The original documents are located in Box 23, folder "New York City Finances - Meeting with the President, Vice President, Beame, and Carey, May 13, 1975" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

2PM - Presidential Meeting on NYC
Fiscal Problems Beame, Carey
V.P., et al.

Tuesday, May 13, 1975

& Beame Letter of May 14

THE PRESIDENT HAS SEEN

A

THE WHITE HOUSE

WASHINGTON

B

MEETING WITH GOVERNOR HUGH CAREY
AND MAYOR ABE BEAME

Tuesday, May 13, 1975
2:00 p.m. (45 minutes)
The Oval Office

C

From: Jim Cannon

C

I. PURPOSE

This meeting was requested by Governor Carey and Mayor Beame to apprise you of the fiscal crisis that New York City faces in the next two weeks and to appeal Secretary Simon's decision not to support legislation giving Treasury authority to loan New York City Federal funds.

This will provide you an opportunity to explain to them the problems the Federal government would have if it were to consider the fiscal crisis of one major municipality without at the same time considering the fiscal crisis of all other state and municipal governments who are experiencing similar financial difficulties. In addition, you may want to point out to the Mayor that you recognize that the current fiscal crisis has not developed overnight but rather results from a long series of decisions which has now precipitated this crisis.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: Attached at Tab A is a brief memorandum Dick Dunham has put together covering the New York City problem. Also attached (Tab B) is a summary of Treasury's views on the impact of the problem.

This morning Jerry Jones passed on your request for additional budget information on New York City. We are in the process of pulling that together.

B. Participants: The Vice President, Governor Carey, Mayor Beame, Secretary Simon, Bill Seidman, Jim Lynn, Alan Greenspan, Jim Cannon, Dick Dunham, and Secretary Dunlop.

C. Press Plan: To be announced. Photo opportunity.

Options

1. Immediate announcement by statement through Ron Nessen. Draft statement being revised by Paul Theis, is at Tab C.

2. Ron Nessen and Jim Lynn to brief press on what happened at the meeting and to make clear the President's position.

3. President himself to go to briefing room and summarize statement for the cameras. Leave and have Ron Nessen or Jim Lynn brief on the meeting and take questions.

4. The President considers the request from Mayor Beame and Governor Carey for 24 hours, then announces his decision, or have Jim Lynn announce it.

Domestic Council staff recommends Option 3.

III. TALKING POINTS

1. I have followed the situation closely and I am fully aware of your fiscal problem.

2. I am very sympathetic with your plight and very sympathetic with the people of New York City. You are up against a hard problem.

3. Call on Governor Carey.

4. Call on Mayor Beame

THE WHITE HOUSE

WASHINGTON

May 12, 1975

MEMORANDUM CONCERNING NEW YORK CITY FINANCIAL CRISIS

The President will meet with Governor Carey and Mayor Beame on Tuesday, May 13, 1975, concerning the possible insolvency of New York City which could occur on or before May 23.

PROBLEM

The insolvency will occur unless the City can borrow on a short term basis by May 20 about $750 million to meet various payrolls, BAN*maturities and other expenses.

Three major N.Y.C. banks have notified Mayor Beame, Governor Carey and Secretary Simon that they cannot market New York City short or long term debts in the amounts required over the next 4 months.

BACKGROUND

There are three elements to the problem and the solution to the short term financing problem lies in a credible and realistic solution to the other two.

These are:

1. The City needs to borrow on a short term basis about $3.5 billion before the end of August. These tax anticipation notes would be used to finance the City's cash flow until property taxes or other payments are received in major amounts in the Fall.

2. The City must adopt by July 1, a 1975-76 Budget that is in balance. Mayor Beame states that there is a gap of $600-800 million between estimated expenditures and estimated income that must be covered by new taxes, increased State or Federal aid or city service cuts.

3. There is a long term imbalance between revenues and expenses which lie at the heart of the problem.

*Bond Anticipation Notes

Over the last five years, City revenues (excluding State and Federal aid) have grown at an average rate of about 8 percent. During the same period, however, expenditure growth has averaged 15 percent.

This differential between revenues and expenditures has been funded through the use of one time revenues, accounting changes such as capitalizing current expenses, and increased short term borrowing.

See Tab A for a description of the types of methods used over the last few years which have caused the current lack of confidence in City financial paper. Most of these methods are well documented and in the public domain.

SOLUTION

Long Term

The solution to the short term financing problem is to restore confidence in the integrity of and long term balance of City revenues and expenditures.

The confidence of the financial community can probably only be restored by extensive fiscal reform, a cut back in the current level of services and expenditures, and a long term demonstration of willingness on the part of the City administration to live within the available revenues.

