The original documents are located in Box 22, folder "New York City Financial Crisis (1)" of the John Marsh Files at the Gerald R. Ford Presidential Library.

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

By ____ NARS date 1/14/86

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

September 4, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Marsh and Dick Cheney

THROUGH: Donald Rumsfeld

Enclosed is a copy of a letter from Senator Javits to Bill Kendall and the Javits proposed draft of a message he wants you to send to a group of New York City leaders meeting at 9:00 A.M. tomorrow.

We are unaware of any commitment you may have made to Senator Javits. In our opinion, however, the text of the message is not consistent with your stated policy thus far in dealing with the New York problem.

In our opinion, the draft message would give false hope to the people of New York City that you were prepared to provide direct financial assistance to avoid default.

We believe you should go no further than the statement issued by Ron Nessen at the time you met with Governor Carey earlier this week. Bill Simon, Bill Seidman, Alan Greenspan, Jim Cannon, and Dick Dunham concur in these views, and believe that you should not send this message.

Dunham, Cannon and Simon asked that you be made aware of the following additional comment:

"We believe it would be inappropriate to send the telegram as drafted. We are concerned about any statement by the President while the State Legislature is considering the question. However, if the President wishes to show interest in the Javits/Buckley effort to rally civic pride in coping with the default, we would have no objection to sending the following alternative draft."

~~SECRET~~

Alternative Draft Telegram

I am heartened by the expression of support for our greatest city reflected in the formation of this group. Your concern and interest are shared in Washington. Through these many months, my Administration has carefully monitored events in New York City and will continue to do so. We share with you the conviction that New York must survive and prosper.

* * * * * * * * * * * *

We (Marsh and Cheney) believe that even this goes too far. Any expression of encouragement will have an impact on potential investors, and could create the wrong impression. We suggest that any statement be limited to a reiteration of what Nessen said Tuesday night. Copy attached.

JACOB K. JAVITS
NEW YORK

United States Senate
WASHINGTON, D.C. 20510

September 3, 1975

Dear Bill:

At the President's request, I have prepared this draft of a wire I would like to read at a meeting of concerned New Yorkers this Friday morning.

I would appreciate your arranging for the sending of a message from the President so that I get it in time for reading in New York at 9:00 A.M. on Friday, September 5. Nearly 100 of New York's most important civic leaders will be present, and the message from the President will be of great importance.

Sincerely,

Jacob K. Javits, U.S.S.

Mr. William T. Kendall
Deputy Assistant to the President
The White House
Washington, D.C.

MESSAGE FROM THE PRESIDENT (Suggested Draft)

I am glad to have the opportunity to let New Yorkers who care about their city know that this Administration is fully aware of the dimension of the crisis faced by your city. I want you to know that as New York City and New York State take the painful measures necessary to restore fiscal stability to New York City, the country's commercial and financial heart, the federal government will not stand idly by. You can be sure that the United States, when presented with the hard reality of financial reform in New York City, will do its fair share to assist the city on the road back to municipal stability.

The specific measures necessary to render that assistance are under study in Washington, even as New Yorkers themselves take the steps that are essential to revitalizing the confidence of investors in the city's future. New York City has been a symbol of American initiative and imagination. Now is the time when those qualities must be demonstrated to a greater extent than ever before. The sympathy of this Administration can be translated into appropriate action as a response to the positive actions the city, the state, and the people of New York have taken, and to those painful measures that must still be enacted.

In many ways New York is a key element in the spirit of America -- in business, in finance, in culture and the arts, in transportation and communications -- and we shall do whatever is proper to keep that spirit alive and healthy.

This Copy For_______________

NEWS CONFERENCE #313

AT THE WHITE HOUSE

WITH RON NESSEN

AT 8:19 P.M. EDT

SEPTEMBER 2, 1975

TUESDAY

MR. NESSEN: There is not all that much to say, really. I think Governor Carey gave you a report on his view of the meeting. The meeting lasted from 6:55 to 7:40. You have a list of participants. The Governor was there, of course; David Burke, who is the secretary to the Governor; Peter Goldmark, who is Budget Director of the State; John Hiemann, Secretary of Banking; Felix Rohatyn, an adviser on this matter; J. Simon Rifkin, who is also advising on this matter; Arthur Leavitt, the State Comptroller; Bill Ellinghaus, the Chairman of the Board of MAC, and Michael Nedel, the Assistant Counsel to the Governor. Those attending from the White House were the President, Don Rumsfeld, Bill Seidman, Alan Greenspan, Edwin Yeo.

Q Who is Edwin Yeo?

Q He is the new Under Secretary of the Treasury.

MR. NESSEN: That is right, the new Under Secretary of the Treasury.

Richard Dunham of the Domestic Counsel, Rod Hills of the Legal Counsel's Office, Jim Cannon of the Domestic Counsel and Jim Falk of the Domestic Counsel, Dick Cheney and myself.

I think you already know that the President has been concerned about the financial condition in New York City for the past six months or so and at his request Treasury Secretary Simon and other Administration officials have been monitoring the situation.

Governor Carey and his associates came down this evening to meet with the President and other officials of the Administration. They described the financial circumstances of New York City and also described the recommendations that he is making to the New York State Legislature.

MORE

Governor Carey described the difficult period of adjustment that will be needed to restore confidence in the City's financial practices and its long-term economic wellbeing.

As their efforts to restore the City's economic health proceed, the President said he would ask Federal departments and agencies to continue to stay in close touch with the officials involved and to report to him as appropriate.

The President said that his door was always open for discussion, such as the one this evening. The President expressed his sympathy for the people of New York and to those working to resolve the problem.

That is basically all I have.

Q Ron, is there any sense of a softening of the Administration's previously stated position concerning New York City?

MR. NESSEN: I would say that there was no change in the Administration's position, which is one of -- as the President said -- keeping the door open for discussions, sympathy for the people of New York and those working on the problem, monitoring of the problem and reporting to him when appropriate.

MORE

Q Ron, the impression was left from the discussion out on the lawn that if the State Legislature goes ahead with what Carey describes as a high-risk program that would involve the state's credibility rather than just a city's financial stability, that then the Administration might have a different attitude and might react differently than it would if it were just New York City and its money involved.

MR. NESSEN: I did not hear anything at that meeting that would lead me to believe that that is a correct conclusion. My understanding is that Governor Carey didn't say that.

Q I will be glad to play the tape portion. My question was, is it true the State would have to act first before the Federal Government could do anything? He said, "Absolutely, the Federal Government can't act if we" -- and follow-up questions did leave the impression -- he also said at one point that one Administration official had said that if the State's credibility were involved, it would be different than a city and the precedent of hundreds of thousands of cities that could get in trouble, although that was a big "might."

Q He also said they are going to wait and see if we adopt a plan.

MR. NESSEN: The President said he would monitor the situation and other Administration officials would monitor it, but the President made no promise and no commitment.

Q The point Steve is making is that somewhere down the line Carey held out hope that perhaps the President might change his mind. In the briefing today, you said there are no plans for a new Federal initiative now. You did use that adverb "now."

MR. NESSEN: I think you are making a distinction where there is none. There were no promises and no commitments. In fact, I think if you know the President's own feelings in this area, and the President spelled them out again today, that he believes Federal assistance is not the solution to New York City's problem.

He said that he feels that under the system of Government we have that it is not and should not be the job of the Federal Government to manage the finances of a State or local Government.

I think you know the President's views, which are -- among the reasons he holds that view is that if funds were provided to New York, equity would require that the Federal Government provide assistance to other cities and this could lead to federalization of city affairs.

There is also another reason, which is that the Executive Branch has no authority to provide additional direct Federal assistance.

Q I think the question we are asking, Ron, is this: Has the situation changed because the State has gotten involved and you continue to speak about the city there, so to go back to your other comments, I take it it doesn't make any difference if the State gets involved?

MR. NESSEN: I think you are really strange to find something that was not really there.

Q Ron, let me take it from a different tack. This is a vital point to us.

MR. NESSEN: All I heard was a kind of second- or third-hand report of what he said, and I didn't get the impression from what I heard he said that he was holding out, or he did not feel that he got any commitment in here today.

Q Ron, let's take this from another tack.

Q He said he was encouraged.

MR. NESSEN: Did he say he was encouraged?

Q Yes, very encouraged.

MR. NESSEN: I thought he said he was encouraged at the President getting a better understanding of the problem.

Q Ron, to take another tack, there is a difference in the understanding among us who listened to him. From your point of view and from the President's point of view and the Administration's point of view, notwithstanding what Carey may or may not have said, does it make any difference whether the supplicant is the State of New York or the City of New York?

MR. NESSEN: For one thing, Carey did not come here as a supplicant today, he came here, as I say, to describe and explain.

Q Could you answer that question and take "supplicant" out?

MR. NESSEN: I think we are dealing with something that doesn't exist. There is no plan, and there was no commitment made or no promise made by the President.

Q Carey did explain a plan, though, didn't he?

MR. NESSEN: Yes, that was the bulk of the meeting.

Q He was asked if he was seeking a Federal loan or a Federal guarantee of a loan, and he said not now. The question now as opposed to when is still dangling there. You are not saying "no, never," and Carey said the President flatly told us there is no guarantee now.

MR.NESSEN: All I am saying is I think you are asking me to answer a hypothetical question that simply didn't come up today. There is no plan. There was no commitment. There was no promise, and the President has these strong views on the role of the Federal Government in this area.

Q Did he agree to extend to the State as well as to the city? That is all I am asking.

MR. NESSEN: I think I said that the President just doesn't believe it is the job of the Federal Government to manage the finances of the State and local Government.

Q The President believes Federal assistance is not the solution to New York City's problems. To carry that on, you mean if the State assumes the burden, he could change his views?

MR. NESSEN: There was certainly nothing today that indicated anything like that. I don't think Carey said there would be.

Q We got the impression that if the Legislature acted within this 90-day period, that New York City would not default if the President would consider some sort of action. This was the impression we got.

MR. NESSEN: The President gave no commitment and no promise and said only that they would continue to monitor the situation and keep the door open for discussions.

Q Has the President been given a plan by which he could do it if he changed his mind? Does the White House have a scenario under which it could act for the State if they desired to do so?

MR. NESSEN: Not that I am aware of.

Q Ron, is it still the President's feeling that a default would not be a disaster for the country as a whole? This is Carey's thesis that a default would have national implications.

MR. NESSEN: Dr. Burns, I think, has indicated, I am sure has indicated -- I should say I am sure Dr. Burns has indicated publicly that he sees his role as preventing any upset from occurring in the banking system.

Q Is the President still planning to go meet Henry tomorrow night?

MR. NESSEN: As far as I know he is.

Q Can you give us an approximate arrival time?

MR. NESSEN: I cannot.

THE PRESS: Thank you.

END (AT 8:32 P.M. EDT)

768.   ******* ~~S E C R E T~~ *******S COPY

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

By ____ NARS date 1/14/86

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FM JACK MARSH AND DICK CHENEY

TO RUMSFELD FOR THE PRESIDENT

~~S E C R E T~~ WH51782

MEMORANDUM FOR THE PRESIDENT

FROM: JACK MARSH AND DICK CHENEY

THROUGH: DONALD RUMSFELD

ENCLOSED IS A COPY OF A LETTER FROM SENATOR JAVITS TO BILL KENDALL AND THE JAVITS DRAFT OF A MESSAGE HE WANTS YOU TO SEND TO A GROUP OF NEW YORK CITY LEADERS MEETING AT 9:00 A.M. TOMORROW.

