The original documents are located in Box 79, folder "New York City, November 1975 – July 1976 (1)" of the L. William Seidman Files at the Gerald R. Ford Presidential Library.

WH Gorog

THE WHITE HOUSE

WASHINGTON

November 1, 1975

MEMORANDUM FOR EXECUTIVE COMMITTEE MEMBERS
ECONOMIC POLICY BOARD

FROM: WILLIAM F. GOROG WFG

SUBJECT: Ashley Bill for Emergency Guarantee of New York Obligations

Congressman Ashley (Ohio) has drafted a Bill which will be offered as an amendment to the President's recommended bankruptcy legislation. A copy of the draft is attached. The Bill contains the following provisions:

Coverage: All states and political subdivisons thereof.

Supervision: The Bill creates an "Intergovernmental Emergency Assistance Board" composed of Secretary of the Treasury, Chairman; Secretary of HUD; Secretary of HEW; Chairman of the Federal Reserve Board; and Chairman of the Securities Exchange Commission. Decisions by majority vote.

Powers: The Board may guarantee principal and interest of obligations (interest subject to Federal tax); but only for the purpose of enabling the State or subdivision to continue to provide essential services or to prevent default when such default in the judgment of the Board could have serious effect on general economic conditions.

Conditions:

(1) Agency cannot obtain credit.
(2) Agency must submit plan with approval of Governor for bringing operating expenses into balance for its second full year following initial application, and thereafter for as long as guarantee remains outstanding.
(3) State must demonstrate that it has authority to control the fiscal affairs of the Agency and approves all borrowing and contracts during the period.
(4) State agrees to loan municipality during each year guarantee may be outstanding,
    (a) Amount determined by Board but not to exceed 1/3 of fiscal year operating deficit.

(b) Loan from State must come from general tax revenues of State.
(c) Loan must be in addition to any other State assistance offered prior to application.

(5) In the case of political subdivision which has already filed for bankruptcy, Board may make guarantees for a period of six months without regard for above conditions.

Guarantee Fees: When guarantee is made Board shall assess and collect fee not to exceed 3/4 of one percent paid to Emergency Debt Guarantee Fund.

Limitation on Amounts: Total amount under this Bill not to exceed 5 billion dollars through September 1989 and 3 billion dollars for period between October 1989 and September 1999. In addition, 3 billion dollars having maturities of 11 months or less.

Obligations Callable: Any obligation guaranteed may be called without premium any time three years after date of issue.

Additional Conditions: The Board may require as a condition that the subdivision renegotiate contracts and obligations if it is felt that such renegotiation is necessary for the agency to balance budget,

Audit: General Accounting Office has right to audit.

Operations: An Emergency Municipal Guarantee Fund shall be established in the Treasury to handle deposits and collection of fees. Any Federal Reserve Bank can be designated as Fiscal Agent for the Board.

Right to Reserve Funds: The right is reserved to offset against any payments due by the U.S. to the agency if payment is made pursuant to guarantees. Penalties are provided (additional fees) if commitments are not fulfilled.

94th CONGRESS
1st Session

212

489-6600
489-7889

Mr. Ashley (for himself and Mrs. Sullivan, Mr. Rees, Mrs. Spellman, Mr. Tsongas, Mr. St Germain, and Mr. McKinney)

-2533

644-8603

964
5847-

home 988-7896

~~516 531-016-3~~

790-0282

A BILL

To authorize emergency guarantees of obligations of States and political subdivisions thereof; to amend the Internal Revenue Code of 1954 to provide that income from certain obligations guaranteed by the United States shall be subject to taxation; to amend the Bankruptcy Act; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

§1. Short title

This Act may be cited as the "Intergovernmental Emergency Assistance Act".

TITLE I--INTERGOVERNMENTAL EMERGENCY ASSISTANCE

§101. Definitions and rules of construction

(a) The definitions and rules of construction set forth in this section shall be applicable for the purposes of this title.

(b) The term "State" means any State, the District of Columbia, the Commonwealth of Puerto Rico, or any territory or possession of the United States.

(c) The term "political subdivision" shall have the same meaning as used in section 103 of the Internal Revenue Code of 1954.

(d) Any action authorized or required under this title by or with respect to a State may be taken by or with respect to any agency or instrumentality thereof approved by the Board for that purpose, having regard to the purposes of the State law creating any such agency or instrumentality.

§102. Establishment of the Board

There is created an Intergovernmental Emergency Assistance Board (referred to in this title as the "Board") composed of the Secretary of the Treasury, as Chairman, the Secretary of Housing and Urban Development, the Secretary of Health, Education and Welfare, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission. Decisions of the Board shall be made by majority vote.

§103. Authority for guarantees

The Board may guarantee the payment, in whole or part, of interest, principal, or both, of obligations of States (including agencies and instrumentalities thereof as described in section 102(d)) the interest on which is subject to Federal taxation, in accordance with this title. The Board shall give prompt consideration to any application for a guarantee under this title and shall, in the event such guarantee is denied, set forth the reasons for such denial in a written statement copies of which shall be furnished to the Governor of the State concerned, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Banking, Currency and Housing of the House of Representatives.

§104. Purpose

The Board may make guarantees under this title only for the purpose of--

(1) enabling a political subdivision of a State to continue to provide essential public services and facilities; or

(2) preventing, or mitigating the effects of, default in the payment of obligations of a political subdivision of a State where such default has had, or, in the judgment of the Board, could reasonably be expected to have, a serious adverse effect on general economic conditions or on the marketability of obligations of States and their political subdivisions in general.