See Tab B for an illustrative list of possible current reductions.

See Tab C for a possible program to accomplish the long term restoration of confidence, balance, and reform.

Short Term

A reduction in City expenses for the 1975-76 fiscal year and the adoption of a longer term solution cannot realistically be accomplished within the next two weeks.

It is unlikely that a program containing elements of the above and possibly some tax increases could be accomplished much before June 30.

B

C

This leaves a cash need of the City for:

By May 15	$650 - 750 Million
By June 11	$750 - 850 Million
Total through June 30	$1.5 Billion

These short term funds will probably have to be provided through:

A. Increased use of New York State credit.

B. Refinancing by the Banks of current notes - $234 Million BAN's*and $792 Million of TAN's.**

C. Or appeals to the Federal Reserve Board.

* Bond Anticipation Notes

** Tax Anticipation Notes

SOME COMMENTS ON THE CITY'S FISCAL SITUATION

The current fiscal imbalance situation has not developed overnight but rather results from a series of decisions made by both the Lindsay and Beame Administrations. The central theme of these decisions has been the provision of new and expanded services without regard to the present or future ability of the City to finance them. In addition, the ability of the City's powerful unions to extract exorbitant wage settlements, coupled with ineffective lower and middle management have contributed significantly to the situation in which the City finds itself.

Some of the more significant fiscal practices which have contributed to the City's predicament are outlined below.

1. Capitalization of operating expenses

An estimated $715 million of operating expenses are contained in the City's $1.7 billion capital budget for 1974-75. The City uses this device to reduce the need for tax levy monies in a given fiscal year. This practice, however, has grown to the point where it seriously erodes the City's ability to finance needed capital improvements to its aging and deteriorating physical plant (e.g. housing). Further, this practice, while legal, inevitably costs the taxpayer about 15 to 20 percent more over time because of the interest payments on the borrowed funds. Examples in 1973-74 budget, the entire cost of the vocational education program (estimated at $148 million) was transferred from the operating budget to the capital budget through a technical loophole in the law.

2. Rapid growth of debt service

Indicative of the City's growing reliance on both long and short term borrowings to achieve a "balanced" budget, the City's debt service payments will consume an estimated 16 percent or $1.8 billion of the expense budget for 1974-75 (up from 11.2 percent or $1.2 billion 1973-74). The magnitude of these payments impedes the City's ability to provide essential services and contribute to the use of fiscal gimmicks to balance the budget.

3. Underfunding pension cost

A series of articles in the New York Daily News last spring (3/25/74), indicated that the City may be seriously underfunding its entire pension program. The analysis noted that many of the actuarial assumptions have not been modified since they were made in 1917. This practice, coupled with the lucrative pension benefits agreed to by City officials and increases in the City's labor force have caused pension payments to jump from $465 million in 1972-73 to an estimated $1.1 billion in 1974-75

Dr. Bernard Jump of Syracuse University's Maxwell School indicated that retirement cost increases of $700 to $900 million per year (including social security) could reasonably be expected over the next seven years.

In addition, the Fire Department Pension fund is currently $200 million in arrears because of an impasse among members of the fund's Board of Trustees as to the respective responsibilities which the employees and the City should assume in making payments to liquidate the deficit.

Despite these factors, the City took advantage of some fiscal gimmickry to use $125 million of "excess" income in the Employees Retirement System to help "balance" the 1974-75 budget.

4. Underfunding collective bargaining settlements

In each of the last two fiscal years the City has underfunded the cost of its collective bargaining settlements by about $100 to $150 million annually. Essentially, the City assumes that contracts negotiated in one fiscal year, e.g., 1973-74, won't be settled until the following year, e.g., 1974-75. This allows the 1973-74 costs of such contracts to be paid retroactively through bonds issued under the "judgements and claims" provision of the City Charter and the State Finance Law. The effect on relative expenditure levels in the following year, e.g., 1974-75, is to double count the cost of the collective bargaining increase as the amount allocated doubles to meet the base year (1973-74) salaries plus the second year (1974-75) cost increases.

This practice also permits the City to grant salary increases in excess of what they might normally provide since there is little effect on the City tax levy funds in the base year.

