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THE WHITE HOUSE

WASHINGTON

November 19, 1975

*P. has  
seen*

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: New York Financial Situation:  
Possible Scenario of Events

Discussions with Governor Carey, Mayor Beame, and Felix Rohatyn, Chairman of MAC, suggest that the following represents the most likely sequence of events:

Wednesday, November 19

MAC passes requirement that New York City pension funds be reformed and that skimming by the city of the interest earned on the pension funds be eliminated.

Friday, November 21

New York State Teachers Fund advances \$100 million of the \$250 million needed to meet the State's financial obligation to the city.

Notice to city note holders offering to exchange their notes for long-term bonds is mailed out.

New York banks reconfirm their willingness to adjust their obligations as outlined in their letters to MAC.

Saturday, November 22

Michigan defeats Ohio State at Ann Arbor. Great joy reverberates across the land.

*[Faint circular stamp]*

Monday, November 24

New York State Legislature enacts legislation authorizing additional New York City taxes of \$200 million.

Trustees of New York City Pension Fund commit to loan New York City \$2.5 billion.

Tuesday, November 25

New York City Council enacts additional New York City taxes of \$200 million authorized by the State Legislature.

Wednesday, November 26

Administration affirms its support of legislation to meet seasonal financing for essential city services.

Arthur Levitt agrees to use \$150 million of New York State Pension Funds to meet the remainder of the State's financial obligation to the City.

Monday, December 1

Legislation introduced to provide for Federal assistance for seasonal borrowing to meet essential services.

Friday, December 5

Legislation for seasonal borrowing loans or loan guarantees signed by the President.

Saturday, December 6

New York State battles out how it will meet its financial obligations.







STATE OF NEW YORK  
EXECUTIVE CHAMBER  
ALBANY 12224

HUGH L. CAREY  
GOVERNOR

November 14, 1975

Dear Mr. Secretary:

I am writing in keeping with our recent conversations concerning the financial program presented by the New York State Municipal Assistance Corporation to meet the severe fiscal crisis facing New York City, as well as the proposals put forth by State officials to meet the needs of the agencies and underlying credit of New York State itself.

Today, you will receive from the Chairman of the Municipal Assistance Corporation the documents prepared by the various commercial banks and representatives of organized labor in New York City. These documents should serve to fulfill the stated Federal requirement that these elements of the MAC plan have been brought to the level of a commitment to the extent consistent with the legal and moral responsibilities of the signatories.

For my part, as Governor of the State of New York, I have sought to meet the Federal requirements as understood in our conversations. Yesterday I called the State Legislature into an Extraordinary Session to meet the fiscal problems of both the State and City of New York.

In meeting with the Legislative Leaders I presented them with a legislative package to accomplish for the State the following:



First, every step necessary will be taken to close the gap in the State's budget. The Comptroller of the State has informed me and the Legislative Leaders that in his opinion, and that of his staff, the State's current deficit will fall between \$600 and \$700 million this fiscal year. Accordingly, I am sending to the legislature a tax package that will raise revenues sufficient to close that gap.

Secondly, I have informed the Legislative Leaders that I shall seek the authority necessary to introduce further economies in State expenditures. At the outset, I shall seek a series of measures that the State and its' localities can undertake in order to reduce social service, i.e. welfare, and Medicaid expenditures in the coming year. By a series of reductions in the scope and level of funding of our programs I hope to achieve a Statewide savings of over \$500 million.

Third, for the State "moral obligation" agencies, I will present legislation to both strengthen their reserves as well as to remove those few programs whose adequacy as to underlying security and revenues might be questioned only under the most rigorous review. This legislation will require an appropriation of \$130 million. For the moment, I am pleased that we have succeeded in keeping the Housing Finance Agency from default for another 30 day period, mainly through the investment of certain funds under the custody of the State Comptroller.

Fourth, I shall introduce legislation that will have the effect of freezing salary schedules for the period of one year of all employees of New York State and its agencies.

To meet the fiscal problems facing the City of New York, I shall do the following:

First, to accomplish the exchange of short-term City notes in the hands of individual investors into long-term MAC bonds, I shall introduce legislation that would place a 3-year moratorium on the claims of those who do not participate in the exchange.

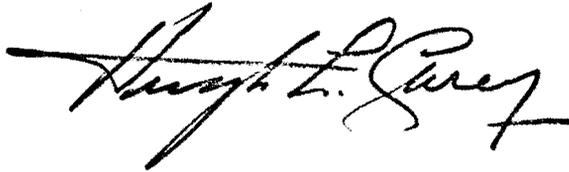
Secondly, I have informed the Legislative Leaders that legislation will be introduced to increase the revenues raised in, and available to, the City by \$200 million.



Third, I shall introduce legislation necessary to accomplish the increase in city employee contributions to the pension system in the amount of \$85 million -- an amount agreed to in documents you have received today.

This is a program that has my full commitment as Governor. We in New York State have, I believe, brought to bear every resource at our command to find a solution in the face of an extraordinary and historic financial crisis. There is still a need, however, which can only be met by Federal assistance.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hugh L. Carey". The signature is written in dark ink and is positioned below the word "Sincerely,".

Honorable William E. Simon  
Secretary of the Treasury  
Department of the Treasury  
15th Street and Pennsylvania Avenue, N.W.  
Washington, D. C. 20220

MUNICIPAL ASSISTANCE CORPORATION  
FOR THE CITY OF NEW YORK  
2 World Trade Center  
New York, New York 10047

November 13, 1975

The Honorable William E. Simon  
Secretary of the Treasury  
Washington, D.C.

Dear Mr. Secretary:

Pursuant to your request to the Governor on November 12th, I am pleased to enclose copies of conditional commitments received to date from the various New York City banks, and from the leadership of the various City unions, who have been asked to participate substantially in the Three-Year Financial Plan For New York City.

We are submitting the enclosed letters pursuant to your request that, to the extent and as rapidly as possible, we reduce to writing the commitments required from the various participants in the Three-Year Financial Plan. As these letters are reduced to final agreements, the legalities may require changes in the form, but we hope not the substance, of the outlined transactions.

In view of the time constraints involved, these letters are in the form of letters of intent rather than formal legal commitments. They relate to the new cash investments in the City, and the interest reductions and maturity adjustments on outstanding City and MAC obligations, referred to in the City financial section of the Three-Year Plan, a copy of which is enclosed for your convenience.

We understand that the Governor will communicate with you separately with respect to the fiscal and State Agency portions of the Plan.



Page Two

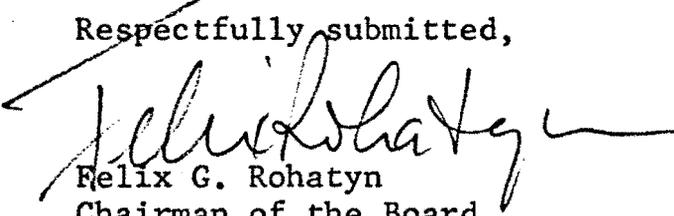
The Governor has called the New York State Legislature back into its continuing extraordinary session today in order to consider and adopt the moratorium legislation which we have discussed with you.

