections ~~70(c)~~, (e) of this Act shall apply in proceedings under this chapter, except that all functions of the trustee thereunder shall be assumed by the petitioner.

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Washington Post

Monday, December 8, 1975



George F. Will

New York: Promises, Promises

Clearheaded people, sometimes called cynics, never doubted that the federal government would rescue New York City from default.

Although it is as wrong as it is fashionable to say that municipal securities are "rich peoples's investments," it is true that some very rich people and institutions own a lot of New

"The city looked the nation in the eye and promised, cross-its-heart-and-hope-to-die, that it will be good from now on."

have the money by Dec. 11. Otherwise it will default on a fraction of its obligations, and we all know what that would mean, don't we? Well, no, actually we don't know, and never will.

Meanwhile in the city it is business as usual, as can be seen at Yankee Stadium.

Six weeks ago I noted the latest "final" city "estimate" of the cost of rebuilding the stadium — \$64.4 million, up \$42 million