

**The original documents are located in Box 79, folder “New York City, November 1975 – July 1976 (2)” of the L. William Seidman Files at the Gerald R. Ford Presidential Library.**

### **Copyright Notice**

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald R. Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

November 11, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN  
SUBJECT: Meeting on New York City

A summary of a three-year financial plan for New York City, New York State Agencies, and New York State, prepared by representatives of Big MAC and the Governor's Office is attached as is an outline of a possible Administration position on New York in light of these developments.

These documents will form the basis for our discussion of New York today at 2:45 p.m.



MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York Plan

Governor Carey, Felix Rohatyn, Chairman of MAC, Stanley Steingent<sup>U</sup>, Speaker of the State Assembly, Warren Anderson, Majority Leader of the State Senate, and others presented the outlines of a plan designed to meet the financial needs of New York City, New York State and the New York State agencies.

1. Summary<sup>of</sup> Plan<sub>A</sub>. The plan involves new state legislation to:

a. force a restructuring of New York City's short term debt;

b. generate \$200 million of new City tax revenues;

c. reduce City pension contributions by \$85 million.

d. generate sufficient State tax revenues (approximately \$600-700 million) to balance the State's budget<sup>2</sup>; and

e. provide funding for the Housing Finance Agency to strengthen the financial condition of that agency.

These provisions, and the commitments of the Unions and the Banks are discussed in detail below.



2. Proposed Federal Role. We have been asked to provide seasonal financing on a short term, self-liquidating, basis. For FY 76, approximately \$1.3 billion would be required during the period December 1975-March 1976, such amount to be repaid by June 30, 1976. For FY 77 and FY 78, the July-March need would peak at \$2.3 billion in March, and the entire amount would be repaid by June 30 of each of these fiscal years.

Discussion of Plan

A. New York City

The key elements of the plan are a restructuring of the short term debt and substantial commitments of new cash from the union pension funds. The debt restructuring is in two parts. First, the banks and other institutional investors have agreed to exchange their short term New York City notes for ten year City bonds carrying an interest rate of 6 percent. They have also agreed to refinance their holdings of MAC bonds to reduce the cash flow drain on the City. These understandings are contained in letters to MAC from the major New York banks (TAB ).

Individual short term City noteholders (who hold \$1.6 billion) will be offered a long term (10-15 year) MAC bond, carrying an 8-<sup>a</sup>/<sub>β</sub> percent interest rate. Holders who do not accept the exchange will be subject, pursuant to new legislation the Governor is introducing, to a 3 year moratorium on their right to enforce the terms of notes: that is, their



ability to collect principal and interest at maturity. This moratorium approach is modeled on the anti-mortgage foreclosure legislation used by New York and other States during the depression.

City employee pension funds have agreed to contribute \$2.5 billion of additional funds through FY 1978. This commitment, as well as the <sup>N</sup>commitment to restructure existing holdings, is reflected in a letter to MAC signed by the heads of the Teachers, Municipal Employee, and Sanitationmen's unions. While these leaders cannot force the pension funds to act, their influence is evidenced by Shanker's delivery of the Teachers' fund to avoid default on October 17.

There are two additional aspects of the City portion of the plan. The Governor's legislation will include new City taxes of \$200 million and changes in certain pension fund arrangements relieving the City of an \$85 million contribution obligation.

#### B. New York State

The key aspect of the State plan is new state taxes to eliminate the \$700 million deficit estimated for the fiscal year ending March 31, 1976. At our meeting, Governor Carey was not specific as to what types of tax measures <sup>s</sup> might be taken. Moreover -- and perhaps more importantly -- Senate Majority Leader Anderson refused to accept the \$700 million <sup>figure</sup> and was extremely vague as to whether he would support new taxes as opposed to expenditure



cuts. The problem with the expenditure cut approach over the short term is that it easily lends itself to gimmickry, such as merely deferring certain outlays into the following fiscal year.

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

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

### C. State Agencies

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



Evaluation of Plan

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

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

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

Timetable

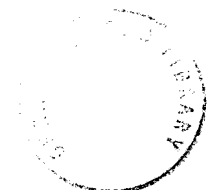
We were asked for an answer by Monday. The view was expressed that the Legislature will not act unless it has a clear signal from Washington. As a practical matter, this is probably not correct. ~~If we indicate that we cannot make a decision until we see the Legislation in its final~~



However, as a practical matter time is of the essence:

(1) The U.S. Congress, which must act on this matter is planning to recess November 21.

(2) The restructuring of the short-term debt must be accomplished by December 10. Because of the complexity of the restructuring arrangement, at least two weeks will be required for this to take place.





Options

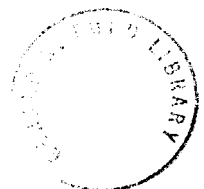
- Option 1. To turn down the requests for predefault federal assistance and recommend that ~~federal~~ <sup>state or local</sup> actions be taken at the state or local level.
- Option 2. Agree to support legislation authorizing federal assistance to meet seasonal borrowing needs on the following conditions:
- (a) That it is limited to \$1.5 billion and with broad authority to revoke assistance if state and city action is not adequate,
  - (b) That the Governor of New York provides us with written assurance that no further requests for assistance for the City, State, or for any of its agencies will be forthcoming, and
  - (c) That the substance of such a letter be embodied in a resolution of the state legislature.

These are the two basic options available to you. It is, of course, a matter of timing which provides you with several



additional alternatives:

- (a) Indicate that you will consider federal assistance as described above only after the State Legislature has acted,
- (b) That you are not considering any form of assistance until the Legislature has acted, and
- (c) If Legislature acts in a manner described in the plan, you will provide assistance as described above.



[11-6-75] NYC

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



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



November 7, 1975

MEMORANDUM FOR: JACK MARSH  
FROM: MAX FRIEDERSDORF

With regard to the Mansfield request for a meeting next week with the President on New York City, this has been approved for 8:30 A.M. on Monday, November 10.

In addition to Mansfield, the invitees will include Senators Muskie, Proxmire, Robert Byrd, and Stevenson.

I have asked Bill Seidman and Alan Greenspan to attend and Bill will do the President's briefing paper.