5. Placing certain expenditures on a cash basis

Although the City normally operates on an accrual basis, they have been able to generate some one-time savings by placing certain expenditures on a cash basis. For example, if the last pay period of City FY 1973-74 actually includes 5 working days of the new fiscal year, an accrual system would require counting all the expenditures in 1973-74. By switching to a cash basis, however, the City charges only 5 days expense to the 1973-74 fiscal year with the remaining 5 days expense chargeable to the following fiscal year. While an ingenious strategy, it has one major drawback - viz. in 1977, according to City officials, the accrual pay period and the cash pay period will end on the last day of the City fiscal year (June 30). Thus, the City will, in effect, be faced with an extra or 27th pay period instead of the normal 26 periods.

6. Funding from one-time sources

The foregoing is but one example of the growing tendency of the City to resort to one-time sources to balance the budget. In CFY 1974-75 about $450 million in such sources were used. In addition to the use of pension fund interest ($125 million) and the accrual to cash accounting ($32 million) noted above, other devices totalled $297 million.

The use of these financing measures to support ongoing operating expenses means that a substantial portion of the programs in the 1974-75 budget had no dependable future support. Thus as the 1975-76 budget is drafted, the City will face the prospect of cutting the programs, finding some source of ongoing support, e.g., borrowing, increasing local taxes or getting additional State or Federal Aid and/or devising a new series of one-shot gimmicks.

Illustrative List of Possible Expenditure Changes in 1975-76 Budget

		$million
1.	End free tuition at City University Establish State University tuition rate, for those who can afford it.	
	138,000 students	60+
2.	Reduce work force. Say 10,000 employees. average salary $11,000 fringe benefits 3,300 $14,300	
	10,000 x $14,300	143
3.	Raise subway fares $0.05 From .35 to .40	50
4.	Tolls on East River Bridges	50
5.	Charge Day Care according to Federal standards	15
6.	Reduce City University salaries to State University salary rates	10
7.	Renegotiate employee contracts to require partial -- 20% contribution of employees to the retirement	200
8.	Reduction in primary and secondary education costs	100
9.	State takeover of city court system	120
10.	State takeover of correction system (tax levy cost)	90
11.	Reduction in levels of free hospital services ($340 million tax levy)	100
12.	No increase in pay levels under pending negotiations	350-400

Elements of a Fiscal Improvement Program for New York City

1. Phase out the use of long-term borrowing to finance operating expenses over a 5 to 10 year period by amendments to the Local Finance Law. This should include requirements for disclosure of all such items now included in the capital budget or "outside the certificate."

2. Reduction of the City's short-term debt position in line with a plan for the next 12 to 18 months. This should include a program of improved advances/reimbursements of State and Federal aid.

3. Improvements in the City's financial accounting and reporting systems by means including:

   Work toward adoption of MFOA principles and standards

   Install improved accounting systems

4. Installation of a long-range fiscal planning process (3 to 5 years) for City expenditures and -- in so far as feasible -- revenues.

5. Establish a City-State fiscal commission to review aid programs, shared financing of operating programs, etc., along the lines of the Mayor's proposal.

<u>Proposed Comments on the Consequences of a Default by New York</u>

<u>Robert A. Gerard, Director</u>
<u>Office of Capital Markets Policy</u> - TREASURY

There is little doubt that a default by NYC would have a substantial psychological impact on the municipal market and the capital markets generally, NYC accounts for 25% of the short term tax-exempt market; its total outstanding debt is $12-13 billion. A default on even a single note issue would severely reduce the market values of all NYC securities, if it did not close the market entirely.

On the other hand, the cataclysm threatened by some City officials and some bankers is unlikely. NYC banks hold approximately $1.25 billion of NYC securities, slightly more than 1% of their total assets. To the extent a default created liquidity problems for one or more banks, the Fed would undoubtedly step in with loans. There could be serious hardship to individual investors who need to convert to cash, but, if the City took proper measures, it would be short lived.

A default could trigger the kind of radical fiscal action by the City which is required. Such action could induce the banking community -- probably with the blessing of the Fed -- to provide the City with the cash to cure the default and conduct its affairs until enough tangible evidence of progress exists to return to the public market.

<u>Alan Holmes, Vice President</u>
<u>Federal Reserve Bank - New York City</u>

The possible consequences of a default by New York City on its note or bond obligations are difficult to predict, but it seems reasonable to anticipate that general effects on the credit markets would be confined to NYC's own issues and to other issues regarded as having relatively weak credit standings. It is not anticipated that there would be a widespread collapse of the markets in State and local issues generally.

A major unknown in this analysis is the possible secondary effect that might stem from a significant weakening of confidence in the large New York City banks. The major banks hold sizable amounts of NYC obligations and depositors could be feared of the consequences of the City banks facing large losses or significant liquidity problems. While this result is a <u>risk</u>, it is by no means a foregone conclusion or even a likelihood. Available information on the exposure of large

New York City banks does not suggest that such exposure is a major proportion of capital. On the other hand, one cannot entirely dismiss the possibility of "irrational reactions" in the financial community.

