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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

New York City

My Administration did not bail out New York City but rather created a climate in which the state and the city were able to enact some long overdue reforms. The loan guarantees which we have provided are temporary in nature and require an interest payment to the Treasury so that the Federal government will make money on their investment in New York. In effect, New York City eventually took steps to bail itself out.

NEW YORK CITY

- 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

THE WHITE HOUSE

WASHINGTON

August 5, 1975

MEMORANDUM FOR: RON NESSEN
FROM: BILL GREENER *Bill*
SUBJECT: President's Remarks re New York City

The President's remarks reference New York City will in my opinion create more and more news and therefore attached is my recommendation of a statement that we can put out.

Attachment

August 5, 1975

STATEMENT BY PRESS SECRETARY

There appears to be a great deal of interest in the President's statement regarding the financial difficulties of New York City while in Belgrade. The President has asked me to point out that first he was simply discussing with the Mayor of one large city the problems of the large cities in America.

It has been and still is the view of the President that it is necessary for New York City to face up to its financial difficulties and to realize that you cannot continue to operate on a deficit basis indefinitely.

From the President's point of view the statement was intended to create a dialogue which would give him a better understanding of how large cities in other countries cope with the burdening demands placed upon them.

May 7, 1975

SUBJECT:

NY OFFICIALS MEET WITH SIMON
AND OTHER TREASURY OFFICIALS

Why did Secretary Simon meet with Governor Carey and Mayor Beahme yesterday?

GUIDANCE: Secretary Simon, Chairman Burns, Governor Carey, Mayor Beahme, NY City Controller Goldwin and members of their staffs met yesterday, together with representatives of New York banks, to bring each other up-to-date on the cash flow problems of New York City. The meeting was a continuation of a series of staff meetings held over the past several months.

Did Secretary Simon make any commitments?

GUIDANCE: I know of none, but you should talk with Treasury if you wish additional information.

Was Mr. Seidman present?

GUIDANCE: Yes

JGC

MAY 12, 1975

SUBJECT:

SIMON REJECTS CITY OF NEW YORK'S
REQUEST FOR FINANCIAL AID

Secretary Simon has issued a statement rejecting Federal aid to the City of New York stating that such aid "would not be appropriate" and added that the solution to the City's financial problems does not lie at the Federal level.

Why has the President rejected giving financial aid to the City of New York?

GUIDANCE: There is very little that the Executive Branch can do to meet the current fiscal crisis of the City of New York. The President does not have the legal authority to borrow funds for the City or lend funds to the City.

The only Federal assistance that can be undertaken, other than specific legislation, is by virtue of action taken by the Federal Reserve Board. The Federal Reserve can, whenever disruption of financial markets might occur; they do have the authority to move in and shore up bank credit by guaranteeing loans.

What would you suggest that the City of New York do in the short term to meet its financial problems?

GUIDANCE: It is my understanding that the State's credit is excellent as evidenced by recent sale of bonds and notes by the State of New York. The State will give aid to the City in the next fiscal year of approximately \$4 billion. With legislation, the State could accelerate this aid.

In the short term, the City will probably try to or have to try to refinance the current notes which come due before June 30. Of course, the City can appeal to the Federal Reserve Board or can go to Congress for legislation.

What can the City of New York do in the long term to improve its financial situation?

GUIDANCE: I'm not sure that I should be up here saying what the City of New York should do to solve some of its financial problems, but on background I might go over a few things they could possibly do in regards their fiscal years 75 and 76 budgets.

GUIDANCE (continued):

1. It is my understanding that New York City is the only city in the country with a free higher education system. If they would end the free tuition policy at the City University, and just establish the State University tuition rate, for those who could afford it, it would bring in about \$60 million annually.
2. If the subway fare was raised 5¢ from 35¢ to 40¢, this would bring an additional \$50 million annually.
3. By imposing a toll on the East River Bridges, this could bring in about \$50 million annually.
4. I am told by some that the City University salaries are higher than those at Harvard, Yale and Princeton, and if these salaries were reduced just to the State University salary schedules, this would bring in an additional \$10 million annually.
re
5. If the employee contracts were/negotiated to require them to make partial contribution to the retirement fund, this would bring in \$200 million a year. At the present time, the employees make no contribution toward their retirement.
6. It is my understanding that the employees will receive an 8% salary increase in the next fiscal year. The President has proposed that all Federal salaries be capped at 5%, and if the City of New York went along with this and the employees went along with this, each 1% saving would bring in \$50 million or a total of \$150 million would be saved.