WE ARE UNAWARE OF ANY COMMITMENT YOU MAY HAVE MADE TO SENATOR JAVITS. IN OUR OPINION, HOWEVER, THE TEXT OF THE MESSAGE IS NOT CONSISTENT WITH YOUR STATED POLICY THUS FAR IN DEALING WITH THE NEW YORK PROBLEM.

IN OUR OPINION, THE DRAFT MESSAGE WOULD GIVE FALSE HOPE TO THE PEOPLE OF NEW YORK CITY THAT YOU WERE PREPARED TO PROVIDE DIRECT FINANCIAL ASSISTANCE TO AVOID DEFAULT.

WE BELIEVE YOU SHOULD GO FURTHER THAN THE STATEMENT ISSUED BY RON NESSEN AT THE TIME YOU MET WITH GOVERNOR CAREY EARLIER THIS WEEK. BILL SIMON, BILL SEIDMAN, ALAN GREENSPAN, JIM CANNON, AND DICK DUNHAM CONCUR IN THESE VIEWS, AND BELIEVE THAT YOU SHOULD NOT SEND THIS MESSAGE.

DUNHAM, CANNON AND SIMON ASKED THAT YOU BE AWARE OF THE FOLLOWING ADDITIONAL COMMENT:

"WE BELIEVE IT WOULD BE INAPPROPRIATE TO SEND THE TELEGRAM AS DRAFTED. WE ARE CONCERNED ABOUT ANY STATEMENT BY THE PRESIDENT WHILE THE SENATE LEGISLATURE IS CONSIDERING THE QUESTION. HOWEVER, IF THE PRESIDENT WISHES TO SHOW INTEREST IN THE JAVITS/BUCKLEY EFFORT TO RALLY CIVIC PRIDE IN COPING WITH THE DEFAULT, WE WOULD HAVE NO OBJECTION TO SENDING THE ALTERNATE DRAFT.".

* * * * * * * * * * * * * * * * * *WHSR COMMENT * * * * * * * * * * * * * * * * *

MARSH,CHENEY

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******* ~~S E C R E T~~ *******S COPY

ALTERNATIVE DRAFT TELEGRAM

I AM HEARTENED BY THE EXPRESSION OF SUPPORT FOR OUR GREATEST CITY REFLECTED IN THE FORMATION OF THIS GROUP. YOUR CONCERN AND INTEREST ARE SHARED IN WASHINGTON. THROUGH THESE MANY MONTHS, MY ADMINISTRATION HAS CAREFULLY MONITORED EVENTS IN NEW YORK CITY AND WILL CONTINUE TO DO SO. WE SHARE WITH YOU THE CONVICTION THAT NEW YORK MUST SURVIVE AND PROSPER.

WE (MARSH AND CHENEY) BELIEVE THAT EVEN THIS GOES TOO FAR. ANY EXPRESSION OF ENCOURAGEMENT WILL HAVE AN IMPACT ON POTENTIAL INVESTORS, AND COULD CREATE THE WRONG IMPRESSION. WE SUGGEST THAT ANY STATEMENT BE LIMITED TO A REITERATION OF WHAT NESSEN SAID TUESDAY NIGHT. COPY ATTACHED.

DEAR BILL:

AT THE PRESIDENT'S REQUEST, I HAVE PREPARED THIS DRAFT OF A WIRE I WOULD LIKE TO READ AT A MEETING OF CONCERNED NEW YORKERS THIS FRIDAY MORNING.

I WOULD APPRECIATE YOUR ARRANGING FOR THE SENDING OF A MESSAGE FROM THE PRESIDENT SO THAT I GET IT IN TIME FOR READING IN NEW YORK'S MOST IMPORTANT CIVIC LEADERS WILL BE PRESENT, AND THE MESSAGE FROM THE PRESIDENT WILL BE OF GREAT IMPORTANCE.

SINCERELY,

JACOB K. JAVITS, U.S.S.

MR. WILLIAM T. KENDALL
DEPUTY ASSISTANT TO THE PRESIDENT
THE WHITE HOUSE
WASHINGTON, D.C.

I AM GLAD TO HAVE THE OPPORTUNITY TO LET NEW YORKERS WHO CARE ABOUT THEIR CITY KNOW THAT THIS ADMINISTRATION IS FULLY AWARE OF THE DIMENSTON OF THE CRISIS FACED BY YOUR CITY. I WANT YOU TO KNOW THAT AS NEW YORK CITY AND NEW YORK STATE TAKE THE PAINFUL MEASURES NECESSARY TO RESTORE FISCAL STABILITY TO NEW YORK CITY, THE COUNTRY'S COMMERCIAL AND FINANCIAL HEART, THE FEDERAL GOVERNMENT WILL NOT STAND IDLY BY. YOU CAN BE SURE THAT THE UNITED STATES, WHEN PRESENTED WITH THE HARD REALITY OF FINANCIAL REFORM IN NEW YORK CITY, WILL DO ITS FAIR SHARE TO ASSIST THE CITY ON THE ROAD BACK TO MUNICIPAL STABILITY.

THE SPECIFIC MEASURES NECESSARY TO RENDER THAT ASSISTANCE ARE UNDER STUDY IN WASHINGTON, EVEN AS NEW YORKERS THEMSELVES TAKE THE STEPS THAT ARE ESSENTIAL TO REVITALIZING THE CONFIDENCE OF

INVESTORS IN THE CITY'S FUTURE. NEW YORK CITY HAS BEEN A SYMBOL OF AMERICAN INITIATIVE AND IMAGINATION. NOW IS THE TIME WHEN THOSE QUALITIES MUST BE DEMONSTRATED TO A GREATER EXTENT THAN EVER BEFORE. THE SYMPATHY OF THIS ADMINISTRATION CAN BE TRANSLATED INTO APPROPRIATE ACTION AS A RESPONSE TO THE POSITIVE ACTIONS THE CITY, THE STATE, AND THE PEOPLE OF NEW YORK HAVE TAKEN, AND TO THOSE PAINFUL MEASURES THAT MUST STILL BE ENACTED.

IN MANY WAYS NEW YORK IS A KEY ELEMENT IN THE SPIRIT OF AMERICA-- IN BUSINESS, IN FINANCE, IN CULTURE AND THE ARTS, IN TRANSPORTATION AND COMMUNICATIONS--AND WE SHALL DO WHATEVER IS PROPER TO KEEP THAT SPIRIT ALIVE AND HEALTHY.

NEWS CONFERENCE 313

AT THE WHITE HOUSE
WITH RON NESSEN
AT 8:19 P.M. EDT
SEPTEMBER 2, 1975
TUESDAY

MR. NESSEN: THERE IS NOT ALL THAT MUCH TO SAY, REALLY. I THINK GOVERNOR CAREY GAVE YOU A REPORT ON HIS VIEW OF THE MEETING. THE MEETING LASTED FROM 6:55 TO 7:40. YOU HAVE A LIST OF PARTICIPANTS. THE GOVERNOR WAS THERE, OF COURSE; DAVID BURKE, WHO IS THE SECRETARY TO THE GOVERNOR; PETER GOLDMARK, WHO IS BUDGET DIRECTOR OF THE STATE; JOHN HIEMANN, SECRETARY OF BANKING; FELIX ROHATYN, AN ADVISER ON THIS MATTER; J. SIMON RIFKIN, WHO IS ALSO ADVISING ON THIS MATTER; ARTHUR LEAVITT, THE STATE COMPTROLLER; BILL ELLINGHAUS, THE CHAIRMAN OF THE BOARD OF MAC, AND MICHAEL NEDEL, THE ASSISTANT COUNSEL TO THE GOVERNOR. THOSE ATTENDING FROM THE WHITE HOUSE WERE THE PRESIDENT, DON RUMSFELD, BILL SEIDMAN, ALAN GREENSPAN, EDWIN YEO.

Q WHO IS EDWIN YEO?

Q HE IS THE NEW UNDER SECRETARY OF THE TREASURY.

MR. NESSEN: THAT IS RIGHT, THE NEW UNDER SECRETARY OF THE TREASURY.

RICHARD DUNHAM OF THE DOMESTIC COUNSEL, ROD HILLS OF THE LEGAL COUNSEL'S OFFICE, JIM CANNON OF THE DOMESTIC COUNSEL AND JIM FALK OF THE DOMESTIC COUNSEL, DICK CHENEY AND MYSELF.

I THINK YOU ALREADY KNOW THAT THE PRESIDENT HAS BEEN CON-

CERNED ABOUT THE FINANCIAL CONDITION IN NEW YORK CITY FOR THE PAST SIX MONTHS OR SO AND AT HIS REQUEST TREASURY SECRETARY SIMON AND OTHER ADMINISTRATION OFFICIALS HAVE BEEN MONITORING THE SITUATION.

GOVERNOR CAREY AND HIS ASSOCIATES CAME DOWN THIS EVENING TO MEET WITH THE PRESIDENT AND OTHER OFFICIALS OF THE ADMINISTRATION. THEY DESCRIBED THE FINANCIAL CIRCUMSTANCES OF NEW YORK CITY AND ALSO DESCRIBED THE RECOMMENDATIONS THAT HE IS MAKING TO THE NEW YORK STATE LEGISLATURE.

GOVERNOR CAREY DESCRIBED THE DIFFICULT PERIOD OF ADJUSTMENT THAT WILL BE NEEDED TO RESTORE CONFIDENCE IN THE CITY'S FINANCIAL PRACTICES AND ITS LONG-TERM ECONOMIC WELLBEING.

AS THEIR EFFORTS TO RESTORE THE CITY'S ECONOMIC HEALTH PROCEED, THE PRESIDENT SAID HE WOULD ASK FEDERAL DEPARTMENTS AND AGENCIES TO CONTINUE TO STAY IN CLOSE TOUCH WITH THE OFFICIALS INVOLVED AND TO REPORT TO HIM AS APPROPRIATE.

THE PRESIDENT SAID THAT HIS DOOR WAS ALWAYS OPEN FOR DISCUSSION, SUCH AS THE ONE THIS EVENING. THE PRESIDENT EXPRESSED HIS SYMPATHY FOR THE PEOPLE OF NEW YORK AND TO THOSE WORKING TO RESOLVE THE PROBLEM.

THAT IS BASICALLY ALL I HAVE.

Q RON, IS THERE ANY SENSE OF A SOFTENING OF THE ADMINISTRATION'S PREVIOUSLY STATED POSITION CONCERNING NEW YORK CITY?

MR. NESSEN: I WOULD SAY THAT THERE WAS NO CHANGE IN THE ADMINISTRATIONS'S POSITION, WHICH IS ONE OF -- AS THE PRESIDENT SAID -- KEEPING THE DOOR OPEN FOR DISCUSSIONS, SYMPATHY FOR THE PEOPLE OF NEW YORK AND THOSE WORKING ON THE PROBLEM, MONITORING OF THE PROBLEM AND REPORTING TO HIM WHEN APPROPRIATE.

Q RON, THE IMPRESSION WAS LEFT FROM THE DISCUSSION OUT ON THE LAWN THAT IF THE STATE LEGISLATURE GOES AHEAD WITH WHAT CAREY DESCRIBES AS A HIGH-RISK PROGRAM THAT WOULD INVOLVE THE STATE'S CREDIBILITY RATHER THAN JUST A CITY'S FINANCIAL STABILITY, THAT THEN THE ADMINISTRATION MIGHT HAVE A DIFFERENT ATTITUDE AND MIGHT REACT DIFFERENTLY THAN IT WOULD IF IT WERE JUST NEW YORK CITY AND ITS MONEY INVOLVED.