Pursuant to the proposed moratorium legislation, the Municipal Assistance Corporation is currently readying an Official Statement by which it plans to offer to exchange its bonds for maturing notes of The City of New York. The first of these exchange offers is scheduled to commence on or about Tuesday, November 18th. A preliminary Official Statement is enclosed.

As you will understand, the program referred to in the enclosed materials is conditional upon the availability of Federal governmental assistance and upon the completion of the November financings. In this connection, you should know that we have not yet received any commitment with respect to the availability of \$150,000,000 of the State appropriation scheduled to be paid on November 21, 1975.

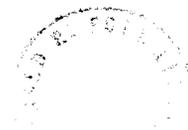
Thank you for your courtesy and helpfulness.

Respectfully submitted,

  
Felix G. Rohatyn  
Chairman of the Board

FGR:ek

Enclosure



November 13, 1975

Mr. Felix G. Rohatyn  
Chairman  
Municipal Assistance Corporation  
2 World Trade Center  
New York, New York 10047

Dear Mr. Rohatyn:

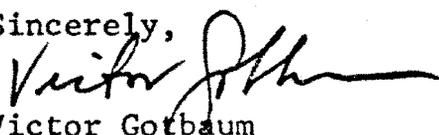
The undersigned are aware that the Trustees of the Municipal Employees Retirement Systems are presently considering the investment of \$2.5 billion in new securities as part of an overall program to meet the needs of the City of New York between now and the end of fiscal year 1977-78 and are considering agreeing to a conversion of MAC securities presently held by these systems to a new MAC issue of 6%, 10 year bonds and to a conversion of city notes held by the systems for a new city issue of 6%, 10 year bonds. The aggregate amount of securities to be converted is \$1.2 billion.

The undersigned agree to use their best efforts to cause the Trustees to approve, in the exercise of their discretion, the items referred to above.

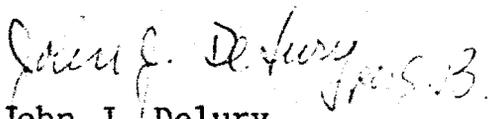
The undersigned understand that the Federal and State governments require that the ITHP portion of the City's contribution to the systems be reduced by 50%. This will increase the employees' annual contributions by \$107 million.

The above commitments are subject to the completion of a financial package assuring funding of the City government through Fiscal Year 1977-78, including the Federal guarantees of securities, or other Federal funding, required to complete the financial package.

Sincerely,



Victor Gotbaum  
Executive Director, District Council 37  
*Albert Shanker, per J.B.*  
Albert Shanker, President  
Local 2, United Federation of Teachers



John J. Delury  
President, Uniformed  
Sanitationmen's  
Association, Local 831  
I.B.T.

MORGAN GUARANTY TRUST COMPANY

OF NEW YORK

23 WALL STREET, NEW YORK, N. Y. 10015

*New York*

November 13, 1975

ELLMORE C. PATTERSON

*Chairman of the Board*

Mr. Felix Rohatyn, Chairman  
Municipal Assistance Corporation  
for the City of New York  
c/o Lazard Freres & Co.  
1 Rockefeller Plaza  
New York, N. Y.

Dear Mr. Rohatyn:

You asked for a response from this bank and the other New York City Clearing House banks with respect to certain aspects of the Three-Year Financial Plan for New York City, New York State Agencies and New York State dated November 10, 1975 (the "Plan"), a copy of which was given to an officer of this bank last evening. We have had the benefit of a meeting this morning with you and the other Clearing House banks at which the Plan was discussed and specific requests were made of us.

In response to the specific requests, and subject to the conditions listed below, I can advise you that this bank would be prepared to convert its present holdings of MAC securities to 6 percent MAC bonds maturing in 10 years, to extend our present holdings of New York City notes to 10 years at 6 percent, and to participate in up to \$2.5 billion "seasonal" financing for the City of New York that necessarily must be Federally guaranteed.

The following conditions are integral to this response:

1. Any securities of either MAC or New York City must, satisfactorily to us, be approved as to legality and documentation.

2. We must reserve our right to reconsider our response if at any time prior to or during the implementation of the Plan there is any default on securities issued by the State, the City or a State agency. We would not consider a moratorium on payment of principal on City notes, so long as MAC bonds are offered in exchange, as a default for this purpose.

Mr. Felix Rohatyn, Chairman  
Municipal Assistance Corporation  
for the City of New York

- 2

November 13, 1975

3. All other members of the Clearing House respond affirmatively and participate in the Plan on substantially the same basis.

4. All parts of the Plan are committed to by the appropriate parties, including the State executive and legislative leaders, the City executive and legislative leaders, City union officials, and the officials of MAC and the City Control Board. Federal executive and legislative leaders indicate support of Federal guarantee of the financing of the City's "seasonal" borrowing needs. Appropriate concrete actions at the appropriate City, State and Federal levels should accompany any actual steps taken by this bank.

We understand that an essential part of the program is the successful exchange of MAC securities for notes held by holders other than Clearing House banks and City pension funds. We do think it preferable that the banks and pension funds receive MAC bonds for City notes on the same basis as other note holders and urge that serious consideration be given to that possibility.

We would also like to express our concern about the need to finance the estimated \$2.5 billion State agency requirements in full, and this bank's unwillingness to participate in any such financing except with Federal guarantees or assistance. We also have concern about the approximately \$4 billion short-term financing requirements of the State itself in the Spring and the desirability of prearranging the availability of that amount of credit. It is our present belief that Federal assistance may well be necessary for that purpose.

Very truly yours,

*Ellman Patterson*





# MANUFACTURERS HANOVER TRUST COMPANY

350 PARK AVENUE, NEW YORK, N. Y. 10022

GABRIEL HAUGE  
CHAIRMAN OF THE BOARD

November 13, 1975

Mr. Felix G. Rohatyn  
Chairman of the Board  
Municipal Assistance Corporation  
c/o Lazard Freres & Co.  
One Rockefeller Plaza  
New York, New York

Dear Sir:

We have reviewed the document dated November 10, 1975 and entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State" prepared by you and delivered to us today. In connection with the Financial Plan, we understand that the member banks of the New York Clearing House Association are being requested to agree in principle to the following:

1. Conversion of present holdings of approximately \$1,050,000,000 MAC securities to 6% Bonds maturing in 10 years.
2. Extension of approximately \$550,000,000 of New York City Notes to 10 years at 6%.
3. Providing New York City with up to \$2,500,000,000 of "seasonal" financing.

This letter is to advise you that we are agreeable in principle to the provisions of paragraphs 1 and 2 above on the following conditions:

(a) New York State, New York State Agencies and New York City shall not be in default on any of their respective obligations at the time these provisions of the Financial Plan are implemented.

