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THE WHITE HOUSE

WASHINGTON

October 17, 1975

MEMORANDUM TO: PAUL THEIS

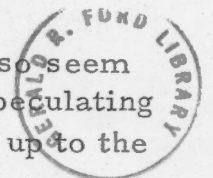
FROM: KEN LAZARUS *kl*

SUBJECT: Statement Related to New York City  
and Economic Policy

We have reviewed your draft remarks for the President on the subject noted above and offer the following:

1. p. 5, 1st para. This paragraph seeks to draw distinctions between the city and the national government, concluding that a city faces the discipline of the market place. Does this mean that a nation does not? Is this argument consistent with the theme of likening New York's situation to profligacy at the national level? There is also an inconsistency of theme in contrasting borrowing as the means whereby a city postpones reckoning while the national government prints money. In fact, both can postpone by borrowing, and isn't this the parallel we are trying to draw? There is also some confusion in linking the printing of money to higher taxes, which is the more obvious result of borrowing. In sum, the idea of printing money might best be dropped in favor of sole emphasis on borrowing; and the point should be that while this postpones reckoning for a while, it must come eventually -- both for cities and for nations.
2. pp. 5-7, beginning with the last para. on p. 5. This whole discussion is addressed to fears of the consequences of a default, but there is no clear and consistent position. At the bottom of page 6, there is a concession that no one can tell what will happen, yet the thrust of the argument is that it likely won't be too bad. The exhortation to avoid fear and panic is unpersuasive, and the quotation from FDR is demeaning.

This section should at least be shortened. It would also seem better to shift the thrust of the argument away from speculating about how bad it might be to the inevitability of facing up to the



problem sooner or later. If we don't do it now, it will be worse when we no longer can avoid it; and if we put off the problem by drawing on the credit of the nation, the ultimate reckoning could be a national, rather than a local, disaster.

#

cc: Phil Buchen ✓



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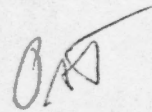
October 14, 1975

MEMORANDUM FOR:

MR. BUCHEN

FROM:

PAUL A. THEIS



Attached is a draft on the New York City fiscal liquidity problem which the President may use in forthcoming speech or as a separate statement. Could we have your comments on this by noon Thursday?

Many thanks.

Attachment



CLEARANCE FORM FOR PRESIDENTIAL SPEECH MATERIAL

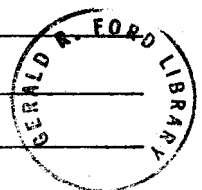
TO: THE PRESIDENT  
VIA: ROBERT HARTMANN  
FROM: PAUL A. THEIS  
SUBJECT: Statement Related to New York City and  
Economic Policy

TIME, DATE AND PLACE OF PRESIDENTIAL USE: \_\_\_\_\_

BASIC RESEARCH/SPEECH MATERIAL SUPPLIED BY: \_\_\_\_\_  
\_\_\_\_\_

CLEARED BY (Please initial):

- OPERATIONS (Rumsfeld) \_\_\_\_\_
- CONGRESSIONAL (Marsh) \_\_\_\_\_
- PRESS (Nessen) \_\_\_\_\_
- LEGAL (Buchen) \_\_\_\_\_
- ECONOMIC POLICY BOARD (Seidman) \_\_\_\_\_
- COUNCIL OF ECONOMIC ADVISERS (Greenspan) \_\_\_\_\_
- OFFICE OF MANAGEMENT AND BUDGET (Lynn) \_\_\_\_\_
- DOMESTIC COUNCIL (Cannon) \_\_\_\_\_
- NATIONAL SECURITY COUNCIL (Scowcroft) \_\_\_\_\_
- ENERGY RESOURCES COUNCIL (Zarb) \_\_\_\_\_
- OFFICE OF PUBLIC LIAISON (Baroody) \_\_\_\_\_
- RESEARCH (Waldron) \_\_\_\_\_
- MARGITA WHITE (FYI) \_\_\_\_\_
- James Falk \_\_\_\_\_
- Secretary Simon \_\_\_\_\_
- \_\_\_\_\_



(Friedman)

October 14, 1975

STATEMENT RELATED TO NEW YORK CITY AND ECONOMIC POLICY

I assign a high priority to the Government's difficult -- but essential -- duty to combat inflation while resisting pressures for greater spending.

America has reached a phase of development that challenges the philosophy of spending that has grown for more than 40 years: that government can provide ever-increasing services, whether or not there is economic growth, and without regard to our ability to pay for such services.

Federal, State and local governments are being forced by reality to re-assess their capacity to satisfy all desires. The time has come to determine what services the cities, the States and the Nation can afford and how to provide them as inexpensively and efficiently as possible.

I commend the efforts in New York City, by the Mayor, and by the Governor of the State of New York to take tough but courageous decisions to maintain the city's viability. I am delighted to see New York City moving in the self-reliant



direction of cutting its expenses to fit its income. After all, that's what you and I have to do.

New York City is facing a time of reckoning. We have reached the limits of uncontrolled spending. There is stark realization that communities must bring expenditures under control to remain solvent. If cities and states can face up to the financial facts of life, even belatedly, how long can the Congress in Washington continue deficit spending without considering the consequences?

The competitive techniques of the private sector make sense. Let us apply to Government what the free enterprise system teaches about fiscal responsibility, management, productivity, new technology, and a willingness to cut frills to maintain vital functions.



Communities -- and the Nation -- can tap the great human resources of the people -- giving new life to the spirit that built New York City and built America. We have been losing our vital sense of community as Government -- national , State and local -- treats citizens like dependent children and / <sup>does</sup> for people what responsible individuals can do for themselves. This has hastened the loss of the sense of community, the sense of involvement, the sense of individual self-respect.

I favor individual rights -- and individual responsibilities.

I favor citizen participation in revitalizing our cities. I favor local responsibility for local spending and an end to copping out to big brotherism. It's a high time to stop the never-ending cycle of passing the buck -- and spending the buck.

Just as America can mobilize its resources, talents, and self-reliant qualities, pioneering a new and better way of life, so can New York.





There are very compelling human needs involved in New York City with extremely complex decisions to be made. We are witnessing a test of New York's greatness, of New York's courage, and of New York's determination. I have confidence in New Yorkers.

I am convinced that if New York takes the essential decision to discipline its spending, and regain its viability and confidence, there will be no need for Federal intervention. If New York can re-establish its own credibility -- and I believe<sup>E</sup> it can -- the Federal Government surely has a similar duty to its taxpayers and bondholders. I want the Congress to give a little more thought to those who financially support the Government.



The lesson of New York City is that no government, just as no family, can live beyond its means for very long. There is a day of reckoning. For a Nation, the reckoning can be temporarily postponed by printing more money to cover debts. But that practice catches up and forces citizens to pay the bill through higher Federal taxes or through the harshest tax of all, inflation. A city government cannot print money. It faces the discipline of the marketplace.

None of us wants New York to fail to meet its financial obligations.

New Yorkers have created a great center of civilization, renowned throughout the world as a symbol of America. But, as they seek to get back on the right financial path, let us never forget what led that city to the brink. Let us resolve that the rest of the United States learn from New York's tragic plight.

