**The original documents are located in Box 78, folder "New York City, May – October 1975 (1)" of the L. William Seidman Files at the Gerald R. Ford Presidential Library.**

THE WHITE HOUSE
WASHINGTON

Date 5/15

TO: Roger

FROM: John G. Carlson

attached is the info. on N.Y. you requested, 5-15

MAY 12, 1975

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

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

<u>Why has the President rejected giving financial aid to the City of New York?</u>

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

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

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

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



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

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

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

GUIDANCE (continued):

1. It is my understanding that New York City is the only city in the country with a free higher education system. If they would end the free tuition policy at the City University, and just establish the State University tuition rate, for those who could afford it, it would bring in about $60 million annually.

2. If the subway fare was raised 5¢ from 35¢ to 40¢, this would bring an additional $50 million annually.

3. By imposing a toll on the East River Bridges, this could bring in about $50 million annually.

4. I am told by some that the City University salaries are higher than those at Harvard, Yale and Princeton, and if these salaries were reduced just to the State University salary schedules, this would bring in an additional $10 million annually.

5. If the employee contracts were/re negotiated to require them to make partial contribution to the retirement fund, this would bring in $200 million a year. At the present time, the employees make no contribution toward their retirement.

6. It is my understanding that the employees will receive an 8% salary increase in the next fiscal year. The President has proposed that all Federal salaries be capped at 5%, and if the City of New York went along with this and the employees went along with this, each 1% saving would bring in $50 million or a total of $150 million would be saved.

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

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

(More)

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

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

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

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

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

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

JGC

N.Y.

May 9, 1975

SUBJECT: SIMON ADVISES NEW YORK OFFICIALS NOT TO EXPECT FEDERAL BAILOUT

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

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

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

<u>What was the Administration's response to Governor Carey and Mayor Beame?</u>

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

(More)

<u>What have you advised New York to do?</u>

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

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

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

JGC

NY City

# STATEMENT BY WILLIAM E. SIMON

Treasury Secretary William E. Simon announced today
that the Federal Government had decided not to provide the
special financial assistance which had been
requested for the City of New York. New York City Mayor
Abraham ... were informed
of the ... sted a meeting
with the ... uch a meeting
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Sec ... ponse to a
request ... a Washington
meeting ... rman Arthur
Burns o ... enior Adminis-
tration ... , Secretary
Simon s ... ation to the
City's ... nths. Treasury
Under ... government
offici ... Reserve have
met fr ... and with members
of the ... meetings and
our own internal evaluation, we have concluded that not only
is the Federal Government's legal authority to provide
financial assistance limited, but also that such assistance
would not be appropriate. The fundamental solution to the
City's financial problems does not lie at the Federal level."

---

Department of the Treasury

Assistant Secretary
(Trade, Energy, and Financial Resources Policy Coordination)

to: Bill Seidman

room: ______ date: 5/12

F.Y.I. We issued the attached last Saturday night.

Gerry

Gerry Parsky

Gerald L. Parsky
room 3321
ext. 5164

STATEMENT BY WILLIAM E. SIMON

Treasury Secretary William E. Simon announced today that the Federal Government had decided not to provide the special financial assistance which had been requested for the City of New York. New York City Mayor Abraham Beame and New York Governor Hugh Carey were informed of the decision Thursday, May 8, 1975 and requested a meeting with the President to discuss this decision. Such a meeting will take place on Tuesday May 13, 1975.

Secretary Simon's announcement came in response to a request made by the Governor and the Mayor at a Washington meeting Tuesday May 6 with the Secretary, Chairman Arthur Burns of the Federal Reserve Board and other senior Administration officials. Commenting on the decision, Secretary Simon stated: "We have given careful consideration to the City's financial situation for the past two months. Treasury Under Secretary Jack F. Bennett, other senior government officials and representatives of the Federal Reserve have met frequently with City and State officials and with members of the financial community. Based upon these meetings and our own internal evaluation, we have concluded that not only is the Federal Government's legal authority to provide financial assistance limited, but also that such assistance would not be appropriate. The fundamental solution to the City's financial problems does not lie at the Federal level."