(b) State Agency financial needs referred to in Paragraph B of Section II of the Financial Plan will be provided without the assistance of this institution.

(c) This institution shall be satisfied as to all legal, documentary and similar facets of the Financial Plan prior to its implementation.

(d) The portions of the Financial Plan which contemplate direct or indirect funding by organizations other than the member banks of the New York Clearing House Association are agreed to by such organizations and all other steps relating to the improvement of the financial and fiscal condition of New York State and New York City referred to in the Financial Plan have been adopted by the New York State Legislature.

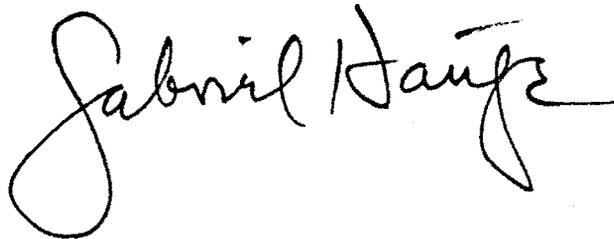
(e) All member banks of the New York Clearing House Association agree to participate in these portions of the Financial Plan subject to conditions acceptable to such banks.

With respect to paragraph 3 above, this is to advise you that this institution would be willing to participate in a syndicate consisting at a minimum of all

member banks of the New York Clearing House Association organized for the purpose of providing New York City with up to \$2,500,000,000 of "seasonal" financing subject to the condition that such financing be guaranteed by the Federal Government.

Finally, we note that Paragraph B of Section III of the Financial Plan entitled "Short-Term Financing Requirements - State Fiscal Year 1976-77" indicates that "it is only realistic to anticipate the need for some Federal sponsorship for the New York State seasonal borrowings early in 1976." We concur in this conclusion.

Sincerely yours,

A handwritten signature in cursive script, reading "Gabriel Hauge". The signature is written in black ink and is positioned below the typed name "Sincerely yours,".

# UNITED STATES TRUST COMPANY

OF NEW YORK

45 WALL STREET NEW YORK, N. Y. 10005

212-425-4500

CHARLES W. BUEK  
*Chairman of the Board  
and  
President*

November 13, 1975

Dear Mr. Rohatyn:

Re: Financial Plan Dated 11/13/75 Submitted to the  
Member Banks of the New York Clearing House

In response to your request this morning for advice as to our position on the above proposal, I am glad to give you our advice as to the four principal requests as summarized on the first page of the Financial Plan.

We point out that we believe it undesirable to consider making plans for The City of New York alone as proposed in the first three requests without making some provision for the New York State Housing Finance Agency and other State agencies referred to in request four of the Financial Plan, and we shall not participate in such request.

The Trust Company, as a member of the New York Clearing House, agrees to participate in the first three requests set forth, subject to the following conditions:

- a. Neither the State of New York, any of its agencies, nor the City is in default on any of its obligations at the time the Financial Plan is implemented.
- b. The proposal for financing New York State Agencies, including item four of the Financial Plan, must be provided by sources other than the New York Clearing House Banks.
- c. We shall participate in the loans to meet the City's needs for "seasonal" financing (currently estimated at two and one-half billion dollars), but only if the Federal Government guarantees all of such loans.

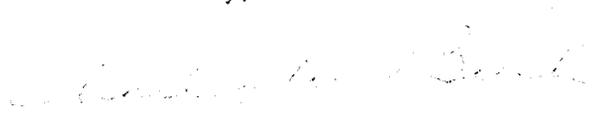
Mr. Felix G. Rohatyn

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November 13, 1975

- d. The legality and documentation of all aspects of the Financial Plan must be satisfactory to us and our counsel.
- e. All the parties involved in the package constituting the first three requests must agree to such package.
- f. Each other member bank of the New York Clearing House shall have accepted the foregoing conditions.

Sincerely,

  
Chairman  
United States Trust Company  
of New York

Mr. Felix G. Rohatyn  
Chairman  
Municipal Assistance Corporation  
for the City of New York  
Lazard, Freres & Company  
One Rockefeller Plaza  
New York, New York 10020

National Bank



of North America

November 13, 1975

Mr. Felix G. Rohatyn, Chairman  
Municipal Assistance Corporation  
World Trade Center  
New York, New York

Dear Mr. Rohatyn:

We are pleased to respond to the proposals made by you in furtherance of the plans set forth in the "Summary of Three Year Financial Plan for New York City, New York State Agencies, and New York State" dated November 10, 1975.

National Bank of North America would be willing to convert its present holdings of Municipal Assistance Corporation securities, amounting to approximately \$21,000,000, to 6% bonds of the Municipal Assistance Corporation payable over a period of ten years, and to extend the maturities of its present holdings of New York City notes, amounting to approximately \$8,000,000, to maturities of ten years, bearing interest at 6% per annum. In addition, National Bank of North America would be willing to assist in the underwriting, during the next three years, of up to \$2,500,000,000 of short term New York City obligations, provided such obligations are guaranteed by the federal government.

Our willingness to move forward with the proposals made by you, as outlined above, is subject to the following conditions:

1. All of the other elements of the Summary

Mr. Felix G. Rohatyn, Chairman  
Municipal Assistance Corporation

2. November 13, 1975

will be implemented prior to the time we are expected to take the actions described above.

2. All of the other member banks of the New York City Clearing House will join in the actions we are to take.

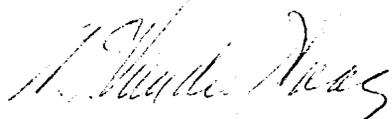
3. Neither the State nor the City nor any agency of the State will be in default in any of its obligations at the time the plan is implemented.

4. The financial needs of State Agencies described in the Summary will be provided for, including the amount described as "Remainder to be Financed."

5. The Federal Government will agree to guarantee financing for the seasonal needs of New York City, up to \$2,500,000,000, for the next three years.

6. We and our counsel shall be satisfied with the legality of, and documentation for, all of the actions required for the plans described in the Summary.

Very truly yours,



Walter E. Van der Waag  
Vice Chairman of the Board

# IRVING TRUST COMPANY

ONE WALL STREET  
NEW YORK, N.Y. 10015

JOSEPH A. RICE  
PRESIDENT

November 13, 1975

Mr. Felix Rohatyn  
Lazard Freres & Co.  
One Rockefeller Plaza  
New York, New York 10020

Dear Mr. Rohatyn:

This letter responds to a proposal for participation by the New York Clearing House Banks and others in the financial plan set forth in a memorandum entitled "Summary of Three Year Financial Plan for New York City, New York State Agencies, and New York State" dated November 10, 1975.