The New York City thing is rapidly building to a climax. We have a bill reported by the House Banking and Currency Committee; by the House Judiciary Subcommittee; Joe Waggoner wants to see the President next week on New York City, and a Presidential letter from Lud Ashley was received here last night.

cc: Bill Seidman  
Alan Greenspan

*all 5 Senators  
have accepted*

*per Nancy Kennedy  
© 12:10 P.M. 11-7-75*



THE WHITE HOUSE

WASHINGTON

November 7, 1975

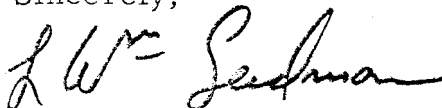
Dear Governor Carey:

The President has asked me to thank you for your thoughtful letter of November 4 and for personally advising him of the request for consideration of a 90-day extension of credit to the President of the Federal Reserve Bank of New York.

As you know, the Federal Reserve Board is an independent body and the Administration does not participate in or direct its decisions.

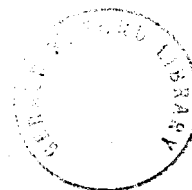
I will continue to keep in contact with you regarding developments and appreciate your thoughtfulness in keeping us fully advised.

Sincerely,



L. William Seidman  
Assistant to the President  
for Economic Affairs

Honorable Hugh L. Carey  
Governor of New York  
Albany, New York 12224





STATE OF NEW YORK  
EXECUTIVE CHAMBER  
ALBANY 12224

HUGH L. CAREY  
GOVERNOR

November 4, 1975

Dear Mr. President:

I have today sent the attached letter and supporting materials to the President of the Federal Reserve Bank of New York. On behalf of the people of the State of New York, I am requesting that the Federal Reserve consider emergency credit assistance for four agencies of the state that face imminent default on their obligations. I wish to stress to you that these agencies have nothing to do with the fiscal crisis facing New York City. Each of them has an enviable record of financial soundness and prudent management. Each of them for years have been relied upon by the citizens of New York to provide housing, health and environmental facilities essential to the state's well being. Yet these agencies, the models for similar agencies in over 30 other states, now find themselves precluded from the investment market --- a condition that has only been severely aggravated since your recent speech calling for the bankruptcy of New York City.

Should these agencies default, which certainly will occur in the absence of Federal assistance, hundreds of projects involving \$2.5 billion in construction funds will be stopped prior to completion and thousands of workers will be thrown into the unemployment rolls. These projects include hospitals and other health facilities, schools, and housing.

The general credit of the State will not only be placed in jeopardy but, in my opinion, could be critically impaired for many years to come.

Again, all of this does not have to occur. While these agencies have no direct relationship with the New York City problem, unfortunately the investment community views the problem as one and the same. This will continue as long as the Administration remains passive in the face of the New York City crisis.





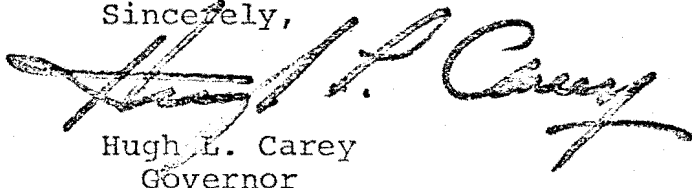
In effect, the contagion of New York City has now spread to agencies of New York State.

In addition, your many statements on this subject continue to assert that the State of New York has sufficient resources to meet the collapse of the city. I would only remind you once more of what your own financial experts know -- the State of New York has its own budget deficit of \$700 million, and is in no position to sustain the city's needs or meet the borrowing needs of these state agencies.

I sense, Mr. President, as do many others across the country that we are at an economic crossroads unparalleled since those final moments in the darkest Depression. Whatever points you thought necessary to make about the past mistakes of New York City have been made. For our part, we have labored long and hard over the past ten months of my administration to right those wrongs. Now, despite all those efforts, we see the rapid spread of financial confusion and distrust from the city to the State, and potentially to other states as well.

It is not inappropriate, indeed it is in the tradition of our nation for us now to look for and expect positive leadership from a President and his administration.

Sincerely,

A handwritten signature in cursive script, reading "Hugh L. Carey". The signature is written in dark ink and is positioned above the printed name and title.

Hugh L. Carey  
Governor

The Honorable Gerald R. Ford  
President of the United States  
The White House  
Washington, D.C.





STATE OF NEW YORK  
EXECUTIVE CHAMBER  
ALBANY 12224

HUGH L. CAREY  
GOVERNOR

November 4, 1975

Dear Mr. Volcker:

Pursuant to my responsibilities as Governor of the State of New York, I herewith submit a preliminary application and request for consideration of a 90-day extension of credit, with the option of renewal for an additional 90 days, in the amount of \$576 million pursuant to Section 13 of the Federal Reserve Act (12USC 343). The proceeds of this loan would be applied to meet the immediate needs of the following public benefit corporations which are authorized by statute to operate within New York State:

- Housing Finance Agency
- Medical Care Facilities Financing Agency
- Dormitory Authority
- Environmental Facilities Corporation

Events in recent months and weeks have disrupted the capital markets, closing them to the issues of several agencies which have traditionally enjoyed high ratings and a reputation for prudent and conservative management. New York State and the Federal government, to the extent of their capacity, have an obligation to help contain this crisis and to insure that agencies with sound credit are not destroyed.

The President indicated in his address to the nation last Wednesday that discerning investors would distinguish between sound credits and weak ones, and that the market had already largely discounted the potential insolvency of New York City. Yet, as of this moment, the capital markets are closed to four New York State authorities. Indeed, the prospects of securing financing for these seasoned agencies are considerably dimmer, not brighter, following the President's speech.



Now more than at any other time, I believe, since creation of the Federal Reserve System, the essentials of one of its crucial national purposes are sharply defined by the demands of the current crisis: to provide credit on an emergency basis to sound agencies which find traditional sources of investment temporarily closed to them.

In support of this application, enclosed is a series of analyses prepared by my office which explain the circumstances giving rise to this preliminary application.

I have discussed this request with the Lieutenant Governor, the State Comptroller, the Speaker and Minority Leader of the State Assembly, and the Majority and Minority Leaders of the State Senate, and can report they endorse the course of action proposed in this letter.

I have asked the legislative leaders to stand in readiness to convene a legislative session the week of November 10th. As you know, staff representatives of my office and the legislative leaders have been meeting with financial institutions to discuss steps that have been proposed to strengthen the viability of the State agencies; the legislative session would provide a timely opportunity for State action in support of the State agencies in connection with any definitive action regarding an extension of credit. It is my hope that this letter can lead to early discussion with you of the alternatives open to us and agreement on a common framework for action.

