The original documents are located in Box 79, folder "New York City, November 1975 – July 1976 (7)" of the L. William Seidman Files at the Gerald R. Ford Presidential Library.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

MAR 31 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Update on New York City

On Thursday, April 1, I will be testifying before Senate Banking at oversight hearings on the New York City loan program. Particuarly in view of the release last week of Mayor Beame's plan to cut $862 million from the budget in fiscal years 1977 and 1978, my testimony will be extremely complimentary and optimistic. I will, however, discuss other possible actions, including further cuts, needed to restore New York City's long term economic viability.

The Beame Plan

In earlier reports to you, I indicated that while New York City was on schedule for this fiscal year, we were quite concerned about their failure to announce a specific budget reduction program for the following two years. I also noted my belief that no program appeared feasible unless it directly addressed one or more of the following four major areas: welfare, fringe benefits, the City University or the courts and corrections system.

The Beame plan meets both concerns. First, it outlines a comprehensive series of cuts which, if fully implemented, will result in a budget surplus of $76 million in fiscal 1978. Second, it calls for the elimination of all city funding for the University and the courts and corrections system by fiscal 1978. A good indication of the careful and conservative nature of the plan is that it also proposes alternative cuts which can be accomplished by unilateral City action in the event that New York State refuses to take on the expense of running the university or the courts and corrections program.

New York State

Progress continues to be made in completing the New York State $4 billion seasonal financing. On Thursday, April 1, the New York City financial institutions which are leading the effort will begin their attempt to raise $700 million from the 100 largest commercial banks outside of New York State. If this effort is successful, and I believe it will be, the $4 billion financing package should be complete.

Transit Negotiations

The New York City subway workers' contract expires at midnight on March 31. The union continues to demand a substantial wage increase and voted last weekend to strike on April 1 if agreement on an increase was not reached by then. In view of the hard line being taken by New York City and New York State regarding such an increase, there would appear to be a real possibility of a strike on April 1.

William E. Simon

William E. Simon

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FOR RELEASE ON DELIVERY

Statement of the Honorable William E. Simon
Secretary of the Treasury
Before The Senate Committee On
Banking, Housing and Urban Affairs
Thursday, April 1, 1976 at 10:00 AM

NEW YORK CITY'S FINANCIAL SITUATION AND OUTLOOK

Mr. Chairman and Members of this distinguished Committee, I am pleased to provide you with the first formal report to Congress on the administration of the New York City Seasonal Financing Act of 1975. Much has occurred since the New York City financial situation was last before this Committee and later in my remarks today I shall summarize the key events. But at the outset, let me provide you with an overview of the situation as we see it today.

We presently have $1.26 billion of loans outstanding, and we expect repayment of the first $270 million on April 20. Repayment is in part dependent upon successful completion of the New York State financing in April and I am pleased to report that it now appears that the financing will be completed. Accordingly, I am satisfied that there exists a reasonable prospect that the entire $1.26 billion will be repaid by June 30.

Looking at the balance of the three year period, there is now basis for a degree of cautious optimism. Last week, Mayor Beame responded forcefully to increased estimates of the budget deficit by announcing a comprehensive and detailed program of expenditure cuts designed to achieve a budget surplus by fiscal 1978.

Carrying out this plan will not be easy for New York City. Undoubtedly there will be those who will urge that it is impossible, those who will claim that it can only be accomplished over a longer period of time and those who will urge that the price of achievement is severe human hardship.

In my experience in government, too often have I witnessed an unfortunate tendency to allow the naysayers, the purveyors of gloom and doom, to stifle sound and meaningful

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reform. Clearly it would be wrong to adopt a pollyanna attitude and blithely assume that all the problems are solved. But it would be even more wrong to deny New York City, by our words and by our actions, the chance it so clearly has earned by its progress in the past few months.

I believe the job can be done and done within the allotted time frame. I believe the job can be done without disrupting essential services. And most importantly, I believe the rewards of doing the job well and properly are potentially enormous.

Throughout this entire period, there has been much talk about the question whether New York City will be in a position to reenter the capital markets in 1978. I think it's fair to say that it has become fashionable in some circles to assume that there exists no chance of reentry for many years. But I would submit that such predictions are based upon an incorrect factual perspective: an assumption that New York City will not achieve the reforms it is on its way to achieving.

I look at the situation quite differently. I ask myself whether I, as a private lender, would be willing to lend money to an entity which has

-- successfully weathered a severe financial crisis;

-- taken, within a 30 month period, firm actions to correct more than a decade's worth of extreme fiscal and financial neglect, including the permanent elimination of an operating budget deficit of $1 billion;

-- established a sound and credible accounting and financial reporting mechanism; and

-- developed a first rate financially oriented management team.

Today these are still objectives. But if they become reality, I believe New York City will be perceived entirely differently by the credit markets in 1978. This is our goal, and it now appears to be the City's goal as well. As I said a moment ago, let's give them the chance to achieve it.

I. Background

Before outlining New York City's current progress toward fiscal reform, let me take a few moments recalling certain key events that brought us to this point.

At the time I first testified before Congress on New York City's financial situation in June 1975, it was on a hopeful note, immediately following the creation by New York State of the Municipal Assistance Corporation. MAC was authorized to borrow $3 billion on New York City's behalf, intercepting City sales and stock transfer tax revenues to fund what it borrowed. Passage of the MAC legislation prevented default in June, and provided, we then believed, ample time through the summer to make the necessary corrections.