We are prepared to:

- (a) convert our present holdings of securities of the Municipal Assistance Corporation to 6% bonds maturing in ten years;
- (b) extend to ten years the maturities of New York City notes which we now hold, such extended notes (or equivalent obligations) to bear interest at the annual rate of 6%; and
- (c) consider participating in up to \$2.5 billion of "seasonal" financing to the City to bridge the gap between incoming City revenues and payouts of salaries and other obligations, but only if the City's obligations are guaranteed as to principal and interest by the Federal government.

The foregoing is subject to the following conditions:

- (a) neither the State, any State agency or the City is in default at the time of any such conversion, extension or participation in a seasonal financing;

-2-

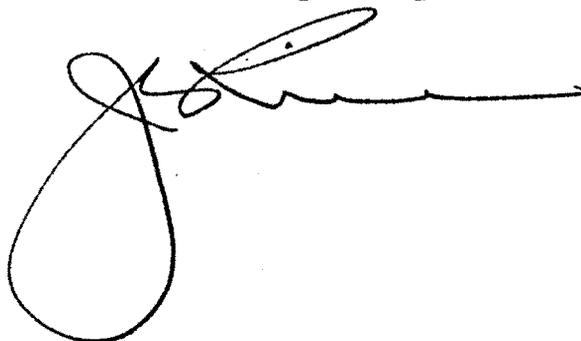
(b) all parts of the financial plan set forth in the memorandum referred to above must be agreed to by the various interested parties;

(c) all of the other New York Clearing House banks shall have agreed to conversions, extensions and participations similar to those referred to above; and

(d) the conversions, extensions and participations referred to above shall be legally satisfactory to us.

I wish to make clear that our agreement is limited as set forth above and we are not undertaking to participate in making loans to or purchasing securities of New York State or any of its agencies.

Yours very truly,

A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a long, horizontal, slightly wavy line.

November 13, 1975

Felix Rohatyn, Esq.  
Lazard Frères & Co.  
1 Rockefeller Plaza  
New York, N. Y. 10020

Dear Mr. Rohatyn:

Reference is made to the presentation made by you and your associates today at the New York Clearing House, and specifically to the material presented at that meeting entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State".

On behalf of Chemical Bank, I wish to advise you as follows:

- (1) Chemical Bank would be willing to convert its present holdings of Municipal Assistance Corporation securities to 6% bonds maturing in level payments over ten years.
- (2) Chemical Bank would be agreeable to substitute for its existing holdings of New York City Notes new New York City notes with a maturity of 10 years bearing an annual interest of 6%, with amortization commencing after expiration of the so-called moratorium period.
- (3) Chemical Bank would be willing to participate in a syndicate for seasonal financing needs of the City of New York up to an aggregate amount not in excess of \$2-1/2 billion if, and only if, such borrowings by the State of New York are guaranteed by the full faith and credit of the United States.

Chemical Bank's willingness to do the foregoing is conditioned as follows:

- (a) At the time of the implementation of such Financial Plan, there shall exist no default in any obligations of the City of New York, any agency of the City of New York, the State of New York or any agency of the State of New York.
- (b) Recognition by all appropriate fiscal authorities that the refinancing of maturing New York State agency obligations must be effected through sources other than the New York Clearing House banks.

To: Felix Rohatyn, Esq.  
Lazard Frères & Co.

#2

November 13, 1974

(c) Our satisfaction as to all legal matters incident to the implementation of such Financial Plan (including, but not by way of limitation, the authority of the City of New York to issue a 10-year note) and our satisfaction as to the documentation to be executed and delivered in connection therewith.

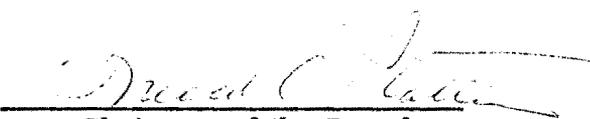
(d) All other participants in such Financial Plan shall have agreed to the matters being requested of them, as more fully set forth in such Financial Plan.

(e) Your receipt of substantially similar letters from each of the other New York Clearing House banks.

Finally, we can not overemphasize our sincere belief and concurrence in the statement contained in such Financial Plan that it is only realistic to anticipate the need for Federal sponsorship for New York State's seasonal borrowings during 1976. We believe that any contrary assumption would be unrealistic at this time and that it is in the best interests of the capital markets and the commercial banking system that provision should be made therefor at this time.

Very truly yours,  
CHEMICAL BANK

By-

  
Chairman of the Board

D. C. P.

Rush delivery.

# THE BANK OF NEW YORK

NEW YORK'S FIRST BANK - FOUNDED 1784 BY ALEXANDER HAMILTON

48 WALL STREET, NEW YORK, N.Y. 10015

ELLIOTT AVERETT  
CHAIRMAN OF THE BOARD

November 13, 1975

Mr. Felix Rohatyn, Chairman  
The Municipal Assistance Corporation  
for The City of New York,  
Lazard Freres & Co.,  
One Rockefeller Plaza  
New York, New York 10020

Dear Mr. Rohatyn:

The Bank of New York is pleased to respond to the proposal that you presented today to the member banks of The New York Clearing House Association. This proposal is summarized in a document entitled "Summary of Three-Year Financial Plan for New York City, New York State Agencies, and New York State", dated November 10, 1975.

The Bank of New York would be willing to take the following three actions, if the conditions hereinafter described are met to its satisfaction.

The Bank of New York would:

1. Convert the securities issued by the Municipal Assistance Corporation for The City of New York ("MAC") which we presently hold as principal into new securities issued by MAC, bearing an interest rate of 6% per annum, maturing in equal annual installments over a ten year period and ranking pari passu with all other securities issued by MAC.
2. Extend the maturity of the New York City notes which we presently hold as principal to a term of ten years and reduce the interest rate thereon to 6% per annum, provided the long term notes contain an appropriate cross default clause.
3. Participate proportionately with the other member banks of The New York Clearing House Association and other commercial banks in providing New York City with up to 2 1/2 billion dollars of "seasonal" financing, if, but only if, all obligations in respect of this financing are unconditionally guaranteed by the United States Government.

The conditions which we have in mind are the following:

- A. At the time of our taking of any of such actions, none of the State of New York, any agency of the State of New York, New York City or any municipality with a population in excess of 100,000 shall be in default in the payment of any of its obligations.

November 13, 1975

- B. In the description of the "Financing Requirements for State Agencies" (Part II, B of the Summary), there is a reference to \$650,000,000 as the "Remainder to the Financed". These funds must be furnished from sources other than this Bank.
- C. All the actions outlined in the Plan of "Fiscal Correction" for New York City (Part I, A of the Summary) shall have been taken or effectively committed to by all parties concerned, and each of the other member banks of The New York Clearing House Association shall have agreed to participate on terms substantially similar to those contained in this letter.
- D. The legality of each of this Bank's proposed actions shall be established to the satisfaction of our counsel, and all necessary documents shall have been prepared to our satisfaction, prior to our taking any such action.