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§105. Conditions of eligibility

(a) Except as provided in subsection (b) of this section, the Board may make guarantees under this title to a State for the benefit of a political subdivision thereof only if--

(1) the Board finds that the State or State agency whose obligations would be guaranteed (hereinafter referred to as "the applicant State") and the political subdivision whose credit needs would be financed by such obligations (hereinafter referred to as "the assisted municipality") are effectively unable to obtain credit in the private market or elsewhere;

(2) the assisted municipality submits, with the approval of the Governor of the applicant State, in such detail and in accordance with such accounting principles as the Board may prescribe, a plan for bringing its operating expenses into balance with its recurring revenues for its second full fiscal year following the initial application for assistance, and thereafter for as long as any such assistance remains outstanding;

5

(3) the applicant State demonstrates that it has the authority to control the fiscal affairs of the assisted municipality for the entire period during which the Federal guarantee will be outstanding including the authority to determine all revenue estimates, set aggregate expenditure limits, disapprove all expenditures not in compliance with the plan required under paragraph (2), and approve all borrowing and contracts during that period; and

(4) the applicant State agrees to provide in accordance with this subsection a grant or loan to the assisted municipality for each fiscal year of the municipality during which a guarantee under this title may be outstanding. Such grant or loan shall--

(A) Be in an amount determined by the Board but not exceeding one-third of the anticipated operating deficit of the assisted municipality for that fiscal year or portion thereof as determined in accordance with accounting principles prescribed by the Board;

(B) be derived from the general tax revenues of the applicant State;

(C) be in addition to all other grant or similar assistance provided to the assisted municipality by the applicant State pursuant to programs established or commitments made prior to its initial request for a guarantee under this title ~~Act~~;

(D) be provided at such times as the Board may prescribe; and

(E) be used by the assisted municipality to meet its operating expenses in accordance with the financial plan required under paragraph (2).

(b) In the case of a political subdivision which has filed a petition under the Bankruptcy Act or which has actually defaulted on one or more of its obligations, the Board may, for a period of six months following the filing of such petition or the date of such default (as determined by the Board), ~~extend financial assistance~~ make guarantees under this title without regard to one or more of the conditions prescribed in subsection (a) of this section to a State for the benefit of such political subdivision if the Board determines that an emergency exists which makes compliance with such condition or conditions impracticable.

§106. Guarantee fees

Whenever any obligation is guaranteed under this title, the Board shall assess and collect from the obligor a guarantee fee which shall not exceed three-quarters of one percent per annum. Any such fees shall be ~~covered into the Treasury as miscellaneous receipts.~~ paid into the Emergency Municipal Debt Guarantee Fund established under section 111 of this title.

§107. Limitations on amount of ~~assistance~~ guarantees outstanding

(a) Except as provided in subsection (b) of this section, the total amount of all ~~financial assistance~~ guarantees (exclusive of unearned interest) which may be outstanding under this title at any one time shall not exceed--

(1) $5,000,000,000 during the period from the date of enactment of this title through September 30, 1989, and

(2) $3,000,000,000 during the period from October 1, 1989 through September 30, 1999.

(b) In addition to the amounts authorized under subsection (a) of this section, prior to October 1, 1978, there may be outstanding at any one time not exceeding $2,000,000,000 in the form of guarantees of obligations having a maturity of eleven months or less from date of issue.

(c) No obligation may be guaranteed under this title which has a maturity beyond September 30, 1999.

§108. Obligations callable after three years

Any obligation guaranteed under this title may be called for redemption at the option of the issuer and without the payment of a call premium at any time more than three years after the date of issue.

§. 109. Additional Terms and Conditions

(a) As a condition to making an guarantee ~~the extension of any financial assistance~~ under this title, the Board shall impose reasonable requirements with respect to the renegotiation or exchange of outstanding obligations entered into by, on behalf of, or for the benefit of, the political subdivision for whose benefit such benefit the guarantee is intended. ~~assistance is being considered or extended~~. Where such renegotiation or exchange involves the terms of bonds, notes, or similar obligations previously entered into, the Board shall require that a substantial percentage of such obligations be exchanged for nonguaranteed obligations bearing a substantially longer maturity, a substantially lower interest rate, or both. Where such renegotiation involves the terms of contracts of other provisions for compensation (including pensions and other benefits) for personal services rendered or to be rendered, there may be taken under consideration the compensation and other benefits provided for similar services by other employers, with particular reference to employers which are political subdivisions of the same State or of other States. In any renegotiation, there may also be taken into consideration the reduction which the results of such renegotiation may effect in the risk that the political subdivision involved would be unable to fulfill its commitments.

(b) In addition to the terms and conditions otherwise required by or under this title, the Board may impose such terms and conditions, not inconsistent with the general purposes of this title, as it deems appropriate with respect to the making of ~~any financial~~ any guarantee ~~assistance~~ under this title.

§110. Audits

(a) No ~~financial assistance may be extended~~ guarantee may be made under this title for the benefit of any State or political subdivision thereof unless the General Accounting Office is authorized to make such audits as may be deemed appropriate by either the Board or the General Accounting Office of all accounts, books, records, and transactions of the State, the political subdivision, if any, involved, and any agency or instrumentality of such State or political subdivision. The General Accounting Office shall report the results of any such audit to the Board and to the Congress.

