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NYC

ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

June 23, 1976

MEMORANDUM

TO: ALL ACIR COMMISSION MEMBERS
FROM: Wayne F. Anderson
Executive Director
SUBJECT: New York City Salary and Fringe Benefit Costs

Chairman Merriam asked that we forward a copy of the attached New York Times article to you. The article describes major findings in the New York City Temporary Commission on City Finances report that pertain to the salary and fringe benefit costs there and how they compare with other major city governments.

The report contends that fringes cost 67% of payroll -- \$2.00 for each \$3.00 in pay.



PANEL BIDS BEAME CUT BENEFITS PAID TO CITY'S WORKERS

Report Puts Cost of Fringes
at \$2 for Each \$3 in Pay—
Hospitals Facing Strike

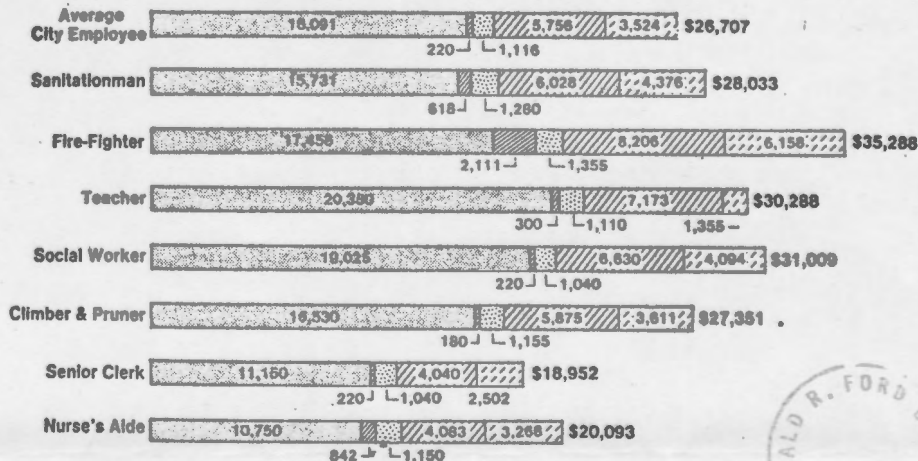
By LEE DEMBART

With negotiations about to begin for new labor contracts covering most municipal workers in New York City, the Temporary Commission on City Finances will urge major cut-backs today in fringe and leave benefits, which it says are costing the city \$2 for every \$3 it spends on base pay.

The commission's findings created still new pressure on the financially beleaguered city, which yesterday announced it was sending layoff notices to 3,150 hospital workers and was faced immediately with the

Total Labor Cost of Selected City Employees

Base Pay (1) Salary Supplement (2)
(Exclusive of Overtime) Fringe Benefits (3) Retirement Benefits (4) Leave Benefits



(1) Base pay for an average city employee is the average base salary of all city employees as of March 31, 1976.

All other base salaries assume a worker with 8 years of city service at the appropriate salary step.

(2) Salary supplements include cost of living adjustment, shift differentials, longevity pay and paid holidays where applicable. No overtime is included. The only salary supplement for the average city employee is a \$220 cost of living adjustment.

(3) Fringe benefits include health insurance, welfare funds and uniform allowance.

(4) Retirement benefits include pension benefits, social security and annuity funds, where applicable. The pension benefit for the average city employee is based upon 29.8 percent of earnings, which is the true cost to the city of an employee in the New York City Employees Retirement System. Social Security is \$895. No annuity payment is assumed for the average employee.

Source: Temporary Commission on City Finances

The New York Times/June 3, 1976

Panel Urges Cut in Fringe Benefits

Continued From Page 1, Col. 3

The data ranged from a total to arrive at a figure for total

Proposed News Release

President Gerald R. Ford announced today the appointment of Mr. _____ of the Domestic Council as Special Coordinator for New York City Affairs.

"For the first time," the President said, "this will provide a single official in the Federal government to assist in expediting and coordinating the activities of Federal Departments and Agencies in handling the problems of an individual city to enable it more effectively to fulfill its responsibilities to its citizens."

"If this proto-type project proves as feasible as I believe it will," the President added, "it may be the forerunner of an expanded service to aid cities generally in obtaining the assistance which the Federal government, under the law, makes available and entitles them to."