[5-7-75]

NY City

Principal Options for the Executive Branch Relative to the Current Financing Problems of the City of New York

1. Inform the City promptly and definitively that additional aid will not be forthcoming from the Administration.

2. Accelerate the timetable of available payments to states and localities of some forms of federal assistance:

   a) by offering Medicaid payments on the same estimated outlay basis as Medicare payments. (The effect for the City would probably be $75 million federal plus a matching $37.5 million of state permanent assistance. It is reported that the state may also be in a position to advance $100 million of additional payments of this type. Nationwide federal cost could be as high as $.5 billion) And/or

   b) by advancing the scheduled July 7 general revenue sharing payments. (The total temporary advance by the federal government would be about $1.3 billion, of which the city would receive $64 million directly and presumably, $57 million through the state.)

3. Join with New York officials in urging immediate passage by the Congress of legislation authorizing the Treasury or the Federal Financing Bank to lend to cities. (The bill proposed by the city would authorize up to $5 billion.)

4. Urge the Federal Reserve to offer emergency loan assistance to cities, including New York.

5/7/75
Alan Holmes

Possible market consequences

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 New York City'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 New York City obligations and depositors could be fearful of the consequences of the City banks facing large losses or significant liquidity problems. While this result is a risk, 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.

The immediate impact of a default on New York City would be a further accentuation of the quality upgrading that has already been in process, in the wake of continued discussions in the press and financial community about New York City financial problems.

Upgrading of this type was very clear after the UDC's failure to pay off maturing notes in February. The immediate impact then was a sharp drop in prices of UDC obligations, other "moral obligations" of New York State, and to some extent, New York City obligations. On the other hand, New York State general obligations were not affected; nor were the general obligations of other well-regarded issuers. New York City general obligations were affected adversely by UDC's experience because New York City was another issuer that investors had come to regard with scepticism.

Clearly, a default on a New York City obligation would sharply cut prices on all New York City debt. Other cities that are known to have financial problems--such as Newark, Detroit, Philadelphia--would also come under pressure. However, the ability of well-regarded issuers to sell debt probably would not be impaired. Demand for very high grade issues probably would increase.

5/7/75
J.C. Partee

Possible economic consequences

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.

On balance, though, these adverse responses seem unlikely to develop on any appreciable scale. The problems of New York City finances have come to be increasingly widely recognized over recent weeks and months, so that a default would come as no great surprise. The supply of credit is generally abundant and liquidity is available through the banks--and, if necessary,through the Federal Reserve--to cushion shocks in particular markets that might occur. Reassuring statements could be issued regarding the limited exposure to ultimate loss that banks and other institutionsal investors are likely to face with respect to this and other municipal security holdings. Altogether, it should be possible to make it rather quickly apparent to the public that the financial problem of New York City is a localized one, without significant implications for the health of the U.S. economy as a whole.

5/7/75
J.C. Partee

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New York City
Cash Account Data

I. Simplified Income Statement for Period May 8, 1975 - June 30, 1975

| Revenues (without borrowing) | | | Expenditures | |
|---|---|---|---|---|
| Real Estate Tax | $64 MM | | Payroll | $671 MM |
| General Taxes | 381 MM | | Welfare & other Social Services | 362 MM |
| Shared Taxes & State Revenue Sharing | 649 MM | | Hospitals & other Agency Payments | 130 MM |
| Welfare Payment Reimbursements | 323 MM | | Benefits (pension) | 102 MM |
| | | | Debt Service | 1,677 MM |
| Aid to Education | 488 MM | | Capital Projects | 197 MM |
| Other State & Federal Aid | 25 MM | | Vendor Payments | 163 MM |
| | | | Total | $3,302 MM |
| Miscellaneous | 15 MM | | | |
| Total | $1,945 MM | */ | Total less Debt Service | $1,625 MM |
| | | | Total less Debt Service, Capital Projects & Vendor Payments | $1,265 MM |

*/ As a technical legal matter, approximately $1 Billion of this amount should be "segregated" -- i.e. escrowed -- for retirement of short term debt issued in anticipation of welfare, education and other revenues. However, to the extent the City decides to deal with its problem by suspending debt service payments, there is little reason for it to continue segregating.