For a complete analysis and explanation of the public purpose to be financed under the proposed loan, and to supply further information, State Budget Director Peter C. Goldmark, Jr. and the directors of the four public authorities involved are prepared to answer any request you may have.

Sincerely,

/s/ Hugh L. Carey

Mr. Paul Volcker  
President, Federal Reserve  
Bank of New York  
33 Liberty Street  
New York, New York

Enclosure



---

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER , 1975

Mr. RODINO (for himself, Mr. EDWARDS of California, Mr. SEIBERLING, Mr. DRINAN, Mr. BADILLO, and Mr. DODD) introduced the following bill; which was referred to the Committee on -----

---

**A BILL**

To revise chapter IX of the Bankruptcy Act.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*  
3 That chapter IX of the Bankruptcy Act is amended to read  
4 as follows:

5 "CHAPTER IX

6 "ADJUSTMENT OF DEBTS OF POLITICAL SUBDIVISIONS AND  
7 PUBLIC AGENCIES AND INSTRUMENTALITIES

8 "SEC. 81. CHAPTER IX DEFINITIONS.—As used in  
9 this chapter the term—  
10 " (1) 'claim' includes all claims of whatever char-  
11 acter against the petitioner or the property of the peti-



1        tioner, whether or not such claims are provable under  
2        section 63 of this Act and whether secured or unsecured,  
3        liquidated or unliquidated, fixed or contingent;

4        “(2) ‘court’ means court of bankruptcy in which  
5        the case is pending, or a judge of such court;

6        “(3) ‘creditor’ means holder (including the United  
7        States, a State, or subdivision of a State) of a claim  
8        against the petitioner;

9        “(4) ‘claim affected by the plan’ means claim as  
10       to which the rights of its holder are proposed to be  
11       materially and adversely adjusted or modified by the  
12       plan;

13       “(5) ‘debt’ means claim allowable under section  
14       88 (a);

15       “(6) ‘petitioner’ means agency, instrumentality,  
16       or subdivision which has filed a petition under this  
17       chapter;

18       “(7) ‘plan’ means plan filed under section 90;

19       “(8) ‘special tax payer’ means record owner or  
20       holder of title, legal or equitable, to real estate against  
21       which has been levied a special assessment or special  
22       tax the proceeds of which are the sole source of pay-  
23       ment for obligations issued by the petitioner to defray  
24       the costs of local improvements; and

25       “(9) ‘special tax payer affected by the plan’ means



1 a special tax payer with respect to whose real estate the  
2 plan proposes to increase the proportion of special assess-  
3 ments or special taxes referred to in paragraph (8) of  
4 this section assessed against that real estate.

5 "SEC. 82. JURISDICTION AND POWERS OF COURT.—

6 "(a) JURISDICTION.—The court in which a petition is  
7 filed under this chapter shall exercise exclusive original ju-  
8 risdiction for the adjustment of the petitioner's debts, and for  
9 the purposes of this chapter, shall have exclusive jurisdiction  
10 of the petitioner and its property, wherever located.

11 "(b) POWERS.—After the filing of a petition under this  
12 chapter the court may—

13 "(1) permit the petitioner to reject executory con-  
14 tracts and unexpired leases of the petitioner, after hearing  
15 on notice to the parties to such contracts, and to such  
16 other parties in interest as the court may designate;

17 "(2) during the pendency of a case under this  
18 chapter, or after the confirmation of the plan if the  
19 court has retained jurisdiction under section 96(e), after  
20 hearing on such notice as the court may prescribe and for  
21 cause shown, permit the issuance of certificates of in-  
22 debtedness for such consideration as is approved by the  
23 court, upon such terms and conditions, and with such  
24 security and priority in payment over existing obliga-



1 tions, secured or unsecured, as in the particular case may  
2 be equitable; and

3 “(3) exercise such other powers as are not incon-  
4 sistent with the provisions of this chapter.

5 “(c) LIMITATION.—Unless the petitioner consents or  
6 the plan so provides, the court shall not, by any order or de-  
7 cree, in the case or otherwise, interfere with—

8 “(1) any of the political or governmental powers  
9 of the petitioner;

10 “(2) any of the property or revenues of the peti-  
11 tioner; or

12 “(3) any income-producing property.

13 “SEC. 83. RESERVATION OF STATE POWER TO CON-  
14 TROL GOVERNMENTAL FUNCTIONS OF POLITICAL SUB-  
15 DIVISIONS.—Nothing contained in this chapter shall be con-  
16 strued to limit or impair the power of any State to control,  
17 by legislation or otherwise, any municipality or any politi-  
18 cal subdivision of or in such State in the exercise of its politi-  
19 cal or governmental powers, including expenditures therefor:  
20 *Provided, however,* That no State law prescribing a method  
21 of composition of indebtedness of such agencies shall be bind-  
22 ing upon any creditor who does not consent to such composi-  
23 tion, and no judgment shall be entered under such State law  
24 which would bind a creditor to such composition without his  
25 consent.



1 "SEC. 84. ELIGIBILITY FOR RELIEF.—Any State's  
2 political subdivision or public agency or instrumentality  
3 which is not prohibited by State law from filing a petition  
4 under this chapter is eligible for relief under this chapter  
5 if it is insolvent or unable to meet its debts as they mature,  
6 and desires to effect a plan to adjust its debts.

7 "SEC. 85. PETITION AND PROCEEDINGS RELATING  
8 TO PETITION.—

9 "(a) PETITION.—An entity eligible under section 84  
10 may file a petition for relief under this chapter. In the case  
11 of an unincorporated tax or special assessment district having  
12 no officials of its own, the petition may be filed by its govern-  
13 ing authority or the board or body having authority to levy  
14 taxes or assessments to meet the obligations of the district.  
15 Any party in interest may file a complaint with the court,  
16 not later than 15 days after the mailing of notice required  
17 by subsection (d) is completed, objecting to the filing of  
18 the petition. The court shall, <sup>to</sup> (or) the extent practicable, hear *tr*  
19 and determine all such complaints in a single proceeding.

20 "(b) LIST.—The petitioner shall file with the court a  
21 list of the petitioner's creditors, insofar as practicable. If an  
22 identification of any of the petitioner's creditors is imprac-  
23 ticable, the petitioner shall state in the petition the reasons  
24 such identification is impracticable. If the list is not filed with  
25 the petition, the petitioner shall file the list at such later





1 time as the court, upon its own motion or upon application  
2 of the petitioner, prescribes.