The new assignment to Mr. _____ relates to but will not be limited to the present seasonal aid program administered by Secretary Simon of the Treasury Department but will include also other important matters in Departments and Agencies such as HUD, HEW, and DOT.



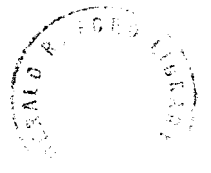
A Possible Insert

(A paragraph which could be inserted before the five-line "prototype" paragraph

or

used as a substitute for the five-line prototype paragraph.)

"With the emergence of New York City ~~out of~~ ^{from} the severe crisis situation into a more difficult but perhaps more stable period, much remains to be done. It is hoped that now, by identifying a single point of responsibility for expediting and coordinating assistance, we might be better able to bolster New York City's continued efforts toward a balanced budget. This focus would be unique and could offer valuable insight into the broader question of greater Federal responsiveness to the problems of our cities.*



[7/22/76]

New York Area Showing Signs of Economic Health

By MICHAEL STERNE

Signs of modest improvement in the economies of New York City, the metropolitan region and the state are being discerned by economists and public officials who for several years have been unrelentingly gloomy about New York's prospects.

ue to perform less well than the national economy.

For example, although the unemployment rates have come down, they still are higher than national jobless rates, and they are not falling as fast.

In a new analysis of these trends, Herbert Bienstock, head

New York City

THE WHITE HOUSE
WASHINGTON

INFORMATION

October 11, 1976

MEMORANDUM FOR: THE PRESIDENT
FROM: JIM CANNON *J. Cannon*
SUBJECT: Vice President's New York City Report

Attached is the Vice President's October 6 Report on New York City, prepared by Dr. T. Norman Hurd.

The report discusses the following six points:

1. Mayor and City police are still unable to settle their labor dispute.
2. New York City employment dropped in August; Governor Carey replaced his Council on Economy with a 10 member cabinet level committee; Mayor Beame appointed Osborn Elliott, Editor-in-Chief of Newsweek as Deputy Mayor for Economic Development.
3. New reports indicate the extreme seriousness of waste in welfare in New York State and New York City.
4. Hospital residents and interns strike in three private voluntary hospitals.
5. City must fight complacency about its fiscal condition.
6. With private funds, Mayor Beame created a new Office of Human Services Planning to plan the reorganization of the City's education, health and other social services.

Attachment



OFFICE OF THE VICE PRESIDENT
WASHINGTON, D.C.

October 8, 1976

NOTE FOR JIM CANNON:

~~1976 OCT 8~~ AM 9 32

Attached is Norm Hurd's New York City report for this week. The report was prepared on Wednesday, October 6.

Because the Vice President has no meetign with the President this week, he has asked that you give the attached report to the President.

Thanks.

Dick
Dick Allison

100809

THE WHITE HOUSE
WASHINGTON

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- A. City police continue their off-duty picketing and demonstrations in street clothes, although they have been generally less noisy, more subdued, and more "responsible" than they were last week at Yankee Stadium and the Mayor's residence.
- B. The issues in the dispute are:
 - (1) Police objection to a new work schedule which reduces police officers' days-off by 10 per year. This schedule went into effect without incident on October 3;
 - (2) Police insistence upon salary increases of 8% and 6% retroactive to July 1, 1974, and July 1, 1975, respectively. The City has appealed this matter to the State Court of Appeals, which will hear arguments on October 12;
 - (3) Police insistence that the City rehire 400 police officers who were laid off in 1975.
- C. A "compromise" settlement -- which would have treated the police the same as other City employees -- was almost unanimously rejected by the Police Benevolent Association (PBA) delegates. The proposed settlement would have increased the base pay for police officers to \$17,058 in two years.
- D. Following this rejection, no further discussions or negotiations are currently underway or planned.
- E. Comment:
 - (1) No one knows when the current dispute will be settled. It is possible that no further major efforts will be made until after the Court of Appeals hearing on October 12th;
 - (2) The Mayor has made it clear repeatedly that there is no way in which he can "enrich" the compromise which was turned down last week.