J.C. Partee, Managing Director for Research & Economic Policy - Federal Reserve Board

A default on its note issues by New York City probably would not have significantly adverse effects on the national economy, assuming that the City is permitted to continue to meet payrolls and other current expenses. An austerity program undoubtedly would be forced upon New York City, and the resultant cutbacks over time in current activities would tend to increase the already substantial unemployment problem in that area. Some other hard-pressed communities and governmental entities, adversely affected by increased investor sensitivity to the risk factor in tax exempt securities, might also be compelled to curtail some activities for lack of financing. But the scale of these direct impacts would be very small relative to the overall economy.

Potentially more damaging to the economy would be the possible psychological effects of a New York City default. Banks and other lenders might tighten up on their credit standards generally. Consumers, confronted with this new evidence of weakness in the financial structure of the country, could become even more cautious in their spending behavior. Markets for stocks and corporate bonds could suffer a reaction, with selective declines in those issues judged to be of doubtful or marginal quality. Such a reaction, if it developed, would obviously weaken the prospects for recovery in business capital spending, construction, and postponable consumer expenditures.

DRAFT STATEMENT BY THE PRESIDENT May 12, 1975

New York City faces a financial crisis, and I am sympathetic to Governor Carey and Mayor Beame and all of the residents of our largest city.

Although New York City's fiscal problems are enormous, they come down to this:

The city has been living beyond its means for many years. The cost of the services the City provides has been rising almost twice as fast as the City's capacity to pay for them. The difference between annual income and outgo has been made up in large part by borrowing -- and now the size of New York City's debts are so great that banks are finding it difficult to extend credit to New York City.

But the problem is not new. The New York City fiscal situation was analyzed by a non-partisan State Study Commission for New York City and also by the State Charter Revision Committee for New York City. Both concluded, in effect, that the City's revenue base, big as it is, is simply not large enough to finance all the services that New York City provides.

There is a way out of this dilemma, and I have been pointing to it: Fiscal responsibility, for cities, states, and the Federal government.

I know how hard it is to reduce or postpone worthy and desirable public programs. Every family who makes up a budget has to make painful choices. As we make these choices at home, so also must we make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.

Above all, it seems to me, we must play fair with the public. The extent to which the Federal Government can or should redistribute revenues among the States and cities is limited by standards of equity. The extent to which States can or should subsidize cities is also limited. And the taxpayer, on whom the whole pyramid rests, can only carry so much. It is fruitless to promise him more than he is willing to pay for.

~~Jim Lynn~~

R - Mayors. meeting 5/13/75

Beame -

Liquidity Problem. - cannot resolve itself -

Helpful the city clean can [illegible] offering municipal offerings.

Do Not know
Concern future of city - future

Not looking for a handout -

Looking for Fed part.
min credit of city in some
~~[illegible]~~

Paper not acceptable.
"liquidity crisis"

Public policy question -

[illegible] --

[illegible] wonder not impair
Fed Budget and world

Beame —

money we need is supplied by revenues · by fees [illegible] & credit.

When I came in - 1½ deficit

Jan 74 — to Feb 75 - banks were lending money.

By June 30, 76 — we will have 35,000 fewer positions

25,000 fewer employees

Keeping people [illegible]

Got unions to open contracts & give up benefits.

P- [illegible] [illegible] [illegible]
To [illegible] / w/o capital
accounts?

[illegible] - yes

can't [illegible] in 18 [illegible]
what was done in previous
8 yrs -

640 in Tax [illegible] gap
250 [illegible] actual gap.

can't [illegible],
[illegible] or [illegible] [illegible] & [illegible],
or can't [illegible] [illegible]
[illegible] to [illegible] [illegible].

Blames ☆ on inflation

in 3 days you helped out on
Transit!

Arthur B to suggest
Congressional action to refix
confidence in security Banks

Hugh - No matter how.
look ounces to what
for 10%.

because Banks will

Hugh - far better to answer
question than let it go
bankrupt.

Took 10 yrs to get into situation,
can't get out in a month

I ~~State~~ - C
NYC - can do it
w/

Credit of state of N.Y.
could not be impaired

Full way of N.Y.C..

Econ - Drop of 3% in next
three am.

If we walk out w/o
some solution, going
to be worse.

IV Banks -
Econ. They should, but
won't

Carey - will explore it.

~~state go to guarantee~~
w/ ~~state~~ fed support

If city goes to what
monetary conduct of Bank -

Simon - Burns covered
believe it.