Very truly yours,



Chairman

# BANKERS TRUST COMPANY

280 PARK AVENUE, NEW YORK

JOHN W. HANNON, JR., PRESIDENT  
TELEPHONE 212 692-3765

MAILING ADDRESS  
POST OFFICE BOX 318  
CHURCH STREET STATION  
NEW YORK, NEW YORK 10015

November 13, 1975

Mr. Felix G. Rohatyn, Chairman of the Board  
Municipal Assistance Corporation for the City of New York  
c/o Lazard Freres & Co.  
1 Rockefeller Plaza  
New York, N. Y. 10020

Dear Mr. Rohatyn:

This morning you outlined to the Clearing House banks, including ourselves, a financial plan for New York City, New York State agencies and New York State itself, and asked us to comment to you today on certain aspects of that plan which directly involved the Clearing House banks.

Subject to the conditions outlined below, we would be willing to do the following as our part of the overall plan:

1. Convert our own present holdings of Municipal Assistance Corporation for the City of New York ("MAC") securities to 6% serial bonds of MAC, with a final maturity of 10 years and an average life of approximately 6 years;
2. Extend our own present holdings of New York City notes to maturities not in excess of 10 years at 6%; and
3. Use our best efforts to put together the necessary syndicates of banks and other financial institutions to meet the "seasonal" financing needs of New York City over the next 3 years, provided that such needs never exceed \$2-1/2 billion and, most importantly, that such financings be guaranteed by the Federal Government. It is our opinion that without such Federal guarantee the "seasonal" financing needs could not be met.

Our willingness to participate in the proposal outlined to us this morning is subject to the following conditions:

1. That at the time of any conversion or extension there is no default by New York State, any of the New York State agencies, or New York City;

2. That the State agencies' needs outlined this morning in your proposed financial plan are to be taken care of from sources other than the Clearing House banks;

3. That the Federal Government guarantee any New York City "seasonal" financing;

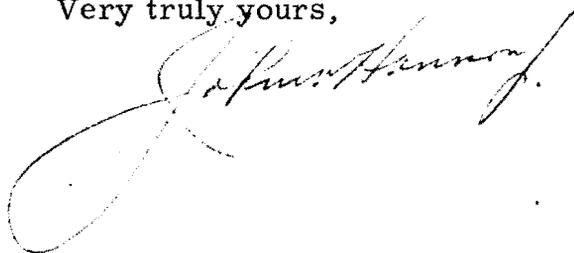
4. That the transactions contemplated by the financial plan outlined to us and by this letter are legal and proper for all of the persons (including governmental units and other entities) involved or contemplated to be involved, including ourselves, and that all governmental, corporate or other authorizations necessary or appropriate be obtained, and that all legal proceedings, including all documentation, in connection with such transactions shall be satisfactory in form and substance to this bank and our counsel;

5. That all of the persons and entities connected with the financial plan outlined to us this morning both execute the necessary or appropriate documents to indicate that they will perform as contemplated in accordance with the plan outlined to us and that such performance is forthcoming at the appropriate time, including financings from other sources and such governmental and other acts as are necessary or appropriate under the plan; and

6. That our willingness to convert all of our own holdings of MAC securities, extend our own holdings of New York City notes and use our best efforts to provide "seasonal" financing for New York City, as outlined above, be matched by a willingness on the part of all of the other Clearing House banks to do the same with their holdings and to use their best efforts in connection with the "seasonal" financing for New York City.

As part of the proposed financial plan we understand you will consider and use your best efforts to restructure the plan as outlined to us to allow us to convert our New York City notes into MAC securities with the same maturity and interest rate as proposed for the extended New York City notes.

Very truly yours,

A large, stylized handwritten signature in cursive script, likely belonging to J. P. Morgan, is written over the typed name. The signature is written in dark ink and is highly legible.

# MARINE MIDLAND BANK

140 BROADWAY • NEW YORK, N. Y. 10015

(212) 797-4000

November 13, 1975

Mr. Felix Rohatyn, Chairman  
Municipal Assistance Corporation  
One Rockefeller Plaza  
New York, New York 10020

Dear Mr. Rohatyn:

In accordance with your request today to the representatives of the New York Clearing House banks for an indication of willingness by each of such banks to participate in a proposed Financial Plan for New York City, New York State and New York State Agencies (herein called the "Plan", a copy of which is annexed hereto), this is to advise you that, subject to the conditions set forth below, Marine Midland Bank-New York will, upon consummation of the Plan:

1. Convert Municipal Assistance Corporation ("MAC") securities held in this Bank's own portfolio to MAC bonds, amortized over ten years, bearing interest at 6% per annum, and ranking pari passu with all other MAC obligations;
2. Extend the maturity of New York City notes held by this Bank in its own portfolio to ten years and agree to a reduction in the interest rate on such notes to 6% per annum;
3. Assist in the underwriting or syndication of a portion of an issue of New York City securities of up to \$2.5 billion for "seasonal" financing needs, provided that such securities are guaranteed by the full faith and credit of the United States of America.

Our agreement to the foregoing and our continued participation in the Plan are subject to the following:

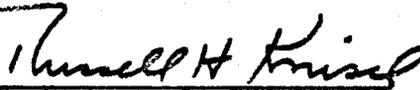
1. Neither New York City, New York State nor any New York State Agency shall be in default in any respect on any of their respective securities issues;

Mr. Felix Rohatyn, Chairman  
Municipal Assistance Corporation  
November 13, 1975  
Page 2

2. With respect to the \$650 million additional financing (or any other additional financing) set forth in the Plan as required for New York State Agencies, sources other than this bank will provide such funds.
3. The definitive terms and the legality of the various new or extended securities to be issued in accordance with the Plan, as well as the documentation in connection therewith, shall be satisfactory to us and our counsel. All legal matters shall be satisfactory to us and our counsel.
4. All parts of the proposed Plan shall be consummated, each of the institutions and purchasers of securities as set forth therein shall agree to and perform their respective obligations as contemplated by the Plan and each of the member banks of the New York Clearing House Association shall participate in the Plan.

Very truly yours,

MARINE MIDLAND BANK-NEW YORK

By: 

Russell H. Knisel  
Vice Chairman of  
the Board



# FIRST NATIONAL CITY BANK

WILLIAM I. SPENCER  
PRESIDENT

399 PARK AVENUE, NEW YORK, N. Y. 10022

November 13, 1975

Mr. Felix G. Rohatyn, Chairman  
Municipal Assistance Corporation  
for the City of New York  
c/o Lazard Freres  
Rockefeller Center  
New York, New York

Dear Mr. Rohatyn:

We are writing to respond to your request that we participate in certain transactions forming part of the three-year Financial Plan proposed for New York City, New York State Agencies and New York State (the "Plan"). We have been furnished with a memorandum dated today outlining such transactions together with a summary of the Plan dated November 10, 1975.