§111. Emergency Municipal Debt Guarantee Fund

(a) There is established in the Treasury an emergency municipal debt guarantee fund (hereinafter referred to as the "fund") to be administered by the Board. The fund shall be used for the payment of the expenses of the Board and for the purpose of fulfilling the Board's obligations under this Act. Moneys in the fund not needed for current operations may be invested in direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof.

(b) Sums realized from the guarantee fee required under this Act shall be deposited in the fund. Notwithstanding any other provision of law, the Secretary of the Treasury shall deposit in the fund any payment, or portion thereof, which a State government or unit of local government would otherwise be entitled to receive under the State and Local Fiscal Assistance Act of 1972, or any comparable program of fiscal assistance to State and local government, and which is waived by such government pursuant to this Act.

(c) Payments required to be made as a consequence of any guarantee by the Board shall be made from the fund. In the event and to the extent that the moneys in the fund are insufficient to make such payments the Secretary of the Treasury is authorized and directed to make such payments on behalf of the Board and for that purpose he 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 any such payments.

§112. Federal Reserve banks as fiscal agents

Any Federal Reserve bank which is requested to do so shall act as fiscal agent for the Board. Each such fiscal agent shall be reimbursed by the Board for all expenses and losses incurred by it in acting as agent on behalf of the Board.

§113. **Protection of Government's interest**

(a) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the issuance of guarantees under this title. Any sums recovered pursuant to this section shall be paid into the emergency loan guarantee fund.

(b) The Board shall be entitled to recover from the borrower, or any other person liable therefor, the amount of any payments made pursuant to any guarantee agreement entered into under this title, and upon making any such payment, the Board shall be subrogated to all the rights of the recipient thereof.

art

(c) There is hereby reserved to the United States the right to offset against any sums otherwise due for any reason from the United States (including but not limited to any sums which may be due under the State and local Fiscal Assistance Act of 1972, or other comparable general purpose financial assistance) to any State whose obligations are guaranteed ~~to which assistance is extended~~ under this title, or to any political subdivision for whose ~~the~~ benefit ~~of~~ any guarantee is made ~~which assistance is extended~~ under this title, the amount in whole or part of any payment actually made by the United States pursuant to any such guarantee. ~~under this title.~~ Such right of offset shall be exercised only with respect to such sources of Federal revenue, and at such rate, as the Board may determine to be appropriate with a view to reimbursing the United States as expeditiously as may be practicable under the circumstances as they exist at the time.

(d) Whenever any guarantee ~~financial assistance~~ under this title is outstanding, and there is a failure on the part of the obligor or on the part of the political subdivision for whose benefit such assistance was extended to fulfill any commitment or undertaking which it agreed to fulfill in consideration of such assistance, the Board may, in its discretion, for any period during which such failure continues, assess an additional guarantee fee in any amount such that the total of the original guarantee fee and any such additional fees for such period does not produce a total which is at a rate in excess of three times the rate otherwise authorized under section 106.

§114. Reports

The Board shall submit to the Congress quarterly ~~annually~~ a full report of its operations under this title.

§ 115. Termination

The authority of the Board to make ~~loans and~~ guarantees under this title terminates on September 30, 1979. Such termination does not affect the carrying out of any contract, guarantee, commitment, or other obligation entered into pursuant to this title prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this title.

TITLE II—AMENDMENT TO INTERNAL REVENUE CODE OF 1954

§ 201. Taxability of certain federally guaranteed obligations

Section 103 (a) (1) of the Internal Revenue Code of 1954 (relating to interest on certain governmental obligations) is amended by inserting immediately before the semicolon at the end thereof the following: ", except in the case of an obligation whose payment is guaranteed in whole or part under authority of section 103 of the Intergovernmental Emergency Assistance Act".

TITLE III--AMENDMENT TO THE BANKRUPTCY ACT

end

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 3 - 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City

I. Legislative Situation. Last week, the Senate Banking Committee reported out a bill which would provide $4 billion of financial assistance in the first year and additional amounts in later years to prevent default and operate the City. Floor action could begin as early as late this week or early next week.

The House Banking Committee reported a similar bill today.

Neither bill requires the Executive Branch to provide funds to prevent default. Both confer discretion on an Executive Board, consisting of Treasury, Labor and Federal Reserve in the Senate and Treasury, HUD, HEW, Federal Reserve and SEC in the House. The Senate bill is extremely strict, requiring new state taxes, renegotiation of labor contracts and substantial unguaranteed financial participation by the banks and pension funds. The House bill is far more vague. Both bills contain provisions authorizing money for essential services after default. The House bill will include our bankruptcy proposal as Title III.

II. New York City Finances. If New York City does not receive the November infusion of cash under the three month plan adopted by the Legislature in September, it will default on $270 million of notes on November 10. While the availability of such cash seemed certain a few weeks ago, we understand that at least some people in New York are now taking the position that if New York City will default in December anyway, why weaken the state further by throwing more money in now.

III. Ongoing Negotiations in New York City. We understand that preliminary, but serious, conversations have taken place between union leaders and bankers to determine the concessions which might be effective in resolving the situation. But these parties recognize, as do we, that this approach will be futile unless the Governor and the Legislative leaders are full participants.

Basically, there would be three parts to a package:

(1) New taxes.
(2) Wage and benefit cutbacks.
(3) Debt restructuring.