~~If Default~~, may take
20 yrs to build up
creditability of

P. (1) Raise transit fare
35 to 40 a 50¢

would have to go to $1
to be self-sustaining

(2) city university no tuition -
128 - yr tradition -
one most valuable assets in city history

Boeing / we include [illegible] in
fees in college of
$40,000,000 vs
$26 up now

P — Fed Reserve — ?
[illegible] - dep opposite
vote of 5 of
7 voted

P. Fed govt
loan guarantee
for ltd period of
90 days -
10% of city's guarantee
Rev
$1. — 1.5 B

P. Before any such guarantee would need authorization legis

Today is Tuesday 5/13

P — ~~Tuesday 5/13~~ - Mon 5/20

Beame - needs cash 5/30

P. Things be very Realistic

Beame - If you willing to say you would support it, I think banking community would go out.

Hugh - only Fed reserve to finance this would require with be bad orderly marketing -

Sit down look at

the books' numbers

of this people

P – I don't think any P comes with that commitment unless & until we see facts & figures of this balanced budget

accurate ages

I'm going to look at this cost – in black & white –

Hard down on tax rises and to expenditures

tough decisions – built up over period of time –

Before I make any commitment, I've got to see it in black & white.

Put weapons inside

Pledges to newspapers

To [illegible] (NATO and to [illegible])

Carey - next night - always, etc.

=

[illegible] - making progress.

[illegible] - wants to [illegible] in this [illegible]:
[illegible] want to go along

If we can get [illegible] by Thursday.

P - talk with him

I want to help you,
But best way is
to make politics
in my [illegible]
up to the limit [illegible]

P. You're willing to
Break with the
members of the
Council

P. Before we could do
what is necess, alone,
would have to have
Am. Public consent
but ~~full~~ backing w/
full support of Cong.

From our 24 hours, and
you see what you
can do.

~~at~~ ~~next~~ Next

P. — for 10 yrs it was done
wrong - you've got to
do it right

Hugh - Day of generosity is gone

P - can't commit him
if there are any
new loopholes

Basically I want to
wipe out many
words at least 10
yrs, I can't go
along.

P — Pick out the

things they

must do

& cut.

Then Communication &

Working assembly

Committee

Good faith effort

to help W7 legislation

or do what Dick says

THE WHITE HOUSE

WASHINGTON

May 14, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON JMC

SUBJECT: Response to New York City's Request for Credit Assistance

Yesterday the Mayor and the Governor asked you to propose and/or support legislation which would enable the City to use the credit of the Federal Treasury for a period of 90 days in an amount of $1 billion.

You agreed to respond to them in about 24 hours. Your response could be:

1. Agree to support the concept.

2. Flatly deny the request.

3. Deny the request, but leave a slight loophole which would enable the Federal Government to assist the City if disruption of the financial markets did occur as a result of a default; and/or subject to certain conditions and restrictions.

I recommend the last alternative.

Your response could be in the form of

1. A telephone call.

2. A Presidential statement.

3. A statement by Jim Lynn.

4. A letter from the President.

I recommend the last alternative and have attached a draft letter. It could, of course, be used as the basis of a telephone call or a statement, if you prefer. But it seems to me that a letter is best to

-- Address the complexity of the issue, and

-- Explain to the financial community the care with which you have considered this matter and the reasoning that supports your decision.

A

DRAFT

LETTER TO MAYOR BEAME

Dear Mayor Beame:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request to them for increased taxing authority and subsequently enable you to submit a balanced budget to the City Council and adoption of that balanced budget for the City fiscal year beginning on July 1, 1975.

I was deeply impressed with problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to bring into balance the extraordinary imbalance between current revenues and current expenses.

However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but might just postpone coming to grips with it for that period.

For a solid judgment to be made by all concerned -- the State of New York, the City Board of Estimate and the City Council, the financial community and the Federal government -- there must be presented a plan on how the City would balance a budget if no additional state aid or federal assistance is available. This, given the amount involved, would probably require an evaluation of what activities the City can drop, can transfer to New York State or other jurisdictions -- and what the City can do through curtailment of less essential services and subsidies to meet this crisis.

I must point out certain other municipalities have had to confront their financial situation with major cuts in their expenditures and services -- proportionally, perhaps more serious than that of New York.

When this austerity budget plan has been prepared, I suggest it be forwarded to Governor Carey and to Secretary of the Treasury Simon.

From the information brought out in our discussions and other materials made available to me, it appears there are areas for the City and State's consideration and action. Among them, I am informed, are:

Incorporation of the City University of New York within the State University system. This could relieve the City of a substantial expenditure burden and needy students would not have to bear tuition costs because of the State's scholar incentive and scholarship program.