3 “(c) VENUE AND FEES.—The petition and any accom-  
4 panying papers, together with a filing fee of \$100, shall be  
5 filed with a court in a district in which the petitioner is  
6 located.

7 “(d) NOTICE.—The court shall give notice of the filing  
8 or dismissal of the petition to the State in which the peti-  
9 tioner is located, to the Securities and Exchange Commission,  
10 and to creditors. The notice shall also state that a creditor  
11 who files with the court a request, setting forth that creditor’s  
12 name and address and the nature and amount of that credi-  
13 tor’s claim, shall be given notice of any other matter in which  
14 that creditor has a direct and substantial interest. The notice  
15 required by the first sentence of this subsection shall be pub-  
16 lished at least once a week for three successive weeks in at  
17 least one newspaper of general circulation published within  
18 the jurisdiction of the court, and in such other papers having  
19 a general circulation among bond dealers and bondholders  
20 as may be designated by the court. The court may require  
21 that it be published in such other publication as the court may  
22 deem proper. The court shall require that a copy of the  
23 notice required by the first sentence of this subsection be  
24 mailed, postage prepaid, to each creditor named in the list  
25 required by subsection (b) at the address of such creditor



1 given in the list, or, if no address is given in the list for any  
2 creditor and the address of such creditor cannot with reason-  
3 able diligence be ascertained, then a copy of the notice may,  
4 if the court so determines, be mailed, postage prepaid, to  
5 such creditor addressed as the court may prescribe.  
6 All expense of giving notice required by this subsection  
7 shall be paid by the petitioner, unless the court for good  
8 cause determines that the cost of notice in a particular in-  
9 stance should be borne by another party. The notice shall be  
10 first published, and the mailing of copies of the notice shall be  
11 completed, as soon as practicable after the filing of the  
12 list required by subsection (b).

13 “(e) STAY OF ENFORCEMENT OF CLAIMS AGAINST  
14 PETITIONER.—

15 “(1) EFFECT OF FILING A PETITION.—A petition  
16 filed under this chapter shall operate as a stay of the  
17 commencement or the continuation of a judicial or  
18 other proceeding against the petitioner, its property, or  
19 an officer or inhabitant of the petitioner, which seeks  
20 to enforce any claim against the petitioner, or of an act  
21 or the commencement or continuation of a judicial or  
22 other proceeding which seeks to enforce a lien upon  
23 the property of the petitioner, and shall operate as a stay  
24 of the enforcement of any set-off or counterclaim relating  
25 to a contract, debt, or obligation of the petitioner.



1           “(2) DURATION OF AUTOMATIC STAY.—Except  
2 as it may be terminated, annulled, modified, or condi-  
3 tioned by the court under the terms of this section, the  
4 stay provided for ~~herein~~ *IN THIS SUBSECTION* shall continue until the case  
5 is closed or dismissed, or the property subject to the lien  
6 is, with the approval of the court, abandoned or trans-  
7 ferred.

8           “(3) RELIEF FROM AUTOMATIC STAY.—Upon the  
9 filing of a complaint seeking relief from a stay provided  
10 for by this section, the court may, for cause shown, ter-  
11 minate, annul, modify, or condition such stay.

12           “(4) OTHER STAYS.—The commencement or con-  
13 tinuation of any other act or proceeding may be stayed,  
14 restrained, or enjoined by the court, upon notice to each  
15 person and entity against whom such order would apply,  
16 and for cause shown. The petitioner shall not be required  
17 to give security as a condition ~~to~~ <sup>of</sup> an order under this  
18 paragraph.

19           “(f) UNENFORCEABILITY OF CERTAIN CONTRACTUAL  
20 PROVISIONS.—A provision in a contract or lease, or in any  
21 law applicable to such a contract or lease, which terminates  
22 or modifies, or permits a party other than the petitioner to  
23 terminate or modify, the contract or lease because of the  
24 insolvency of the petitioner or the commencement of a case  
25 under this Act is not enforceable if any defaults in prior per-



1 formance of the petitioner are cured and adequate assurance  
2 of future performance is provided.

3 "SEC. 86. REPRESENTATION OF CREDITORS.—

4 "(a) REPRESENTATION AND DISCLOSURE.—Any credi-  
5 tor may act in person or by an attorney or a duly authorized  
6 agent or committee. Every person representing more  
7 than one creditor shall file with the court a list of the cred-  
8 itors represented by such person, giving the name and ad-  
9 dress of each such creditor, together with a statement of  
10 the amount, class, and character of the claim held by that  
11 creditor, and shall attach to the list a copy of the instrument  
12 signed by the holder of such claim showing such person's  
13 authority, and shall file with the list a copy of the contract  
14 or agreement entered into between such person and the  
15 creditors represented by that person. Such person shall dis-  
16 close all compensation to be received, directly or indirectly,  
17 by that person. That compensation shall be subject to mod-  
18 ification and approval by the court.

19 "(b) MULTIPLE COMPENSATION.—The court shall  
20 examine all of the contracts, proposals, acceptances, deposit  
21 agreements, and all other papers relating to the plan, specifi-  
22 cally for the purpose of ascertaining if any person promoting  
23 the plan, or doing anything of such a nature, has been or is  
24 to be compensated, directly or indirectly, by both the peti-



1 tioner and any of its creditors, and shall take evidence under  
2 oath to determine whether any such compensation has  
3 occurred or is to occur. After such examination the court  
4 shall make an adjudication of this issue, and if it be found  
5 that any such compensation has occurred or is to occur, the  
6 court shall dismiss the petition and tax all of the costs against  
7 the person promoting the plan or doing anything of such a  
8 nature and receiving such multiple compensation, or against  
9 the petitioner, unless such plan is modified, within the time  
10 to be allowed by the court, so as to eliminate the possibility  
11 of such compensation, in which event the court may proceed  
12 to further consideration of the confirmation of the plan.

13 "SEC. 87. REFERENCE AND JOINT ADMINISTRATION.—

14 "(a) REFERENCE.—The court may refer any special  
15 issue of fact to a referee in bankruptcy for consideration, the  
16 taking of testimony, and a report upon such special issue  
17 of fact, if the court finds that the condition of its docket is  
18 such that it cannot take such testimony without unduly de-  
19 laying the dispatch of other business pending in the court,  
20 and if it appears that such special issue is necessary to the  
21 determination of the case. A reference to a referee in bank-  
22 ruptcy shall be the exception and not the rule. The court  
23 shall not make a general reference of the case, but may  
24 only request findings of specific facts.