- (3) In the meantime, the City's police needs are being relatively well met. There are no reports of serious neglect of duty such as those from the period September 28-30;
- (4) Reported dissension within the PBA may be a factor in the situation. It was pointed out, for example, that the PBA President and negotiator, Douglas B. Weaving, never should have agreed to last week's settlement unless he were certain he could sell it to his membership. (Reportedly, Weaving will be challenged next May for the PBA Presidency by four rivals, including Ken McFeeley, who resigned as President in May 1976.)

2. New York City Employment Drops in August; Governor Carey Revamps Council on Economy; Mayor Beame Appoints New Deputy Mayor for Economic Development

- A. The State Labor Department reported that there were 3,204,800 jobs in the City in August 1976. This is:
- a drop of 15,400 jobs from July 1976;
 - a drop of 96,900 jobs from August 1975, and
 - a drop of 619,900 jobs since August 1969.
- B. From July 1976 to August 1976, the numbers of unemployed persons dropped by 23,700, and the jobless rate dropped from 10.8 to 10.1%.
- C. This apparent discrepancy between a decline in jobs and a decline in the number of jobless reportedly results from the fact that the jobless figures do not include laid-off government workers.
- D. For the State as a whole, the number of jobs in August 1976 was 6,764,200. This was:
- 1,500 fewer than in July 1976;
 - 86,900 fewer than in August 1975.

- E. Governor Carey has replaced his 36-man Council on the Economy (announced in April 1976) with a cabinet-level committee of 10 members:

Commissioner of Commerce	John Dyson
Commissioner of Conservation	Peter Berle
Commissioner of Transportation	Ray Schuler
Commissioner of Agriculture and Markets	Roger Barber
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Commissioner of Housing	John Heimann
Director of Budget	Peter Goldmark
Director of State Operations	Robert Morgado
Secretary to the Governor	David Burke
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- F. Reportedly the remaining 26 members of the old Council (for example, Walter Wriston of Citibank, Lewis Rudin, real estate, and Harry Van Arsdale, AFL-CIO, together with 5 Congressmen and both Senators) will function like "a constituent assembly," "mobilizing support for the Governor's programs."

- G. On October 6, 1976, the Mayor appointed Osborn Elliott, Editor-in-Chief of Newsweek, as Deputy Mayor for Economic Development. He will have broad powers and a mandate from the Mayor to "produce" jobs.

H. Comment.

- ° Apparently the old 36-member Council on the Economy either proved too unwieldy or moved too fast to suit the Governor;
- ° In any event, the Governor has shifted from a group where he "controlled" a minority of the members to one where he has complete control. It is possible that this smaller, streamlined group will be more successful in developing a constructive program to help rehabilitate the economies of the State and the City;

- ° Mayor Beame's appointment of Elliott may turn out to be one of his most important. Elliott seems anxious to get started, and the Mayor promises all possible support.

3. New Welfare Developments Indicate the General Public's Failure to Recognize the Extreme Seriousness of the City's Problem

- A. Richard Horan, the State Welfare Inspector, announced last week that "nearly \$1 billion, or almost one-sixth" of welfare-related costs in New York State, including Medicaid, were "being dissipated through recipient- and vendor-fraud, administrative error, or unnecessary and/or over-billed services."
- B. Governor Carey's office has announced that the over-run in this year's State welfare budget may be between \$120 million and \$175 million, primarily because of large increases in non Federally-aided, single-person home-relief cases, themselves reportedly resulting from continued high unemployment rates.
- C. State Comptroller Arthur Levitt has announced the results of a State study which shows that \$37 million is wasted each year on the City's day-care program.
- D. A Federally (HEW) financed Rand Corporation report stated that cash and services provided for subpoverty-level families actually raise the incomes of 80 to 90% of those families above the poverty level.
- E. Comment.
 - ° It is apparent that waste in welfare has reached major proportions. If Horan's figures are correct, State and local taxes could be cut by about 5% if all of the waste were eliminated.
 - ° But, to date, no one seems to have found a way to "bell the cat."
 - ° However, Governor Carey has announced a plan to curb abuses in Medicaid "mills" which could save \$50 million per year.