Prior to receipt of the Plan we discussed with you our conviction that the financial and other problems confronting New York City are closely related to similar problems affecting New York State and its Agencies and that a piecemeal approach which seeks only to prevent a City default is not an adequate response to the total situation. While we believe the general approach of the Plan is appropriate, we wish to record our view that it does not meet the financing requirements of the State Agencies and political subdivisions other than New York City. For example, we do not believe that the indicated remainder of Agency needs to be financed of \$650 million can be obtained from sources within the banking system. In our view the success of the Plan will depend on the identification of additional financial support for Agencies and other subdivisions.

You have asked us to consider: (1) Converting our holdings of MAC bonds of various series into MAC bonds of a new series under the existing bond resolution bearing interest at 6% per annum and maturing in 10 years. Such new bonds would be amortized on a level debt basis.

(2) Extending the maturity of our holdings of New York City notes to 10 years. Such extended notes would bear interest at 6% per annum.

(3) Participating in the provision of "seasonal" financing for New York City during the three year period of the Plan in an amount not to exceed \$2 1/2 billion at any one time outstanding.

We are willing to negotiate our participation in the above described transactions on the following basis:

a) At the time of our participation there shall be no default in the payment of debt for borrowed money on the part of New York City, New York State or any Agency or political subdivision of the State.

b) All New York Clearing House member banks and all pension funds for City employees shall be participating in (1) and (2) above on the same basis as we.

c) Prior to our participation we shall be satisfied that there is a reasonable prospect of obtaining commitments for \$650 million to fund the unfinanced requirements of the State Agencies. If any of the sources of funding for Agencies outlined in the Plan prove to be unavailable in the required amounts, such amounts will be added to the \$650 million commitments.

d) Commitments shall have been obtained for the aggregate amount of the "seasonal" financing at the time required by the City and borrowings under such commitments shall be unconditionally guaranteed by the United States.

e) All other aspects of the Plan shall have been implemented, or shall be the subject of satisfactory commitments, substantially as outlined in the Plan.

f) We shall be satisfied with all legal aspects of the transactions and agreements involved in carrying out the Plan and with the form and substance of the documents involved.

We recognize that under certain circumstances the City securities to be issued under (2) above may not be available. We would be willing to negotiate our participation in (2) on the basis of substituting MAC bonds in place of such City securities.

In accordance with our discussions today, we expect to communicate separately with representatives of the State concerning proposals for financing the requirements of the New York State Housing Finance Agency on November 14.

Very truly yours,





# THE CHASE MANHATTAN BANK

National Association

1 Chase Manhattan Plaza, New York, New York 10015

DAVID ROCKEFELLER *Chairman of the Board*

November 13, 1975

Mr. Felix G. Rohatyn, Chairman  
Municipal Assistance Corporation for  
the City of New York  
New York, New York

Dear Felix:

At the meeting of the New York Clearing House banks with you this morning, you asked that each of the banks indicate whether it would agree to participate in the financial plan for New York City, New York State agencies and New York State which you and Mr. Gould described. The anticipated participation by the New York Clearing House banks is described in Items 3 and 4 of Part I. of the "Summary of Three-Year Financial Plan for New York City, New York State Agencies and New York State", dated November 10, 1975 (the "Summary"), a copy of which was distributed.

Before responding to your inquiry, I should set forth certain assumptions and comments upon which our response is based:

1. New York State, New York State agencies and New York City will not be in default in the payment of their obligations at the time the plan is implemented.
2. Part II. of the Summary relating to State agencies will be implemented using sources of funds other than commercial banks. We believe that it is of vital importance to the reopening of the securities markets to New York State, its agencies and the City that the credit of the State agencies be strengthened and that default in the payment of their obligations be avoided.

3. Seasonal financing for New York City, estimated in the amount of \$2.3 billion per fiscal year (\$1.5 billion for the balance of the fiscal year ending June 30, 1976), will be provided. We will be willing to participate in an underwriting syndicate of New York Clearing House banks to underwrite such seasonal financing but only if the City's obligations are appropriately guaranteed by the Federal Government.

4. Seasonal borrowing requirements of New York State will be satisfied, it being our view that Federal guaranty assistance will be necessary.

5. All legal and documentary requirements relative to the conversion of the New York City short-term notes (including, particularly, TANs and RANs) held by the Clearing House banks into long-term obligations will be satisfied. In this connection, as you know, bank counsel have expressed concern as to the availability of bonding authorization and as to the use of bond proceeds to retire TANs and RANs.

6. The total legislative, budgetary and financial plan (certain elements of which are described in the Summary) will be implemented concurrently with the requested participation by the Clearing House banks.

7. All Clearing House banks will participate in the plan as contemplated by Items 3 and 4 of Part I.A. of the Summary.

Subject to these assumptions, we intend to participate in the plan by accepting the contemplated interest reduction and lengthening of maturities on the New York City notes held by us for our own account as described in the Summary and as discussed by you at the Clearing House this morning. In this connection, since it is contemplated that the New York City short-term notes will be exchanged for New York City obligations with a ten-year maturity, we suggest that it is appropriate that the ten-year obligations contain provision for acceleration in the event of any default by the City in the payment of its obligations. On the same basis, we, also, intend to accept extension of the maturity

To Mr. Felix G. Rohatyn, Chairman  
Municipal Assistance Corporation  
for the City of New York

of the MAC obligations held by us for our own account and the interest reduction as contemplated by Part I.A. of the Summary and our discussion this morning.

Very truly yours,

David Rockefeller

DR:jt

1954

1. Definitions. The words and phrases used in this <sup>Act</sup> ~~section~~ have the following meanings:

(a) The term "Federal Payments" mean those amounts authorized and appropriated for the Fiscal Year beginning July 1, 1975 which the City of New York is entitled to receive, assuming compliance with the relevant statutory criteria, from the United States prior to September 30, 1976 pursuant to the following statutes:

(b) The term "Due Date" means the time when a Federal Payment becomes due and payable by the United States to the City of New York.

(c) The term "Composite Treasury Bill Rate" means

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

2. Advances of Federal Payments. Upon written request from the City of New York, the Secretary may make payment to the City prior to the Due Date of amounts of Federal Payments estimated by the Secretary to come due prior to September 30, 1976 in an amount not to exceed in the aggregate \$1,500,000,000. Each such advance shall be accompanied by a written statement

-describing the particular Federal Payment or Payments being advanced, the estimated amount thereof, and the Due Date.

3. Interest on Advances. Each advance pursuant to section 2 shall bear interest from the date of the advance to the Due Date at an annual rate equal to the Composite Treasury Bill Rate determined at the time the advance is paid plus an additional one per centum per annum. Interest shall be payable on the Due Date with respect to each Federal Payment advanced.

4. Adjustments.

(a) In the event the aggregate advances exceed the amount of Federal Payments ultimately determined to be due to the City of New York, the Secretary shall withhold such amounts from future payments due the City of New York from the United States and offset such withheld amounts against any such excess advances, including any unpaid interest thereon.