MR. NESSEN: I DID NOT HEAR ANYTHING AT THAT MEETING THAT

WOULD LEAD ME TO BELIEVE THAT THAT IS A CORRECT CONCLUSION. MY UNDERSTANDING IS THAT GOVERNOR CAREY DIDN'T SAY THAT.

Q I WILL BE GLAD TO PLAY THE TAPE PORTION. MY QUESTION WAS, IS IT TRUE THE STATE WOULD HAVE TO ACT FIRST BEFORE THE FEDERAL GOVERNMENT COULD DO ANYTHING? HE SAID, "ABSOLUTELY, THE FEDERAL GOVERNMENT CAN'T ACT IF WE" -- AND FOLLOW-UP QUESTIONS DID LEAVE THE IMPRESSION-- HE ALSO SAID AT ONE POINT THAT ONE ADMINISTRATION OFFICIAL HAD SAID THAT IF THE STATE'S CREDIBILITY WERE INVOLVED, IT WOULD BE DIFFERENT THAN A CITY AND THE PRECEDENT OF HUNDREDS OF THOUSANDS OF CITIES THAT COULD GET IN TROUBLE, ALTHOUGH THAT WAS A BIG "MIGHT."

Q HE ALSO SAID THEY ARE GOING TO WAIT AND SEE IF WE ADOPT A PLAN.

MR. NESSEN: THE PRESIDENT SAID HE WOULD MONITOR THE SITUATION AND OTHER ADMINISTRATION OFFICIALS WOULD MONITOR IT, BUT THE PRESIDENT MADE NO PROMISE AND NO COMMITMENT.

Q THE POINT STEVE IS MAKING IS THAT SOMEWHERE DOWN THE LINE CAREY HELD OUT HOPE THAT PERHAPS THE PRESIDENT MIGHT CHANGE HIS MIND. IN THE BRIEFING TODAY, YOU SAID THERE ARE NO PLANS FOR A NEW FEDERAL INITIATIVE NOW. YOU DID USE THAT ADVERB "NOW."

MR. NESSEN: I THINK YOU ARE MAKING A DISTINCTION WHERE THERE IS NONE. THERE WERE NO PROMISES AND NO COMMITMENTS. IN FACT, I THINK IF YOU KNOW THE PRESIDENT'S OWN FEELINGS IN THIS AREA, AND THE PRESIDENT SPELLED THEM OUT AGAIN TODAY, THAT HE BELIEVES FEDERAL ASSISTANCE IS NOT THE SOLUTION TO NEW YORK CITY'S PROBLEM.

HE SAID THAT HE FEELS THAT UNDER THE SYSTEM OF GOVERNMENT WE HAVE THAT IT IS NOT AND SHOULD NOT BE THE JOB OF THE FEDERAL GOVERNMENT TO MANAGE THE FINANCES OF A STATE OR LOCAL GOVERNMENT.

I THINK YOU KNOW THE PRESIDENT'S VIEWS, WHICH ARE--AMONG THE REASONS HE HOLDS THAT VIEW IS THAT IF FUNDS WERE PROVIDED TO NEW YORK, EQUITY WOULD REQUIRE THAT THE FEDERAL GOVERNMENT PROVIDE ASSISTANCE TO OTHER CITIES AND THIS COULD LEAD TO FEDERALIZATION OF CITY AFFAIRS.

THERE IS ALSO ANOTHER REASON, WHICH IS THAT THE EXECUTIVE BRANCH HAS NO AUTHORITY TO PROVIDE ADDITIONAL DIRECT FEDERAL ASSISTANCE.

Q I THINK THE QUESTION WE ARE ASKING, RON, IS THIS : HAS THE SITUATION CHANGED BECAUSE THE STATE HAS GOTTEN INVOLVED AND YOU CONTINUE TO SPEAK ABOUT THE CITY THERE, SO TO GO BACK TO YOUR OTHER COMMENTS, I TAKE IT IT DOESN'T MAKE ANY DIFFERENCE IF THE STATE GETS INVOLVED?

MR. NESSEN: I THINK YOU ARE REALLY STRANGE TO FIND SOMETHING THAT WAS NOT REALLY THERE.

Q RON, LET ME TAKE IT FROM A DIFFERENT TACK. THIS IS A VITAL POINT TO US.

MR. NESSEN: ALL I HEARED WAS A KIND OF SECOND- OR THIRD-HAND REPORT OF WHAT HE SAID, AND I DIDN'T GET THE IMPRESSION FROM WHAT I HEARD HE SAID THAT HE WAS HOLDING OUT, OR HE DID NOT FEEL THAT HE GOT ANY COMMITMENT IN HERE TODAY.

Q RON, LET'S TAKE THIS FROM ANOTHER TACK.

Q HE SAID HE WAS ENCOURAGED.

MR. NESSEN: DID HE SAY HE WAS ENCOURAGED?

Q YES, VERY ENCOURAGED.

MR. NESSEN: I THOUGHT HE SAID HE WAS ENCOURAGED AT THE PRESIDENT GETTING A BETTER UNDERSTANDING OF THE PROBLEM.

Q RON, TO TAKE ANOTHER TACK, THERE IS A DIFFERENCE IN THE UNDERSTANDING AMONG US WHO LISTENED TO HIM. FROM YOUR POINT OF VIEW AND FROM THE PRESIDENT'S POINT OF VIEW AND THE ADMINISTRATION'S POINT OF VIEW, NOTWITHSTANDING WHAT CAREY MAY OR MAY NOT HAVE SAID, DOES IT MAKE ANY DIFFERENCE WHETHER THE SUPPLICANT IS THE STATE OF NEW YORK OR THE CITY OF NEW YORK?

MR. NESSEN: FOR ONE THING, CAREY DID NOT COME HERE AS A SUPPLICANT TODAY, HE CAME HERE, AS I SAY, TO DESCRIBE AND EXPLAIN.

Q COULD YOU ANSWER THAT QUESTION AND TAKE "SUPPLICANT" OUT?

MR. NESSEN: I THINK WE ARE DEALING WITH SOMETHING THAT DOESN'T EXIST. THERE IS NO PLAN, AND THERE WAS NO COMMITMENT MADE OR NO PROMISE MADE BY THE PRESIDENT.

Q CAREY DID EXPLAIN A PLAN, THOUGH, DIDN'T HE?

MR. NESSEN: YES, THAT WAS THE BULK OF THE MEETING.

Q HE WAS ASKED IF HE WAS SEEKING A FEDERAL LOAN OR A FEDERAL GUARANTEE OF A LOAN, AND HE SAID NOT NOW. THE QUESTION NOW AS OPPOSED TO WHEN IS STILL DANGLING THERE. YOU ARE NOT SAYING "NO, NEVER," AND CAREY SAID THE PRESIDENT FLATLY TOLD US THERE IS NO GUARANTEE NOW.

MR. NESSEN: ALL I AM SAYING IS I THINK YOU ARE ASKING ME TO ANSWER A HYPOTHETICAL QUESTION THAT SIMPLY DIDN'T COME UP TODAY. THERE IS NO PLAN. THERE WAS NO COMMITMENT. THERE WAS NO PROMISE, AND THE PRESIDENT HAS THESE STRONG VIEWS ON THE ROLE OF THE FEDERAL GOVERNMENT IN THIS AREA.

Q DID HE AGREE TO EXTEND TO THE STATE AS WELL AS TO THE CITY? THAT IS ALL I AM ASKING.

MR. NESSEN: I THINK I SAID THAT THE PRESIDENT JUST DOESN'T BELIEVE IT IS THE JOB OF THE FEDERAL GOVERNMENT TO MANAGE THE FINANCES OF THE STATE AND LOCAL GOVERNMENT.

Q THE PRESIDENT BELIEVES FEDERAL ASSISTANCE IS NOT THE SOLUTION TO NEW YORK CITY'S PROBLEMS. TO CARRY THAT ON, YOU MEAN IF THE STATE ASSUMES THE BURDEN, HE COULD CHANGE HIS VIEWS?

MR. NESSEN: THERE WAS CERTAINLY NOTHING TODAY THAT INDICATED ANYTHING LIKE THAT. I DON'T THINK CAREY SAID THERE WOULD BE.

Q WE GOT THE IMPRESSION THAT IF THE LEGISLATURE ACTED WITHIN THIS 90-DAY PERIOD, THAT NEW YORK CITY WOULD NOT DEFAULT IF THE PRESIDENT WOULD CONSIDER SOME SORT OF ACTION. THIS WAS THE IMPRESSION WE GOT.

MR. NESSEN: THE PRESIDENT GAVE NO COMMITMENT AND NO PROMISE AND SAID ONLY THAT THEY WOULD CONTINUE TO MONITOR THE SITUATION AND KEEP THE DOOR OPEN FOR DISCUSSIONS.

Q HAS THE PRESIDENT BEEN GIVEN A PLAN BY WHICH HE COULD DO IT IF HE CHANGED HIS MIND? DOES THE WHITE HOUSE HAVE A SCENARIO UNDER WHICH IT COULD ACT FOR THE STATE IF THEY DESIRED TO DO SO?

MR. NESSEN: NOT THAT I AM AWARE OF.

Q RON, IS IT STILL THE PRESIDENT'S FEELING THAT A DEFAULT WOULD NOT BE A DISASTER FOR THE COUNTRY AS A WHOLE? THIS IS CAREY'S THESIS THAT A DEFAULT WOULD HAVE NATIONAL IMPLICATIONS.

MR. NESSEN: DR. BURNS, I THINK, HAS INDICATED, I AM SURE HAS INDICATED -- I SHOULD SAY I AM SURE DR. BURNS HAS INDICATED PUBLICLY THAT HE SEES HIS ROLE AS PREVENTING ANY UPSET FROM OCCURING IN THE BANKING SYSTEM.

Q IS THE PRESIDENT STILL PLANNING TO GO MEET HENRY TOMORROW NIGHT?

MR. NESSEN: AS FAR AS I KNOW HE IS.

Q CAN YOU GIVE US AN APPROXIMATE ARRIVAL TIME?

MR. NESSEN: I CANNOT.

THE PRESS: THANK YOU.

END (AT 8:32 P.. EDT)

2466

October 20, 1975

NEW YORK CITY

Events are now rushing to an apparent climax in the financial affairs of New York City. Five days ago the city tottered on the brink of a default and was saved from that fate by an eleventh hour decision of the teachers union.

The next day, Mayor Beame testified here in Washington that the financial resources of the city and of the State of New York were exhausted. Governor Carey agreed. It's now up to Washington, they say. Unless the Federal Government intervenes, New York City will no longer be able to pay its bills as of December 1.

Responsibility for New York City's financial problems has thus been abandoned on the front doorstep of the Federal Government like a poor, unwanted child.

As your President, I believe the time has come to make my position clear to the citizens of New York and to those across the land:

-- To sort out fact from fiction in this terribly complex situation;

-- To say what solution will work and what should be cast aside;

-- And to tell all Americans how the problems of New York City may relate to their lives.

This is what I would like to do tonight.

Many explanations have been offered about what led New York City into this quagmire.

Some have said it was the recession, the flight to the suburbs of the city's more affluent citizens, the migration to the city of poorer people, and the departure of industry.

Others have said that the city has become obsolescent, that decay and pollution have brought a deterioration in the quality of life, and that a downfall could not be prevented.