4. Hospital Residents and Interns Strike in Three Private Voluntary Hospitals

- A. Residents and interns at three private voluntary general hospitals went on strike on October 5 because hospital managements refused to bargain with them.
- B. Hospital managements declined to bargain because a National Labor Relations Board ruling held that the residents and interns are "students," not "employees." To some it seems that this ruling draws a distinction without a difference.
- C. City hospitals with affiliation agreements with the struck private hospitals are affected.
- D. Comment. No critical emergency is anticipated, even if the strike spreads, as is expected. In 1975, hospital managements and their medical staffs handled a four-day strike without incident, and they are reportedly prepared to deal with this one.

5. City Must Fight Complacency

- A. It is possible that the Mayor's problem with such matters as the City police and the Bronx Hospital (see below) reflect a developing sense of relative complacency on the part of those outside the City administration.
- B. Here are signs that encourage complacency:
 - The City's 1975-76 deficit was \$83 million smaller than had been estimated;
 - There have been rumors that the City may not actually ask for the \$125 million seasonal Federal loan which is planned for October. The City has already borrowed \$1,075,000,000;
 - The City will probably soon open the controversial new \$100 million 420-bed North Central Bronx General City Hospital.



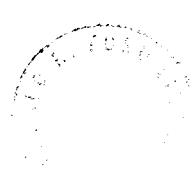
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D. Comment. Despite the progress that has been made, the City still faces some of its toughest days. Unless the Mayor can keep the City's extreme austerity needs before the people, he may have increasing difficulty in fending off continuous demands from groups such as the City police.

6. Mayor Beame Creates New Office of Human Services Planning with Private Funds

- A. The Mayor has created in the office of John Zuccotti, First Deputy Mayor, a new Office of Human Services Planning.
- B. The new Office, with a professional staff of about five, has a budget of \$205,000, all of which has been provided by 11 private contributors, including the New York Community Trust, the Carnegie Corporation, the Ford Foundation, the Rockefeller Brothers Fund, and the Chase National Bank.
- C. The purpose of the Office is to "try to plan how best to reorganize education, health and similar social services during the New York City budget crisis."



[1975]

THE WHITE HOUSE
WASHINGTON

11/9

5. —

here is the memo-
plus four reports
that were all
included in Pres.
briefing book.

[Handwritten signature]

JB.



THE WHITE HOUSE
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SUMMARY

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2. New York City employment drops in August; Governor Carey revamps Council on Economy; Mayor Beame appoints new Deputy Mayor for Economic Development.
3. New welfare developments indicate the general public's failure to recognize the extreme seriousness of the City's problem.
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October 6 Weekly Report on New York City

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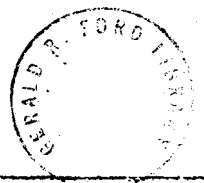
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SUMMARY

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



September 29 Weekly Report on New York City

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

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

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

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



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



4. Felix Rohatyn's Proposed Federal Guarantee of Municipal Assistance Corporation Bonds Apparently Making Slow Progress

- A. Rohatyn's proposal for a Federal guarantee of MAC bonds with "stretched out" maturities does not seem to be making much progress.
- B. While the impact of the stretch-out would cut the City's debt service expenditures during the next few years and thus ease the tax burden upon the economy generally, the reluctance of the Congress to consider such a guarantee in 1975 probably foreshadows the same position in 1976.
- C. In a related development, Rohatyn has charged that Moody's was unfit to rate MAC's bonds. He based this charge on a letter sent by Moody's President Lockton to a City note-holder. This letter was highly critical of the Governor and the Legislature for enacting the 1975 moratorium bill. Lockton now claims that the letter does not precisely reflect his views, even though it was in fact quite blunt, calling the moratorium bill "one of the biggest fraudulent acts ever recorded."

5. City's 1975-76 Deficit Less than Expected

- A. Now -- nearly three months following the end of the City's Fiscal year -- the City is estimating its 1975-76 deficit at less than \$1000 million,* compared with an original City Financial Plan estimate of \$1,051 million. (Published reports of a total accumulated deficit of more than \$5 billion by the end of Fiscal 1976 apparently had included estimated amounts by which City-employee pension funds were allegedly under-funded.)
- B. Comment. The City's achievement is remarkable. Although the figures are still subject to audit, it appears that the City's toughness, together with the constant needling by Arthur Levitt's man, Deputy State Comptroller Sidney Schwartz, has produced a minor miracle.