25 "(b) EXPENSES, ~~OR REFERENCE~~.—The court may allow



1 reasonable compensation for the actual and necessary ex-  
2 penses incurred in connection with the case, including com-  
3 pensation for services rendered and expenses incurred in  
4 obtaining the deposit of securities and the preparation of the  
5 plan, whether such work has been done by the petitioner or  
6 by a representative of creditors, and may allow reasonable  
7 compensation for an attorney or agent of any of them. No  
8 fee, compensation, reimbursement, or other allowances for an  
9 attorney, agent, or representative of creditors shall be as-  
10 sessed against the petitioner or paid from any revenues,  
11 property, or funds of the petitioner except in the manner  
12 and in such sums, if any, as may be provided for in the plan.

13 “(c) JOINT ADMINISTRATION.—If more than one peti-  
14 tion by related entities are pending in the same court, the  
15 court may order a joint administration of the cases.

16 “SEC. 88. CLAIMS.—

17 “(a) ALLOWANCE OF CLAIMS.—In the absence  
18 of an objection by a party in interest, or of a filing of a  
19 proof of claim, the claim of a creditor that is not disputed,  
20 contingent, or unliquidated, and appears in the list filed  
21 by the petitioner under section 85 (b) shall be deemed al-  
22 lowed. The court may set a date by which proofs of other  
23 claims shall be filed. If the court does not set a date,  
24 such proofs of other claims shall be filed before the  
25 entry of an order confirming the plan. Within thirty days



1 after the filing by the petitioner of the list under section  
2 85 (b), the court shall give written notice to each person  
3 and entity whose claim is listed as disputed, contingent, or  
4 unliquidated, informing each such person or entity that a  
5 proof of claim must be filed with the court within the time  
6 fixed under this subsection. If there is no objection to such  
7 claim, the claim shall be deemed allowed. If there is an  
8 objection, the court shall hear and determine the objection.

9       “(b) CLASSIFICATION OF CREDITORS.—The court shall  
10 designate classes of creditors whose claims are of substantially  
11 similar character and the members of which enjoy sub-  
12 stantially similar rights, consistent with the provisions of  
13 section 89, except that the court may create a separate class  
14 of creditors having unsecured claims of less than \$100 for  
15 reasons of administrative convenience.

16       “(c) DAMAGES UPON REJECTION OF EXECUTORY CON-  
17 TRACTS.—If an executory contract or an unexpired lease  
18 is rejected under a plan or under section 82 (b), any per-  
19 son injured by such rejection may assert a claim against the  
20 petitioner. The rejection of an executory contract or unex-  
21 pired lease constitutes a breach of the contract or lease as  
22 of the date of the commencement of the case under this  
23 chapter. The claim of a landlord for injury resulting from  
24 the rejection of an unexpired lease of real estate or for  
25 damages or indemnity under a covenant contained in such



1 lease shall be allowed, but shall be limited to an amount not  
2 to exceed the rent, without acceleration, reserved by such  
3 lease for the year next succeeding the date of the sur-  
4 render of the premises to the landlord or the date of reentry  
5 of the landlord, whichever first occurs, whether before or  
6 after the filing of the petition, plus unpaid accrued rent, with-  
7 out acceleration, up to the date of such surrender or reentry.  
8 The court shall scrutinize the circumstances of an assign-  
9 ment of a future rent claim and the amount of the considera-  
10 tion paid for such assignment in determining the amount of  
11 damages allowed the assignee of that claim.

12 "SEC. 89. PRIORITIES.—The following shall be paid  
13 in full in advance of the payment of any distribution to  
14 creditors under a plan, in the following order:

15 " (1) The costs and expenses of administration  
16 which are incurred subsequent to the filing of a petition  
17 under this chapter.

18 " (2) Debts or consideration owed for services or  
19 materials actually provided within four months before  
20 the date of the filing of the petition under this chapter.

21 " (3) Debts owing to any person or entity, which  
22 by the laws of the United States (other than this Act)  
23 are entitled to priority.

24 "SEC. 90. FILING AND TRANSMISSION OF PLAN AND  
25 MODIFICATIONS.—

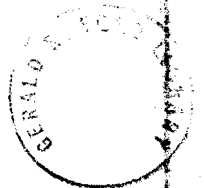




1       “(a) FILING.—The petitioner shall file a plan for the  
2 adjustment of the petitioner’s debts. If such plan is not filed  
3 with the petition, the petitioner shall file the plan at such  
4 later time as the court, upon its own motion or upon applica-  
5 tion of the petitioner, prescribes. At any time prior to the  
6 confirmation of a plan, the petitioner may file a modification  
7 of the plan.

8       “(b) TRANSMISSION OF PLAN AND MODIFICATIONS.—  
9 As soon as practicable after the plan or any modification of  
10 the plan has been filed, the court shall fix a time within  
11 which creditors may accept or reject the plan and any  
12 modification of the plan, and shall transmit by mail a copy  
13 of such plan or modification, or a summary and any analysis  
14 of such plan or modification, a notice of the time or times  
15 within which the plan or modification may be accepted or  
16 rejected, and a notice of the right to receive a copy, if it  
17 has not been sent, of such plan or modification, to each of  
18 the creditors, to each of the special tax payers affected by  
19 the plan, and to each such other party in interest as the  
20 court may designate. Upon request by a recipient of such  
21 summary and notice, the court shall transmit by mail a copy  
22 of the plan or modification to that recipient.

23       “SEC. 91. PROVISIONS OF PLAN.—A petitioner’s plan  
24 may include provisions modifying or altering the rights of  
25 creditors generally, or of any class of them, secured or un-



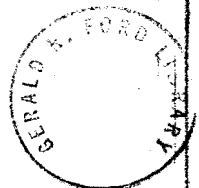
1 secured, either through issuance of new securities of any  
2 character, or otherwise, and may contain such other provi-  
3 sions and agreements not inconsistent with this chapter as  
4 the parties may desire, including provisions for the rejection  
5 of any executory contract or unexpired lease.

6 "SEC. 92. ACCEPTANCE.—

7 "(a) WHO MAY ACCEPT OR REJECT.—Unless a claim  
8 has been disallowed or is not materially and adversely  
9 affected, any creditor included on the list filed under sec-  
10 tion 85 (b) or who files a proof of claim and whose claim is  
11 not then disputed, contingent, or unliquidated as to amount,  
12 and any security holder of record as of the date of the trans-  
13 mittal of information under section 90 (b), may accept or  
14 reject the plan and any modification of the plan within the  
15 time fixed by the court. Notwithstanding an objection to a  
16 claim, the court may temporarily allow such claim in such  
17 amount as the court deems proper for the purpose of accept-  
18 ance or rejection under this section.

