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MEETING WITH FELIX ROHATYN, BILL  
SEIDMAN, GEORGE MITCHELL, CHARLES  
PARTI, DUNHAM AND DELANEY  
Friday, August 8, 1975  
10:00 a.m.  
"New York City"  
Room 3312 Treasury Building

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: New York City Financial Situation

Here is a status report by Dick Dunham on the financial situation of New York City as it stands today.

This was prepared by Dick in consultation with Treasury officials and Bill Seidman.

Attachment

CC: The Vice President  
Secretary Simon  
Mr. Seidman

THE WHITE HOUSE

WASHINGTON

August 1, 1975

MEMORANDUM TO: JIM CANNON

FROM: DICK DUNHAM

SUBJECT: New York City Financial Crisis

The purpose of this memorandum is to bring you up to date on the New York City financial crisis.

The central question was and is will New York City go into default, either in August, through the failure of Big MAC to market additional securities for the City, or later in the fall when New York City must market its own securities.

The first test will be on August 4 when the underwriting group headed by Chase Manhattan tries to organize for a sale on August 7. The success or failure of next week's sale is, therefore, the first hurdle.

Since this sale and any subsequent issues of New York City or Big MAC depend primarily on investor perception, as much as the actual accounting facts, the acid test is the credibility of the Mayor's actions to correct the enormous imbalances and accumulated deficits of the City's finances.

City Actions

The Mayor has taken, or is taking, a series of steps which, if actually put into effect, will have both a substantive fiscal effect of restoring balance and also a dramatic effect which will help to restore investor confidence.

The steps announced include a wage freeze, cuts in the City University budget, capital budget cuts, abolition of a few agencies, a \$.15 subway and bus increase, and bridge toll increases. The value of these proposals to the current City budget is around \$500 million. Whether or not this amount is sufficient to balance the current City budget and/or to restore investor confidence in New York City finances is, of course, unknown.

Two points in regard to these proposals must be kept in mind. First, they must be enacted and implemented by the Mayor and, secondly, the union rank and file and the general public must accept them before their impact can be completely evaluated.

That is, if the Mayor backs down or the City Council fails to enact the wage freeze or if there is a substantial disruption in city services by union member action, investor confidence will not be restored.

#### August Big MAC Sale

The underwriting group handling the August 7 sale of \$1 billion in Big MAC bonds has of this time, Friday p.m., put together a tentative package which will provide the funds needed to cover the August cash flow needs of the City and to prevent default of the large note issue coming due on August 22.

The package includes \$250 million by the banks, a \$100 million rollover of August notes held by the banks, \$120 million State welfare advance, \$270 million in State pension fund investments and a \$250 million public offering, of which insurance companies and other institutions will take a major part.

This package, however, cannot be characterized as a "successful underwriting" since only half of the issue is new public investment. The balance is an advance, a rollover and a State-controlled investment.

It can, therefore, be characterized as only a postponement, which is desirable, but neither a permanent solution nor an indication of investor confidence. If successful, it will prevent an August default and allow more time to evaluate the City's actions.

#### Broader Effects of Municipals

Treasury is monitoring and attempting to evaluate the spillover effect of the New York City situation on other municipals. At this time we do not see any other major city experiencing similar difficulties.

Other New York State agencies, including the Housing Finance Agency, may be experiencing difficulty and liquidity problems this month. In large part this is due to the publicity of the New York City situation and also because there is market recognition that a large portion of their cash inflows is from New York City and City projects.

Conclusion

The situation is still serious and tenuous, but there is cause for some optimism because of both the City's actions and the fact that there will likely be a sale of the second Big MAC issue, thus avoiding an August default.