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



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

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

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

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



SUMMARY

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

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

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

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

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

*There was no report on September 15, 1976.



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

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

- A. On September 16, the state HFA publicly sold \$149 million of State University Construction bonds at an average interest rate of 8.5%; the bonds were rated "A" by Moody's and "AA" by Standard and Poor's.
- B. The demand for the bonds was so great that orders for more than \$100 million of additional bonds were turned down.
- C. This is the first time that HFA has "gone to market" since August 1975.
- D. Comment. HFA's return to the public market with this large volume of bonds selling at competitive rates is quite significant. (Actually, HFA itself was never in financial trouble; but it had been kept out of the market as a result of the crisis brought on by the problems of New York City and other agencies.)

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

- A. On September 14, the Municipal Assistance Corporation repaid to the State a \$250 million loan which had been obtained by MAC on behalf of New York City in the Fall of 1975.
- B. This is the first of three \$250 million repayments to liquidate the total State loan of \$750 million.



- C. The second payment will be made by the State Comptroller's "deducting" the amount owed (a second increment of \$250 million) from regular State-aid payments to the City.
- D. Comment. Despite some rumors to the contrary, there never was any real doubt about MAC's ability to meet its September 14 repayment. But State and City officials admit that detailed arrangements have not yet been worked out for the final November repayment.

4. Federal Environmental Protection Agency (EPA) Turns Down City Application to Proceed with Construction of Two Large Sewage Treatment Plants

- A. Lacking capital appropriations for sewage-plant construction, the City has asked EPA approval of plans under which bankers, through private sale of bonds, or the contractors, through the purchase of bonds, would provide part of the City's one-sixth share of the \$540 million total cost of the two projects - one in Brooklyn, and one on Staten Island.
- B. EPA found legal bars to the City's proceeding in this manner and suggested an alternative -- the earmarking of necessary amounts of the Federal "pay back" monies on prior pure waters projects.
- C. An initial review indicates that this may not be possible under present State law; an Attorney General's opinion is being requested.
- D. Comment. If, in fact, State law does prohibit the use of Federal "pay back" funds, the City will be "stumped." But the City is determined to find a way, if at all possible, and is continuing its discussions with EPA and with Senator Buckley, who is a member of a subcommittee that is attempting to reconcile House-Senate differences concerning a bill making omnibus amendments to existing pure water legislation. Such a bill might conceivably provide relief for the City, but probably not before 1977.

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

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

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

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



- C. Comment. Granting a cost-of-living adjustment for any significant number of City employees would have a tremendously favorable impact upon morale. But the documentation and clear proof of the productivity savings which would have to result if the adjustment is to win Emergency Financial Control Board approval may be much more difficult to produce than is generally recognized.

7. City "White Paper" on Medicaid "Scandal" in Preparation

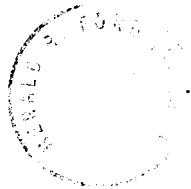
- A. Despite apparent lack of activity on the part of the City in replying to Senator Moss's Medicaid disclosure, the Mayor's Office reports that a "White Paper" outlining the City's plans to deal with the subject is in preparation and will be available early in October.

8. Arbitrator Recommends 4.5% Wage Increase for Non-Professional Voluntary Hospital Workers

- A. Margery Gootnick, arbitrator in the dispute between the voluntary hospitals and 40,000 workers represented by District 1199 of the National Union of Hospital and Health Care Employees, has recommended a 4.5% wage increase for the first six months of 1977.
- B. Mrs. Gootnick's appointment settled an 11-day strike in July 1976, when both sides accepted compulsory arbitration.
- C. Comment. The settlement is a reasonable solution to the problem. Neither side is really happy, but the decision is justified by the facts. Yet this wage increase may intensify pressure for similar wage increases in the City hospitals.