There is a growing tendency to view the problems of New York City in a highly emotional way. At first, concern was properly centered on what a default might mean for New York City itself and on necessary



steps to avert default. Then concern focused on the financial stability of New York State and state agencies. Anxiety escalated. We were told that a default by the city could engulf other cities and states in financial chaos that could endanger national recovery. Now we are told that a default by New York City could sweep the world. We are told that, unless Washington intervenes, there will be a world-wide catastrophe.

Some of these predictions of gloom and doom may be based upon true conviction. But others could be exploiting excessive rhetoric to whip up public support for Federal intervention or to shift the blame for New York's troubles to Washington.

Whatever the motives, the politics of panic do not serve<sup>us</sup>/well.

To the extent that such pessimistic prophecies frighten the American people, the situation is aggravated.

None of can know precisely what

(more)



might occur in the event of a default. There are two aspects to any major financial reversal: the financial and the psychological. If our financial markets were confronted with a default and could deal with it objectively, in a state of relative calm, there is substantial reason to believe that the challenge would be met and that the essential services for the people of New York City would continue. If, however, we are driven into panic, the situation will be much more dangerous for the nation as a whole.

I see no reason for hand wringing and helplessness. I reject the scenarios of negativity. Let us encourage and commend the important progress that has been made by the leaders of the City and State of New York in coming to grips with their financial problems. I can only urge those who engage in fearful predictions to heed the words of a former Governor of the great State of New York some forty years ago:



"The only thing we have to fear is fear itself."

10/30/75

A B I L L

To amend the Bankruptcy Act to add a new chapter thereto providing for the adjustment of the debts of major municipalities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Bankruptcy Act of 1893 (30 Stat. 544), as amended, is hereby amended to add a new Chapter XVI thereto reading as follows:

CHAPTER XVI - ADJUSTMENT OF INDEBTEDNESSES  
OF MAJOR MUNICIPALITIES

JURISDICTION AND RESERVATION OF POWERS

SEC. 801. (a) This Act and proceedings thereunder are found and declared to be within the subject of bankruptcies and, in addition to the jurisdiction otherwise exercised, courts of bankruptcy shall exercise original jurisdiction as provided in this chapter for the composition or extension of the debts of certain public agencies or instrumentalities or political subdivisions. The court in which the petition is filed in accordance with Subsection 804(c) shall exercise exclusive jurisdiction for the adjustment of petitioner's debts and, for purposes of this chapter, shall have exclusive jurisdiction of petitioner and its property, wherever located.

(b) Nothing contained in this chapter shall be construed to limit or impair the power of any State to control by legislation



or otherwise, any public agency or instrumentality or political subdivision of the State in the exercise of its political or governmental powers, including expenditure therefor; Provided, however, that no State law prescribing a method of composition of indebtedness of such agencies shall be binding upon any creditor who does not consent to such composition, and no judgment shall be entered under such State law which would bind a creditor to such composition without his consent.

#### DEFINITIONS

SEC. 802. The words and phrases used in this chapter have the following meanings unless they are inconsistent with the context.

- (1) The term "attorney" means an attorney licensed to practice law by any State and includes a law partnership.
- (2) The term "claim" means a demand for performance of an obligation to pay money, whether matured or unmatured.
- (3) The term "composition" means a plan for payment of less than the full amount of debts provided for by the plan, with or without the extension of time for payment of such debts.
- (4) The term "court" means United States District Court sitting in bankruptcy, and the terms "clerk" and "judge"



shall mean the clerk and judge of such court.

- (5) The term "creditor" means any person who owns a claim against the petitioner. With respect to such claims owned by a trustee under a mortgage deed of trust, or indenture, pursuant to which there are securities outstanding, other than voting trust certificates, the term "creditor" means only the trustee.
- (6) The term "lien" means a security interest in property, a lien obtained on property by levy, sequestration or other legal or equitable process, a statutory or common-law lien on property, or any other variety of charge against property to secure performance of an obligation.

#### ELIGIBILITY FOR RELIEF

SEC. 803. (a) Any municipality with a population in excess of 1,000,000 inhabitants is eligible for relief under this chapter, if the municipality is first specifically authorized by the State to file a petition initiating a proceeding under this chapter.



(b) Any public agency or instrumentality or political subdivision subordinate to such municipality or whose responsibilities are restricted to the geographical limits thereof, including incorporated authorities, commissions and districts, for whose debts such municipality is not otherwise liable, is eligible for relief as a separate petitioner in the same proceeding in which such municipality seeks relief under this chapter if such agency, instrumentality or subdivision is not prohibited from filing a petition by applicable State law.

PETITION; PROPOSED PLAN AND STATEMENT OF  
REVENUES AND EXPENDITURES; FILING

SEC. 804. (a) Any entity eligible for relief under Section 803 may file a voluntary petition under this chapter. The petition shall state that the petitioner is eligible to file a petition, that the petitioner is insolvent or unable to pay its debts as they mature and that it desires to effect a plan of composition or extension of its debts. The petitioner shall file with its petition lists of claims outstanding and of persons who may be adversely affected by the plan, as set forth in Section 809.

(b) A petition shall be insufficient to invoke the jurisdiction of the court unless it is accompanied by (1) a good faith plan of





composition or extension of debts which petitioner certifies is in its view fair, equitable, feasible, and not unfairly discriminatory in favor of any creditor or class of creditors and (2) a statement of petitioner's current and projected revenues and expenditures adequate to establish that the budget of petitioner will be in balance within a reasonable time after adoption of the plan.

(c) The petition shall be filed with the court in whose territorial jurisdiction the municipality or the major part thereof is located, and shall be accompanied by payment to the clerk of a filing fee of \$100, which shall be in lieu of the fee required to be collected by the clerk under other applicable chapters of this title, as amended.

#### STAY OF PROCEEDINGS

SEC. 805. (a) A petition filed under Section 804 shall operate as a stay of the commencement or the continuation of any court or other proceeding against the petitioner, its property or any officer or inhabitant of the petitioner, which seeks to enforce any claim against the petitioner; as a stay of any act or the commencement or continuation of any court proceeding to enforce any lien on taxes or assessments, or to reach any property of the petitioner; and as a stay of the application of any set-off or enforcement of any



counterclaim relating to any contract, debt or obligation of the petitioner.

(b) Except as it may be terminated, annulled, modified, or conditioned by the court under Subsection (c) of this Section, the stay provided by Subsection (a) of this Section shall continue until the case is closed or dismissed or the property subject to the lien is, with the approval of the court, abandoned or transferred.

(c) On the filing of a motion seeking relief from a stay provided by Subsection (a) of this Section, the court shall set a hearing for the earliest possible date. The court may, for cause shown, terminate, annul, modify or condition such stay.

(d) The commencement or continuation of any act or proceeding other than described in Subsection (a) of this Section may be stayed, restrained, or enjoined pursuant to Rule 65 of the Federal Rules of Civil Procedure, except that a temporary restraining order or preliminary injunction may be issued without compliance with subdivision (c) of that rule.