Following the former Environmental Plan for New York and placing tolls on the East River Bridges.

Transfer of certain Court and Correction charges to the State.

Freezing of City payrolls and salary levels, including the stopping of all hiring.

Review of all subsidies, including mass transit which now has both Federal and New York State contributions in addition to those of the City.

Difficult as any of these or other measures are, adoption would have a substantial and salutary effect on the credit of the City of New York.

More specifically, in regard to your request to me for support of a legislative measure to provide Federal backing and guarantee of City debt, I believe that the proper place for such a request is to the State of New York. For such "bridge loan legislation" it seems to be both logical and desirable for the State of New York to arrange such a "bridge loan" using as collateral the $2.9 billion of State aid to the City that you estimate will be received during the City's fiscal year.

In view of the foregoing considerations, I have concluded that I must decline your request for support of your Federal legislative proposal.

More specifically, in regard to your request to me for support of a legislative measure to provide Federal backing and guarantee of City debt, I believe that the proper place for such a request is to the State of New York. For such "bridge loan legislation" it seems to be both logical and desirable for the State of New York to arrange such a "bridge loan" using as collateral the $2.9 billion of State aid to the City that you estimate will be received during the City's fiscal year. This should give you the 90-day breathing period you feel is necessary.

In conclusion, I have no recourse but to deny your request to me ~~at this time~~ for my support of your legislative proposal.

I have asked Secretary Simon to monitor the credit situation of the City of New York very closely over the next few weeks and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

B

Comments on a New York City Default

The hard question is what would happen if a default occurred in May or June or later this summer.

I asked Secretary Simon for his opinion in regard to the effect of a possible default on the financial markets and the domestic economy as a whole. He has surveyed, by telephone, people in the investment community around the country.

In summary, his opinion as a result of these calls is that:

"The market reaction, in the event of a default, would be very damaging, as reflected by a number of leading institutional investors and market observers."

Dick Dunham's comments are:

"There is, however, a deep concern expressed in the financial community about the impact of a New York City default on the municipal bond market generally -- that is, on all tax-exempts including not only municipalities but public authorities and state governments as well. A New York City default coming right after an Urban Development Corporation default could create a serious crisis of confidence. The UDC problem has had a deleterious impact already -- and has reflected itself in higher rates for certain issues and some difficulties in financing capital projects. Apart from the financial problem, at a time when construction jobs are needed to stimulate activity, it would not appear desirable to run the risk of drying up municipal, public authority or state financing."

"Another matter of concern is the postures of the banks, brokerage houses and municipal bond houses in this situation. How much New York City paper these institutions hold is not known, but there is undoubtedly in their hands, in trust accounts, and among their customers, enough to cause very serious difficulties. It could face the banks with serious potential "write-offs" at a time when they have already substantial "Frozen" portfolios in REITS, etc. It could lead to suits by individual holders against the banks, brokerage and bond houses (and perhaps bond-rating houses), further eroding confidence -- at a time the economy needs confidence."

5/14/75

2d **DRAFT** 2:45 pm

LETTER TO MAYOR BEAME

Dear Mayor Beame:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request to them for increased taxing authority and subsequently enable ~~you to submit~~ submission & adoption of a balanced budget ~~to the City Council and adoption of that balanced budget~~ for the City fiscal year beginning on July 1, 1975.

I was deeply impressed with problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to bring into balance the extraordinary imbalance between current revenues and current expenses.

However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but might just postpone coming to grips with ~~it~~ for that period the problem.

For a solid judgment to be made by all concerned ~~the State of New York, the City Board of Estimate and the City Council, the financial community and the Federal government~~ there must be presented a plan on how the City would balance its ~~a~~ budget. ~~if no additional State aid or Federal assistance is available.~~ This, given the amount involved, would ~~probably~~ require an evaluation of what activities the City can ~~drop~~, can transfer ~~to New York State or other jurisdictions~~ -- and what the City can do through curtailment of less essential services and subsidies to meet ~~this~~ crisis, and

I must point out ~~certain~~ that other municipalities have had to confront their financial situation with major cuts in their expenditures and services -- proportionally, perhaps more serious cuts than ~~that of~~ New York City.

~~When this austerity budget plan has been prepared, I suggest it be forwarded to Governor Carey and to Secretary of the Treasury Simon.~~

A

AS cb

Dubious [illegible]

From the information brought out in our discussions and other materials made available to me, it appears there are areas for the City and State's consideration and action. Among them, I am informed, are:

[illegible] out

[illegible] out

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Transfer of certain Court and Correction charges to the State.

