The original documents are located in Box C29, folder "Presidential Handwriting, 10/27/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

October 27, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: BILL SEIDMAN

FROM: JIM CONNOR

SUBJECT: New York City

The attached memorandum was returned in the President's outbox with the following notation addressed to you:

"See that this is examined carefully"

Please follow-up with appropriate action.

cc: Don Rumsfeld

THE WHITE HOUSE
WASHINGTON

Bill Seidman

See that this is handled carefully.

GRF

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

October 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: New York City

I asked Dick Dunham to come over this morning to discuss a possible resolution of the New York City problem.

Dick and I felt it would be appropriate for him to summarize his views for you, and a copy of his memorandum is attached.

CC: The Vice President
Mr. Rumsfeld
Mr. Hartmann
Mr. Seidman
Mr. Greenspan

THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

October 25, 1975

MEMORANDUM FOR: JIM CANNON

FROM: DICK DUNHAM

SUBJECT: New York City

It is my recommendation that the Administration propose a new statute which would govern the situation in New York City. This statute should not use the words bankruptcy or default but would be called something like, "A statute providing for the reconstitution of municipalities' debts."

The main features of this statute would be:

1. It would parallel the existing Chapter 11 of the Federal bankruptcy laws.

2. It would reference the existing Chapter 11 in such a way that the existing state law which gave New York City permission to petition the Federal court under Chapter 11 could be used.

3. The essential feature would be that it would by-pass the existing provision of Chapter 11 which requires that permission of 51% of the creditors is required in order to effectuate a voluntary reorganization of debt. This feature would avoid the present problem of trying to find the note and bond holders and the fact that so much of the paper is in the form of bearer certificates.

4. On petition of the city, the Federal judge would authorize the reconstitution or conversion of the existing three billion dollars of short-term notes into the three billion dollars of long-term Big Mac bonds. The Big Mac authorization is now for a total of five billion dollars of bonds, of which two billion have been sold.

5. The court would designate the state Emergency Financial Control Board to act as trustee and/or enforcer of the three-year financial plan already adopted by that board this week and hold them accountable for accomplishing the balancing of the budget over a three-year period. You will recall that the three-year financial plan adopted by that board includes in its plan the assignment of sufficient revenues to finance the debt service on the five billion dollars of Big Mac bonds.

6. The purpose, therefore, of this statute would merely be to effectuate and legitimize the state plan which has already been adopted. This plan cannot be accomplished at the present time because of the inadequacy of existing Federal statues governing "bankruptcy of municipal corporations" and the failure of the financial community or investors to accept that board's plan and reopen the market.

7. There are two elements of the New York City debt situation that this plan would not solve:

   The first of these is the financing of the legitimate short-term cash flow needs of the city other than the accumulated three billion dollars of deficit mentioned above.

   There are two possibilities: First, if the Big Mac plan is in effect legitimized by this Federal statute and action of the appropriate Federal court, it is quite possible that the financial markets would be reopened to the city for legitimate short-term financing on a tax-anticipation basis of the city's short-term cash flow needs.

   Second, if this reopening does not occur, the statute could provide for the issuance of trustee certificates under the authority of the Federal court to get over the one, two or three-year period while the city budget is being balanced and the accumulated deficits paid off.

The Federal court would not have and, in my opinion, should not have, any direct enforcement powers over the management decisions required to accomplish the three-year financial plan and the budget actions necessary to accomplish that plan. The Federal court could, by statement or by its order, designate the Emergency Financial Control Board as its trustee or representative.

If, however, the trustee certificates mentioned above were used to finance the legitimate short-term cash flow needs of the city which, in normal course, turn over every 30, 60 or 90 days, it would get direct enforcement powers by refusing to permit the issuance of new certificates during the course of the period that they were needed.

8. The second problem that is not covered, as I understand it in either the three-year plan adopted by the Emergency Board or in this scenario, is the financing of the cash requirements of the capital budget. The capital budget has always been financed by 40-year bonds with the property tax as the basic and underlying guarantee. By virtue of the fact that the markets have been closed to all issues of the city of New York, the expenditures generated under former capital budgets are not now being financed on a long-term basis and therefore constitute a working drain on the current revenues of the city. This sum amounts to, on the average, about 1.5 billion dollars for each of the next three years.

If these actions discussed in this memorandum are successful and the market is reopened to New York City securities, the problem, of course, disappears.

It should be pointed out that the cash requirements of the capital budgets decrease quite rapidly over the next two and three and four-year periods and that capital expenditures discussed in this section were generated by authorizations of the last decade. The city and the state board have cut the capital budget extensively and, as I understand it, have not authorized any new starts.

Jim, this is not a completely staffed-out proposal and I do not know all the legal issues on either the Federal or the State side.

In addition, I would want to have some more understanding of the State's three-year financial plan for the city that I now have before it was finalized.

Therefore, please consider it an outline of a method which provides for an orderly bankruptcy proceeding without calling it that and thus may avoid more radical and undesirable Congressional actions such as guarantees.