From a financial standpoint, new taxes are critical to success. The Governor has resisted these demands in the past, both in public and with his closest advisers. If he continues to do so, this approach cannot succeed, notwithstanding the best intentions of the other parties.

IV. Federal Assistance Regarding Essential Services. Since your Press Club speech, the most frequently asked questions have related to your statement that we will work with the court to insure that services essential to life and property are maintained. Specifically, two questions have been asked: what are essential services, is education an essential service, for example? and what mechanism would we employ to provide them?

In responding to these concerns, the timing of your action may be as important as the substance. Accordingly, in considering the following issues, I would recommend that you consider when any announcement should be made.

Issue One: What role should the Federal Government play with respect to ongoing negotiations?

Option One: Designate a Federal official to participate either actively or as an observor.

Option Two: Continue to remain completely removed from such negotiations.

Issue Two: What should be done to fulfill your commitment regarding essential services?

Option One: Submit legislation defining essential services and authorizing the Executive Branch to provide for the maintenance of these services through loans, guarantees or grants.

Option Two: Delay any further clarification at this time.

Issue Three: What should our position be with respect to current legislation?

Option One: Announce that you will sign the legislation coming out of the Congress, but that you will not use the mechanism to prevent default and will only use the post default mechanism.

Option Two: Announce that you will veto any legislation, which contains pre-default action, even if it only authorizes you to act.

Option Three: Make no further announcement and take no action until after default.

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William E. Simon

THE WHITE HOUSE

WASHINGTON

November 3, 1975

NOTE FOR RON NESSEN

FROM: BILL SEIDMAN LWS

An analysis of the congressional papers in this area will be available from CEA by Tuesday, noon. Suggest that today you indicate that we are studying the matter and that in general we feel that state and local governments have already adjusted their budget in light of the New York City situation.

Attachment

THE WHITE HOUSE

WASHINGTON

November 18, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: New York City

The following issues are outlined to provide a focus for the discussion of the New York City situation at the 3:00 p.m. meeting today:

Issue 1: Should the Federal Government provide financial assistance to New York City to meet its seasonal borrowing requirements for essential services?

Option A: Turn down the New York request for Federal assistance and recommend that additional actions be taken at the state and local level.

Option B: Agree to support legislation authorizing Federal assistance to meet seasonal borrowing needs for essential services.

Option C: Seek agreement from private financial institutions to provide financing the New York City's seasonal needs and support legislation securing such financing with future Federal payments otherwise due the State and City.

If you decide in principle to support Federal assistance for New York City's seasonal borrowing needs several additional issues require your attention.

Issue 2: Should seasonal borrowing assistance take the form of direct loans or loan guarantees?

Option A: Direct loans.

Option B: Loan guarantees.

Issue 3: What types of conditions should be attached to the provision of Federal assistance?

Option A: General condition that the lender (the Federal Government) be satisfied that the borrower has the capacity to repay the loan.

Option B: Mandate certain specific actions that must be taken to qualify for the assistance.

Option C: Require that Federal loans or guarantees be secured by a lien on future Federal payments otherwise due the State and City. (An OMB memorandum on this issue is attached)

Issue 4: What should constitute the control mechanism for any Federal assistance?

Option A: Supervision of Federal loans or guarantees by a small Board of Federal officials appointed by the President.

Option B: Supervision of Federal loans or guarantees by a single Cabinet officer appointed by the President.

Option C: Supervision of Federal loans or guarantees by a small Board of non-Federal Government officials appointed by the President.

Issue 5: What should be the size and duration of any Federal assistance to New York for seasonal borrowing?

Option A: Restrict Federal assistance initially to one year duration and to the estimated $1.3 billion required by New York City for the remainder of this fiscal year (through June 30, 1976).

Option B: Restrict Federal assistance to three years and to the estimated levels outlined in the New York plan (through June 30, 1978).

Option C: Provide Federal assistance for the five years outlined in the current House bill.

DRAFT - 11/3/75 (DWMetz)

Dear Mr. Ebe:

The President asked me to acknowledge your October 30 telegram on the New York City fiscal situation sent in behalf of the New York State Black and Puerto Rican Legislative Caucus. He appreciates receiving your views, but regrettably his schedule does not permit a meeting.

I can assure you, however, that any further comments you may have will be conveyed to appropriate officials for careful consideration.

With kind regards and appreciation of your concern.

Sincerely,

William W. Nicholson

Mr. Arthur O. Ebe
Chairman
Black and Puerto Rican Legislative Caucus
New York State Assembly
LOB Room 736
Albany, New York 12224

THE WHITE HOUSE

WASHINGTON

October 31, 1975

MEMORANDUM FOR: JAMES CANNON
WILLIAM SEIDMAN

FROM: WILLIAM W. NICHOLSON WWN x7070

SUBJECT: Request from Black and Puerto Rican Legislative Caucus of the New York State Assembly to meet with the President about his statement on assistance to New York City.

I anticipate that there will be other requests similar to this regarding New York City.

Do you want to handle this request and any other similar ones? I would appreciate your advice.

Thank you.

Doug H - Please draft. ~~Roger~~ along these lines -

We have your telegram and appreciate your interest my schedule does not permit a meeting. Any further views you have convey to staff etc

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ZIP

ACTION
T/D
SCHEDULE BD.
DATE RECEIVED

OCT 31 1975

MESSAGE
SPEAKERS BUREAU
OTHER

APPOINTMENT OFFICE

PRESIDENT GERALD FORD
WHITE HOUSE
WASHINGTON DC 20500

MY DEAR MR PRESIDENT,

THE NEW YORK STATE BLACK AND PUERTO RICAN LEGISLATIVE CAUCUS FEELS THAT YOUR STATEMENT REGARDING THE FISCAL CRISIS IN NEW YORK CITY DOES NOT ENCOMPASS THE FULL IMPACT OF DEFAULT ON THE BLACK AND PUERTO RICAN COMMUNITY IN NEW YORK.