Freezing of City payrolls and salary levels, including the stopping of all hiring.

Review of all subsidies, including mass transit which now has both Federal and New York State contributions in addition to those of the City.

Difficult as any of these or other measures are, adoption would have a substantial and salutary effect on the short and long term credit of the City of New York.

2

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In conclusion, I have no recourse but to deny your request to me ~~at this time~~ for ~~the~~ support of your Federal legislative proposal.

I have asked Secretary Simon to monitor the credit situation of the City of New York very closely over the next few weeks and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

~~Concluding~~

In view of the foregoing considerations I have concluded that I must deny your request for support of your Federal legislation proposal

Comments on a New York City Default

The hard question is what would happen if a default occurred in May or June or later this summer.

I asked Secretary Simon for his opinion in regard to the effect of a possible default on the financial markets and the domestic economy as a whole. He has surveyed, by telephone, people in the investment community around the country.

In summary, his opinion as a result of these calls is that:

"The market reaction, in the event of a default, would be very damaging, as reflected by a number of leading institutional investors and market observers."

Dick Dunham's comments are:

"There is, however, a deep concern expressed in the financial community about the impact of a New York City default on the municipal bond market generally -- that is, on all tax-exempts including not only municipalities but public authorities and state governments as well. A New York City default coming right after an Urban Development Corporation default could create a serious crisis of confidence. The UDC problem has had a deleterious impact already -- and has reflected itself in higher rates for certain issues and some difficulties in financing capital projects. Apart from the financial problem, at a time when construction jobs are needed to stimulate activity, it would not appear desirable to run the risk of drying up municipal, public authority or state financing."

"Another matter of concern is the postures of the banks, brokerage houses and municipal bond houses in this situation. How much New York City paper these institutions hold is not known, but there is undoubtedly in their hands, in trust accounts, and among their customers, enough to cause very serious difficulties. It could face the banks with serious potential "write-offs" at a time when they have already substantial "Frozen" portfolios in REITS, etc. It could lead to suits by individual holders against the banks, brokerage and bond houses (and perhaps bond-rating houses), further eroding confidence -- at a time the economy needs confidence."

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THE WHITE HOUSE

WASHINGTON

May 14, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Response to New York City's Request for Credit Assistance

Yesterday the Mayor and the Governor asked you to propose and/or support legislation which would enable the City to use the credit of the Federal Treasury for a period of 90 days in an amount of $1 billion.

You agreed to respond to them in about 24 hours. Your response could be:

1. Agree to support the concept.

2. Flatly deny the request.

3. Deny the request, but leave a slight loophole which would enable the Federal Government to assist the City if disruption of the financial markets did occur as a result of a default; and/or subject to certain conditions and restrictions.

I recommend the last alternative.

Your response could be in the form of

1. A telephone call.

2. A Presidential statement.

3. A statement by Jim Lynn.

4. A letter from the President.

I recommend the last alternative and have attached a draft letter. It could, of course, be used as the basis of a telephone call or a statement, if you prefer. But it seems to me that a letter is best to

-- Address the complexity of the issue, and

-- Explain to the financial community the care with which you have considered this matter and the reasoning that supports your decision.

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DRAFT

LETTER TO MAYOR BEAME

Dear Mayor Beame:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request to them for increased taxing authority and subsequently enable you to submit a balanced budget to the City Council and adoption of that balanced budget for the City fiscal year beginning on July 1, 1975.

I was deeply impressed with problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to bring into balance the extraordinary imbalance between current revenues and current expenses.

However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but might just postpone coming to grips with it for that period.

For a solid judgment to be made by all concerned -- the State of New York, the City Board of Estimate and the City Council, the financial community and the Federal government -- there must be presented a plan on how the City would balance a budget if no additional state aid or federal assistance is available. This, given the amount involved, ~~would probably~~ requires an evaluation of what activities the City can drop, can transfer to New York State or other jurisdictions -- and what the City can do through curtailment of less essential services and subsidies to meet this crisis.

I must point out certain other municipalities have had to confront their financial situation with major cuts in their expenditures and services -- proportionally, perhaps more serious than that of New York.

When this austerity budget plan has been prepared, I suggest it be forwarded to Governor Carey and to Secretary of the Treasury Simon.

From the information brought out in our discussions and other materials made available to me, it appears there are areas for the City and State's consideration and action. Among them, I am informed, are:

Incorporation of the City University of New York within the State University system. This could relieve the City of a substantial expenditure burden and needy students would not have to bear tuition costs because of the State's scholar incentive and scholarship program.