Let's face the facts: many other cities in America have faced these same challenges, and they are still financially healthy today. They have not been luckier than New York; they have simply been better managed.

No city can expect to remain solvent if it allows its expenses to increase by ___% every year, while its revenues are increasing by only ___% a year. Yet the politicians of New York City have done precisely that for the past ___ years.

Consider what this has meant in specific terms:

-- Over the last decade and a half, the number of residents in New York City has actually declined, but the number of people on the city's payroll has increased by 50 percent.

-- One-third of the employees now on the city's public education staff teach not a single student. They have either clerical or administrative jobs.

-- New York's municipal employees are generally the highest paid in the United States. A sanitation worker with three years experience now receives a base salary of $15,000 a year; fringe benefits and retirement add 50 percent a year to the base. At the same time, a New York City subway coin changer receives a higher salary than a private bank clerk.

-- In most cities, city employees are required to pay 50 percent of the cost of their pension. New York City is the only major city in the country that doesn't charge its employees a penny.

-- Retirement for municipal employees in New York often comes at an early age, and in many cases at incomes far above normal salaries.

-- The city has built a surplus of hospitals, so many in fact that 25% of the hospital beds are regularly empty.

-- The city also operates one of the largest universities in the world, and it's tuition-free for any high school graduate who wants to attend.

-- And for those on welfare, the city now pays out 10 times as much per capita for benefits and assistance as any other major city in the country.

I do not mean to chastise New York for its behavior or even for its generosity of spirit. That was its decision, as it should have been. But when we look back over what the New York power brokers have allowed to happen over the last 10 years:

-- A steady stream of unbalanced budgets;

-- A tripling of the city's debt;

-- Extraordinary increases in union contracts;

-- And a defiance of the experts who said again and again that the city was courting disaster,

then we should have no doubt where true responsibility lies. And when the city now asks the rest of the country to pay its bills, it should come as no surprise that many Americans ask why. Why should they pay for extras luxuries in New York that they have not been able to afford in their own communities? Why should the working people of this country be forced to rescue those who bankrolled the city's policies for so long -- the big banks and other creditors? So far, in my opinion, no one has given them a satisfactory answer.

What they have been told instead is that unless the rest of the country bails out New York, there will be a catastrophe for the United States and perhaps for the world. There is no objective evidence to support that conclusion.

It would be more accurate to say that no one really knows precisely what would happen in our financial markets if New York defaults. It's a matter of judgment. Our own analysis within the Government leads us to conclude that the financial markets have already made a substantial adjustment in anticipation of a possible default and that further disruptions would be temporary. The economic recovery would not be affected. I can understand why some might disagree with our conclusion and would speak out about their reservations. What I cannot understand -- and what none of us should condone -- is the blatant attempt in some quarters to frighten the American people into submission. This nation will not be stampeded; it will not panic when a few desperate politicians and bankers try to hold a gun to its head. What we need now is a calm, rational decision about what the right solution is -- the solution that is best for New York and for all Americans.

To be effective, the solution must meet three basic objectives:

-- It must maintain essential services for the residents of New York City. They have become innocent pawns in this struggle. I ~~promise~~ those citizens that the Federal Government will not let them suffer terrible hardships in the months ahead.

-- Second, the solution must ensure that New York City will have a balanced budget as rapidly as possible.

-- And third, it must ensure that neither New York City nor any other city ever becomes a ~~permanent~~ ward of the Federal Government. I will not be a party to any arrangement which destroys our delicate separation of powers between the Federal, state and local governments. ~~There is already too much power in Washington.~~

There are at this moment eight different proposals under consideration in the Congress to prevent default. All are variations of basically one solution: that the Federal Government would guarantee the future bonds of the city so that it could borrow additional money in the financial markets. The sponsors say that the guarantee would be short-term because the city could be forced by Federal law to balance its books within three years.

I am fundamentally opposed to this solution, and I want to tell you why.

Basically, I ~~think~~ it is a mirage. Once a Federal guarantee is in place, there is no realistic way to expect that the budget will be balanced within a short period of time. The city's politicians have proved in the past that they are no match for the massive network of pressure groups facing them. An indication of ~~what is likely to happen as soon~~ as ~~the pressure is off was provided by Mayor Beame~~ last week when he vowed he will fight to restore the very jobs he has just been forced to cut. In the same way, the New York Times reported indications last week that in exchange for help from the teachers union, the political leadership of the State made concessions which could threaten their own efforts to balance the budget. So long as "politics as usual" continues in New York -- so long as the coalition of power brokers remains undisturbed -- there can be little serious hope that hard, tough decisions will be taken. A guarantee would change nothing in New York's power structure. Instead, it would inevitably lead to long-term Federal control over the affairs of the city.

Such a step would not only violate the principles of Federalism but would set a very undesirable precedent for the Nation. ~~How can we deny other cities the same benefits extended to New York?~~ And what discipline would be left on the spending habits of other city and state governments ~~once~~

the discipline of the marketplace is removed? This is not a precedent that any of us can welcome.

Finally, I think we ought to recognize who the prime beneficiaries of this guarantee program will be. Not the people of New York City: as I promised earlier, essential services will continue for them regardless of what happens. Not the people in other cities and states across the nation: a guarantee will not help them at all. No, those who will benefit the most are the politicians, and the investors who have put their money in New York City securities -- the big banks and other investors, ~~many of whom are wealthy~~.

I am a strong believer in the financial marketplace, a system in which institutions and people with money can freely invest their funds. They willingly take risks, and the higher the risk, the more profits they get for their investment. But everyone knows that sometimes risks turn sour. And when the risks do turn out to be bad, as in New

York City, I do not believe that the Federal Government should then make them good. To me, it is clear that those who made the choice to invest their money should now bear the risk, not the 200,000,000 Americans who never made such a choice.

Does this mean there is no solution? Not at all. There is a sound and sensible way to resolve this issue, and I want to set it forth tonight.

First, I propose that the leaders of New York face up to reality. Either they must take firm steps to avoid default, or they should prepare to accept the inevitable. They argue that they have run out of resources to help the city. I disagree. What they have run out of are alternatives that are politically easy. They can still take the tough but decisive step of raising their taxes. And if they do, they can save themselves from default.

There is no reason why citizens in the rest of the country should raise the money when it can still be done by the citizens of New York.

Second, I propose that the Federal Government act now so that if the leaders of New York permit a default, it will be orderly and limited in impact. A chaotic struggle among the city's creditors and even among its employees would seriously complicate the city's problems. Unfortunately, present Federal law is inadequate to deal with this problem. Therefore, I will tomorrow submit to the Congress special legislation providing the Federal Courts with sufficient authority to carry out an orderly reorganization of the city's financial affairs.

Under this legislation, a Federal judge would be able to appoint a trustee of the court who could temporarily delay payments to the city's creditors and, of critical importance, could force the city to gradually balance its budget. The power to bring necessary reforms in the city's budget-making process is essential; by placing it in the hands of a trustee, who will be supervised by the court, we will not only ensure that it is properly exercised but that it is also temporary in nature.

Let us recognize, however, that even by postponing payments to creditors and by curtailing some of its expenses, the city will still lack sufficient funds to pay its bills for as much as three years. Therefore, I am proposing that the court trustee be allowed to issue certificates to cover these shortages. These certificates would be like short-term loans and would be issued to the public. They would be guaranteed not by the Federal Government but by special revenues collected by the State of New York. Specifically, I am recommending that the State of New York introduce a temporary tax which creates enough cash to stand behind the trustee certificates. The tax would be temporary, and the money collected might even be held in escrow so that it could be returned to taxpayers after the city's financial affairs are put in order. State officials argue that the taxes in both the City and the State are already too high; further taxes would only darken their economic hopes for the future. That is true. But because it is true, then the tax should serve another very good purpose: it will give New York's leaders a strong incentive to clean up their financial affairs quickly so that the tax can be removed.

To summarize, the plan I am recommending tonight is this: if New York fails to act in its own behalf, there should be an orderly default supervised by a Federal Court and financed by a temporary New York tax. This plan will work. It will work because it is sound. It will work because it is fair.

The only ones who will be hurt by this plan will be those who are fighting so hard to protect their power and their profits: the city's politicians and the city's creditors. And the creditors will not be hurt much because eventually their investments will be rewarded. For the people of New York, this plan will mean that essential services will continue. There may be some temporary inconveniences, but that will be true of any solution that is adopted. Moreover, New Yorkers have shown over the years that when it comes to coping with temporary inconveniences, they are better at it than anyone else in the world. For the financial community, the default may bring some temporary disorder but the repercussions will not be massive. In fact, there is solid reason to believe that once the uncertainty of New York is ended, investors will begin returning to the markets and those markets will be sturdier. Finally, for the people of the United States, this plan means that they will not be asked to assume a burden that is not of their own making and should not become their responsibility. This is a fair and honorable way to proceed.

In conclusion, let us pause for a moment to consider what the New York City experience means for the United States.

Two weeks ago, I spoke to you about the choice I believe we face as a nation: the choice between continuing down a path of higher government spending, higher government deficits, and more inflation or taking a new direction by cutting our taxes and cutting the growth in government spending. Down one fork, I said, lies the wreckage of many great nations of the past. Down the other lies the opportunity for greater prosperity and greater freedom.

Tonight I think it is clear what path New York City chose. None of us can take any pleasure from this moment, because the leaders of New York were in a very basic sense following the same practices they saw in Washington. The difference is that Washington owns printing presses and can always print more money to pay its bills. But ultimately the practice of living beyond your means catches up with a nation just as it catches up with a family or city. And for the citizens of that nation, the bill comes due either in the form of higher taxes or the harshest and most regressive tax of all, inflation.

All of us tonight care especially about the people of New York City: they have worked hard over the years to create one of the greatest centers of civilization. But as we work with them now to overcome their difficulties, let us never forget what led that city to the brink. And let us resolve that these United States will never reach the same crisis.

Thank you and good evening.

To: Russ Rourke
From: Max F.
Good!

THE WHITE HOUSE

WASHINGTON

October 23, 1975

MEMORANDUM TO: MAX FRIEDERSDORF

FROM: RUSS ROURKE

Max, Doug Bennett and I met with Senator Jim Buckley this morning for approximately 30 minutes. Our basic purpose was to discuss certain factors relating to the appointment of a new U. S. Attorney for the Western District of New York.

Having settled our original business, a discussion ensued concerning the plight of New York City. Buckley, who plans a press conference this morning concerning certain aspects of the New York City problem, suggested, in a most constructive and friendly fashion, that the President "minimize his rhetoric relative to New York City and talk more about the need to assist the millions of innocent citizens in the City who are the real victims of years of mismanagement and corrupt political leadership". Buckley thought the President would do well to assure those "millions of innocent citizens that they would be assured of continued essential services, viz., police, fire, etc. during this critical period". In other words, Buckley thought the President could drive home the principle he has thought to establish and place the blame where it belongs, i.e., on the fiscally irresponsible and corrupt political leadership in New York City, without, at the same time, totally alienating the innocent citizens of New York City. Buckley is simply concerned that the President is coming across as one who has "written New York City off". He is convinced that that is not the case, but feels that only the President can clarify this issue.

Specifically, Buckley earnestly requested a 30-minute meeting with the President prior to the time he meets with the various union representatives (fire, police, etc.) from New York City. After checking with Scheduling this morning, I am advised that an as yet unapproved proposal has Buckley scheduled for a 2:15 p.m. meeting on Tuesday, October 28, followed by a 2:30 meeting with the union heads.