YOUR STATEMENT ELUDES THAT ESSENTIAL SERVICES IN NEW YORK CITY WILL BE MAINTAINED AT THEIR PRESENT LEVEL. UNFORTUNATELY, YOUR ASPECT OF ESSENTIAL SERVICES ONLY INCLUDE POLICE, FIRE AND SANITATION, WE FEEL THIS POSITION IGNORES OTHER VITAL HUMAN SERVICES WHICH SHOULD BE GIVEN PRIORITY ALONG WITH POLICE FIRE AND SANITATION.

THESE SERVICES ARE:

1. THE CONTINUATION IN PAYMENT OF WELFARE CHECKS IN CASE OF DEFAULT,

2. THE CONTINUING OF THIRD PARTY CONTRACTS FOR MEDICAID AND HEALTH INSURANCE.

3. ASSURANCE THAT THE EDUCATION OF THE CHILDREN IN NEW YORK CITY'S PUBLIC SCHOOLS WILL NOT BE DISRUPTED,

4. SERVICES FOR SENIOR CITIZENS SHOULD NOT BE DIMINISHED,

REALIZING THAT BLACKS AND PUERTO RICANS MAKE UP A SUBSTANTIAL PERCENTAGE OF THE POPULATION OF NEW YORK CITY, WE WOULD LIKE AN OPPORTUNITY TO MEET WITH YOU AT YOUR CONVENIENCE AS SOON AS POSSIBLE. WE AWAIT AN IMMEDIATE RESPONSE FROM YOU ON THE APPRORIATE TIME AND PLACE,

SINCERELY

ARTHUR O EVE CHAIRMAN,
BLACK AND PUERTO RICAN LEGISLATIVE CAUCUS
NEW YORK STATE ASSEMBLY
LOB ROOM 736
ALBANY NY 12224
16:10 EST

MGMWSHT HSB

TALKING POINTS

1. I continue to be concerned about the citizens of New York City in the event of default. As I've said in the past, I think it imperative that essential services be maintained. I still believe that the City and State have it within their power to avoid a default, and I am continuing to keep abreast of the New York situation through my economic advisors.

2. I understand that the Senate and House Banking Committees have reported legislation which would provide financial assistance prior to default and also contain provisions authorizing essential services after default. Neither of these bills requires the Executive Branch to provide funds to prevent a default.

3. I would like to have your views on these bills.

Seidman
11/3/75

DRAFT - 11/3/75 (DWMetz)
New York City Letter

Dear ________________:

Thank you (or The President asked me to thank you) for giving us the benefit of your views on the question of special Federal aid for New York City.

~~We continue to oppose a Federal bail-out. We favor changes in the bankruptcy law which would provide for the orderly maintenance of essential services and management of debt obligations should the city default.~~

Knowing of your interest in this problem is appreciated.

Sincerely,

L. William Seidman
Assistant to the President
for Economic Affairs

DRAFT - 11/3/75 (DWMetz)
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Dear ________________:

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Sincerely,

L. William Seidman
Assistant to the President
for Economic Affairs

THE WHITE HOUSE

WASHINGTON

November 3, 1975

MEMORANDUM FOR : JOHN HARPER

FROM : JIM CANNON

SUBJECT : Comments on New York City

If our only options are these four, I would take four.

However, Bill Seidman suggested a fifth option, which he will explain, and which I would prefer.

Attachment

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City

I. Legislative Situation. Last week, the Senate Banking Committee reported out a bill which would provide $4 billion dollars of financial assistance in the first year and additional amounts in later years to prevent default and operate the City. Floor action could begin as early as late this week or early next week.

The House Banking Committee reported a similar bill today.

Neither bill requires the Executive Branch to provide funds to prevent default. Both confer discretion on an Executive Board, consisting of Treasury, Labor and Federal Reserve in the Senate and Treasury, HUD, HEW, Federal Reserve and SEC in the House. The Senate bill is extremely strict, requiring new state taxes, renegotiation of labor contracts and substantial unguaranteed financial participation by the banks and pension funds. The House bill is far more vague. Both bills contain provisions authorizing money for essential services after default. The House bill will include our bankruptcy proposal as Title III.

II. New York City Finances. If New York City does not receive the November infusion of cash under the three month plan adopted by the Legislature in September, it will default on $270 million of notes on November 10. While the availability of such cash seemed certain a few weeks ago, we understand that at least some people in New York are now taking the position that if New York City will default in December anyway, why weaken the state further by throwing more money in now.

III. Other Activities in New York City. We understand that preliminary, but serious, conversations have taken place between union leaders and bankers to determine the concessions which might be effective in resolving the situation. But these parties recognize, as do we, that this approach will be futile unless the Governor and the Legislative leaders are full participants.

Basically, there would be three parts to a package:

1. New taxes.
2. Wage and benefit cutbacks.
3. Debt restructuring.

From a financial standpoint, new taxes are critical to success. The Governor has resisted these demands in the past, both in public and with his closest advisers. If he continues to do so, this approach cannot succeed, notwithstanding the best intentions of the other parties.