There are a multitude of things the City of New York could do to improve its financial situation in the long run, but this will take some strong, stringent measures by Mayor Beame and the City of New York.

I might point out that the City of New York's current fiscal problems are nothing new. They have been documented time and time again, as recently as October 1973, the State's Study Commission for New York City issued a report listing their financial problems, and in September 1974, the State's Charter Revision Commission issued a lengthy report on this same subject.

(More)

If the Federal Government can bail out Lockheed and the Penn Central, why can't the Federal Government help the second largest government in the United States?

GUIDANCE: The two are not analagous. In both cases, legislation was enacted.

In addition, talking about Lockheed, the dimensions are obviously greater in the City of New York. For the City of New York, we are talking about 3-1/2 billion dollars versus \$250 million for Lockheed. In addition, with the Penn Central, the company went into receivership and Federal assistance was not to meet the default conditions of the railroad, but to keep the railroad running. In other words, the Federal Government went in after default, not before.

I might just point out what the Charter Commission said in its recommendations report on the City Budget:

"The stark reality is that the City can no longer afford to supply an unparalleled range of services.. The City's revenue base is simply inadequate to support all of its existing programs.

The City, on its own, must begin to review and prioritize its service commitments in light of limited resources. Some extremely tough choices are required. Perhaps the City can afford a subsidized transit system, or expansion of the university system, or perhaps a mammoth municipal hospital system or large housing, drug abuse and social service programs, but it cannot afford them all."

May 9, 1975

SUBJECT:

SIMON ADVISES NEW YORK OFFICIALS
NOT TO EXPECT FEDERAL BAILOUT

Secretary Simon, Chairman Burns, and other Administration officials met Tuesday with Governor Carey, Mayor Beame, and other New York officials to discuss the cash flow problems of the city of New York. The meeting was a continuation of a series of staff meetings held over the past several months.

What are the problems facing the city of New York, and what were the New York officials asking the Federal Government to do?

GUIDANCE: It is my understanding that the city of New York, in order to meet all its outstanding financial obligations, will need about \$1.5 billion between now and the end of June. They originally and ordinarily would plan to go to the debt market to raise the necessary capital through issuance of bonds and notes, but because of a lack of confidence by the banks and the investment community in the city of New York, there is no market for New York City's bonds. Therefore, they have asked the Federal Government to purchase those bonds which are not picked up in the market place, thus meaning virtually picking up the entire \$1.5 billion in bonds.

What was the Administration's response to Governor Carey and Mayor Beame?

GUIDANCE: I am told that Mr. Simon talked with New York officials yesterday and told them that the only solution available would require legislation, and such legislation would be inconsistent with our thoughts, and feel the responsibility lies with the city and state of New York. Any Federal bail-out of New York City would greatly interfere with programs of fiscal responsibility now under way throughout the country. They were advised that it would not be fair to the taxpayers of the 49 states and the other cities of the United States to provide assistance to the city of New York to get them out of ten years of fiscal irresponsibility.

(More)

What have you advised New York to do?

GUIDANCE: I would like to point out that at the senior staff level of the Administration, people at the White House, the Treasury, and other Departments have been working for several months with city and state officials of New York and the financial community of New York trying to help resolve these problems.

We hope that the city of New York will now take the kind of strong, stringent measures which reflect the financial condition of the city. This means they must take decisive action to cut back spending in order to demonstrate to the bankers and to the financial community that they are serious about curing the previous ills which represent over ten years of fiscal irresponsibility.

FYI: New York has \$750 million in notes due next week with an additional \$750 million due on June 11. This brings to \$1.5 billion they will need in the very near future. Since they cannot sell bonds on the market to raise cash, they are asking for Government loans. END FYI.