II. Selected Major Expenditure Events
(not all inclusive)

| Date | Purpose | Amount |
|---|---|---|
| May 23 | Payroll - General | $90 MM |
| 27 | Welfare & Soc. Services | 16 MM |
| 28 | Welfare & Soc. Services | 5 MM |
| 30 | BAN Maturity | 234 MM |
| 30 | Payroll - Weekly | 7 MM |
| June 2 | Payroll - Teachers | 97 MM |
| 6 | Payroll | 90 MM |
| 8 | Payroll | 6 MM |
| 9 | Payroll | 41 MM |
| 11 | Note Maturities | 792 MM |
| 13 | Payroll | 8 MM |
| 15 | Bond Debt Service | 2 MM |
| 16 | Payroll | 38 MM |
| 20 | Payroll | 128 MM |

## III. Effect of Suspending Certain Payments

1. If, as of May 8, NYC suspended debt service, payments to vendors and contractors, and segregation of revenues (including return to general fund of amounts segregated to date) NYC could operate without borrowing well into July.

2. If (1) were implemented in full on May 20, NYC would run out of cash about July 1.

Mr. Seidman
Comments by 2:30
please. R. Dunham

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 ~~T~~tax anticipation notes would be used to primarily 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.

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 ~~to~~ 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.

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.

## 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.

Tab B

Illustrative List of Possible Expenditure
Changes in 1975-76 Budget

| | | $million |
|---|---|---|
| 1. | End free tuition at City University<br>Establish State University tuition rate, for those who can afford it. | |
| | 138,000 students | 60+ |
| 2. | Reduce work force. Say 10,000 employees.<br>average salary $11,000<br>fringe benefits 3,300<br>$14,300 | |
| | 10,000 x $14,300 | 143 |
| 3. | Raise subway fares $0.05<br>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.

THE WHITE HOUSE

WASHINGTON

MEETING WITH GOVERNOR HUGH CAREY
AND MAYOR ABE BEAME

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

From: Jim Cannon

## 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

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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.

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

| | | |
|---|---|---|
| 1. | End free tuition at City University<br>Establish State University tuition rate, for those who can afford it. | |
| | | $million |
| | 138,000 students | 60+ |
| 2. | Reduce work force. Say 10,000 employees.<br>average salary $11,000<br>fringe benefits 3,300<br>$14,300 | |
| | 10,000 x $14,300 | 143 |
| 3. | Raise subway fares $0.05<br>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.

## Proposed Comments on the Consequences of a Default by New York

Robert A. Gerard, Director
Office of Capital Markets Policy - 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.

Alan Holmes, Vice President
Federal Reserve Bank - New York City

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 risk, 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.

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.

THE WHITE HOUSE

WASHINGTON

June 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. William Seidman LWS

SUBJECT: New York City Financial Situation

Attached for your information is a memorandum which the Economic Policy Board requested Treasury to prepare on the New York City financial situation.

Att.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

MEMORANDUM TO THE ECONOMIC POLICY BOARD

From: Gerald L. Parsky
Assistant Secretary GLP

Subject: New York City Financial Situation

On June 10, New York State created the Municipal Assistance Corporation ("MAC") primarily to refinance a portion of New York City's short term debt. Although the formation of MAC has clearly bought the City some time, a number of fundamental issues remain to be resolved.