IV. Options for Federal Assistance Regarding Essential Services. Since your Press Club speech, the most frequently asked questions have related to your statement that we will work with the court to insure that services essential to life and property are maintained. Specifically, two questions have been asked: what are essential services, is education an essential service, for example? and what mechanism would we employ to provide them?

In responding to these concerns, the timing of your action may be as important as the substance. Accordingly, in considering the following options, I would recommend that you consider when the announcement should be made.

Option One: Submit legislation defining essential services and authorizing the Executive Branch to provide for the maintenance of these services through loans, guarantees or grants.

Option Two: Announce that you will sign the legislation coming out of the Congress, but that you will not use the mechanism to prevent default and will only use the post default mechanism.

Option Three: Announce that you will veto any legislation, which contains pre-default action, even if it only authorizes you to act.

Option Four: Make no further announcement and take no action until after default.

William E. Simon

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 3 - 1975

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City

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11/4 Secretary Simon has not yet concurred on this memo.

Basically, there would be three parts to a package:

(1) New taxes.
(2) Wage and benefit cutbacks.
(3) Debt restructuring.

From a financial standpoint, new taxes are critical to success. The Governor has resisted these demands in the past, both in public and with his closest advisers. If he continues to do so, this approach cannot succeed, notwithstanding the best intentions of the other parties.

IV. Federal Assistance Regarding Essential Services. Since your Press Club speech, the most frequently asked questions have related to your statement that we will work with the court to insure that services essential to life and property are maintained. Specifically, two questions have been asked: what are essential services, is education an essential service, for example? and what mechanism would we employ to provide them?

In responding to these concerns, the timing of your action may be as important as the substance. Accordingly, in considering the following issues, I would recommend that you consider when any announcement should be made.

Issue One: What role should the Federal Government play with respect to ongoing negotiations?

Option One: Designate a Federal official to participate either actively or as an observor.

Option Two: Continue to remain completely removed from such negotiations.

Issue Two: What should be done to fulfill your commitment regarding essential services?

Option One: Submit legislation defining essential services and authorizing the Executive Branch to provide for the maintenance of these services through loans, guarantees or grants.

Option Two: Delay any further clarification at this time.

Issue Three: What should our position be with respect to current legislation?

Option One: Announce that you will sign the legislation coming out of the Congress, but that you will not use the mechanism to prevent default and will only use the post default mechanism.

Option Two: Announce that you will veto any legislation, which contains pre-default action, even if it only authorizes you to act.

Option Three: Make no further announcement and take no action until after default.

William E. Simon

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

HUGH L. CAREY
GOVERNOR

November 4, 1975

WS

Dear Mr. President:

I have today sent the attached letter and supporting materials to the President of the Federal Reserve Bank of New York. On behalf of the people of the State of New York, I am requesting that the Federal Reserve consider emergency credit assistance for four agencies of the state that face imminent default on their obligations. I wish to stress to you that these agencies have nothing to do with the fiscal crisis facing New York City. Each of them has an enviable record of financial soundness and prudent management. Each of them for years have been relied upon by the citizens of New York to provide housing, health and environmental facilities essential to the state's well being. Yet these agencies, the models for similar agencies in over 30 other states, now find themselves precluded from the investment market --- a condition that has only been severely aggravated since your recent speech calling for the bankruptcy of New York City.

Should these agencies default, which certainly will occur in the absence of Federal assistance, hundreds of projects involving $2.5 billion in construction funds will be stopped prior to completion and thousands of workers will be thrown into the unemployment rolls. These projects include hospitals and other health facilities, schools, and housing.

The general credit of the State will not only be placed in jeopardy but, in my opinion, could be critically impaired for many years to come.

Again, all of this does not have to occur. While these agencies have no direct relationship with the New York City problem, unfortunately the investment community views the problem as one and the same. This will continue as long as the Administration remains passive in the face of the New York City crisis.

In effect, the contagion of New York City has now spread to agencies of New York State.

In addition, your many statements on this subject continue to assert that the State of New York has sufficient resources to meet the collapse of the city. I would only remind you once more of what your own financial experts know -- the State of New York has its own budget deficit of $700 million, and is in no position to sustain the city's needs or meet the borrowing needs of these state agencies.

I sense, Mr. President, as do many others across the country that we are at an economic crossroads unparallelled since those final moments in the darkest Depression. Whatever points you thought necessary to make about the past mistakes of New York City have been made. For our part, we have labored long and hard over the past ten months of my administration to right those wrongs. Now, despite all those efforts, we see the rapid spread of financial confusion and distrust from the city to the State, and potentially to other states as well.

It is not inappropriate, indeed it is in the tradition of our nation for us now to look for and expect positive leadership from a President and his administration.

Sincerely,

Hugh L. Carey
Governor

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

STATE OF NEW YORK
EXECUTIVE CHAMBER
ALBANY 12224

HUGH L. CAREY
GOVERNOR

November 4, 1975

Dear Mr. Volcker:

Pursuant to my responsibilities as Governor of the State of New York, I herewith submit a preliminary application and request for consideration of a 90-day extension of credit, with the option of renewal for an additional 90 days, in the amount of $576 million pursuant to Section 13 of the Federal Reserve Act (12USC 343). The proceeds of this loan would be applied to meet the immediate needs of the following public benefit corporations which are authorized by statute to operate within New York State:

-- Housing Finance Agency
-- Medical Care Facilities Financing Agency
-- Dormitory Authority
-- Environmental Facilities Corporation

Events in recent months and weeks have disrupted the capital markets, closing them to the issues of several agencies which have traditionally enjoyed high ratings and a reputation for prudent and conservative management. New York State and the Federal government, to the extent of their capacity, have an obligation to help contain this crisis and to insure that agencies with sound credit are not destroyed.