JGC

May 7, 1975

SUBJECT:

NY OFFICIALS MEET WITH SIMON
AND OTHER TREASURY OFFICIALS

Why did Secretary Simon meet with Governor Carey and Mayor Beahme yesterday?

GUIDANCE: Secretary Simon, Chairman Burns, Governor Carey, Mayor Beahme, NY City Controller Goldwin and members of their staffs met yesterday, together with representatives of New York banks, to bring each other up-to-date on the cash flow problems of New York City. The meeting was a continuation of a series of staff meetings held over the past several months.

Did Secretary Simon make any commitments?

GUIDANCE: I know of none, but you should talk with Treasury if you wish additional information.

Was Mr. Seidman present?

GUIDANCE: Yes

JGC

No Cash, No Credit

The meeting of top city and state officials with the Secretary of the Treasury and the chairman of the Federal Reserve Board in Washington yesterday underscores the gravity and immediacy of New York City's financial crisis.

Simply stated, after years of living beyond its means, this city has run out of cash and credit. In order to meet its payroll and debt service obligations, the city needs \$750 million in cash by May 20—in less than two weeks!—and another \$750 million in June. That kind of money is nowhere in sight—not in Washington, not in Albany, and certainly not at City Hall.

There is no public market for city bonds and notes. That market collapsed last March 21, forcing the city to borrow from the state to meet its April commitments. Nothing Mayor Beame has said or done has been sufficient to restore the confidence of a financial community that is already overwhelmed with New York paper and profoundly skeptical of the city's fiscal practices.

The situation today is strikingly similar to New York's predicament in 1932-33 when, in exchange for new credit, the banks demanded a four-year program of stringent economies and Governor Lehman called a special session of the Legislature to mandate an 18 per cent cutback in the city budget.

The only way some such drastic intervention can be averted now and the city's credit restored is for the Mayor to act at once to erase the \$641.5-million deficit from his new budget—not with gimmicks or new borrowing or massive tax increases that would further undermine a faltering economy, but with tough and decisive cuts in spending.

The only realistic options available, as the Citizens Budget Commission, the Economic Development Council and others have pointed out, are massive layoffs or a freeze on wages. It is the Mayor's responsibility, in consultation with the municipal unions, to make the inescapable choice between those painful alternatives. It is far better for the city that he make the decision now, before disaster strikes.

New York is broke and passing the hat

January 16, 1976

SUBJECT:

NEW YORK CITY FISCAL SITUATION

The New York Times has an editorial which says it should be quite clear by now that the White House gravely underestimated the problems facing New York and that the meager rescue/proposed by the President is grossly deficient. plan

What's your reaction?

GUIDANCE: The statements concerning New York City's fiscal problems in the last few days are based a report by Arthur Anderson, of which we were certainly aware.

As Secretary Simon has said, the reports certainly points out deficiencies of which we were aware of at the time we recommended these seasonal loans. We said at that time that this was just the beginning and not the end.

I might also point out that each month, prior to the Secretary making any loans, he must conclude that, at present, there is a reasonable prospect of repayment. The Secretary did make that determination and will be following the matter very, very closely. The President is also being kept informed by regular reports.

JGC

November 10, 1975

SUBJECT:

PRESIDENT'S MEETING WITH
SENATORS ON NEW YORK CITY

Can you give us any readout on the President's meeting with
the five Senators on New York City?

GUIDANCE: As you know, Senator Mansfield and four other Senators requested a meeting with the President to discuss the legislation being proposed by the Senate Banking Committee. The meeting began at 8:30 this morning and lasted for about one hour and 15 minutes.

The Senators reviewed with the President the legislation approved by the Senate Banking Committee. As you probably know, this legislation sets up certain requirements for the City, and if they fulfill these requirements, then loan guarantees would be given to them.

The President and the Senators had a good exchange of views, but there was no substantive revision of the President's policy. The President stated that he would continue to monitor the situation and was encouraged by the progress that New York City was making. The President stated that even though there were substantial differences between his views and the views of some of the Senators, he appreciated the chance to have this exchange.