Current Cash-Flow Situation

Today (June 11) $792 million in short term paper matured. The City will meet this obligation as follows:

| | | |
|---|---|---|
| $280 Million | -- | One year, 8% loan from New York Clearing House banks |
| $100 Million | -- | Short term "bridge" loan from MAC. The NYCH banks will lend these funds to MAC at a 5.75% rate. |
| $200 Million | -- | Advance by State of unspecified future payments. The NYCH banks will lend these funds to the State to fund this advance. |
| Balance | -- | Cash on hand, including normal cash flow, increased by pre-payment of real estate taxes, slow payment of suppliers and employees, etc. |

In connection with the $280 million loan transaction, the banks received a letter from Mayor Beame and Comptroller Goldin to the effect that the City will be able to meet other obligations (including note maturities) through June 30, the end of this fiscal year.

Description of MAC

Financing Authority. MAC is a New York corporation with authority to borrow up to $3 billion and to use the proceeds to retire short term securities of the City and to pay operating expenses. It is anticipated that these funds will be used to retire the short term debt maturing between July 1 and September 30 (approximately $1.2 billion) and to fund past advances used to retire the short term debt maturing between April 1 and June 30, 1975.

MAC's borrowings will be secured by a first claim on the City sales tax and the stock transfer tax. These taxes, which now yield approximately $1 billion per year, should be adequate to provide the $300 - 400 million necessary to fund debt service and to pay MAC's expenses. In addition, the enabling legislation includes language creating a "moral obligation" on the part of the State Legislature to fund any shortfall in the debt service reserve.

Structure and Non-Financial Authority

MAC is administered by a nine-person board, five members selected by the Governor and four by the Mayor (most observers were pleased at the high quality of the Mayor's initial selections). The legislation also authorize other State officials to designate non-voting representatives to MAC.

Substantively, the legislation requires the City to improve its financial record-keeping and, more importantly, confers upon MAC stringent responsibility to review and supervise all of the City's financial activities. Specifically, the City must

1. bring its accounting into compliance with generally accepted principles;

2. permit record inspection by MAC and an annual independent audit;

3. obtain MAC approval of its expense budget;

4. phase out use of the capital budget for current expenses;

5. report to MAC on revenue and expenditure plans for each quarter and explain deviations from such plans in past quarters; and

6. obtain MAC approval for budget changes.

In addition, the legislation establishes a complex formula, the effect of which is to limit severely net new short term borrowing by the City and to place even more stringent limits on short term borrowing to be retired by means other than long term debt (i.e., tax and revenue anticipation notes which, in the past, have provided the principal vehicle for increasing the short term borrowing load).

Enforcement Authority

Because MAC will reach its lending limits within months, it will not be able to enforce compliance with its directives by withholding funds from the City. The legislation does authorize MAC to veto new City short term borrowing, but only on the ground that such borrowing would violate the dollar amount ceiling. Finally, MAC is authorized to obtain court injunctions to force the City to comply with the legislation.

As a practical matter, however, whatever long term benefits MAC provides are likely to derive from its pervasive role in the City's budget process and its ability to expose and critize deviations from the mandates of the legislation or sound fiscal principles. This opportunity in turn depends upon keeping MAC non-political. As suggested above, the first selections provide a basis for optimism in this regard.

Remaining Issues

The limited nature of the direct MAC contribution must be emphasized. Under the legislation MAC will not:

1. Balance the F.Y. 1975-76 Budget. While the "official" gap remains $641 million, most observers believe the real figure is closer to $850 million. Moreover, this higher figure does not reflect the fact that sales tax revenues of $300 - 400 million will be paid to MAC, not to the City. When this revenue loss is factored in, the actual shortfall exceeds $1 billion. A final plan of expenditure cuts and new revenues to close the gap has not been adopted.

2. Meet a Major Portion of F.Y. 1975-76 Borrowing Needs. After netting out MAC-financed retirements, it is estimated that the City will still have to issue in excess of $4 billion in short term notes and $1.2 billion in long term bonds. While much of the short term borrowing represents refunding, it is anticipated that there will be a short term borrowing increase of as much as $1 billion, primarily to finance the F.Y. 1974-75 deficit.