I might note that Buckley expressed his deep appreciation to Doug Bennett and me for spending so much time "in his behalf" on this very ticklish

U. S. Attorney appointment position. Both Doug and I got the very distinct impression that Buckley, given certain considerations, would like to support President Ford against any Republican primary opposition. He was extremely pleased, for example, over the President's public references to his Food Stamp proposal. By joining forces with Buckley on this New York City issue, I believe the two can be drawn even closer together.

cc: JMarsh
BKendall
DBennett
DCheney

OCT 23 1975

New York City

THE WHITE HOUSE

WASHINGTON

October 23, 1975

TO: DONALD RUMSFELD

FROM: JERRY JONES

SUBJECT: Forums for Presidential Message on New York City

Dick asked for a layout of the possible forums on Monday, Tuesday and Wednesday of next week for the President to deliver a message as to his position on New York City's financial crisis. Unfortunately, the options are rather limited; the following is the entire range that Bill, Red, Terry and I have been able to develop:

1. A forum in New York City on Wednesday morning on the way to Los Angeles. The standing forums are as follows: the Investment Association of New York -- 650 members under the age of 41; the National Alliance of Businessmen in New York City; Columbia Business School Club; New York Society of Security Analysts which the President appeared before in February of this year.

The benefits of a New York forum are that the President takes on the problem in the lion's den; the down side is a travel issue, a potential demonstrator problem and the lack of a truly appropriate forum to address the humanitarian side of this problem. In addition, Mayor Beame would probably want to greet the President and this could not help but be an embarrassing situation.

2. Reschedule the luncheon speech in Albuquerque in front of the Western Governors. There will be ten Democratic governors at this conference, the subject of which is energy. The governors would probably support the President's position on New York. However, the down side problems are: (a) Rescheduling a canceled event adds to the disorganization charge; (b) addressing the New York City problem in front of Western governors may not be appropriate; (c) the conference topic is energy.

3. Deliver the message in a speech at the Los Angeles fund raising dinner. While this gets the President's position in front of the public it is bad form because it is a partisan function, it is in Los Angeles, it is in front of fat cats, we lose the news cycle because of the late hour on the East coast.

4. Deliver the message at the San Francisco fund raising function. Same as above except you do make the East coast news cycle on Thursday.

5. A function in Washington, D.C. This would be the best except there are no appropriate forums the first three days of next week. The following groups are in town: (a) the beauticians (b) American Institute of Aeronautics (c) National Council of Jewish Women (d) Girl Scouts of America (e) Air Traffic Control Association (f) Railway Progress Institute and several others of like quality. In addition, Baroody currently does not have a large group coming in next week. If we create an event by inviting mayors or governors or some other appropriate group the down side is the charge of media manipulation and at this late date it would be difficult to avoid that problem.

6. Ask for network television time to deliver a speech to the nation. While this would be the best possible option in terms of getting the President's position well stated to the country, we believe that the networks would not grant the time request and that the topic in reality is not of sufficient importance to risk the second consecutive turndown on a time request.

7. Address a joint session of Congress on Wednesday morning. We believe that such an address should be limited to major national issues of over-riding importance. This is not one and we feel such a request would be an over-reaction to the problem and thus be a political minus.

8. Send a written statement to the Congress and make a brief statement for film on the New York City problem on Tuesday morning or Wednesday morning. Because of the lack of an appropriate forum in Washington this is our recommended option. The brief four or five minute statement can be made either from the Oval Office or in the press room and if it is properly worded it will generate the same television exposure of any of the above options with the exception of the nationwide television address. We also feel that this type of response is the most "Presidential." It does not involve travel, it does not involve theatrics, it is not an over-reaction to what is not actually a national problem and it gets maximum exposure with minimum inconvenience.

Therefore, we recommend Option 8.

________Approve   ________Disapprove

Cong Relations
f

THE WHITE HOUSE

WASHINGTON

October 28, 1975

MEMORANDUM FOR THE PRESIDENT

THROUGH: JACK MARSH JOM Signed 10/28

FROM: MAX FRIEDERSDORF M.F.

SUBJECT: Joint Session of Congress Address on New York City

Both John Rhodes and Bob Michel returned to the city last night from the recess and I discussed with both of them the possibility of a Presidential address to a Joint Session of Congress pertaining to New York City.

Rhodes was adamantly opposed to an appearance before a Joint Session and also voiced loud objection to any statement on NYC at this time.

He believes that such emphasis on the New York City problem would be a signal that the President is prepared to accept some form of assistance to the city.

Bob Michel was very negative on a Presidential address to a Joint Session.

Michel voiced the opinion that this would elevate the issue unreasonably and be counterproductive if the President delivered an essentially negative speech.

Bob Michel and Rhodes expressed the viewpoint that they believe the President is positioned well on this issue at the present time and they can see no advantage for the President or those who support his position by the address to a Joint Session.

Rhodes objected strenuously to any statement at this time and indicated that he wanted to be kept advised of any plans to do so and be consulted on Presidential initiatives in this area.

He indicated to me that he would likely try to call the President today to discuss this subject.

I indicated to both of them that we would keep them closely advised on any and all developments on New York City.

OCT 30 1975

THE WHITE HOUSE

WASHINGTON

October 29, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: MAX FRIEDERSDORF M.F.

SUBJECT: New York City Speech and Legislation

Reaction to the President's speech at the National Press Club today on New York City has been generally favorable and has caused great interest among the jurisdictional committees.

In the Senate the President's legislation will be referred to the Senate Judiciary Committee's Subcommittee on Improvement in Judicial Machinery which is chaired by Senator Burdick with Senator Hruska the ranking Minority member.

Burdick has already set hearings for Friday morning and Bill Seidman and I and representatives from OMB, Treasury, and Justice will meet with Burdick and Hruska on Thursday A.M. to go over the legislation and prepare for the hearings.

The same group will also meet Thursday A.M. with Congressman Don Edwards, Chairman of the House Judiciary Subcommittee on Civil and Constitutional Rights.

We will also meet with Caldwell Butler, the ranking minority member on the subcommittee.

Edwards indicated to me today that he has been working on similar legislation and seemed generally receptive.

However, the House Democratic leadership caucused this afternoon and Edwards indicated they very likely will consider the Banking and Currency legislation first and either consider the Bankruptcy legislation in tandum or as a fall back.

We have compiled a report on Congressional reaction to the President's speech which follows:

Senator Hugh Scott -- "A good message and a very sensible statement." (Scott has criticized the veto threat.)

THE WHITE HOUSE

WASHINGTON

October 29, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

FROM: WILLIAM T. KENDALL

SUBJECT: New York City crisis

The following comments were obtained from Senators regarding the President's speech on the New York City financial crisis:

Senator Griffin:	"Great speech. It is a shame that the networks did not carry it."
Senator Javits:	"The President has made a grave error in not coming to the aid of the city."
Senator Tower:	"The speech was fine - suits me."
Senator Curtis:	Strongly supportive.

Senator Baker will issue a major speech supporting the President's New York plan on Friday.

THE WHITE HOUSE

WASHINGTON

October 29, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

FROM: VERN LOEN VL

SUBJECT: Congressional reaction to the President's New York City Speech

The Speaker - Quoted on UPI as "repeating his support for aid of some type. Ford should forget about politics for a few minutes. This is a ~~national~~ problem."
(NOTE: The Speaker has been under heavy pressure from New York City Democrats)

"Tip" O'Neill - "Biggest damn political statement ever written."
(NOTE: Democratic Steering Committee meeting this afternoon reached tentative agreement to report out both the President's proposal from Judiciary Committee and the Reuss proposal for long term loan guarantees with strict limitations such as a balanced budget requirement. The plan would be to link them together in the Rules Committee).

John Rhodes - In Chicago and Grand Rapids today, but has been against any New York City bailout. Staff is sure he would applaud the President's statement.

Bob Michel - Inserted the President's speech in the Congressional Record. "Damn good, right on target. I was negative on both his appearance before a joint session and the Press Club, but having seen his speech, I am glad to be on the losing side.

Bob Michel (continued)	Know it will make points for him in my District, particularly his strong stand that he would veto any bailout. Told Newsweek magazine that it was a message for the entire country. Strikes at the core of our problems as a nation. We have been on a spending toot for a decade. This really brings the problem into focus."
John McFall -	Cannot accept the idea of letting New York City go bankrupt, but recognizes the city must change its way of operating. Believes the President's receivership proposal might fly if linked with the Reuss proposal, but not on its own. Aside from the "political rhetoric," there was some good stuff in the President's speech.
FLOOR COMMENTS-	Floor comments by other Members were favorable. Jack Kemp thought it was terrific. Caldwell Butler - (Ranking on the Judiciary Subcommittee having jurisdiction) "I agree in principal with the thrust of the President's proposal. Don Edwards has drafted, but not yet introduced, a bill which places less responsibility on the city for fiscal responsibility. I shall speak to him in the morning about co-sponsoring it and getting early hearings. I like the long range approach of the President's proposal."

The following are the responses that I have received from several congressmen on their reaction to the President's speech on the New York City proposal.

Rep. Thomas L. Ashley (D. -Ohio) - ~~Chairman of the Banking, Currency and Housing Subcommittee on Economic Stabilization~~

Congressman Ashley believes the President has now placed himself in the position of joining in the conspiracy of "irresponsibility". He believes there is no doubt we will experience both severe national and international adverse economic consequences if and when New York City actually defaults.

He feels that mere bankruptcy will not assure an ultimate balanced budget. Further, he is of the opinion that both New York City and the State of New York are already taking tough action which will stabilize the problem over a three-year period.

Rep. Barber Conable (R. -N. Y.)

Read the President's address and totally concurs with his approach. The Congressman has responded to media and press inquiries by stating that he totally endorses the President's proposal.

Rep. Herman T. Schneebeli (R. -Pa.) ~~- Ranking Minority Member on Ways and Means Committee~~

Supports the President's New York City proposal. Believes the President's program is one that looks toward resolution of the City's problem in the most effective manner and with the least amount of Federal intergovernmental intervention.

Rep. Joe Waggonner, Jr. (D. -La.)

Generally supports the President's New York City proposition. Questions what is meant with respect to maintaining essential public services, i.e. does this mean the Federal government will pay for services

Rep. Joe Waggonner, Jr. Cont.

rendered by policemen, firemen, nurses, etc.? The congressman believes it is most important that all administration officials strongly endorse the President's recommendation.

Rep. Albert Johnson (R.-Pa.) - ~~Ranking Minority Member on Banking, Currency and Housing Committee~~

While he has not publicly taken a position with respect to the New York City question, the congressman believes that the President provides a sound approach. The congressman is inclined to oppose any form of Federal bailout.

Rep. George Mahon (D.-Texas) - ~~Chairman of the Appropriations Committee~~

After reading the President's New York City text, the Chairman views the President's proposal as a partial withdrawal from his previous position. It appears to the Chairman that there would be some Federal assistance. And, the Chairman is somewhat concerned about turning any matter over to the courts. This reservation stems from court action in forced busing.

While the Chairman would not endorse the President's proposal, he strongly opposes any action by the Federal government to bail out New York City.

WYDLER, JACK (R-NY)

Says President has given a realistic speech setting forth the course of conduct to help the City of New York and its people in the event of default. "The President is doing the job which the City of New York should be doing. The President in his speech is making the realistic plans for the future of the City of New York which the city should be doing. The President said in his speech what I think Mayor Beame should be doing."