Did the President say he would veto the Senate Banking proposal?

GUIDANCE: The President did say that if the bill was on his desk at this time he would veto it.

Senators in attendance include: Byrd (Robert), Mansfield, Muskie, Proxmire and Stevenson.

Administration participants include: Cheney, Greenspan, Lynn, Marsh, Seidman, and Simon.

JGC

October 3, 1975

SUBJECT:

NEW YORK CITY

- Q. Do you agree with Secretary Simon that if New York City's financial crisis spreads to New York State, the Federal Government would be more inclined to offer financial assistance?
- A. There has been no change in the Administration's position regarding new Federal financial aid to New York. Secretary Simon's statements yesterday were consistent with his recent testimony on New York before the Joint Economic Committee.

The President has asked Secretary Simon and Chairman Burns to continue to monitor this situation and report to him promptly on any developments. If you wish any additional clarification of Secretary Simon's comments, I suggest you contact him personally.

- Q. Do you agree with Arthur Burns statement that "if the New York City financial crisis is not resolved it could injure the recovery process that is now underway in our national economy?"
- A. Uncertainty never helps the economy. We share the view that this matter should be resolved as expeditiously as possible.

We continue to believe that the resolution of this problem should maintain the traditional pattern of relationships between the Federal Government and State and local governments.

- Q. Don't you agree that a default by New York State would have serious repercussions throughout the financial markets?
- A. We do not foresee that the New York State will have any default problems on its own general credit obligations as long as the State's governmental officials act with reasonable prudence.

We are aware in detail of the Housing Finance Agency's problems and pursuant to the President's instructions to Secretary Simon the Treasury has been monitoring the situation.

JGC

NEW YORK - PAY MORE THAN RECEIVE

- Q. There have been reports that the Federal Government collects in tax from New York City \$16 Billion, yet your spokesmen make much of the fact that the City receives \$3.4 Billion in payments from the Federal Government. Why don't you be realistic and admit that New York is contributing more than it is getting?
- A. Even if that \$16 Million figure is true - and it is difficult to get an exact figure - what you are doing in that question is comparing apples and oranges. The great bulk of Federal expenditures go to common needs of all the states: Defense, government operations, transfer payments and other forms of payments to individuals, such as Social Security. These all benefit New York, but they do not show up in the city budget.

The real question is what percent of New York City's total taxes are paid for the benefits received through the specific programs which make up that \$3.4 billion. I think you will find that they receive more than they pay for.

Q. What action will the President take in response to Senator Buckley's request that the Justice Department investigate possible misreptation of New York City Financial Data?

A. The Justice Department and the U.S. Attorney's Office in New York have the responsibility and authority to initiate such action if they feel violation of Federal law is indicated by the data published by the New York State Controller. The President is confident that the Attorney General will take appropriate action.

Q. Will President ask for investigation?

A. That is not his role and he has not asked for an investigation.

Q. Has anyone from Justice Department been to the White House in regard to Buckley's charges?

A. The monitoring group which meets from time to time consists of representatives of Treasury, Justice, OMB and the Domestic Council. The group did have a meeting this morning and Nino Scalia, the Assistant Attorney General for the Office of Legal Council at Justice, attended.

Q. Did Buckley's request for an investigation come up in the meeting?

A. I understand that it did and Scalia said what I said, that Justice has the responsibility and authority.

APPALACHIA vs NEW YORK

Q. How can you refuse financial aid to New York City and yet approve federal spending for groups such as the Appalachian Regional Commission?

A. There is no comparison between the two situations. The Appalachian Regional Commission is a body made up of the poorest regions of 12 states plus all of West Virginia. It was set up by Congress in the early 1960's in an effort to mount a multi-state effort to attack a common problem by building a sound economic base for further growth of the region.

JF/JBS/10-9-75

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

How can Jerry Ford as a Congressman vote to bailout Lockheed and Penn Central, but deny financial aid to New York City?

GUIDANCE: There are several major differences between the two. In the case of Lockheed and Penn Central the Federal Gov't, as a condition of the loans, now participates in the management of these Corporations.