(b) In the event the aggregate advances are less than the amount of Federal Payments ultimately determined to be due to the City of New York from the United States, the Secretary shall remit to the City of New York the amount by which such Federal Payments exceed the aggregate advances and any unpaid interest thereon.



1. Definitions. The words and phrases used in this Act have the following meanings:

(a) The term "Federal Payments" means those amounts authorized and appropriated for the Fiscal Year beginning July 1, 1975 which the City of New York is or will become entitled to receive but which have not been remitted to the City prior to the issuance of any Notes Secured by Federal Payments, assuming compliance with the relevant statutory criteria, from the United States prior to September 30, 1976 pursuant to the following statutes:

(b) The term "Notes Secured by Federal Payments" means debt obligations of the City of New York: (i) authorized and approved by the Secretary pursuant to section 3 of this Act; (ii) due and payable in full no later than June 30, 1976; (iii) the interest on which qualifies for exemption from taxation under section 103 of the Internal Revenue Code of 1954 as amended; (iv) which are valid and binding general obligations of the City of New York, and (v) which state on their face a day certain when the interest on and the principal amount of such Notes is payable.

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

(d) The term "default" with respect to Notes Secured by Federal Payments means the failure of the City of New York to make timely payment of any installment of interest on or of the principal amount of such Notes on the date or dates specified on the face of such Notes.

2. Application. The City of New York, if first specifically authorized by the State of New York to issue Notes Secured by Federal Payments, may apply to the Secretary for authority to issue Notes Secured by Federal Payments in an aggregate amount not to exceed \$1,500,000,000. Such application shall include: (a) a proposed schedule of borrowing showing the proposed dates of issuance and maturity of such Notes; (b) a statement that the funds to be obtained through the issuance of Notes Secured by Federal Payments cannot otherwise be raised by the City of New York; (c) a projected statement of receipts and disbursements by the City of New York demonstrating the City's ability to pay the principal and interest on the Notes Secured by Federal Payments as such payments become due; and (d) an agreement that the City agrees to be bound by the provision of this Act.

3. Secretary to Approve Application. The Secretary shall approve the application of the City of New York and authorize the City to issue Notes Secured by Federal Payments if he determines that (a) the funds to be obtained through the issuance of Notes Secured by Federal Payments

cannot otherwise be raised by the City of New York; (b) there is a reasonable probability that the City of New York will be able to pay the principal and interest on the Notes Secured by Federal Payments as such Notes mature and (c) the estimated amount of Federal payments is sufficient to provide for the <sup>redemption</sup> ~~retention~~ of the Notes (including all accrued interest) at maturity.

4. Endorsement of Approved Notes. Notes Secured by Federal Payments which have been approved and authorized by the Secretary shall bear on their face a conspicuous legend that "The Payment of the Principal Amount of and Interest on this Obligation is Secured by a Lien on Certain Funds to become Due to the City of New York from the United States," and shall be endorsed by the Secretary.

5. Duty of Secretary to Redeem Notes.

(a) In the event that

- (i) the City of New York defaults, or
- (ii) the Secretary determines that it is likely that the City of New York will default,

with respect to any Notes Secured by Federal Payments, the Secretary shall withhold payment to the City of New York of an amount of Federal Payments equal to the principal amount and unpaid interest (determined as of the date of maturity) of all outstanding Notes Secured by Federal Payments and

shall set such sum aside in a special fund (the "Special Fund") for the purpose of redeeming Notes Secured by Federal Payments (including all unpaid interest due thereon) as such Notes mature.

(b) In the event that the City of New York defaults with respect to any Notes Secured by Federal Payments, the holders of such Notes shall have the right to demand payment by the Secretary from the Special Fund of the unpaid principal amounts of such Notes and the interest thereon to the date of maturity. No person other than the United States, a holder of a Note Secured by Federal Payments (but only to the extent of the unpaid principal amount and interest due on such Note), or the City of New York (but only in the absence of a default with respect to Notes Secured by Federal Payments) shall have any right or interest in the Special Fund or shall have the right to attach, garnish, levy upon or otherwise seek any payment from the Special Fund or seek to prohibit or interfere with payments by the Secretary from the Special Fund. No payment from the Special Fund pursuant to this Act shall be deemed a voidable preference under the Bankruptcy Laws or under any state or local law.

(c) If the Secretary has established a Special Fund pursuant to section 5(a)(ii) of this Act and it subsequently appears to the satisfaction of the Secretary that

the City will not default with respect to the Notes Secured by Federal Payments, the Secretary shall forthwith remit the balance in the Special Fund to the City of New York.

(d) In the event of default with respect to the Notes Secured by Federal Payments, if the Secretary of the Treasury determines that the Special Fund will be inadequate for the purpose of making timely redemption upon maturity of all Notes Secured by Federal Payments he shall cause such Special Fund to issue to the Department of the Treasury obligations in an amount necessary to enable the Special Fund to redeem upon maturity all Notes Secured by Federal Payments and the Department of the Treasury shall purchase such obligations. Such obligations shall bear interest at a rate determined by the Secretary of the Treasury taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. For the purpose of purchasing the obligations of the Special Fund described herein, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, and the purposes for which securities may be issued under the Second Liberty Bond Act are extended to include such purchases. In such case, the Secretary shall

withhold and continue to pay into the Special Fund all Federal Payments (or, if necessary, payments which would be Federal Payments but for the time limitations in section (1)(a) of this Act) until the Special Fund shall have sufficient assets to redeem all Notes Secured by Federal Payments and all obligations of the Special Fund held by the Department of the Treasury, including all interest thereon.

(e) Notwithstanding any contrary provision of law, payments made by the Secretary pursuant to subsection (b) shall be deemed in full satisfaction of any claim by the City of New York to the Federal Payments allocated to redeem such Notes or the obligations of the Special Fund issued pursuant to subsection (d) of this section.





NEW YORK CITY CASH FLOW NEEDS  
(dollars in millions)

	<u>Fiscal Year 1976-1977</u>	<u>Fiscal Year 1977-1978</u>
July	1218	1079
August	480	410
September	(148)	(138)
October	505	94
November	146	70
December	566	392
January	116	56
February	72	(14)
March	270	387
April	(475)	(587)
May	(308)	(335)
June	<u>(823)</u>	<u>(907)</u>
Total	1619 <sup>1/</sup>	507 <sup>2/</sup>

1/ Excludes \$164 million financed from debt service payments to pension funds.

2/ Excludes \$274 million financed from debt service payments to pension funds.

NOTE: These figures have been provided by New York officials. Treasury believes they do not provide an accurate picture as yet.



THE SECRETARY OF THE TREASURY  
WASHINGTON 20220

November 14, 1975

MEMORANDUM FOR THE PRESIDENT

Subject: New York Plan

Governor Carey; Felix Rohatyn, Chairman of MAC; Stanley Steingut, Speaker of the State Assembly; Warren Anderson, Majority Leader of the State Senate; and other New York officials presented the outlines of a plan designed to meet the financial needs of New York City, New York State, and the New York State agencies.