(e) No stay, order, or decree of the court may interfere with  
(1) any of the political or governmental powers of the petitioner;



or (2) any of the property or revenues of the petitioner necessary for essential governmental purposes; or (3) the petitioner's use or enjoyment of any income-producing property. Provided, however, that the court shall enforce the conditions attached to certificates of indebtedness issued under ~~Section~~ 811 and the provisions of the plan of ~~compensation~~ *composition or extension*.

#### CONTEST AND DISMISSAL OF PETITION

SEC. 806. (a) Any creditor may file a complaint in the bankruptcy court contesting the petition for relief under this chapter or stating any objection he has to the plan. The complaint may be filed at any time up to ten days before the hearing on the confirmation of the plan or within such other times as may be directed by the court.

(b) The court may, upon notice to the creditors and a hearing following the filing of such a complaint, dismiss the proceeding if it finds that the petition was not filed in good faith, that it does not meet the provisions of this chapter, that it has not been prosecuted with reasonable diligence, or that there is no substantial likelihood that a plan of composition will be approved by the court.



#### NOTICES

SEC. 807. (a) The clerk shall give prompt notice of the commencement of a proceeding under this chapter to the State and to the Securities and Exchange Commission. As creditors and other persons

who may be materially and adversely affected by the plan are identified, the clerk shall give such persons notice of the commencement of the proceeding, a summary of the provisions of the plan and any proposed modification of the plan, and of their right to request a copy of the plan, or modification.

(b) The clerk shall also give notice to all creditors of the time permitted for accepting or rejecting a plan or any modification thereof. Such time shall be 90 days from the filing of the plan or modification unless the court for good cause shall set some other time.

(c) The clerk shall also give notice to all creditors (1) of the time permitted for filing a complaint objecting to confirmation of a plan, (2) of the date set for hearing objections to such complaint, (3) of the date of hearing of a complaint seeking dismissal of the petition, and (4) of the date of the hearing on confirmation of the plan.

(d) All notices given by the clerk shall be given in the manner directed by the court; however, the court may issue an order at any time subsequent to the first notice to creditors directing that those persons desiring written notice file a request with the court. If the court enters such an order persons not so requesting will receive no further written notice of proceedings under the chapter.

(e) Cost of notice shall be borne by the petitioner, unless the court for good cause determines that the cost of notice in a particular instance should be borne by another party.



## REPRESENTATION OF CREDITORS

SEC. 808. For all purposes of this chapter any creditor may act in person or by an attorney or a duly authorized agent or committee. Where any committee, organization, group, or individual shall assume to act for or on behalf of creditors, such committee, organization, group, or individual shall first file with the court in which the proceeding is pending a list of the creditors represented, giving the name and address of each and describing the amount and character of the claim of each; copies of the instrument or instruments in writing signed by such creditors conferring the authority for representation; and a copy of the contract or contracts of agreement entered into between such committee, organization, group, or individual and the represented creditors, which contract or contracts shall disclose all compensation to be received, directly or indirectly for such representation, which agreed compensation shall be subject to modification and approval by the court.

## LIST OF CLAIMS AND PERSONS ADVERSELY AFFECTED

SEC. 809. (a) The list of claims filed with the petition shall include, to the extent practicable, the name of each known creditor to be affected by the plan, his address so far as known to the petitioner, and a description of each claim showing its amount and character, the nature of any security therefor and whether the claim is disputed,



contingent or unliquidated as to amount. With respect to creditors not identified, the petition shall set forth the reasons identification is not practicable, and shall specify the character of claim involved. The list shall be supplemented as petitioner becomes able to identify additional creditors.

(b) If the proposed plan requires revision of assessments so that the proportion of special assessments or special taxes to be assessed against some real property will be different from the proportion in effect at the date the petition is filed, the holders of record of title, legal or equitable, to such real property shall be deemed persons adversely affected and shall be similarly listed.

(c) The court may for cause modify the requirements of Subsections (b) and (c) of this Section.

#### PROOFS OF CLAIM

SEC. 810. Unless an objection is made by any party in interest, the claim of a creditor that is not disputed, is established by the list of claims filed pursuant to Section 809. The court may set a date by which proofs of claim of unlisted creditors and of creditors whose listed claims are disputed must be filed. If the court does not set such a date, the proofs must be filed before the entry of the order of confirmation. The clerk shall give notice to each person whose claim is listed as disputed in the manner directed by the court.



## DEBT CERTIFICATES

SEC. 811. During the pendency of a proceeding for a plan of composition or extension under this chapter, or after the confirmation of the plan if the court has retained jurisdiction, the court may, upon good cause shown, authorize the petitioner to issue certificates of indebtedness for cash, property or other consideration, under such terms and conditions and with such security and priority in payment over existing obligations as the court may approve. Notwithstanding any other provision of law including Section 819 of this chapter, the court shall have plenary jurisdiction of any action which may be brought against petitioner to enforce compliance with the terms of any such certificates of indebtedness.

## PRIORITIES

SEC. 812. The following shall be paid in full in advance of the payment of any distribution to creditors under a plan, in the following order:

- (1) The cost and expenses of administration which are incurred by the petitioner subsequent to the filing of a petition under this chapter.
- (2) Debts owed for services and materials actually provided within four months before the date of the filing of the petition under this chapter.



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

#### PLAN OF ADJUSTMENT

SEC. 813. The plan of composition or extension sought under this chapter may include provisions modifying or altering the right of creditors generally, or of any class of them, secured or unsecured, either through issuance of new securities of any character, or otherwise, and may contain such other provisions and agreements not inconsistent with this chapter as the parties may desire, including provisions for the rejection of executory contracts and unexpired leases.

#### VOTING ON ACCEPTANCE OF PLAN

SEC. 814. (a) A plan of composition or extension may be confirmed only if, of the creditors voting in writing to accept or reject the plan, those holding two-thirds in amount of each class materially and adversely affected have voted to accept: Provided, however, that no such acceptance shall be required from any class which, under the plan, is to be paid in cash the value of its claims or is to be afforded such method of protection as will, consistent with the circumstances of the particular case, equitably and fairly provide for the realization of the value of its claims.





(b) Unless his claim has been disallowed, any creditor who is included on the list filed pursuant to Section 809 or who files a proof of claim pursuant to Section 810 is entitled to vote to accept or reject a plan or modification thereof within the time set pursuant to Subsection 807(b). Claims owned, held or controlled by the petitioner are not eligible to vote.

(c) The holders of all claims regardless of the manner in which they are evidenced, which are payable without preference out of funds derived from the same source or sources shall be of one class. The holders of claims for the payment of which specific property or revenues are pledged, or which are otherwise given preference as provided by law, shall constitute a separate class or classes of creditors.

(d) If any controversy shall arise as to whether any creditor or class of creditors shall or shall not be materially and adversely affected, the issue shall be determined by the judge, after hearing, upon notice to the parties interested.