SUMMARY

1. More "bad" than "good" developments in City's 1976-77 financial plan - after two months.
2. Some developments in connection with the City's basic economic problem.
3. School teacher salary dispute still unresolved.
4. No important visible action by City or State following Senator Moss's Medicaid revelations.
5. New City "Official Statement" issued.
6. Mayor Beame and City Comptroller Goldin testify before SEC.



My file

September 9 Weekly Report on New York City

1. More "Bad" Than "Good" Developments in City's 1976-77 Financial Plan - After Two Months

- A. Although it is too early to attempt to evaluate the City's entire fiscal year on the basis of the first two months, the experience so far has shown more "bad" than "good" signs.
- B. There is uncertainty about whether the full \$350 million from the sale of Mitchell-Lama housing mortgages -- with Federal mortgage insurance -- will be realized. The projected unsold remainder may range from about \$75 million to much more. The principal problem seems to be delay in getting mortgages ready to sell. Federal delays are not yet a problem.
- C. Debt service costs are up \$11 million, because of the exchange of Municipal Assistance Corporation bonds, which require interest payments, for City notes, which are under the moratorium.
- D. Some revenue collections are falling below estimates, but others are above. As of now there is no cause for concern on this count.
- E. Comment. The City is preparing to make necessary alternative cuts from the list totaling \$85 million which was submitted on August 1. Unless there are more favorable developments than unfavorable ones from now on, it may be necessary to use all of the "backup" list of cuts.

2. Some Developments in Connection with the City's Basic Economic Problem

- A. The State AFL-CIO, with 2,000 delegates at its convention on August 31, joined with Governor Carey's recently-created Coalition of Northeastern Governors in order to promote economic recovery in the north-east region and to obtain a larger share of Federal assistance. The Governor, who spoke at the Convention, reiterated the Coalition's goal, which he had first outlined when the Coalition was announced last June 23rd, of a "united front to lobby in Washington" for Federal policies favorable to the Northeast - in connection with high unemployment, obsolete transportation systems, energy shortages, slow economic development, and high living costs.

- B. The U.S. Bureau of Labor Statistics announced that, from mid-1975 to mid-1976, there was a loss of 112,000 jobs in New York City, while the national total showed a gain of 2.5 million. This year's loss in New York is smaller than for previous years; the drop in manufacturing was only 6,600 jobs, compared with 74,000 in the prior year.
- C. Real estate tax relief has not become an important factor in the City's economy. Only two important projects -- the Commodore Hotel and a shopping mall in Jamaica -- have been approved, although others are pending. "Normal" bureaucratic delays are partly responsible, but there is also opposition from existing private business.
- D. Comment. The effort to attack the City's basic economic situation remains largely dormant. There are reports of forthcoming developments this Fall. To date, most of those primarily responsible seem too busy with other things or are completely "stumped" because of the difficulty of the task.

3. School Teacher Salary Dispute Still Unresolved

- A. The teacher salary problem outlined in last week's report remains unresolved, with no apparent sign of progress.
- B. The basic issue is the extent to which, within the guidelines established by the Emergency Financial Control Board, the School Board will deny salary increases to teachers in order to provide funds to avoid teacher layoffs. The almost unbelievable complexities surrounding this basic issue are numerous and serious.
- C. Comment. It is impossible to predict with any degree of accuracy just what may happen before a decision is reached. My guess is that, through non-salary savings and the use of some funds already budgeted for salary increases, the Board of Education will grant nominal salary increases to certain groups of teachers and lay off only small numbers of the most marginal ones. If carefully presented, this solution might receive the approval of the Emergency Financial Control Board (Governor Carey, Chairman) -- which is necessary for the decision to become effective. Coincidentally, the Board of Education has suspended three school lunch officials for alleged neglect.

It has also undertaken a review of its own purchasing practices, after City Comptroller Goldin had published a report indicating illegal purchases of materials and supplies.