(1) Summary of the Plan

The plan involves measures to:

- (a) Force a restructuring of New York City's short-term debt.
- (b) Generate \$200 million of new city tax revenues.
- (c) Provide \$2.5 billion in new loans to the City from the city pension funds.
- (d) Reduce City contributions to employee pension funds by requiring contributions from the employees, thus reducing by \$85 million City expenditures; and restructure the employee pension plans.
- (e) Generate sufficient State tax revenues (estimated by Governor Carey at \$600-700 million) to balance the State's budget.
- (f) Provide State funding for the Housing Finance Agency to strengthen its financial condition.
- (g) Force a balancing of New York City's budget by fiscal year 1978.
- (h) Reduce welfare and social service costs.



(2) Proposed Federal Role

The Federal Government has been asked to provide seasonal financing on a short-term, self-liquidating basis. For FY 1976, approximately \$1.3 billion would be required during the period December 1975 - March 1976, to be repaid by June 30, 1976. For FY 1977 and FY 1978 the need in the July-March period would peak at \$2.3 billion in March. In each of these fiscal years, the entire amount would be repaid by June 30.

(3) Discussion of the Plan

(a) New York City

The key elements of the plan are a restructuring of New York City's short-term debt and substantial commitments of new cash from the union pension funds. The debt restructuring is in two parts. First, the banks and other institutional investors have agreed to exchange their short-term New York City notes for ten-year City bonds carrying an interest rate of six percent. Secondly, they have agreed to refinance their holdings of MAC bonds to reduce the cash flow drain on the City. These understandings are contained in letters to MAC from the major New York banks and certain union leaders.

Individual holders of short-term City notes (who hold \$1.6 billion) will be offered a long-term (10-15 year) MAC bond, carrying an 8-9 percent interest rate. Holders who do not accept the exchange will be subject, pursuant to new legislation the Governor is introducing, to a three-year moratorium on their right to enforce the terms of notes: that is, their ability to collect principal and interest at maturity. This approach is modeled on the anti-mortgage foreclosure legislation used by New York and other States during the depression.

New loans of \$2.5 billion through FY 1978 will be provided from the city employee pension funds. This commitment, as well as a commitment to restructure their existing holdings of MAC securities and City notes, is reflected in a letter to MAC signed by the heads of the Teachers, Municipal Employee, and Sanitation-men's unions.

The plan also includes legislation for new City taxes of \$200 million and changes in certain pension fund arrangements relieving the City of \$85 million in contribution obligations.

(b) New York State

The key aspect of the State plan is new state taxes to eliminate the \$700 million deficit estimated for the fiscal year ending March 31, 1976. At our meeting, Governor Carey was not specific as to what types of tax measures might be taken. Moreover -- and perhaps more importantly -- Senate Majority Leader Anderson refused to accept the \$700 million figure and was extremely vague as to whether he would support new taxes as opposed to expenditure cuts. The problem with the expenditure cut approach over the short term is that it easily lends itself to gimmickry, such as merely deferring certain outlays into the following fiscal year.

The Governor also indicated that he will seek to achieve reductions in the welfare and social services area. He was vague as to whether these reductions would come through legislation, administrative actions or both.

The State has no concrete plans for meeting the \$4 billion seasonal borrowing requirement it faces in April-June 1976. However, if the overall plan were put in place, it would appear likely that the State would have access to the market to meet this need. And as a fallback, the \$11-plus billion in State employee pension plans could be tapped.

(c) State Agencies

Two major steps are being taken with respect to the agencies. First, no new projects will be undertaken. Second, the Governor is proposing legislation of the type requested by the banking community to bolster the finances of the Housing Finance Agency. Even if the legislation is adopted, however, the banks have not agreed to meet the agencies' financing needs, which amount to approximately \$2.5 billion over the next two years. The state has tentatively identified sources (pension funds, etc.) for approximately \$1.8 billion; it hopes to persuade the banks to take the rest.

Evaluation of Plan

With respect to the City portion, the plan is basically the Administration's bankruptcy proposal by another name. Like our proposal, short-term noteholders will not be paid in cash, but will get long-term bonds (or the equivalent) instead. As would have been the case under our plan, the Emergency Financial Control Board will run the City.

Whether the plan succeeds largely depends on two factors. First, if any element of the legislation is whittled back by the Legislature -- e.g., fudging on the amount of the State's deficit or the amount of new taxes -- the existing commitments may not be kept and, more importantly, the market -- essential for the State in April -- may not be persuaded that the State has in fact done what is necessary.

Equally important is the public's perception -- over the next six months -- of how the State and City are being managed. If reforms continue at their current pace, the problem may be solved. If not, the problem may be as great by April or May as fears return that the State will have to commit more of its credit toward helping the City.

### Timetable

We were asked for an answer by Monday but they have been advised that we will give them an answer as soon as possible. As a practical matter, time is of the essence: (1) The U.S. Congress, which may need to act on this matter is planning to recess November 21; and, (2) The restructuring of the short-term debt must be accomplished by December 10. Because of the complexity of the restructuring arrangement, at least two weeks will be required for this to take place.

We have made a summary of the plan without any policy comment and distributed it to Congressional leaders for their review over the weekend. We would secure their reaction on Monday while you are in Europe. When you return, you would then have the opportunity to consult with the Congress on Tuesday and could then announce a decision if you wish.

### Options

- Option One. To turn down the request for federal assistance and recommend that actions be taken at the state or local level.
- Option Two. Agree to support legislation (copy attached) authorizing federal assistance to meet seasonal borrowing needs with any or all of the following conditions and any others to be determined:
  - (a) That it is limited to \$1.5 billion with broad authority to revoke assistance if state and city action fails to meet specified conditions.

- (b) That the Governor of New York provides us with written assurance that no further requests for assistance for the City, State, or for any of its agencies will be forthcoming.
- (c) That the substance of such a letter be embodied in a resolution of the state legislature.

Option Three. Seek agreement from private financial institutions to provide financing for City's seasonal needs and support legislation (copy attached) enabling us to secure such financing with future Federal payments otherwise due the State and City.

These are three basic options available to you. If you are considering Option Two, you have various alternatives with respect to timing. You could:

- (a) Indicate that you will not consider any form of assistance until the State Legislature has acted.
- (b) Describe the kind of Federal assistance you will consider, but state that you will not reach a decision until after the State Legislature has acted.
- (c) Announce you have decided to provide assistance as described above if the Legislature acts in accordance with the plan.

Attached are the following background material:

- Tab A. Letters from the Governor, MAC, Union Leaders and Financial Institutions.
- Tab B. Draft legislation to provide direct federal assistance.
- Tab C. Draft legislation to secure loans by private institutions.
- Tab D. Additional cash flow requirements, subject to further refinement.

  
Stephen S. Gardner