Accordingly, between now and late fall, the City and MAC will have to make enough progress toward long term fiscal reform to reopen the public market. The $3 billion reduction in short term debt outstanding will help, but will be insufficient standing alone. If the market is to be more receptive in December than it was in May (as it must to prevent a recurrence of the cash flow crisis), a credible F.Y. 1975-76 balanced budget and substantial progress in the areas outlined by the legislation are a necessity.

May 7, 1975

SUBJECT: NY OFFICIALS MEET WITH SIMON AND OTHER TREASURY OFFICIALS

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

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

Did Secretary Simon make any commitments?

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

Was Mr. Seidman present?

GUIDANCE: Yes



JGC

[6-75?]

# *Simon Tells Mayors Bill to Help Cities Will Be Restudied*

*By a* WALL STREET JOURNAL *Staff Reporter*

WASHINGTON — The Ford administration will "take another look at" a legislative proposal that would channel extra federal aid to cities hard-hit by recession, Treasury Secretary William Simon said.

A group of about 120 mayors meeting at the White House asked the administration to reconsider its opposition to the measure, which is pending in the Senate. As currently drafted, it would provide up to $2 billion to cities whose unemployment rate exceeded 6.5% of the labor force. Mr. Simon told reporters after the meeting that he and James Lynn, director of the office of management and budget, promised to restudy the proposal.

The Treasury Secretary declined to "prejudge" the outcome of the reconsideration, however, and he reiterated the administration's strong opposition to the bill in its present form.

Mayor Ralph Perk of Cleveland, chairman of a Republican mayors' group, said he believes perhaps a 10% unemployment-rate trigger might be "less inflationary," but he emphasized that he didn't expect any commitment from Mr. Simon at this stage on a possible compromise.

At the outset of the mayors' meeting, President Ford cautioned against seeking changes in the formula for apportioning general revenue-sharing funds—the no-strings aid the federal government distributes to state and local governments.

Many members of Congress still oppose general revenue sharing, Mr. Ford said, warning that "if we tinker with the formula," the lawmakers might reject extending the program when it expires in December 1976.

The current formula includes population, need and local tax effort, but there has been considerable support for an adjustment that would permit needier cities to receive more money.

Again expressing optimism about the economic outlook, Mr. Ford observed that the nation had been through a "rough time" and wasn't "totally out of the weeds yet." However, he said, all the economic indicators are improving and "it adds up to the fact that America is going to start bounding upward." As the nation's economy improves, so will the financial situation of the cities, Mr. Ford said.

F Y I

THE New York Stock Exchange

May 22, 1975

. Needham
n and
ecutive Officer

Mr. L. William Siedman
Assistant for Economic Affairs
Executive Office of the
 President
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Mr. Siedman:

For your information enclosed is a letter which was hand delivered to Mayor Abraham Beame yesterday reaffirming the Exchange's unequivocal opposition to proposed increases in the New York State Stock Transfer tax.

As outlined in the letter, these increases would be counterproductive to New York City and State as they would lead to a significant loss of jobs and revenues, both of which the City can ill afford at this time.

Sincerely,

Jim

James J. Needham



New York Stock Exchange, Inc. Eleven Wall Street New York, New York 10005

**THE New York Stock Exchange**

J. Needham
[...]n and
[...]ecutive Officer

Honorable Abraham Beame
Mayor of the City of New York
City Hall
New York, New York

May 21, 1975

By Messenger

Dear Abe:

In light of discussions which we have had with you and with legislative leaders in Albany, I want to reaffirm the New York Stock Exchange's unequivocal opposition to the various proposals to increase the New York State Stock Transfer taxes.

As you know, I believe very strongly that any increase in stock transfer taxes would be counterproductive for the City and State and would seriously erode New York City's historic position as the financial center of the World.