4. No Important Visible Action by City or State following Senator Moss's Medicaid Revelations

- A. While the Moss report tended to place blame for the Medicaid situation primarily upon the states and cities, Secretary Mathews and Wilbur Cohen, formerly Secretary of HEW, attributed part of the responsibility to Congress. Cohen said that Congress had failed to provide constraints against fraud and had failed to monitor the program.
- B. There is increasing evidence that so-called Medicaid "mills" -- possibly as many as 600 of them in New York City -- have been important factors in the abuse of the Medicaid program. These "mills" are a form of Medicaid clinic in which a group of doctors "process" large numbers of Medicaid cases, with supposedly more attention to the maximum dollars that can be collected than to the health care of the individual patients.
- C. Slowness by the City in making payments to doctors and others is also a problem. This supposedly has encouraged "padding" of bills -- and also "factoring," that is, the sale of receivable bills in order to provide cash for current operating purposes. HEW has recently taken steps to forbid factoring, but there are major problems involved in enforcing such action.
- D. Comment. No doubt some steps are being taken to curb the fraud and abuse that exist in the Medicaid program. To date, these steps have not become apparent, and no results are yet observable.

5. New City "Official Statement" Issued

- A. A new "Official Statement of the City of New York" concerning the City's tangled financial situation appeared on September 4, 1976.

- B. Preparation of this 110-page document has taken almost one year -- under the direction of Kenneth Axelson, Deputy Mayor for Finance.
- C. The Statement was prepared in order to meet the need for an official document which would provide "complete disclosure" of all aspects of the City's finances. It is especially designed for present and prospective holders of City bonds and notes. It provides the best single, official source of information on the City's finances. It attempts to "tell all," including "warnings" of the soft spots in the City's 1976-77 and 1977-78 financial plans, as well as information on the 50 lawsuits that are pending in connection with various emergency actions taken by the City and the State in order to help the City pull out of its financial crisis.

6. Mayor Beame and City Comptroller Goldin Testify before SEC

- A. Mayor Beame testified for 5 1/2 hours and Comptroller Goldin testified for 20 hours before the SEC in New York City.
- B. The SEC is reportedly interested in knowing if there is any evidence of fraud growing out of failure on the part of City officials and others, including bankers, to disclose all pertinent facts concerning the City's financial condition in the period prior to the fiscal crisis of 1975.

Original to Bill Seidman for





THE SECRETARY OF THE TREASURY
WASHINGTON 20220

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NYC

November 19, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City

On November 19, 1976, the highest court of the State of New York ruled that the moratorium on the New York City notes violated the State Constitution. Because the decision was on State rather than on Federal Constitutional grounds, there is no right of further appeal. While a formal order will not be issued for at least 30 days, it appears certain that at least the holders of \$900 million in notes outstanding will be entitled to payment in full at some point in 1977. In addition, it is likely that former holders of \$700 million in notes (who exchanged their notes for MAC bonds) will also be entitled to cash.

The Court's ruling constitutes an event of default under the Credit Agreement between the United States and New York City. Accordingly, the first question is whether the Secretary of the Treasury should exercise his right to declare the agreement in default and demand immediate payment of the \$1.075 billion in Federal loans outstanding. A more important question from a practical standpoint is whether the Treasury should advance funds needed for operating expenses in early December. The amount required by the City during the month of December is \$750 million. If no advances are made, the City will run out of cash not later than December 6.

Bill

William E. Simon



THE WHITE HOUSE
WASHINGTON

October 20, 1976

MEMORANDUM FOR: ART QUERN
FROM: NORM HURD

On Tuesday evening, October 5, I heard Peter Goldmark, New York State Budget Director, address the Albany ASPA chapter on the fiscal health of New York State and its localities.

Peter did an excellent job - pointing out that we have been through some "tough" times together and still have some "heavy seas" ahead of us. He confessed that he could not outline specifically just how all of the remaining problems were going to be met and dealt with but he had confidence that ways would be found to handle them.

Near the end of his remarks he said, in effect, "you may have noticed that I have not mapped out a 'revolutionary' role for the Federal government to play in the years ahead. If I were asked to state what the Federal government could do, I would say that we need two things:

- "1. Action to revise the unfavorable inter-regional policy that has threatened the economy of the Northeast, and
- "2. Establishment of a clear-cut Federal policy toward State and local government. We've never had one and we can't go on indefinitely without one. I'm more interested in having a policy than I am in dictating just what the policy should be."

Peter spoke only from notes. I do not believe his remarks were recorded so there is no official report on exactly what he said.

cc: Dean Overman
Janet Brown

Norm