#### MODIFICATION OF PLAN

SEC. 815. Before a plan is confirmed, changes and modifications may be made therein with the approval of the judge after hearing and upon such notice to creditors as the judge may direct, subject to the right of any creditor who has previously accepted the plan to withdraw his acceptance in writing, within a period to be fixed by the



judge, if, in the opinion of the judge, the change or modification will materially and adversely affect such creditor; and if any creditor having such right of withdrawal shall not withdraw within such period, he shall be deemed to have accepted the plan as changed or modified: Provided, however, That the plan as changed or modified shall comply with all the provisions of this chapter and shall have been accepted in writing by the petitioner.

#### HEARING ON CONFIRMATION OF PLAN

SEC. 816. (a) Within a reasonable time after the expiration of the time within which a plan and any modifications thereof may be accepted or rejected, the court shall set a hearing on the confirmation of the plan and modifications, and the clerk shall give notice of the hearing and time allowed for filing objections as provided in Subsection 807(c).

(b) Any creditor, or any other party in interest may file a complaint objecting to the confirmation of the plan. The complaint shall be served on the petitioner, and such other persons as may be designated by the court, at any time prior to the date of the hearing on confirmation or such earlier date as the court may set.

(c) Before concluding the hearing on confirmation of the plan the judge shall inquire whether any person promoting the plan or doing anything of such a nature, has been or is to be compensated, directly or indirectly, by both the petitioner and any creditor, and shall take evidence under oath to ascertain whether any such practice obtains. After such examination the judge shall make an



adjudication of this issue, and if he finds that any such practice obtains, he shall forthwith dismiss the proceeding and tax all of the costs against such person, or against the petitioner, unless such plan be modified within the time to be allowed by the judge so as to eliminate the possibility of any such practice.

(d) At the conclusion of the hearing, the judge shall make written findings of fact and his conclusions of law thereon, and shall enter a decree confirming the plan if he finds and is satisfied that (1) it is fair, equitable, feasible and not unfairly discriminatory in favor of any creditor or class of creditors; (2) it complies with the provisions of this chapter; (3) it has been accepted by creditors as required in Section 814; (4) all amounts to be paid by the petitioner for services or expenses incident to the composition have been fully disclosed and are reasonable; (5) the offer of the plan and its acceptance are in good faith; (6) the petitioner is authorized by law to take all action necessary to be taken by it to carry out the plan; and (7) it appears from petitioner's current and projected revenues and expenditures that the budget of the petitioner will be in balance within a reasonable time after adoption of the plan. If not so satisfied, the judge shall enter an order dismissing the proceeding. No case shall be reversed or remanded for want of specific or detailed findings unless it is found that the evidence is insufficient to support one or more of the general findings required in this section.



## EFFECT OF CONFIRMATION

SEC. 817. (a) The provision of a confirmed plan shall be binding on the petitioner and on all creditors, whether or not they are affected by it, whether or not their claims have been listed, filed, or allowed, and whether or not they have accepted the plan.

(b) The confirmation of a plan shall extinguish all claims against the petitioner provided for by the plan other than those excepted from discharge by the plan or order confirming the plan.

## DUTY OF PETITIONER AND DISTRIBUTION UNDER PLAN

SEC. 818. (a) The petitioner shall comply with the provisions of the plan and the orders of the court relative thereto and shall take all actions necessary to carry out the plan.

(b) Subject to the provisions of Subsection (c), distribution shall be made in accordance with the provisions of the plan to creditors (1) whose proofs of claim have been filed and allowed or (2) whose claims have been listed and are not disputed. Distribution to creditors holding securities of record shall be made to the record holders as of the date the order confirming the plan becomes final.

(c) When a plan requires presentment or surrender of securities or the performance of any other act as a condition to participation under the plan, such action must be taken not later than five years after the entry of the order of confirmation. Persons who have not within such time presented or surrendered their securities or taken



such other action shall not participate in the distribution under the plan. Any securities, monies, or other property remaining unclaimed at the expiration of the time allowed for presentment or surrender of securities or the performance of any other act as a condition to participation in the distribution under a confirmed plan shall become the property of the petitioner.

(d) The court may direct the petitioner and other necessary parties to execute and deliver or to join in the execution and delivery of any instruments required to effect a transfer of property pursuant to the confirmed plan and to perform such other acts, including the satisfaction of liens, as the court may determine to be necessary for the consummation of the plan.

#### RETENTION OF JURISDICTION

SEC. 819. The court may retain jurisdiction of a proceeding under this chapter for such period as it determines is necessary to assure execution of the plan.

#### REFERENCE OF ISSUES AND COMPENSATION

SEC. 820. (a) The judge may refer any special issues of fact to a referee in bankruptcy, magistrate or another special master for consideration, the taking of testimony, and a report upon such special issues of fact, if the judge finds that the condition of his docket is such that he cannot take such testimony without unduly delaying the dispatch of other business pending in his court, and if



it appears that such special issues are necessary to the determination of the case. Only under special circumstances shall reference be made to a special master who is not a referee in bankruptcy or a magistrate. A general reference of the case to a master shall not be made, but the reference, if any, shall be only in the form of requests for findings of specific facts.

(b) The court may allow reasonable compensation for the services performed by any such special master who is not a salaried Federal employee, and the actual and necessary expenses incurred in connection with the proceeding, including compensation for services rendered and expenses incurred in obtaining the deposit of securities and the preparation of the plan, whether such work may have been done by the petitioner or by committees or other representatives of creditors, and may allow reasonable compensation for the attorneys or agents of any of the foregoing: Provided, however, That no fees, compensation, reimbursement, or other allowances for attorneys, agents, committees, or other representatives of creditors shall be assessed against the petitioner or paid from any revenues, property, or funds of the petitioner except in the manner and in such sums, if any, as may be provided for in the plan of adjustment. An appeal may be taken from any order making such determination or award to the United States Court of Appeals for the circuit in which the proceeding under this chapter is pending, independently of other appeals which may be taken in the proceeding, and such appeal shall be heard summarily.



## SEPARABILITY

SEC. 821. If any provision of this chapter, or the application thereof to any agency, instrumentality, or subdivision is held invalid, the remainder of the chapter, or the application of such provision to any other agency or instrumentality or political subdivision shall not be affected by such holding.



New York

THE WHITE HOUSE  
WASHINGTON

October 24, 1975

MEMORANDUM FOR: ALAN GREENSPAN  
PAUL MacAVOY

THROUGH: PHIL BUCHEN *P.*

FROM: DUDLEY CHAPMAN *DC*

SUBJECT: Rosenthal Request

The attached recommended response is based on the following conclusions which reflect our various phone conversations and my brief check of the files:

(1) The request literally extends to all factual and analytical material of an economic nature respecting the impact of a default by New York, including materials generated outside the CEA, and regardless of whether they are available publicly or from other sources.

(2) The request could be read to include some papers containing internal advice to the President and his senior staff, which clearly should not be made available.

(3) Apart from the Treasury studies, there is material available in the CEA files that falls within the literal scope of the request and which is not privileged. Examples from the incomplete sampling I have seen or been told of include:

-- A statement in the form of a news release by Frank Wille, Chairman of the Federal Deposit Insurance Corporation, on "The Potential Impact of a New York City Default on Nonmember Banks".