Following the former Environmental Plan for New York and placing tolls on the East River Bridges.

Transfer of certain Court and Correction charges to the State.

Freezing of City payrolls and salary levels, including the stopping of all hiring.

Review of all subsidies, including mass transit which now has both Federal and New York State contributions in addition to those of the City.

Difficult as any of these or other measures are, adoption would have a substantial and salutary effect on the credit of the City of New York.

More specifically, in regard to your request to me for support of a legislative measure to provide Federal backing and guarantee of City debt, I believe that the proper place for such a request is to the State of New York. For such "bridge loan legislation" it seems to be both logical and desirable for the State of New York to arrange such a "bridge loan" using as collateral the \$2.9 billion of State aid to the City that you estimate will be received during the City's fiscal year. This should give you the 90-day breathing period you feel is necessary.

In conclusion, I have no recourse but to deny your request to me at this time for my support of your legislative proposal.

I have asked Secretary Simon to monitor the credit situation of the City of New York very closely over the next few weeks and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

ACTION

THE WHITE HOUSE

WASHINGTON

May 14, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: Letter to Mayor Beame

Attached, with minor editing and one major change, is the letter to Mayor Beame that you received this morning.

The major change is the deletion of the listing of specific items recommended for reductions in the city's budget. All of your senior advisers felt that these reductions could best be covered in the press briefing which Bill Simon and Dick Dunham will do this evening. So that if and when they are made they will not be identified personally to you by New York City officials.

The letter has been reviewed and approved by Jack Marsh, Bill Simon, Bill Seidman, Alan Greenspan, and Jim Lynn. Paul Theis has reviewed it.

RECOMMENDATION

I recommend that you sign the attached letter as soon as possible.

THE WHITE HOUSE

WASHINGTON

Dear Abe:

The purpose of this letter is to respond to your and Governor Carey's request to me for my support for Federal legislation which would enable the City of New York to use the credit of the United States for a period of 90 days and in the amount of $1 billion.

As you and Governor Carey explained it to me, this 90-day period would enable the City to bridge the period needed for the New York State Legislature to act upon your request for increased taxing authority and subsequently enable you to submit, and the City Council to adopt, a balanced budget for the fiscal year beginning on July 1, 1975.

I was deeply impressed with the problems you and the City Council must face in the next few weeks in meeting the financial problems of the great City of New York. I was also deeply impressed with the difficult steps confronting you to bring into balance the extraordinary imbalance between current revenues and current expenses. However, it was also clear that the City's basic critical financial condition is not new but has been a long time in the making without being squarely faced. It was also clear that a ninety day Federal guarantee by itself would provide no real solution but would merely postpone, for that period, coming to grips with the problem.

For a sound judgment to be made on this problem by all concerned, there must be presented a plan on how the City would balance its budget. This, given the amount involved to accomplish that balance, would require an evaluation of what the City can do through curtailment of less essential services and subsidies and what activities the City can transfer under existing state laws to New York State.

I must point out that other municipalities have had to confront their financial situation with major cuts in their expenditures and services -- proportionally, perhaps more serious cuts than those facing New York City.

Fiscal responsibility is essential for cities, states and the Federal government. I know how hard it is to reduce or postpone worthy and desirable public programs. Every family who makes up a budget has to make painful choices. As we make these choices at home, so must we also make them in public office too. We must stop promising more and more services without knowing how we will cover their costs.

I have no doubt that the adoption of sound budget policies would have a substantial and salutary effect on both short and long term credit of the City of New York.

More specifically, in regard to your request to me for support of Congressional legislation to provide Federal backing and guarantee of City debt, I believe that the proper place for any request for backing and guarantee is to the State of New York. For such "bridge loan legislation", it seems to be both logical and desirable for the State of New York to arrange such a "bridge loan", using as collateral the $2.9 billion of State aid to the City that you estimate will be received during the City's fiscal year.

In view of the foregoing considerations, I must deny your request for support of your Federal legislative proposal.

I have asked Secretary Simon to follow closely the credit situation of the City of New York over the next few weeks, and to keep me informed.

The Federal Reserve Board, under its statutory responsibilities, will, I am sure, likewise monitor the situation very closely.

Sincerely,

The Honorable Abraham D. Beame
Mayor of New York City
New York, New York

EXECUTIVE

LG/New York City

THE WHITE HOUSE

WASHINGTON

May 14, 1975

Dear (Abe:) Abraham D. Beame

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Gerald R. Ford

The Honorable Abraham D. Beame
Mayor of New York City
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