The President indicated in his address to the nation last Wednesday that discerning investors would distinguish between sound credits and weak ones, and that the market had already largely discounted the potential insolvency of New York City. Yet, as of this moment, the capital markets are closed to four New York State authorities. Indeed, the prospects of securing financing for these seasoned agencies are considerably dimmer, not brighter, following the President's speech.

Now more than at any other time, I believe, since creation of the Federal Reserve System, the essentials of one of its crucial national purposes are sharply defined by the demands of the current crisis: to provide credit on an emergency basis to sound agencies which find traditional sources of investment temporarily closed to them.

In support of this application, enclosed is a series of analyses prepared by my office which explain the circumstances giving rise to this preliminary application.

I have discussed this request with the Lieutenant Governor, the State Comptroller, the Speaker and Minority Leader of the State Assembly, and the Majority and Minority Leaders of the State Senate, and can report they endorse the course of action proposed in this letter.

I have asked the legislative leaders to stand in readiness to convene a legislative session the week of November 10th. As you know, staff representatives of my office and the legislative leaders have been meeting with financial institutions to discuss steps that have been proposed to strengthen the viability of the State agencies; the legislative session would provide a timely opportunity for State action in support of the State agencies in connection with any definitive action regarding an extension of credit. It is my hope that this letter can lead to early discussion with you of the alternatives open to us and agreement on a common framework for action.

For a complete analysis and explanation of the public purpose to be financed under the proposed loan, and to supply further information, State Budget Director Peter C. Goldmark, Jr and the directors of the four public authorities involved are prepared to answer any request you may have.

Sincerely,

/s/ Hugh L. Carey

Mr. Paul Volcker
President, Federal Reserve
Bank of New York
33 Liberty Street
New York, New York

Enclosure

THE WHITE HOUSE

WASHINGTON

November 5, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: New York City Financial Plan

In accordance with your request a copy of the Financial Plan for the City of New York prepared by the City and the Emergency Financial Control Board is attached at Tab A.

A summary of the results of major state bond issues that were voted on yesterday is attached at Tab B.

October 20, 1975

WHEREAS, the City of New York has -- pursuant to Section 8 of the New York State Financial Emergency Act for the City of New York -- submitted on October 15, 1975 to the Emergency Financial Control Board a Financial Plan for the City and covered organizations for the fiscal years of the City ending June 30, 1976, June 30, 1977, and June 30, 1978; and

WHEREAS, the members of the Board and -- at their direction -- the Special Deputy Comptroller for the City of New York and the State Budget Director have reviewed the Financial Plan submitted by the City; and

WHEREAS, upon request of the Board the City has modified its Financial Plan with respect to capital expenditures; and

WHEREAS, the City has modified its Financial Plan as originally submitted, in accordance with the assumptions in the attached Statement;

NOW THEREFORE, the Board hereby

RESOLVES, that pursuant to Section 8 of the New York State Financial Emergency Act for the City of New York, the Financial Plan submitted by the City on October 15, 1975, as subsequently modified, is approved to be effective October 20, 1975.

SECTION I

INTRODUCTION AND ASSUMPTIONS

Introduction

This document presents a summary of the joint City-Emergency Financial Control Board three-year financial plan developed pursuant to the requirements of Chapter 868 of the Laws of 1975, as amended. The plan demonstrates a feasible path from the City's present state of fiscal imbalance to a balanced budget for the fiscal year commencing on July 1, 1977, and relies on several essential assumptions as outlined below. In particular, it assumes that there will be available a Federal guarantee for taxable notes at an interest rate of eight and one-half percent in a principal amount of approximately $6 billion.

A key feature of the financial plan is that it prescribes a system of reports and milestones to assist the City, the EFCB, and other interested parties to monitor the execution of the plan, the complete details of which, respecting the expenditure plan and the capital plan, will be provided within fifteen days. More details on the expenditure programs of covered organizations over which the City has no control and their impact on the Financial Plan will also be required.

On the basis of the Board's review to date, cash reductions in the City's capital budget by approximately $390 million over the period to June 30, 1978, have already been included in the plan. As part of an ongoing review, all capital projects will be reevaluated to determine the extent to which they should be discontinued or stretched out in view of the urgent cash shortage.

The monitoring system will provide guidance regarding possible modifications which may be required in light of experience over the period of the plan. This monitoring system will be supported by the conversion of the City's financial reporting system to the State Comptroller's uniform system of accounts for municipalities, as modified for New York City.

There have been many recommendations from public and private groups regarding areas and functions which may be particularly susceptible to cost reductions or eliminations. At the request of the Board, the City will be asked to comment on these suggestions and implement them when practical.

Assumptions

1. Revenues: a. City revenues are estimated in accordance with those delivered by the EFCB as of September 30, 1975, with some modifications concerning real property tax changes required by alternative debt service assumptions.

b. On a cash basis, it is assumed that the State will repeat its advances of various State aid funds in the final quarter of the City fiscal year. In City fiscal year 1974-75, such advances totaled $785 million.