- Several statements in news releases by Secretary Simon on New York's financial situation.
- Copies of articles from scholarly journals.

No complete search for such materials has been conducted, because the material is not filed systematically and the process would be burdensome to the staff.

(4) It is release of the material described in paragraph (3) that is feared because it is incomplete and could give the impression that the CEA relied on spotty or inadequate information. In my opinion, the only way of meeting this is to explain that this accidental collection of information does not represent a research effort by the CEA. A second fear is the meagerness of material on the question posed by Rosenthal. This reflects the policy judgment of the Chairman which should be explained. The last, bracketed, paragraph of my draft is illustrative only, based upon what I have been told, and should be redrafted in the Chairman's own words.

(5) As to the Treasury studies that were actually used, they can be made available either directly by the CEA or by the Treasury. \*/ In my opinion, given the context of a request for economic data and analysis which has no aura of confidentiality, if the CEA reply provides no documents at all, the effect could be inflammatory. We are not presently faced with a subpoena, but such a course would invite one. For this reason, I recommend furnishing the Treasury studies directly from here. By directly providing the information that was actually used, our reply would be responsive on its face.

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\*/ In either event, they must be screened by Treasury to exclude confidential financial information and internal staff advice. The same criteria used for processing Freedom of Information Act claims should be used.



(6) As to the unsorted material described in (3), I recommend that we provide whatever is readily available, which is a more persuasive way of demonstrating its unimportance than by giving reasons for not providing any. In addition, by giving Rosenthal some but not all of these materials, it is harder for him to criticize them for incompleteness. If he wants to make an issue of it, we can search the rest of it out later.

cc: John Davis



DRAFT

Dear Mr. Rosenthal:

This is in response to your letter of October 10 in which you request that the Council of Economic Advisers furnish all reports, surveys, analyses, memoranda, and/or other tabulations relating to any aspect of the economic impact of default by New York.

The Council of Economic Advisers has kept in close contact with this problem and I personally have devoted a great deal of thought to the situation, with which I have a long-standing familiarity. However, because the problems of New York City are, in the first instance, financial, responsibility for the staff work and the monitoring function was assigned through the Economic Policy Board to the Department of the Treasury at a quite early date. The Council's interaction with this work has been largely through my participation in the discussions of the Executive Committee of the Economic Policy Board. As the Treasury's work proceeded it was discussed in detail by this group. The bulk of my own efforts has thus been an intellectual process not committed to paper. Because I found the Treasury's work to be adequate for what studies were needed, the Council has not undertaken staff analysis of its own. Copies of pertinent portions of the Treasury studies, omitting only internal staff recommendations and confidential financial information, are enclosed.



The Treasury studies represent all of our internally generated research on the specific question to which you referred. In addition, there is a constant flow of material to the CEA, both through routine distribution by government agencies and through unsolicited materials received from a great variety of sources. This kind of material is screened by our staff and used, if at all, as they see fit. Virtually all of this material is available publicly or from other sources. Since material received in this way is of uneven value and is not relied on for research material, there is no detailed and systematic filing system that provides ready access to it. I have enclosed a separate folder containing examples of such material that appear to fall within the scope of your request.

[I should add that the studies we have generated and used reflect my own judgment that the most important problem is the implications for the national economy if the Federal Government were to become involved in supporting the financial obligations of deficit ridden local governments. \*/]

Sincerely,

Alan Greenspan

Benjamin S. Rosenthal, Chairman  
Commerce, Consumer, and Monetary Affairs  
Subcommittee  
Committee on Government Operations  
House of Representatives  
Washington, D. C. 20515

\*/ This is not recommended language. The Chairman should explain his views in his own words.



COUNCIL OF ECONOMIC ADVISERS  
WASHINGTON

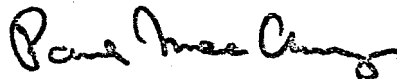
ALAN GREENSPAN, CHAIRMAN  
PAUL W. MACAVOY  
BURTON G. MALKIEL

October 20, 1975

MEMORANDUM FOR PHILIP BUCHEN  
MAX FRIEDESORF

The Treasury has received a similar request from Congressman Rosenthal and is presently formulating a response.

The CEA, for the reasons set out in the draft letter, has no relevant staff work of its own. We believe the attached draft is the appropriate response.



Paul W. MacAvoy



Dear Mr. Rosenthal:

This is in response to your letter of October 10 in which you request that the Council of Economic Advisers furnish all reports, surveys, analyses, memoranda, and/or other tabulations relating to any aspect of the economic impact of default by New York.

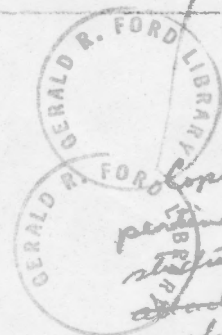
The Council of Economic Advisers has kept in close contact with this problem and I personally have devoted a great deal of thought to the situation. However, because the problems of New York City are, in the first instance, financial, responsibility for the staff work and the monitoring function was assigned through the Economic Policy Board to the Department of the Treasury at a quite early date. The Council's interaction with this work has been largely through my participation in the discussions of the Executive Committee of the Economic Policy Board. As the Treasury's work proceeded it was discussed in detail by this group. Because I found it to be adequate, the Council has not undertaken staff analysis of its own.

It is my understanding that the Treasury is supplying you with that portion of their work that is material and relevant.

Sincerely,

Alan Greenspan

Benjamin S. Rosenthal, Chairman  
Commerce, Consumer, and Monetary Affairs  
Subcommittee  
Committee on Government Operations



*Copying the pertinent Treasury studies are attached and sub.*

(A)

DENJAMIN S. ROSENTHAL, N.Y., CHAIRMAN  
CARDISS COLLINS, ILL.  
ROBERT P. DEINAN, MASS.  
ELLIOTT H. LEVITAS, GA.  
DAVID W. EVANS, IND.  
ANTHONY MOFFETT, CONN.  
ANDREW MAGUIRE, N.J.  
EDWARD MEZVINSKY, IOWA

WILLIS D. GRANTHAM, JR., OHIO  
JOHN N. ERLÉNBOHN, ILL.

(202) 225-4407

NINETY-FOURTH CONGRESS

# Congress of the United States

## House of Representatives

COMMERCE, CONSUMER, AND  
MONETARY AFFAIRS SUBCOMMITTEE

OF THE

COMMITTEE ON GOVERNMENT OPERATIONS

RAYBURN HOUSE OFFICE BUILDING, ROOM B-350-A-B  
WASHINGTON, D.C. 20515

October 10, 1975

*10-10-75*

Hon. Alan Greenspan, Chairman  
Council of Economic Advisers  
Executive Office Building  
Washington, D. C. 20506

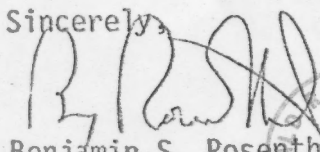
Dear Mr. Chairman:

The Subcommittee on Commerce, Consumer and Monetary Affairs, pursuant to its oversight responsibilities, is investigating the results and adequacy of Federal agency analysis of the economic impact of a default by New York. Hearings on this subject have been held with the Comptroller of the Currency, the Chairman of the FDIC, and officials of other agencies.