19 "(b) GENERAL RULE.—Except as otherwise provided  
20 in this section, the plan may be confirmed only if it has  
21 been accepted in writing by or on behalf of creditors hold-  
22 ing at least two-thirds in amount of the claims of each class.

23 "(c) COMPUTING ACCEPTANCE.—The two-thirds ma-  
24 jority required by subsection (b) is two-thirds in amount  
25 of the claims of creditors who file an acceptance or rejection



1 within the time fixed by the court, but not including claims  
2 held, or controlled by the petitioner, or claims of creditors  
3 specified in subsection (d).

4 “(d) EXCEPTION.—It is not requisite to the confirma-  
5 tion of the plan that there be such acceptance by any creditor  
6 or class of creditors—

7 “(1) whose claims are not affected by the plan;

8 “(2) if the plan makes provision for the payment  
9 of their claims in cash in full; or

10 “(3) if provision is made in the plan for the pro-  
11 tection of the interests, claims, or lien of such creditor  
12 or class of creditors.

13 “(e) ACCEPTANCE OF MODIFICATION.—If the court  
14 finds that a proposed modification does not materially and  
15 adversely affect the interest of a creditor, the modification  
16 shall be deemed accepted by that creditor if that creditor  
17 has previously accepted the plan. If the court determines that  
18 a modification does materially and adversely affect the inter-  
19 est of a creditor, that creditor, if entitled to accept or reject  
20 the plan, shall be given notice of the proposed modification  
21 and the time allowed for its acceptance or rejection. The  
22 number of acceptances of the plan as modified required by  
23 subsection (b) shall be obtained. The plan as modified shall  
24 be deemed to have been accepted by any creditor who  
25 accepted the plan and who fails to file a written rejection of



1 the modification with the court within such reasonable time  
2 as shall be allowed in the notice to that creditor of the pro-  
3 posed modification.

4 "SEC. 93. OBJECTION TO PLAN.—A creditor affected by  
5 the plan or a special tax payer affected by the plan may file a  
6 complaint with the court objecting to the confirmation of the  
7 plan. The Securities and Exchange Commission may also file  
8 a complaint with the court objecting to the confirmation of  
9 the plan, but in the case of a complaint filed under this sec-  
10 tion, the Securities and Exchange Commission may not  
11 appeal or file any petition for appeal. A complaint objecting  
12 to the confirmation of the plan may be filed with the court  
13 any time prior to ten days before the hearing on the con-  
14 firmation of the plan, or within such other time as prescribed  
15 by the court.

16 "SEC. 94. CONFIRMATION—

17 "(a) HEARING ON CONFIRMATION.—Within a reason-  
18 able time after the expiration of the time set by the court  
19 within which a plan and any modifications of the plan may  
20 be accepted or rejected, the court shall hold a hearing on the  
21 confirmation of the plan and any modifications of the plan.  
22 The court shall give notice of the hearing and of the time  
23 allowed for filing objections to all parties entitled to object  
24 under section 93.



1       “(b) CONDITIONS FOR CONFIRMATION.—The court  
2 shall confirm the plan if satisfied that—

3               “(1) the plan is fair and equitable and feasible  
4 and does not discriminate unfairly in favor of any  
5 creditor or class of creditors;

6               “(2) the plan complies with the provisions of this  
7 chapter;

8               “(3) all amounts to be paid by the petitioner  
9 or by any person for services and expenses in the case  
10 or incident to the plan have been fully disclosed and  
11 are reasonable;

12               “(4) the offer of the plan and its acceptance are  
13 in good faith; and

14               “(5) the petitioner is not prohibited by law from  
15 taking any action necessary to be taken by it to carry  
16 out the plan.

17       “SEC. 95. EFFECT OF CONFIRMATION.—

18       “(a) PROVISIONS OF PLAN BINDING.—The provisions  
19 of a confirmed plan shall be binding on the petitioner and  
20 on all creditors who had timely notice or actual knowledge  
21 of the petition or plan, whether or not their claims have been  
22 allowed under section 88, and whether or not they have  
23 accepted the plan.

24       “(b) DISCHARGE.—

25       “(1) The petitioner is discharged from all claims against



1 it provided for in the plan except as provided in paragraph  
2 (2) of this subsection as of the time when—

3 “(A) the plan has been confirmed;

4 “(B) the petitioner has deposited the consideration  
5 to be distributed under the plan with a disbursing agent  
6 appointed by the court; and

7 “(C) the court has determined—

8 “(i) that any security so deposited will con-  
9 stitute upon distribution a valid legal obligation of  
10 the petitioner; and

11 “(ii) that any provision made to pay or secure  
12 payment of such obligation is valid.

13 “(2) The petitioner is not discharged under paragraph  
14 (1) of this subsection from any claim—

15 “(A) excepted from discharge by the plan or order  
16 confirming the plan; or

17 “(B) whose holder, prior to confirmation, had  
18 neither timely notice nor actual knowledge of the peti-  
19 tion or plan.

20 “SEC. 96. POSTCONFIRMATION MATTERS.—

21 “(a) TIME ALLOWED FOR DEPOSIT UNDER THE PLAN.—

22\* Prior to or promptly after confirmation of the plan, the court  
23 shall fix a time within which the petitioner shall deposit with  
24 the disbursing agent appointed by the court any consideration  
25 to be distributed under the plan.



1       “(b) DUTIES OF PETITIONER.—The petitioner shall  
2 comply with the plan and the orders of the court relative to  
3 the plan, and shall take all actions necessary to carry out the  
4 plan.

5       “(c) DISTRIBUTION.—Distribution shall be made in  
6 accordance with the provisions of the plan to creditors whose  
7 claims have been allowed under section 88. Distribution  
8 may be made at the date the order confirming the plan be-  
9 comes final to holders of securities of record whose claims  
10 have not been disallowed.

11       “(d) COMPLIANCE DATE.—When a plan requires pre-  
12 sentment or surrender of securities or the performance of  
13 any other action as a condition to participation under the  
14 plan, such action shall be taken not later than five years after  
15 the entry of the order of confirmation. A person who has  
16 not within such time presented or surrendered that person’s  
17 securities or taken such other action required by the plan  
18 shall not participate in any distribution under the plan, and  
19 the consideration deposited with the disbursing agent for  
20 distribution to such person shall become the property of the  
21 petitioner.