A caucus of the members of the New York delegation has been called for 3:30 p.m. this afternoon in the House, to take a policy position with regard to New York city.

HUTCHINSON, EDWARD (R-Mich)

He was very pleased with the President's speech and agrees with the President completely. Feels that the President is speaking the sentiments of the great majority of the people across the country. Says the President is on the right tack here and that he has made a good and reasonable proposal.

JOHNSON, ALBERT W. (R-Pa.)

The President's plan for New York City provides a reasonable approach to a problem which up to now seemed unsolvable. To turn the problem over to a court-appointed trustee would insure that current obligations will be paid and that a satisfactory arrangement be made for final negotiation of maturing debts. The President's proposal is strong medicine but there are no other alternatives. The President should be congratulated for his statesmanship and courage in sponsoring a worthwhile and realistic solution.

Phil Burton called Jack Marsh and Wayne Hays called Max Friedersdorf to report that there was no concerted Democratic effort to defeat the debt ceiling bill which failed today by a vote of 178-217. Both Burton and Hays said that many Democrats voted against the debt limit because they observed a large number of Republicans voting against the bill. The two Democrats said to tell the President not to read too much into this vote and that it will likely pass on the next consideration.

cc: Jack Marsh
Bill Seidman
Alan Greenspan
Dick Cheney
Jim Connor

[11/75?]

THE TREASURY SECRETARY HAS ASKED GOV. CAREY TO SEND TO HIM, IN WRITING, THE FULL DETAILS OF HIS PLAN TO HELP NEW YORK CITY SOLVE ITS FINANCIAL PROBLEM. HE ALSO HAS ASKED [redacted] ALL THE PARTICIPANTS TO INDICATE, IN WRITING, THEIR COMMITMENT TO CARRY OUT THEIR PART IN THE PLAN.

WHEN THIS ARRIVES, THE PRESIDENT WILL REVIEW IT TO DETERMINE WHAT, IF ANY, ROLE THE FEDERAL GOVERNMENT SHOULD PLAY IN HELPING NEW YORK CITY AND NEW YORK STATE TO SOLVE THEIR OWN FINANCIAL PROBLEMS.

New York City

November 6, 1975

MEMORANDUM FOR: MAX FRIEDERSDORF

FROM: JACK MARSH

The President would like to meet with Mike Mansfield and a small group of Senators sometime this coming Monday morning to discuss New York City.

This request came to the President from Senator Mansfield by phone today.

I would be grateful if you would coordinate with Jerry Jones to set up a time and have Bill Kendall or Pat O'Donnell confirm the time with Senator Mansfield. At confirmation, please obtain the names of other Senators who will be accompanying him.

Do you feel a 30 minute appointment with a 15 minute buffer is adequate?

cc: Jerry Jones

JOM/dl

THE WHITE HOUSE
WASHINGTON

Sen. Mansfield

Monday — A.M.
if possible

N.Y.C.

He wants to
bring a group to
discuss.
I said O.K. &
you would call back.

THE WHITE HOUSE

WASHINGTON

November 8, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN

SUBJECT: New York City

This memorandum contains a set of materials designed to provide you with an analysis of legislation pending in Congress to provide financial assistance to New York City, the legislative status of your proposed amendment to the Federal Bankruptcy Act, a review of New York State's financial condition, possible ways of providing financial assistance under existing legislation for the New York Housing Finance Agency, the current condition of the municipal bond market, the impact of a New York City default on the national economy, and draft legislation to authorize Federal guarantee of debt certificates issued to fund essential services in event of a New York City default.

The specific papers, prepared in coordination with the Departments of Treasury and Justice and the Council of Economic Advisers, are as follows:

1. Pending Legislation to Provide Financial Assistance to New York City (Tab A)

2. Legislative Status of the Administration's Proposed Amendment to the Federal Bankruptcy Act (Tab B)

3. New York State's Financial Condition (Tab C)

4. Assistance to the New York State Housing Finance Agency (Tab D)

5. Impact of a New York City Default on the National Economy (Tab E)

6. Condition of the Municipal Bond Market (Tab F)

7. Draft Legislation on Provision of Essential Services (Tab G)

8. Questions and Answers on New York (Tab H)

Pending Legislation to Provide Financial Assistance to New York City

Bills to provide financial assistance to New York City have been favorably reported by both the Senate (S.2615) and House (H.R. 10481) Banking Committees. The House Bill has been referred to Ways and Means. Floor action in the House was initially scheduled for November 11. Reports suggest that in light of the AFL-CIO opposition, House floor action will be delayed. Senate Banking Committee sources indicate that no attempt will be made to bring the bill to the Senate Floor until there is some indication of what the House will do.

Summary of Bills

Both bills authorize the Federal Government to guarantee local obligations to prevent default, and also confer authority to provide assistance after a default. Authority under both bills is delegated to a Board chaired by the Secretary of the Treasury

The fundamental difference between the two bills is in the amount of flexibility given to the Board. The Senate bill is highly restrictive: the Board cannot authorize a guarantee unless stringent pre-conditions are met. The House bill gives the Board substantially more flexibility, in recognition of the possibility that the City may not be able to meet very stringent guidelines between enactment and the time a guarantee would be necessary to avert default.

Issue Analysis

1. Pre-Default Assistance

Senate

- -- authorizes $4 billion in Federal guarantees of new 1-year State securities to prevent default;
- -- guarantee authority is phased out over 4-year period

House

- -- authorizes full or partial emergency guarantees of obligations of a State or State instrumentality to prevent default;

-- authorized amounts: $5 billion maximum outstanding until 1989; $3 billion thereafter

Comment

The advantages of the Senate bill are (1) more control over the City is provided; since the guarantee is limited to one year there is the opportunity to terminate the program if the City is not complying with the guidelines; and (2) the program is shorter. The Senate program expires in 4 years; under House version, program could continue for 24 years.

The advantage of the House bill is that by authorizing a longer guarantee period, it eliminates the necessity for reapplications for assistance.

Suggested Improvements

Because of our position in opposition to any assistance to prevent default, no changes would make these provisions palatable.

2. Preconditions to Assistance

Senate

-- voluntary restructuring of the City's debt:

-- at least 65% of present MAC obligations must be exchanged for non-guaranteed bonds with longer maturities (at least 5 years) and lower interest rates

-- at least 40% of the City's obligations maturing before June 30 must be exchanged for similar long-term, low interest bonds

-- State must cover ½ of City's operating deficit out of general tax revenues, over and above any assistance previously given

-- Board must determine that neither City nor State can practically obtain credit from other source and that default is imminent

-- Board may impose any other conditions deemed necessary

-- City must balance budget by 1977, including reductions in cost of employee pension plans and maximum feasible participation by such funds in the restructuring of the City's debt

-- State must assume control of City's fiscal affairs while Federal guarantee is outstanding

-- guarantee must be satisfactorily secured, inter alia, by future revenue sharing payments to City and State

-- City must open books to Federal audit and use accounting procedures prescribed by the Board

-- State must pay guarantee fee of up to 3½% of total obligations guaranteed if tax exempt, and up to 1% if made taxable by subsequent Act of Congress

House

-- credit markets must be closed as a practical matter to both City and State

-- City must submit and follow plan for fiscal solvency from recurring revenues

-- State must have authority to control City's fiscal affairs during life of Federal guarantee. (New York's Emergency Financial Control Board is stipulated as satisfying this requirement.)

-- State must supply additional aid up to 1/3 of City's deficit, as determined by Board

-- allows for guarantee fee up to 3/4 of 1% per year in discretion of Board

-- Board may require City to renegotiate outstanding obligations (e.g. by exchanges for longer maturity, lower interest paper) including outstanding contracts for services

-- authorizes GAO audits of municipality and/or relevant State instrumentality

Comment

The flexibility issue is most squarely presented with respect to these provisions. While the exchange of debt, higher state tax and pension benefit renegotiation features of the Senate bill can be seen as forcing the City to take stringent measures, they may be so stringent as to make the guarantee authority unworkable. The House bill authorizes the Board to attach whatever condition it deems appropriate, but does not require the Board to deny assistance if extreme conditions are not met.

Suggested Improvements

None.

3. Post-Default Assistance

Senate

-- guarantees up to $500 million of 3-month City notes to meet City's short-term credit needs for continuing essential services

-- obligations secured by a first lien on City's future revenues

House

-- no separate authority. In a default situation, Board may issue guarantees and may, for a six month period, waive above preconditions in providing guarantees

Comment

House bill not specifically limited to essential services.

Suggested Improvements

If it is determined that we will carry out essential services pledge via guarantees, should limit guarantees to court-authorized debt certificates. Should also consider raising authorization to $1 billion or $1.5 billion.

4. Tax Status of Guaranteed Obligations

Senate

-- to avoid necessity for Finance Committee action, does not require that guaranteed paper be taxable

-- language presupposes that later legislation will require taxable feature.

-- provides that Federal Financing Bank must purchase any tax-exempt guaranteed paper

House

-- makes all guaranteed securities taxable

Comment

The Senate bill is needlessly cumbersome. Any guaranteed paper should be taxable.

Suggested Improvements

None

5. Governing Board

Senate

-- 3-member Board consisting of Secretary of Treasury (Chairman), Chairman of Federal Reserve Board, and Secretary of Labor

House

-- 5-member Board consisting of Secretary of Treasury (Chairman), Secretary of HUD, Chairman of Federal Reserve Board, and Chairman of SEC

Comment

None.

Suggested Improvements

If only post-default assistance will be provided, a full Board may be needlessly cumbersome.

LEGISLATIVE STATUS OF THE ADMINISTRATION'S PROPOSED AMENDMENT OF THE FEDERAL BANKRUPTCY ACT

Statements comparing the Senate and House bills with the Administration's proposed amendment of the Federal Bankruptcy Act are attached.

H.R. 10624 has been approved by the Edwards Subcommittee and will receive the attention of the full House Judiciary Committee Monday, November 10, at 10:30 a.m. Minority Counsel for the Subcommittee expects the full Committee to ratify the action of the Subcommittee.

S. 2597, as amended, has been approved by the Subcommittee on Improvements in Judicial Machinery. In the Thursday meeting of the full Judiciary Committee, Senators Kennedy and Mathias argued that the legislation was not urgent. Senator Mathias exercised his personal privilege, thus putting over a vote on the bill until Thursday, November 13. Minority Counsel advises that there are sufficient votes to bring the bill out of Committee.

To summarize, the Senate bill gives us almost all of what we want; the House bill very little.

COMPARISON OF H.R. 10624 WITH THE ADMINISTRATION'S BILL FOR BIG CITY BANKRUPTCIES

The House Bill, following the personal plea of Chairman Rodino before the Subcommittee, opts for a revision of the debt adjustment provisions of Chapter IX of the Bankruptcy Act rather than a new Chapter XVI to deal with major municipalities. The style of the bill, its arrangement and many of its particulars are different from the Administration's bill though much of the substance is similar.

Sec. 81 includes definitions of nine terms used in the bill, only three of which are the same terms defined in the Administration's bill--and even these three definitions are different. The changes are not substantial, and we have no objection.

Sec. 82(a) on jurisdicition is the same as the last sentence of Sec. 801(a) of the Administration's bill.

Sec. 82(b)(1) of H.R. 10624 permits the petitioner to reject executory contracts and unexpired leases. The Administration's bill expressly permitted this only in conjunction with the consummation of the plan. We think, however, it would be permitted even without express provision, and so have no objection to the new language. Sec. 82(c), limiting interference by the court with the political and governmental powers of the city, omits the proviso contained in Sec. 805(e) of the Administration's bill specifically authorizing the court to enforce the conditions attached to certificates of indebtedness and the provisions of the plan. We object to this change.