In addition, if a Corporation goes bankrupt its ability to produce its product no longer exists. In the case of the Penn Central this would have deprived us of a vital transportation link to millions of people who had no way to control the operation of the Corporation. ~~It~~ The continuation of services was deemed essential to the economy and to our national defense.

In the case of Lockheed; if they had gone out of business, we would have been deprived of our largest national defense supplier, and it was felt that this would not be in our national interest.

should they default.

New York City will not be liquidated./ It will stay on and operate in a normal manner, providing that Congress pass appropriate legislation. (Secty Simon testified on this - amending the bankruptcy act)

Ron;

I just talked to Bill Simon re the statement that he told the NY delegation yesterday that the President would sign legislation that came to him. Simon that that is bullshit. "They got my message loud and clear. I told them the President's position hasn't changed one iota. He's opposed to federal aid to New York City. It's absolutely untrue that I even hinted that he would sign such legislation. They tried to raise some hypothetical proposals and I ^{told} ~~xxxx~~ them they were ~~xxx~~ wasting their time.

JWH

October 2, 1975

SUBJECT:

FEDERAL ASSISTANCE TO
NEW YORK CITY

The total Federal assistance to New York City totals about \$3.5 Billion. A rough breakdown is as follows:

	<u>(Billions)</u>
Payments to Individuals	\$ 2.0
Medicaid	1.115
Public Assistance	.650
Food and Nutrition	.135
Other	<u>.137</u>
General Revenue Sharing	.263
Transportation (mainly mass trans.)	.203
Education and Manpower	.408
Other	.580

JGC

NEW YORK CITY SITUATION

How do you view the New York City situation regarding their financial problems?

GUIDANCE: We feel New York City and New York State have the ability to solve their problems. We do not believe the Federal government should provide financial support beyond that already given (Revenue Sharing and Categorical Grant Programs last year totaled approximately \$3.4 billion to NYC.)

Do you feel that the plan the City has come up with in conjunction with the State will solve the problems?

GUIDANCE: We hope it will and feel they have the ability to make it succeed. We will continue to follow the situation very closely.

Do you feel that a default by New York City could seriously harm our financial markets?

GUIDANCE: Most market professionals believe that the financial markets would be capable of handling a default. To some extent, the possibility of a New York City default has been discounted in the marketplace. Accordingly, we feel that if default were to occur, we would expect only a moderate degree of further adjustment.

Do you think a default by New York City would have any effect on the overall economic outlook of the country?

GUIDANCE: We don't believe a default would undermine fundamental confidence in our economy or cause financial institutions to adopt unnecessarily restrictive credit policies. In fact, just the contrary may be true. If the Federal government were to act to prevent default, by guaranteeing New York City or MAC debt, there is serious risk that the capital and the credit markets would react adversely.

9/16/75

NEW YORK CITY

1) No legal authority
to help Congress respon-
sibility.
2) \$3.5B in Fed aid.
Total budget \$12 B

- Q. Do you agree with Secretary Simon that if New York City's financial crisis spreads to New York State, the Federal Government would be more inclined to offer financial assistance?
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The President has asked Secretary Simon and Chairman Burns to continue to monitor this situation and report to him promptly on any developments. If you wish any additional clarification of Secretary Simon's comments, I suggest you contact him personally.

- Q. Do you agree with Arthur Burns statement that "if the New York City financial crisis is not resolved it could injure the recovery process that is now underway in our national economy?"
- A. Uncertainty never helps the economy. We share the view that this matter should be resolved as expeditiously as possible.

We continue to believe that the resolution of this problem should maintain the traditional pattern of relationships between the Federal Government and State and local governments.

- Q. Don't you agree that a default by New York State would have serious repercussions throughout the financial markets?
- A. We do not foresee that the New York State will have any default problems on its own general credit obligations as long as the ~~State's financial officials~~ ^{State's financial} act with reasonable prudence. *Presently not in favor*

We are aware in detail of the Housing Finance Agency's problems and pursuant to the President's instructions to Secretary Simon the Treasury has been monitoring the situation.

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