Please furnish this Subcommittee with all reports, surveys, analyses, memoranda, and/or tabulations relating to any aspect of the economic impact of default by New York. Please also provide all correspondence between the Council and the White House, other Federal agencies, domestic and foreign central banks and finance ministries concerning the New York fiscal situation.

Please arrange to have the requested materials delivered to the Subcommittee on or before October 17, 1975. If you have any questions regarding this request, please contact Robert H. Dugger of the Subcommittee staff.

Sincerely,



Benjamin S. Rosenthal  
Chairman



BSR:dt

New York

THE WHITE HOUSE  
WASHINGTON

November 4, 1975

Dear Frank:

By this time, you have probably heard about the President's speech on New York City, and I assume from your letter that you greeted his speech with cheers.

On the matter of requiring mandatory jail terms for carrying weapons during the commission of a crime, the President recommended such a step as part of his crime message earlier this year. Of course, this deals only with crimes in violation of federal laws and does not touch those crimes solely within the jurisdiction of the various states.

Very best regards.

Sincerely,



Philip W. Buchen  
Counsel to the President

Mr. Frank Solinsky, III  
North Point Office Center  
2351 Powell Street  
San Francisco, California 94133





FRANK AND DEAN SOLINSKY  
NORTH POINT OFFICE CENTER  
2351 POWELL STREET  
SAN FRANCISCO, CALIFORNIA 94133  
781-3735

October 7, 1975

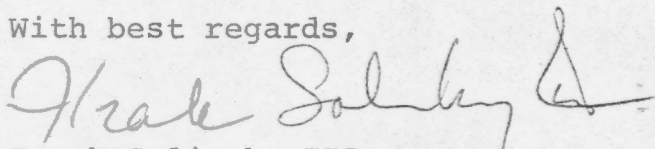
Philip W. Buchen, Esq.  
The White House  
Washington, D.C. 20500

Dear Phil:

I do hope the President stands firm in his opposition to extending any Federal funds, or guarantees, to New York. Unpleasant as it may be, if New York defaults it wouldn't be all bad; it might bring some sense of fiscal responsibility to the country — and perhaps even to the Congress.

And Phil, as to gun laws, why not require a mandatory jail term for anyone carrying a gun, whether displayed or not, during the commission of a crime? I don't believe control of ownership can ever be effective.

With best regards,



Frank Solinsky III

FS:lgf



Some items in this folder were not digitized because it contains copyrighted materials. Please contact the Gerald R. Ford Presidential Library for access to these materials.

THE WHITE HOUSE

WASHINGTON

*N.Y. City*

November 4, 1975

MEMORANDUM FOR: ROBERT GOLDWIN

FROM: PHILIP BUCHEN

I very much concur in your memorandum to Don Rumsfeld of November 3 concerning the President's Statement on the Relation of the States and the Federal Government.



THE WHITE HOUSE

WASHINGTON

November 3, 1975

MEMORANDUM TO: DONALD RUMSFELD

FROM: ROBERT GOLDWIN *RG*

SUBJECT: The President's Statement on the Relation  
of the States and the Federal Government

In his address to the National Press Club on October 29, the President digressed briefly and made an unfortunate, in my opinion, and unnecessary constitutional comment:

... under our Constitutional system, both the cities and the Federal Government were the creatures of the States. The States delegated certain of their sovereign powers--the power to tax, police powers and the like--to local units of self-government, and they can take these powers back if they are abused.

The States also relinquished certain sovereign powers to the Federal Government--some altogether and some to be shared. In return, the Federal Government has certain obligations to the States.

This statement confuses several points. In a State where the cities are the creatures of the State, it is by virtue of the State constitution, not the Constitution of the United States, which is silent on the subject. There is nothing in the Constitution of the United States or its history to suggest that the government of the United States is the creature of the States. The States cannot, for example, take away from the Federal Government, as they can from cities, the power to tax. And the Federal Government's obligations to the States (e.g., the guarantee of a republican form of government, etc., Article IV) are nowhere said to be



a compensation to the States for their having relinquished power to the Federal Government.

The Federal Government is the creature of the people, not of the States. It has its powers from the people through the Constitution. "We the People," not the States, did "ordain and establish" the Constitution. Even the 10th Amendment, frequently cited by states-righters, does not support the view that the powers of the national government are delegated by the States. The 10th Amendment says: "The powers not delegated to the United States by the Constitution, nor prohibited by it [i.e., the Constitution] to the States, are reserved to the States respectively, or to the people." (Emphasis added.)

The view that the States made the Union was the pre-Civil War Constitutional theory that justified secession (on the ground that if they made the Union they could unmake it). The Republican party was born in opposition to this theory, which was brilliantly refuted by Lincoln and decisively repudiated by the outcome of the Civil War. Lincoln expressed the Republican view that the Union is prior to the States, that they cannot undo the Union, that it is perpetual, that the Federal Government is "a government proper," and not a temporary "association of States in the nature of contract" that one might break or withdraw from. For the above reasons, I recommend that the President correct this position at his first opportunity, as follows:

Q. Mr. President, would you please explain what you meant in your speech when you said that the Federal Government is the creature of the States?

A. I have to admit to you frankly that when I said that I was in error. I was focusing with maximum attention on New York City and its relation to New York State and to the Federal Government, and I did not pay sufficient attention to this mistaken statement regarding the relation of the States to the Federal Government.

The Constitution clearly states that the people "ordain and establish" the Constitution, and the Constitution delegates powers to the Federal Government. The Federal



Page 3

Government is the creature of the American people as a whole not of the States.

If you agree, I recommend that this Q & A be added to the President's briefing book.

cc: Mr. Paul Theis  
Mr. John Marsh  
Mr. Philip Buchen ✓



# The Washington Post

Oct 31, 1975

AN INDEPENDENT NEWSPAPER

## The President and New York City

UNDOUBTEDLY THERE HAVE been presidential speeches more outrageous than the one President Ford delivered on New York City's financial problems. But it is hard to remember one. Mr. Ford used all the demagogue's tricks: misstating the problem, distorting the facts, running down the critics, resorting to pious platitudes and appealing to prejudice. In the end, he contradicted himself by recommending that the federal government, in the person of a federal judge, supervise New York's future finances after he had explained why supervision by the federal government would be disastrous. One way or another, the nation and New York City will survive the agonies that are now inevitable for that city but they will do so in spite of the President's leadership not because of it.

that New York almost certainly cannot avoid defaulting on its debts within a few weeks unless it gets help from somewhere.

Item: Mr. Ford says that most other big cities have faced the same problems as New York's and have stayed financially healthy. The reality is that New York's problems are unique if only because of their size and that some other big cities are in serious financial difficulty.

Item: Mr. Ford says that the "cities and the federal government were the creatures of the States." We had thought that John Marshall and a Civil War had put this old states rights shibboleth to rest more than a century ago.