2. Expenses: a. It is assumed that there will be no wage increases for municipal employees for the duration of the plan above the 1975-76 levels as described in the City's submission, Schedule A.

b. It is assumed that the City's cost for welfare and medicaid programs will remain constant throughout the plan period.

c. The plan does not address the questions concerning accrual and funding of the City's pension plans, pending recommendations from the Mayor's Management Advisory Board headed by Richard Shinn. Pension surplus reversion to the City and certain covered organizations is assumed at $104.6 million for City fiscal year 1975-76, and approximately $135 million for fiscal year 1976-77 and $165 million for 1977-78.

3\. Reductions:

a. Some of the cost reductions proposed by the City in practice may not be implemented in the exact manner contemplated in the City plan. In some cases, the City will have to be prepared to implement these reductions to the same dollar amount through alternative means.

b. Covered organizations will be required to comply with expenditure limitations as contained in the City's submission or as subsequently modified by the City with the approval of the EFCB. The City will be asked to bear primary responsibility for monitoring compliance with the plan on behalf of the Board, and the Board will use its authority to assure such compliance.

c. The Board notes that the City's Financial Plan provides that operating items in the capital budget will be reduced by $30 million on a cash basis in the current City fiscal year and by $50 million in each of the succeeding years resulting in a cumulative total of $80 million in 1976-77 and $130 million in 1977-78.

4\. Financing:

a. The success of the Plan rests on the assumption that over the life of the Plan there will be available approximately $6 billion in principal amount of Federally guaranteed, taxable notes, bearing 8 1/2% annual interest. It is assumed that an entity authorized by law to issue such notes will be issuer thereof.

SECTION II

FINANCIAL PLAN

The revenues and expenses in the attached schedules agree with the City's financial plan except that the adopted new capital budget levels, and adopted financing option assumptions have affected debt service charges and real property tax revenues.

TABLE #

SUMMARY OF FINANCIAL PLAN
(in Millions of Dollars)

			City Fiscal Year		
			1975-76(a)	1976-77	1977-78
A	1.	REVENUES			
	2.	Real Estate Taxes	2,081	3,265	3,234
	3.	General Fund (b)	3,471	4,197	4,422
	4.	State and Federal Aid	2,606	4,258	4,369
	5.	Other Revenues	234	272	260
	6.	Total Revenues	8,392	11,992	12,204
B	7.	EXPENSES (excluding debt service)			
	8.	Expense Budget	7,479	10,634	10,697
	9.	Reserve for Overrun	--	100	100
			7,479	10,734	10,797
	10.	MINUS Reductions	- 92	- 462	- 724
	11.	Total Expenses	7,387	10,272	10,073
C	12.	NET SURPLUS BEFORE DEBT SERVICE + capital expenditures (line 6 minus line 11)	1,005	1,720	2,221
		Capital expenditures	1147	1100	930
D	13.	NEEDED FOR DEBT SERVICE (See Table B)	1,669	2,190	2,191
E	14.	SURPLUS OR (DEFICIT) (line 12 minus line 13)	(664)	(470)	30

(a) October - June only.
(b) City submission shows MAC debt service deducted from General Fund.

*Assumptions contained in Section I, Introduction.

CAPITAL BUDGET
(Cash Outlay in Millions of Dollars)

	City Fiscal Year		
	1975-76	1976-77	1977-78
Expense Items			
1. Personal Service	$ 237.1	$ 217.5	$ 197.9
2. Other than Personal Service	111.1	101.9	92.7
3. Fringe Benefits	42.6	39.1	35.6
4. Lease of Facilities	92.7	92.7	92.7
5. Vocational Education	174.9	160.4	145.9
6. Manpower Training	38.6	35.4	32.2
Total	$ 697.0	$ 647.0	$ 597.0
Mitchell-Lama Housing	$ 209.9	-0-	-0-
Construction			
1. Transit Authority	181.1	169.2	138.1
2. Environmental Protection	152.9	151.9	126.4
3. Municipal Services	86.2	35.7	18.8
4. Education	165.4	75.1	37.9
5. Other	267.8	156.3	106.6
Total	$ 853.4	$ 588.2	$ 427.8
CAPITAL BUDGET TOTAL	$1,760.3	$1,235.2	$1,024.8
Effects of Reduction			
1. Expense Items	677.0	605.2	555.2
2. Construction Items	875.8	481.2	339.3
3. Plus Reserve	46.3	13.6	34.5
REVISED CAPITAL BUDGET TOTAL	$1,600.0	$1,100.0	$ 930.0

Bond Elections - Nov 4

Defeated

Ohio $2.75 Billion

Capital Improvements

$1.75 Billion

Transportation & Highways

New York

$250 Million

Low & Moderate Income Housing

New Jersey

$600 Million

Transportation

$112 Million

Human Resources

$110 Million

Water

$ 100 Million

Housing

Virginia

$ 25 Million - Arlington County Metro

Construction Bonds

Maryland

$5.75 Million - Baltimore, Md.

Off-Street Parking Bonds

Approved

Maine

$14.5 Million

Maryland

$30 Million - Baltimore, Md. Self supporting

Renewal Areas Housing Bonds.

Ohio

$225 Million

Columbus, Ohio - Sewer, Water -

General Purpose

$ 12 Million - Cincinnati

$10.3 Million - Columbus, Ohio

Parks Recreational and Zoo

General Oligation Bonds

Virginia

$21 Million - Arlington County

Sanitary Sewage Treatment Improvements