22       “(e) CONTINUING JURISDICTION.—The court may re-  
23 tain jurisdiction over the case for such period of time as the  
24 court determines is necessary for the successful execution of  
25 the plan.

26       “(f) ORDER OR DECREE AS EVIDENCE AND NOTICE.—



1 A certified copy of any order or decree entered by the court  
2 in a case under this chapter shall be evidence of the jurisdic-  
3 tion of the court, the regularity of the proceedings, and the  
4 fact that the order was made. A certified copy of an order  
5 providing for the transfer of any property dealt with by the  
6 plan shall be evidence of the transfer of title accordingly,  
7 and, if recorded as conveyances are recorded, shall impart  
8 the same notice that a deed, if recorded, would impart.

9 "SEC. 97. EFFECT OF EXCHANGE OF DEBT SECURITIES  
10 BEFORE DATE OF THE PETITION.—The exchange of new  
11 debt securities under the plan for claims covered by the plan,  
12 whether the exchange occurred before or after the date of the  
13 petition, does not limit or impair the effectiveness of the  
14 plan or of any provision of this chapter. The written consents  
15 of the holders of any securities outstanding as the result of  
16 any such exchange under the plan shall be included as  
17 acceptances of such plan in computing the acceptance re-  
18 quired under section 92."

19 "SEC. 98. DISMISSAL.—The court may dismiss the  
20 case after hearing on notice—

21 " (1) for want of prosecution;

22 " (2) if no plan is proposed within the time fixed  
23 or extended by the court;

24 " (3) if no proposed plan is accepted within the  
25 time fixed or extended by the court;





1           “(4) if confirmation is refused and no further time  
2 is granted for the proposal of other plans; or

3           “(5) where the court has retained jurisdiction after  
4 confirmation of a plan—

5                 “(A) if the debtor defaults in any of the terms  
6 of the plan; or

7                 “(B) if a plan terminates by reason of the  
8 happening of a condition specified therein.

9           “SEC. 99. SEPARABILITY.—If any provision of this  
10 chapter or the application thereof to any agency, instrumen-  
11 tality, or subdivision is held invalid, the remainder of the  
12 chapter, or the application of such provision to any other  
13 agency or instrumentality or political subdivision shall not  
14 be affected by such holding.”.



94TH CONGRESS  
1ST SESSION

**H. R.**

---

---

**A BILL**

To revise chapter IX of the Bankruptcy Act.

---

---

By Mr. RODINO and Mr. EDWARDS of California

---

---

NOVEMBER , 1975

Referred to the Committee on -----





OFFICE OF MANAGEMENT AND BUDGET

Nov. 8

TO : Roger Porter

FROM: Calvin J. Collier  
Associate Director for  
Economics and Government

Each week the Administration produces a paper with brief statements of position on legislation scheduled to come before either House of Congress. The statements are made available to House and Senate Republican leadership.

Attached is a proposed position on the House version of the New York City guarantee legislation. Treasury (Gerard) drafted it. Please have it cleared for me.

Thanks.



*as*  
*But hold*  
*till after monday*  
*morning meeting*  
*JCS*

Little Simmons

NYC

Congressional Relations

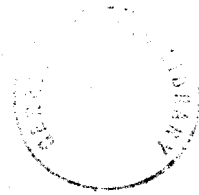
Mr. Collier may we have a position on the following bill by COB 11/6/75:  
The Rules Committee of the House is meeting Friday at 10:30 a.m.

HR 10481 - To authorize emergency guarantee of obligations of states and political subdivisions thereof, to amend the Internal Revenue Code of 54, to provide that increase from certain obligations guaranteed by the US should be subject to taxation, to amend bankruptcy Act and other purposes.

Administration position. The Administration opposes enactment. The Administration does not feel that Federal assistance should be provided to prevent a default by New York City. There appears to be no legitimate reason for American taxpayers to underwrite past deficits of that city. To do so would weaken restraints on government spending at the state and local level. It would also have an adverse effect on all costs of government borrowing.

11/13: LWS concurred and we responded to Cal

**SPECIAL  
SERVICE**



2/20  
NOV 12 1975

# Burns Expresses Concern Over City's Fiscal State

NY

By MARTIN TOLCHIN  
Special to The New York Times

WASHINGTON, Feb. 11—Arthur F. Burns, chairman of the Federal Reserve Board, expressed concern today over New York City's fiscal situation, in contrast to the optimism expressed last week by Treasury Secretary William E. Simon.

"I wish it were going better," Dr. Burns said at a luncheon meeting of New York Times reporters and editors. "It appears that they're not within their financial guidelines, and people who follow it closely are seriously concerned."

Last week, Secretary Simon expressed general satisfaction with the city's finances, said that there was a "reasonable prospect" that the city would repay its loan, and added that deficiencies alleged in a report made by Arthur Anderson & Company "appear to be based on the erroneous assumption that the three-year plan is immutable."

### Repayment Due in June

But Dr. Burns said today that "I don't know if they'll be able to make it."

He declined to comment, however, on what the Federal reaction would be of the city failed to repay its loans. Repayment is due in June, and is required by law before additional funds can be extended.

Dr. Burns's concern echoed that of Senator William Proxmire, Democrat of Wisconsin and chairman of the Senate Banking Committee, who said last week that he was "concerned that this would be a very tough obligation for New York City to meet."

"Their revenue has declined," Senator Proxmire said, "they're

having difficulty meeting expenses, they've had to make sharp reductions and they might lose businesses and their tax base."

Dr. Burns was asked if he believed that there was merit in Senator Proxmire's contention that the new taxes imposed by the Legislature may prove counter-productive because they could drive out business and industry and weaken the city's tax base.

"I think that there's a lot of merit to that, if you take the kind of legislation written in New York, taxes on business, taxes on banks," Dr. Burns said.

"I think they have been terribly unwise," Dr. Burns continued. If they had instead raised the sales tax, this would have been very productive," he added. "Such a tax could be absorbed without driving out business, without driving out people, without weakening their economy dangerously."

Dr. Burns, when asked what New York City would have to do to become fiscally sound, replied that "New York City will have to lead a life of austerity."

"They've made very substantial cuts," he added, "and they may have to do more of it. Look at City University, and the various things that New York tries to do."

In the long run, Dr. Burns said, New York City will survive.

"I think there's plenty of good sense left in New York and plenty of energy," Dr.