The City will not receive the projected revenues from an increase in transfer tax rates, since investors can and will avoid any transfer tax by moving their securities transactions out of New York. As a result, New York City will sustain a reduction in transfer tax revenues accompanied by a loss of upwards to 20,000 jobs in the securities industry and related industries principally in lower Manhattan and a resultant loss of other state and city tax revenues.

The economic and competitive environment in the securities industry is vastly different today than it was a few years and even a few weeks ago. Developments underway to intensify competition between the markets are discussed in detail in the enclosed memorandum on the "Analysis of the Consequences of an Increase in the Stock Transfer Taxes," copies of which have been previously supplied to you and your staff.



Since May 1, stock exchange members are no longer permitted to charge a fixed commission rate, but are now required

# ANALYSIS OF THE CONSEQUENCES OF AN INCREASE IN THE STOCK TRANSFER TAX

THE New York Stock Exchange

New York Stock Exchange, Inc.
Research Department
April 16, 1975

The New York Times

Founded in 1851
ADOLPH S. OCHS, Publisher 1896-1935
ARTHUR HAYS SULZBERGER, Publisher 1935-1961
ORVIL E. DRYFOOS, Publisher 1961-1963

ARTHUR OCHS SULZBERGER
Publisher

JOHN B. OAKES, Editorial Page Editor
A. H. RASKIN, Assistant Editorial Page Editor

N. Y. City

THE WHITE HOUSE
WASHINGTON

Date June 4,

TO: WILLIAM SEIDMAN

FROM: JIM FALK J

XX For your information

For your appropriate handling

For your review and comment

Return to me

Return to file

Return to central files

Comments:

# Home Misrule

Mayor Beame reportedly has strongly endorsed Governor Carey's proposal for a new state agency to take over a portion of New York City's crushing short-term debt burden. Mr. Beame continues to insist, however, that the new agency must not encroach on "home rule."

That is a reservation we would normally endorse wholeheartedly. Unfortunately, the city authorities have forfeited their right to press it. Nobody in his right mind would—or could—advance to this city the billions of dollars it must have to meet its obligations over the next few months without insisting on drastic changes in the fiscal policies that have made New York a national model of municipal mismanagement.

Although the controls to be exercised by the proposed new Municipal Assistance Corporation have yet to be disclosed in detail, they will have to be sweeping if they are to carry conviction with the Legislature, the Federal authorities and the financial community, all of whom will have to join in advancing the needed cash.

Governor Carey has made it clear that his appointees will dominate the new corporation which City Controller Goldin has correctly described as the "only way" left to avoid bankruptcy. This does entail a humiliating transfer of power and responsibility, but the shift has been made inevitable by the Mayor's persistence, in the face of overwhelming evidence of acute and deep-rooted crisis, in seeking to befog the fiscal picture and to avoid the tough decisions needed to bring municipal revenues and spending into honest balance.

Even now, with New York in imminent peril of default on its obligations, Mr. Beame continues to play politics of the most cynical and ruthless kind with the city's future. His whole approach to cutting the budget has been straight out of Frankenstein, its aim to terrify the community by concentrating cuts of intolerable dimensions in indispensable services. Singled out for particularly punitive treatment have been those districts served by seven Republican State Senators, all in line with the Mayor's brazen bid to bully his opponents into compromises that would prolong and deepen the city's fundamental fiscal distress.

Mindless encouragement for this charade has come from Democratic leaders in the City Council and Board of Estimate, whose own long-time neglect of budgetary responsibilities has significantly contributed to the present shameful slide into dependence on rescue by Albany.

New Yorkers are not likely to regain effective home rule until this era of misrule is ended—or, as City Club chairman Joel Harnett has suggested, until the Mayor who professes to "know the buck" stops passing it.

THE NEW YORK TIMES, WEDNESDAY, JUNE 4, 1975

June 21, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. William Seidman

SUBJECT: New York City Financial Situation

Attached for your information is a memorandum which the Economic Policy Board requested Treasury to prepare on the New York City financial situation.

Att.

LWS/RBP:lc

CHRON