There are more examples. But these should be sufficient to demonstrate the general character of the

THE WHITE HOUSE  
WASHINGTON

*n.y.*

November 7, 1975

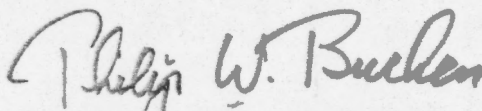
Dear Mr. Edwards:

Thank you for your letter of October 20 enclosing the column by Mary McGrory. President Ford believes that he has a responsibility to all the people of this country and his policy decisions are made with that responsibility in mind.

The President is deeply concerned about New York City's fiscal problems, and he has reached his present position after thoroughly reviewing all the responsible economic options available to the City, the State and the Federal Government. It is our belief that the President's approach will lead to the most constructive long-term solution for New York.

Thank you for your concern. I appreciate your taking the time to write.

Sincerely,



Philip W. Buchen  
Counsel to the President

Paul W. Edwards, Esquire  
254 East 174th Street  
Suite D-6  
Bronx, New York 10457





PAUL W. EDWARDS  
COUNSELLOR-AT-LAW  
254 EAST 174TH STREET  
SUITE D-6  
BRONX, N. Y. 10457  
878-8228



Oct. 20<sup>th</sup>, 1975

Hon. Philip Buchen  
The White House  
Washington, D. C.

Dear Mr. Buchen:

Enclosed please find a clipping from the N. Y. Post of two days past which, lately, seems to echo the sentiment of most people with whom I've had contact. It is possible, of course, that the President can change their thinking in the remainder of time left prior to 1976. That is, of course, if he can erase the current impression which is "he cares nothing for N. Y.," and, it does not figure in his political plans in re 1976 election!! This thought, which is held, and has been

carefully murdered by the states' politicians,  
are firmly in the minds of the intelligent  
voters and it has built-up a resentment at  
the notion of having been "written off".

For, whatever its worth, I thought the  
aforesaid, and its reinforcing enclosure,  
should be brought to the attention of the  
President.

Thank you for your attention.  
Yours all sincerely,

Paul W. Edwards

P.S. Next to Calif., we are the most  
intellectual ect. & ect. And, after all,  
Mexico did carry this state in '72. !!!





# Mary McGrory

## POLITICAL PYGMY

WASHINGTON.

If you were listening to him on the stump and didn't know who he was, you'd say he was a man who had little to do with what is going on in the country.

He talks about Washington as if he didn't live there.

He talks about bureaucrats, with the trendy sneer in his voice, as if he had no more control over them than his audience.

He talks about regulatory agencies torturing businessmen and says they must stop, as if it were something he had read about in the papers.

It is when he talks about problems like New York City and busing, which he always calls "court-ordered, forced busing to achieve racial balance in the public schools," that he sounds most like the Congressman from Grand Rapids who never really left the well of the House.

\* \* \*

For 25 years, Gerald Ford's mission in life was to discomfit and defeat the Democrats. It was not an awesome responsibility and now that he is President, he has not raised his sights.

The "splendid misery" of the great office he never expected to hold has passed him by. He is vastly enjoying himself, his oblong face, ruddy and unlined, speaks his pleasure. When the problems press in, there is always the helicopter warming up to take him to some provincial center where legions lean against the fence to scream of his

2.7

LEMONT K. RICHARDSON  
MATTHIESSEN PARK  
IRVINGTON, NEW YORK 10533

November 10, 1975

Mr. Philip Buchen  
Counselor to the President  
The White House  
1600 Pennsylvania Avenue  
Washington, D. C.

Dear Mr. Buchen:

While we are not acquainted, your father and my father were good friends in Sheboygan and shared a mutual interest in the history of Sheboygan County. My father, Lemont H. Richardson, owned a furniture manufacturing company in Sheboygan Falls -- Richardson Brothers Company.

I chose not to go into the family business, but left the Sheboygan area to pursue a career in the field of economics and finance where I am now active as a consultant.

On the strength of this introduction, I hope you would give consideration to the concern I have regarding current legislative proposals to bail out the City of New York by means of a Federal guarantee of its borrowings or other types of financial support.

The point of departure is an editorial on this subject by Mr. Tom Wicker in the Sunday New York Times, October 26, 1975. (A copy of Wicker's editorial is enclosed with this letter.) Mr. Wicker argued that: "As a matter of pure equity, moreover, any assistance to New York would have to be available to other municipalities that might find themselves in similar predicaments -- as many apparently might in coming years."

Basing a bailout program on general equity considerations, as Mr. Wicker favors, quickly becomes a "reductio ad absurdum." For if cities (and presumably other governmental entities and agencies) have a right to be bailed out by the Federal government in the event they encounter financial difficulties so do the airlines, department store chains, investment hedge funds, real estate investment trusts, banks, broker-dealer firms, feedlot operators, oil producers, textile mill operators, etc.



Basing a bailout program on equity considerations, therefore, would mean the end of all private enterprise, initiative and responsibility. For then the general taxpayers of the nation, in effect, would be compelled to underwrite the losses initially incurred by imprudently and ineptly managed businesses and government entities, and ultimately borne by investors and creditors who didn't exercise prudence and diligence in the first place. In other words, the general taxpayers would be asked to bear all the risks of loss in any and all undertakings in the private and public sectors while sharing in none of the benefits.

The ultimate costs to the general taxpayers under an equity-based Federal bailout program could be quite substantial. For a bailout of New York now would be an invitation for other governmental entities to make costly forward commitments, i. e., agree to generous employee wage and pension contracts with pensions based on final year's pay, grandiose construction projects, on the expectation that they would be bailed out by a Federal support program.

Even if a Federal bailout bill for New York is restricted, i. e., not transformed into a right available to other cities and states on the basis of equity considerations as favored by Mr. Wicker, such legislation should still be defeated in Congress. For any bailout of New York will still result in unjust enrichment of one class of securities holders, i. e., banks, high tax-bracket individuals, etc., at the expense of the general taxpayers of the nation who have no obligation whatsoever to extend such enrichment to the holders of New York obligations and who will share in none of the windfall benefits to be realized by these investors.

President Ford should be complimented for his announced intention to veto any bailout legislation for New York City. None of the supporters of a bailout bill has demonstrated that such legislation can be passed without establishing a precedent to bail out any other private or public entity in financial difficulties on the basis of equity considerations, i. e., a right to bailout assistance. Therefore, the passage of any bailout legislation for New York would result in the negation of all private enterprise, initiative and responsibility.

A Federal bailout of New York could be justified on purely emergency grounds, if the expected benefits to the general public exceed the costs that would ultimately be borne by the general taxpayer. But the



Mr. Philip Buchen  
November 10, 1975  
Page Three

supporters of the bailout have supplied no tangible evidence that the benefits will exceed the costs.

Sincerely yours,

*Kenneth H. Richardson*

LKR/pr  
Enclosure



# Aid for New York City?

---

By Tom Wicker

---

When Senators like Harry Byrd of Virginia and James Allen of Alabama threaten to filibuster any bill that would aid New York City in its financial crisis, the traditional animosity of less urban states toward the big cities obviously has survived into an era when almost everything is urbanized. At least, Senators Byrd and Allen think it has among their constituents.