Burns said. "I think they'll work their way out of it."



NOV 1975

November 12, 1975

FOR: J. M. Dunn

THROUGH: Samuel M. Rosenblatt

FROM: Wilbur Monroe *WM*SUBJECT: International Considerations of New York City  
Financial Crisis

I met with Adolphe J. Warner of Becker Securities Corporation. Warner is Director of Research, a senior, well-seasoned analyst, and is highly regarded in the international financial area. In our discussion, the subject of New York City came up and Warner made some points that should be of interest to you. You may wish to draw on some of these points as the occasion arises.

First, the European "man in the street" is somewhat unsophisticated and less familiar with U.S. political-institutional arrangements concerning the budgeting-taxing powers between local, state and federal levels. All of these relations and arrangements are very different from those in Europe. Hence, the present difficulties and the threat of default are seen by the foreign public as casting aspersions on the soundness of New York State and even the Federal Government.

Second, one often thinks of a lack of confidence as being followed by an outflow of funds. It can also be reflected by a reduced inflow. This year, OPEC placements in the U.S. have been absolutely, and also relative to the total available surplus, substantially below 1974 levels. In this regard, Dick Debbs of the New York Fed, who was reported in the press the other day to have spoken out in concern of the New York crisis, is known to have close Arab connections and (he is himself either Arab by birth or of Arab extraction) may have been reflecting Arab unease.

Third, in Warner's view, easing of the dollar against major currencies in recent weeks does not reflect primarily (as many officials have insisted) easing U.S. interest rates. Other motivations

Bill Seidman —

FYI

This tracks w/ my own  
conversation w/ Samuel

types

Mike



such as concern about the New York crisis, may be as important if not more so. (Changes in interest rate differentials have not in fact been so great between the U. S. instruments and those in other key centers.)

Fourth, the 1974 experience with the German Herstatt bank failure, and Franklin National Bank as well, had great impact on foreign exchange markets for months afterward. Comparison of a New York City default to Herstatt may be too low key because of great uncertainty over larger political and financial considerations as to just what a default would entail.

Fifth (and this point is made in the November 12 New York Times article dealing with Paul Volcker's concern on the subject), to superimpose a financial crisis on the U. S. economy at a time when we are emerging from a long recession could abort recovery. Corporate and general liquidity are easing but new investment in plant and equipment and increases in employment naturally lag behind final demand in the recovery phase and are at a very delicate stage. The international ramifications of even a pause in U. S. recovery would be substantial in view of the psychological importance being given to our economic performance.



RESPONSE TO THE MAC PLAN FOR NEW YORK CITY

OPTIONS

Option 1

Reaffirm the position outlined in your National Press Club speech: "I am prepared to veto any bill that has as its purpose a Federal bailout of New York City to prevent a default. I am fundamentally opposed to this so-called solution, and I will tell you why. Basically, it is a mirage. By giving a Federal guarantee we would be reducing rather than increasing the prospects that the City's budget will ever be balanced. New York City's officials have proved in the past that they will not face up to the City's massive network of pressure groups as long as any other alternative is available. If they can scare the whole country into providing that alternative now, why shouldn't they be confident they can scare us again into providing it three years from now? In short, it encourages the continuation of 'politics as usual' in New York -- which is precisely not the way to solve the problem.

Indicate that there will be no pre-default Federal assistance.

Option 2

Indicate that you believe that the plan is on the "right track" and request that the plan be finalized and be signed by all the interested New York parties, without providing any indication of what Federal action, if any, might be taken.

Option 3

Same as Option 2 but indicate that the plan, if implemented, would not involve a Federal bailout and would have the effect of a default in that it would require a restructuring of the City's obligations. Under these circumstances, the Federal government could consider providing short-term assistance for essential services and/or seasonal financing only.

Option 4

Indicate that you believe that the plan is on the "right track" and that the seasonal financing requirements of the plan should be financed through private banks and investigate the possibility of assuring that such private financing will be available.





Option 5

Indicate that you believe that the plan is on the "right track" and that you are requesting Secretary Simon to work with New York State and City officials to assure that the plan is implemented. Secretary Simon's instructions would be to assure that any Federal participation does not constitute a Federal bail-out.

Option 6

State that the plan in its present form is inadequate and request that the New York officials make changes to require further commitments of revenue increases or expenditure reductions.

Option 7

Make no public response to the New York plan.

11/12/75



11/12/75

OPTIONS WITH RESPECT TO THE PRESENTATION  
OF THE MAC PLAN FOR NEW YORK CITY RECEIVED YESTERDAY

Option 1

Reaffirm the position outlined in your National Press Club speech and indicate that under no circumstances will you consider Federal bailout prior to a New York City default. [Get exact language from speech]

Option 2

Request a firm plan, signed by all the interested New York parties, without providing any indication of what Federal action, if any, might be taken.

Option 3

Indicate that the MAC plan, if implemented, would have the effect of a New York City bankruptcy in terms of preventing a bailout and thus the Federal Government would consider providing assistance for: (1) essential services and (2) seasonal financing.

Option 4

Indicate that the seasonal financial requirements of the MAC plan should be financed through private banks and investigate the possibility of assuring that such private financing will be available.



Option 5

Indicate that you believe the MAC plan is on the right track and that you are requesting Secretary Simon to work with New York State and City officials to assure that the plan is implemented in such a way that it does not constitute a Federal bailout.

Option 6

Make no response.

Option 7

Request that the New York officials impose further additional taxes in order to remove the need for outside assistance to meet seasonal financing problems.



11/12/75

I am encouraged by reports that after many months of effort the officials of New York State and New York City, bankers and union representatives appear to have finally arrived at a realistic solution to the financial problems of the City of New York. The tentative plan involves major concessions and sacrifices on the part of all interested parties who have come to recognize that the solution to New York City's problems requires the marshaling of the vast financial resources of the City and State of New York -- and that they could not count on a bailout by the American taxpayer. Basically the program provides for:

- (1) New taxes to be enacted on a bipartisan basis.
- (2) Deferral of payment on debts and a reduction of interest payments.
- (3) Amendments to union contracts requiring pension contributions and fundamental changes in the pension systems.
- (4) A reduction in city operating expenditures.
- (5) Additional credit financed through the City pension funds.

Should this program be implemented, it would accomplish all of the difficult long-term adjustments which ordinarily can be accomplished only through bankruptcy proceedings.

They are on the right track. I encourage them to firm up their plans and I instruct \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_ of my staff to work with them.