Sec. 84 would permit any political subdivision, public agency or instrumentality of a State, without regard to size, to file a petition for relief; the Administration's bill is limited to cities in excess of 1,000,000 population and certain subentities thereof. We object to the change strenuously, since its adoption will substantially lessen the possibility of including some of the substantive provisions we think necessary for New York. Sec. 84 would permit filing so long as the petitioner is "not prohibited by State law from filing a petition". The Administration's bill would require the specific approval by the State before a petition could be filed by a major municipality but subentities could file if not prohibited. We object to the change.

Sec. 85 would require any party in interest desiring to challenge the filing of a petition to do so within fifteen days. The Administration's bill would permit such challenges up to ten days before the hearing on confirmation of the plan, unless the judge imposed further restrictions. We object to the change, since it eliminates the possibility of dismissal for failure to submit a good faith, reasonably feasible plan. Sec. 85(a) permits a governing authority or board for certain special taxing or assessment districts to file on behalf of such districts. No objection. Sec. 85(c) gives the city a wider choice of venue than does the Administration's bill. We think the opportunity to forum shop is undesirable. Sec. 85(d) uses different phraseology for the notice required as to the filing or dismissal of a petition and is specific as to use of publication. No objection. Sec. 84(f), unlike the Administration's bill, makes certain "bankruptcy" clauses in contracts and leases unenforceable if the petitioner cures prior defaults and provides adequate assurance of future performance. This is acceptable if a reasonable time limitation for curing defaults is added.

Sec. 88(b) uses somewhat different language than that used in the Administration's bill as to the classification of creditors. Sec. 88(c), unlike the Administration's bill, seeks to spell out the limits on damages for breach of an unexpired lease. No objection to these changes.

Sec. 90(a) permits the petitioner to file the plan with its petition or at such later time as the court may specify. The Administration's bill requires the filing of the plan with the petition together with a statement of present and projected revenues and expenditures sufficient to show that the budget of the petitioner will be in balance within a reasonable time after adoption of the plan. H.R. 10624 does not call for a balanced budget as a requirement for confirmation of the plan, though the requirement that the plan be "feasible" may supply this requirement. We oppose these changes.

Sec. 92, governing the acceptance of a plan, uses language and arrangement that is different from that in the Administration's bill. However, voting is much the same except that the court could temporarily allow disputed claims for the purpose of voting. Both bills permit "cram down" as to nonassenting classes of creditors. H.R. 10624 follows the language of current Chapter IX and this would make it somewhat more difficult for the city to dispose of nonassenting classes of creditors by "cram down". No objection to these changes.

Sec. 93 allows the SEC to file a complaint objecting to a plan but SEC could not appeal. The Administration's bill provides for notice to the SEC but would not make it a formal party to the proceedings. Presumably it could file papers in the proceeding as *amicus curiae* with the same result as to appeal. We have no objection to the changes.

Sec. 94(b), setting forth the conditions for confirmation of a plan, omits the Administration's requirement that petitioner's current and projected revenues and expenditures forecast a balanced budget within a reasonable time after adoption of the plan. The language of the Administration's provision also calls for the dismissal of the proceeding if these conditions are not met. As indicated earlier, we object to this change.

Sec. 95, dealing with the effect of confirmation, is the same as in the Administration's bill except for specific language that the plan and the discharge will not be binding on certain creditors who did not have timely notice or actual knowledge of the petition or plan. We have no strong objection to this change, though it may produce considerable litigation. Sec. 95(b) spells out conditions for discharge of debts which are implicit in the Administration's bill but not spelled out.

Sec. 96(a), dealing with the deposit of cash or securities, is not spelled out in the Administration's bill though its substance is covered by the requirement that the petitioner comply with the plan. Sec. 96(f), making a certified copy of any order or decree evidence of the jurisdiction of the court and effective to impart notice when recorded, is not found in the Administration's bill and seems unnecessary. No objection to these changes.

Sec 97, covering the effect of the exchange of debt securities before the date of the petition, is not found in the Administration's bill and seems of little utility. We have, however, no objection.

The Subcommittee draft did not have a dismissal provision initially. Sec. 98 now contains five discretionary bases for dismissal, though couched in language which is different from that in Sec. 806(b) of the Administration's bill. Dismissal for default in any of the terms of the approved plan is an issue we are studying further. Otherwise we have no objection.

COMPARISON OF S. 2597 WITH THE ADMINISTRATION'S BILL FOR BIG CITY BANKRUPTCIES

As amended to date the Senate Bill follows the Administration's bill in most particulars, including arrangement and identical language in a number of sections. The following changes have been made in the Administration's draft:

Sec. 801 includes authority for the court to permit the rejection of executory contracts even before the approval of a plan of composition or extension, whereas the Administration's bill authorized rejection of executory contracts and unexpired leases in the city's plan (Sec. 813). We do not object. Sec. 801(c) of S. 2597 would require the chief judge of the district court to notify the chief judge of the circuit court of the filing of the city's petition. The later would then designate the judge who would conduct the proceedings. The Administration's bill did not have this provision. We support the change.

Sec. 802 defines "claim" and "creditor" a bit differently than the Administration's bill and adds definitions of "plan" and "person". We do not object.

Sec. 803(a) still limits eligibility to municipalities of 1,000,000 or more population and requires specific State authorization for the city to file. An amendment adopted on Senator Scott's motion modifies the latter provision to permit the chief executive, the legislature or such other governmental officer or organization as is empowered under State law to authorize the filing. This would presumably allow the Control Board now overseeing the city's finances to provide the necessary State consent--which is probably not enough for our purposes.

Sec. 804 drops the Administration's jurisdictional requirement that the city submit a good faith plan with its petition together with a statement of current and projected revenues and expenditures adequate to establish that the budget will be in balance within a reasonable time after adoption of the plan. However, that requirement is still retained as condition for confirmation of the plan. Sec. 817(c). We prefer the original Administration proposal, but realistically think it has little chance of survival. Sec. 804(b) gives the city a choice of the district in which the petition can be filed. The Administration's bill would deny this choice; the change is acceptable, however, if Sec. 801(c), discussed above is adopted.

Sec. 805, dealing with stays, goes beyond the Administration's bill in denying recognition or enforcement of setoffs occurring within three months before the filing of the petition. We think this goes too far.

Sec. 806 would require any creditor wishing to challenge the petition to do so within thirty days of its filing and an interlocutory appeal could not be taken from the court's finding of jurisdiction. This is intended to increase the marketability of debt certificates. We oppose the interlocutory appeal provision.

Sec. 807, dealing with notices, is much the same as the Administration's provision except for an express requirement for publication of the notice. Throughout the bill provision is made for notices to be given by the petitioning city or such other person as the court designates rather than by the court clerk as in the Administration's bill. We do not object to these changes.

In Sec. 812, the second priority accorded claims for services or materials furnished shortly before the filing of the petition is limited to claims arising within two months of the filing rather than to claims arising within four months of filing as in the Administration's bill. No objection.

Sec. 813 permits the petitioner to file a plan either with the petition or at such later time as is set by the court. Sec. 804(b) of the Administration's bill required that the plan be filed with the petition. We prefer the Administration's proposal, but realistically think it has little chance of acceptance.

Sec. 814 changes voting requirements to further protect small creditors. Thus the petitioner must obtain approvals from two-thirds in amount and 51 per cent in number of each class of creditors, unless other provision is made for their claims. The Administration's bill required approvals only from two-thirds in amount. Both bills permit the majorities to be counted on the basis of those eligible to vote who actually vote. We think the change is undesirable.

Sec. 814(c) of S. 2597 covering the division of creditors into classes, is somewhat more flexible than the Administration's provision. No objection.

Sec. 816 includes Senator Abourezk's amendment which would let the court allow a labor organization's or employee's association representative to be heard on the economic soundness of the plan. No provision is made for voting or appeals by such representatives. No objection.

Sec. 817 omits the requirement found in the Administration's bill at Sec. 816(a) that the court make written findings in connection with the confirmation of the plan. We think this change is undesirable. The balanced budget concept is retained as a condition for approval of the plan.

Sec. 820 uses somewhat different language from that contained in Sec. 806(b) of the Administration's bill in stating the grounds for dismissal of the proceeding and adds as a mandatory ground for dismissal the fact that an adopted plan has not been consummated. Dismissal is important as this is one of the few levers the court has to force the city to move forward and come up with a balanced budget. We think, however, that this provision requires further analysis, which we are now conducting.

Sec. 823, on conversion of a pending Chapter IX proceeding to one under this new chapter, is new, as is Sec. 824 on effective date. No objection.

NEW YORK STATE'S FINANCIAL CONDITION

Fundamentally, New York State is in reasonably sound financial condition on the basis of underlying factors. It does have difficulties, attributable to (1) its own deficit for the fiscal year ending March 31, 1976, now officially estimated to be $611 million; (2) substantial short term borrowing to aid New York City; and (3) the unsound financial condition of some of the agencies of the State, particularly the Housing Finance Agency.

The State must act to remedy these difficulties by establishing new revenue sources to cut the deficit and by taking the steps proposed by the Financial Community to strengthen the Housing Finance Agency. However, these difficulties will not result in an immediate crisis for the State, even if a default by New York City were to trigger an adverse psychological reaction. While the State does have note maturities in December and January, its cash flow, according to State estimates, is adequate until late March, when it must borrow to refund notes issued to raise the funds loaned to the City and to fund its own deficit.

In the April-June period (the first three months of the following fiscal year), the State typically borrows $4-5 billion (State estimate) against revenues to be received later in the year. The proceeds of this borrowing are used primarily to provide assistance payments to local governments and school districts. The State's ability to borrow such funds will depend in part on what steps it takes with respect to the problems outlined above.

ASSISTANCE TO THE NEW YORK STATE HOUSING FINANCE AGENCY

There are four mechanisms which could be employed to provide assistance to the New York State Housing Finance Agency (HFA):

1. Facilitate HFA borrowing by Federal guarantees and subsidies for taxable HFA bonds under Section 802 of the 1974 Housing Act.

2. Reduce HFA borrowing needs and provide cash by GNMA purchase of unfunded mortgages owned by HFA.

3. Strengthen backing of HFA's bonds by FHA insurance and subsidies on mortgages owned by HFA.

4. Federal Reserve loan to HFA.

I. Section 802 Guarantee

Section 802 of the 1974 Housing Act authorizes HUD to guarantee an aggregate amount of $500 million of taxable state housing agency debt and to provide a 33-1/3 percent interest subsidy on the bonds. None of this guarantee authority has been used. Such a guarantee would make HFA debt fully marketable at low rates. This approach has the dual advantage of being the easiest to implement and providing the most substantial benefit.

II. GNMA Purchase

We estimate that HFA owns approximately $200 million in marketable mortgages; that is, mortgages on viable projects which have not been fully or partially funded by HFA bonds. We believe GNMA has the legal authority to purchase these mortgages.

A sale of mortgages to GNMA would lessen HFA's funding (and thus borrowing) requirements and would also provide cash which HFA could use to meet other commitments.

III. FHA Insurance and Subsidies

FHA could provide mortgage insurance and interest reduction subsidies under its Section 223(f) and Section 8 programs. This would require unraveling the original mortgage arrangements between HFA and the private project owners and the issuance of a new mortgage at current rates. The interest reduction subsidy notwithstanding, HUD believes that few project owners would agree to give up their 5, 6 and 7 percent mortgages for a new market rate loan. We understand that HFA and HUD staff have discussed this approach, but have not reached conclusions as to its viability.