When President Ford sticks adamantly to his contention that New York is not worthy of aid, despite mounting evidence that its default would be a far-reaching disaster, his intent seems clearly to take political advantage of that presumed animosity.

wrong, for another thing, with the national Government coming to the assistance of a municipality—as Washington already does, in countless ways, from highway construction to funds for summer recreation programs. The Constitution does, after all, make the Federal Government ultimately responsible for the welfare of all the people, not just those living outside the city.

As for the priorities involved, Senator Hubert Humphrey may be stretching the point when he says Washington should not provide “one damn dime” of assistance to Zaire unless it also helps its own citizens in New York. But the fact is that the Federal Government assists any number of undertakings no more worthy—in many cases less so—than the financial rescue of its largest city. The total Federal commitment in guaranteed loans of

UNITED STATES ASSOCIATES  
HARLEAN M. CARROLL  
VOLNEY F. MORIN  
VOLNEY F. MORIN, JR.  
JAMES B. RIVES

VOLNEY F. MORIN, INC.  
LAW CORPORATION

*Morin  
Volney*  
INTERNATIONAL OFFICES  
LONDON  
MELBOURNE  
MEXICO CITY  
TOKYO

OF COUNSEL  
HAROLD A. SHIRCLIFFE

November 13, 1975

Mr. Philip W. Buchen  
Chief Legal Aid to the President  
The White House  
Washington, D.C.

Re: Possible New York City Bond Default

Dear Phil:

This will confirm my telephone call of Tuesday, November 11.

Some United States Government bonds are redeemable at par to pay Federal estate taxes. Although not in default, several of these issues can be purchased at the present time, at prices substantially below par. Their prices would be even lower without the redemption feature.

The suggestion I made in my telephone call was that the Administration consider the feasibility of suggesting to New York State that its legislature enact appropriate legislation to make New York City bonds redeemable at par to pay New York State inheritance taxes. Additionally, at maturity, New York State could accept such bonds at par with accrued interest (if there has been a default) in payment of New York State income taxes.

Without federal intervention, this would make it possible for New York to firm up its bond market.

Because this suggestion also has applicability to present and future issues of California bonds, I am sending a copy of this letter to our own State Treasurer.

As always, please be assured the courtesy of a response is neither expected nor required.

Kindest personal regards.

Yours very truly

*Volney F. Morin*  
Volney F. Morin

cc: Jesse M. Unruh, State Treasurer





Morin  
Volney

Tuesday 11/11/75

11:40 Volney Morin called. He said Governor Carry was in Los Angeles and, along with Mayor Bradley, the two made a lot of political hay about the New York situation and how bad it was and that President Ford was no good. OF THIS.???

He had a thought.

There are a lot of Federal bond -- U.S. Govt. bonds -- which are traded freely on the market but have a rather specific feature. The bonds -- no matter what the market prices -- may be redeemed at par in inheritance and estate practices.

He said if Governor Carry is really serious, it might be appropriate for the Administration to suggest that the State of New York accept the New York Citybonds at par and ~~they/can~~ if they go into default at accrued interest for payment of interest and N. Y. Sate inheritance taxes. This doesn't require guarantees or outlays of money.

??????????

Phones were beginning to ring and I lost some of his conversation.

If they buy the bonds at 72 --

They can redeem them at 100 in paying taxes???

Could put a floor under their own bonds but as the State of New York not the Federal government.

Wondered if anyone had thought of this idea -- hasn't seen anything in the papers. Didn't know if you were aware of these bonds -- which are called flower bonds -- an instrument of estate planning that is widely used regularly ----- there are 13 issues out. You can buy them as low as 72.


Would be available to talk with you within the next hour or so -- then out for a while and probably not back until around 4 o'clock our time.




n.y.

THE WHITE HOUSE  
WASHINGTON

November 14, 1975

MEMORANDUM FOR: BILL SEIDMAN  
FROM: ED SCHMULTS   
SUBJECT: New York Situation

The following statement captures what I was suggesting about our perceived New York position: "The financial restructuring or reorganization now proposed for New York City represents, in large part, the type of action that the President believed necessary. The benefits of such action may be achieved voluntarily or through court supervision after a default. The President is pleased that the leaders of New York State and City are taking many of the necessary steps through voluntary means. This is what the President has been talking about all along -- tough decisions by State and local officials to get a grip on New York City's fiscal problems."

cc: Phil Buchen 

November 14, 1975

MEMORANDUM FOR MAX FRIEDERSDORF

FROM: STEPHEN S. GARDNER ~~SSG~~

SUBJECT: New York Plan

Governor Carey, Felix Rohatyn, Chairman of MAC, Stanely Stein-gut, Speaker of the State Assembly, Warren Anderson, Majority Leader of the State Senate, and other New York officials pre-sented 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 of the Plan

The plan involves measures to:

- A. Force a restructuring of New York City's short term debt.
- B. Generate \$200 million of new city tax revenues.
- C. Provide \$2.5 billion in new loans to the City from the city pension funds.
- D. Reduce City contributions to employee pension funds by requiring contributions from the employees thus reducing by \$85 million City expenditures and restructuring the employee pension plans.
- E. Generate sufficient State tax revenues (estimated by Governor Carey at \$600-700 million) to balance the State's budget.
- F. Provide State funding for the Housing Finance Agency to strengthen its financial condition.
- G. Force a balancing of New York City's budget in the fiscal year 1977-78.
- H. Reduce welfare and social service costs.



## 2. Proposed Federal Role

The Federal Government has been asked to provide seasonal financing on a short term, self-liquidating, basis. For FY 1976, approximately \$1.3 billion would be required during the period December 1975-March 1976, to be repaid by June 30, 1976. For FY 1977 and FY 1978 the July-March need would peak at \$2.3 billion in March, and the entire amount to be repaid by June 30 of each of these fiscal years.

## 3. Details of the Plan

### A. New York City

The key elements of the plan are a restructuring of New York City's 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 six percent. Secondly, they have 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 and certain union leaders.

Individual short term City noteholders (who hold \$1.6 billion) will be offered a long term (10-15 year) MAC bond, carrying an 8-9 percent interest rate. Holders who do not accept the exchange will be subject, pursuant to new legislation the Governor is introducing, to a three year moratorium on their right to enforce the terms of notes: that is, their ability to collect principal and interest at maturity. This approach is modeled on the anti-mortgage foreclosure legislation used by New York and other States during the depression.

New loans of \$2.5 billion through FY 1978 will be provided from the city employee pension funds. This commitment, as well as a commitment to restructure their existing holdings of MAC securities and City notes is reflected in a letter to MAC signed by the heads of the Teachers, Municipal Employee, and Sanitationmen's unions.

The plan also includes legislation for new City taxes of \$200 million and changes in certain pension fund arrangement relieving the City of \$85 million in contribution obligations.

### B. New York State

The key element of the State plan is new state taxes and expenditure reductions to eliminate the \$700 million deficit estimated for the fiscal year ending March 31, 1976.



The Governor indicated that he will seek to achieve reductions in the welfare and social service expenditures.

C. State Agencies

Two major steps are prepared for State 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.