IV. Federal Reserve Loan

Under its emergency lending authority, the Federal Reserve could lend HFA whatever amounts are required. Governor Carey has requested a $576 million, 90 day loan. Paul Volcker, President of the Federal Reserve Bank of New York, has not closed the door but has indicated that the request was "incomplete" in terms of the information provided.

IMPACT OF A NEW YORK CITY DEFAULT ON THE NATIONAL ECONOMY

Several studies have claimed that a New York City default would have a severe negative impact on the national economy. An analysis of these studies by the Council of Economic Advisers concludes that the studies are deficient in several respects.

The studies generally assume that default will lead state and local governments to rapidly balance their operating budgets by raising taxes and lowering expenditures. But state and local governments have already made substantial adjustments to their budgets and little or no further adjustment is likely. With no further steps we believe that the combined operating and capital account deficit of state and local governments will be eliminated by the fourth quarter of 1976. A moderation in the growth of state and local expenditures has, therefore, been long anticipated and has been taken into account in our recommendations concerning national tax and expenditure policy.

The various studies also assume that default would mean a lower rate of money supply growth, even though some of them assume that the Federal Reserve would intervene to prevent disruption to financial markets. We do not believe that if default were to occur that the Fed would pursue a more restrictive monetary policy. Consequently, part of the impact which some of the studies ascribe to default is in reality the impact of a more restrictive monetary policy assumption.

We also do not see as sharp an increase in interest rates resulting from a New York City default as is assumed in some of the studies. Yields on municipals have already risen some, and while it is impossible to foresee future changes with confidence, we believe that most of the impact of a possible default is already reflected in current rates.

In summary, therefore, while we acknowledge a number of unknowns in the current outlook, we do not believe that the impact of a New York City default, should it occur, would have a significant impact on the developing economic recovery. Clearly there are some risks in the current situation. But there are no Federal policies which can eliminate those risks without creating others.

CONDITION OF THE MUNICIPAL BOND MARKET

The municipal bond market has performed extremely well over the past year. In the first nine months of 1975, state and local governments have raised approximately $45 billion in bonds and notes. Moreover, such funds have been raised at a cost not disproportionate to historical levels.

As a general rule, we expect interest rates on tax-exempt instruments to be 70 percent of the rates on taxable instruments of comparable quality. In October, rates on prime and medium grade municipals were exactly 70 percent of the rates on AAA and A utility bonds.

What has taken place is a shift in the quality preferences of investors: a tendency to prefer higher grade instruments. This change -- in market parlance a "flight to quality" -- has resulted in lower costs for better quality borrowers and relatively higher costs for the lower grade issues.

The excellent performance of the market notwithstanding, certain improvements can be made. In recent years the growth rate in demand for funds by state and local governments has exceeded the growth rate in the supply of funds from traditional institutional purchasers of tax-exempts: commercial banks and fire and casualty insurance companies.

These entities have had reduced needs for tax-exempt income as a consequence of underwriting losses in the case of fire and casualty companies and loan losses, leasing activities and foreign tax credits in the case of banks.

Accordingly, to broaden the market and reduce borrowing costs, it would be desirable to afford state and local governments the option of issuing debt on a taxable basis, with an automatic interest subsidy from the Federal Government. Such an option would in effect open the market to new classes of lenders which do not need tax-exempt income -- e.g., pension funds, charitable foundations, etc.

Secondly, partially in recognition of the fact that there is greater individual investor participation in the market, state and local issuers of substantial amounts of debt should be required, under Federal law, to report their financial condition on a current, accurate and comparable basis.

DRAFT LEGISLATION ON
PROVISION OF ESSENTIAL SERVICES

A proposal to authorize the Secretary of the Treasury to guarantee debt certificates issued to fund essential services is attached.

The draft language does not define essential services nor does it resolve the question of whether assistance should be in the form of a guarantee or a loan.

As drafted, the Secretary of the Treasury would have sole discretion to determine what constitutes an essential service.

*Draft Legislation

(1) In connection with a proceeding under Chapter XVI of the Bankruptcy laws, upon application of petitioner, the Secretary of the Treasury may guarantee, in whole or in part, payments of principal, of interest, or both, on certificates of indebtedness issued pursuant to Section 811 of said Chapter XVI for the purpose of providing funds for the maintenance of essential services.

(2) The provision of such guarantees shall be on such terms and conditions as may be established by the Secretary of the Treasury in his sole discretion.

(3) Any decision, rule or other determination by the Secretary of the Treasury pursuant to the authority conferred under this section shall not be subject to judicial review by any means.

(4) The aggregate amount of guarantees outstanding at any time under this section shall not exceed [$1,500,000,000].

(5) No petitioner shall be eligible for guarantees under this section unless such petitioner shall have first made application under this section on or before January 31, 1976.

* It would be possible to redraft this language to give the President authority to delegate these powers to such officers as he desires.

DEFINITION OF ESSENTIAL SERVICES

Q. In your address to the National Press Club you indicated that the Federal Government would work with the Court to assure the provision of services essential to the protection of life and property. What specific services were you referring to?

A. It would not be desirable to speculate at this time as to each and every item on such a list. In the context of an orderly proceeding to reorganize the City's debt, to the extent our participation is required, we will work with the Court, in cooperation with the parties, in identifying the needs which do exist.

November 8, 1975

FEDERAL ASSISTANCE FOR ESSENTIAL SERVICES

Q. How does the Federal Government intend to insure essential services for the citizens of New York City in the event of a default?

Alternative 1

The resources to meet the needs of the citizens of the City remain available at the State and local level. Any action by the Federal Government now could interfere with the processes which I now understand are taking place at those levels to deal with these possibilities. If State and local officials abdicate their responsibilities to meet these critical needs, then we will take the necessary action.

Alternative 2

I will propose legislation authorizing the Secretary of the Treasury to guarantee or purchase debt certificates to meet essential services.

Such a guarantee would be available only after default, in limited amounts and for a limited period of time to insure that only essential services were covered.

November 8, 1975

AVOIDING A NEW YORK CITY DEFAULT

Q. You have indicated that New York City can avoid a default if they take the necessary steps. What are those steps?

A. I have often said that it would be improper for me to get into the business of dictating what actions should be taken at the State or local level. But let me give you some possibilities.

First, the plan announced by MAC last week could be pursued. That plan calls for institutional holders of City notes to exchange their notes for long term City bonds; individual City noteholders to exchange their notes for MAC bonds; and for the banking and pension systems to provide new loans during the period in which the City is balancing its budget.

Second, the State could enact a temporary and emergency tax -- perhaps an increase in the sales tax or an income tax surcharge -- to provide revenues to bridge the gap. When the City returns to a balanced budget, such taxes could be repaid through refunds or other forms of tax reductions.

Third, the nearly $20 billion in State and City employee pension fund assets could be used to collateralize bridge loans to the City.

As I said, these are only a few examples of what could be done. They clearly belie the erroneous suggestion that all State and local resources have been exhausted.

November 8, 1975

STATE OF MUNICIPAL BOND MARKET

Q. Hasn't the municipal bond market deteriorated in the past two weeks? How do you account for this?

A. After its strongest and most sustained rally of the year, prices in the municipal market have shown a slight decline in the past two weeks; that is, interest rates have risen slightly. Such a price decline is neither surprising nor disturbing. After all, the municipal bond market, like any other market, is subject to fluctuations for a wide range of reasons. Profit-taking, minor changes in demand for tax-exempt income, a relatively heavy volume of new borrowing, have all been factors. These events must be viewed in perspective. The health of the municipal market is best reflected by how it has performed recently: in the third quarter alone, states and cities raised some $13.7 billion.

November 8, 1975

CONTAINING NEW YORK CITY'S PROBLEMS

Q. How can you be sure that New York City's problems won't spread to New York State and to other cities and states throughout the country?

A. New York City's problems have been caused by a consistent pattern of failing to bring spending into line with revenues, resulting in massive cumulative deficits. No other major city has engaged in such practices and thus no city faces the burdens New York faces. Indeed, one way to insure that such problems will spread is if the Federal Government signifies -- by adoption of an assistance program -- that it stands ready to finance the spending mistakes of America's cities.

November 8, 1975

CONGRESSIONAL LEGISLATION ON NEW YORK

Q. The House is expected to take up soon a bill to provide loan guarantees for New York City, tied to a municipal bankruptcy bill similar to what you requested. Would you consider signing this legislation?

A. As I have indicated, I shall veto any bill which requires the Federal Government to provide financial assistance to prevent default. If Congress sends me a bill containing that requirement, I will not sign it.

November 8, 1975

Q. How will you prevent riots in New York City if paychecks and welfare checks stop because of a default?

A. The legislation which I have proposed to handle a New York City default would permit the maintenance of services essential to the protection of life and property. Furthermore, I have indicated that the Federal Government will work with the court, in the event of a default, to ensure that such services are provided. There is no reason why New York City's financial difficulties cannot be resolved in an orderly manner, and there is no justification for concern over social disorders or disruptions.

Porter
November 7, 1975

NEW YORK CITY

Q. Why is Chancellor Schmidt so concerned about New York City?

A. Chancellor Schmidt is the most appropriate and able person to comment on his views. I might say that in a general sense many concerns abroad regarding New York City are based on psychological fears about a general disruption in financial markets that could occur. As you know, I have proposed legislation in the event of a New York City default, which we all surely hope will not occur, that would provide for an orderly procedure to handle the situation. Under this legislation there need not be any major disruptions in the financial markets in New York or anywhere else. Moreover, there are strong indications that the markets have already made adjustments and discounted for the possibility of a New York City default. In short, the situation is manageable.

Porter
November 7, 1975

GOVERNOR CAREY LETTER ON AID FOR N.Y. AGENCIES

Q. Will you support Governor Carey's request to the Federal Reserve for a 90 day, $576 million loan for four agencies of New York State?

A. I have received a letter from Governor Carey advising me of his request to the Federal Reserve but, as you know, the Federal Reserve Board is an independent body and the Administration does not participate in or direct its decisions. I have no control over whatever action the Federal Reserve might take.

Background

For over a month, Governor Carey has had a detailed and carefully thought-out plan presented to him by the financial community in New York to strengthen the credit of the New York State Housing Finance Agency which would receive the great bulk of the loan the Governor has requested. The plan is specifically designed to put the Housing Finance Agency in the kind of fiscal condition necessary to restore market access. Press reports of the Governor's request to the Fed indicate that he does not intend to ask the Legislature to act on the plan until after the State receives a loan from the Fed.

The financial community plan consists of the following:

1. Creation by State appropriation of an insurance fund in an amount equal to 20% of annual debt service -- cost: approximately $60 million.

2. Provide funding, by general fund appropriation, of the smaller programs of the Agency -- $39 million.

3. Fund the $30 million shortage in the operating and maintenance reserves of the component projects.

4. Finance the deficit in the Co-op City Project's debt service -- $12.5 million.

5. Agree to fund deficits in other projects as a line item in the state budget.

6. Effect improvements in accounting methods and management controls.

There is, of course, no assurance that adoption of this program would enable HFA to re-enter the market. As a practical matter, however, the financial community could well be locked in: having had their proposal adopted, they could not argue that financial factors precluded their underwriting HFA securities.

Porter
November 6, 1975