Our optimism was unwarranted. As June turned into July without meaningful action on the fiscal front, the market began to close to MAC as well. Its July issue sold sluggishly, despite an "A" rating and a 9¼% interest rate. Exploratory efforts regarding an August sale indicated that investors would not purchase MAC securities without solid evidence that the City was making meaningful progress toward fiscal and financial reform. On July 17, underwriters informed MAC that its planned August issue could not be marketed unless the City announced meaningful fiscal reform and spending cuts.

In late July, the City and MAC announced plans to reduce spending. Wage freezes, pay cuts for higher salaried employees and layoffs were openly discussed. The announcements were accompanied, however, by a public dispute about MAC's authority to intervene in the City's financial affairs. In addition, the City's labor unions denounced all talk of wage freezes and layoffs of municipal employees.

It soon became clear that MAC could not raise the $840 million needed to cover New York City's August cash needs by public sales of its securities. Less than $300 million was raised from the public despite a tax-exempt interest rate of 11 percent. The remainder was sold to banks and state employee pension funds. Perhaps more importantly, the August sale marked, as a practical matter, the end of MAC's utility as a viable and independent financing vehicle.

In September, New York State took the major step of committing its own credit and resources to the problem. This action was accompanied by a substantial restructuring of the governmental relationship between City and State: The Emergency Financial Control Board was established and given virtually unlimited powers over the fiscal and financial affairs of New York City. Moreover, the law mandated achievement of a balanced budget in the fiscal year ending June 30, 1978, and a showing of substantial progress toward a balanced budget in fiscal years 1976 and 1977.

Under the legislation, New York City was required to submit for Control Board approval a financial plan designed to eliminate the budget deficit by fiscal 1978. The plan as submitted on October 15 predicted a budget deficit of approximately $700 million in fiscal 1978 and proposed to eliminate it in three stages: $200 million in annual expenditure reductions in fiscal 1976 and $262 million per year in both fiscal 1977 and fiscal 1978, thus achieving a small surplus in 1978. As I shall discuss later in my testimony, this deficit estimate proved too low. Much more in the way of expenditure cuts was required.

As required by law, the plan also addressed the capital budget. Total capital spending was cut from the approximately $2 billion originally proposed for fiscal 1976 to $1.6 billion in that year, $1.1 billion in fiscal 1977, and $900 million in fiscal 1978. Operating items in the capital budget -- nearly $700 million in fiscal 1976 -- were to be reduced at a rate of $50 million per year. As I shall discuss later, according to current projections, this target has already been exceeded.

Two issues remained open. First, there was the question of financing the deficits accumulated over the previous decade that resulted in a multibillion dollar overhang of short term debt. And second, in view of the fact that the public credit markets were closed, New York City needed a source of funds to finance operations and the capital program during the 1976-1978 period.

In numerous appearances before this Committee and elsewhere, New York City and New York State officials insisted that they had done all they could and demanded that Federal taxpayers provide the funds to eliminate the overhang of short term debt and meet all of the City's financial needs during the 1976-1978 period. But these demands were seriously questioned in Congress and flatly rejected by the Administration. We believed that such deficit financing had to be provided at the State and local level.

Finally, in late November, we were presented with a financing plan that met the City's requirements. The package consisted of the following elements:

-- New and increased taxes designed to yield $500 million during the period December 1, 1975 through June 30, 1978. Included were higher taxes on personal income, increased bank, estate and cigarette taxes, an increase in the minimum corporate income tax and extension of the sales tax to cover personal services.

-- Increased real estate taxes designed to yield $400 million.

-- Investment of $2.5 billion by the City's pension and sinking funds.

-- Refunding of $1 billion of maturing City notes into 6 percent City bonds by the City's sinking funds, pension funds and major banks.

-- Legislation imposing a moratorium on retirement of the $1.6 billion of New York City notes which were held privately and reducing the interest rate on such notes to 6 percent. In lieu of the moratorium, holders of these notes were given the option of exchanging the notes at face value for ten year MAC bonds, bearing an 8 percent interest rate. Despite the favorable exchange terms, only $500 million of the notes -- less than a third -- were so exchanged.

-- A commitment by New York State to continue to advance $800 million in welfare and education aid in the spring quarter.

These steps were designed to result in a balanced cash flow over the course of each fiscal year, eliminating the need for deficit financing. However, because revenue collections are not uniform throughout the year, seasonal loans remained necessary to assure that payrolls were met, vendors paid and essential services performed in the months in which the City's revenues fell short of its regular monthly expenditures. Accordingly, to assure the continuity of essential services, we asked the Congress for authority to make short-term seasonal cash-flow loans. In early December, Congress passed the New York City Seasonal Financing Act of 1975, providing for up to $2.3 billion in seasonal loans.

II. The Seasonal Loan Program

The Federal Seasonal Loan Program began almost immediately after passage and approval of PL 94-143. On December 18, 1975, the Federal Government loaned New York City $130 million at an interest rate of 6.92%. As required by the statute, the rate reflected the average rate on Treasury debt of comparable maturity, plus a one percent premium. The loan was secured by a pledge of $180 million in State aid to education, and is scheduled to be repaid on April 20.

Credit Agreement

On December 30, 1975, after two weeks of extensive negotiations, we entered into a Credit Agreement with New York City, New York State, the Municipal Assistance Corporation and the Emergency Financial Control Board. The Agreement, a copy of which I shall submit for the record, provides a number of specific protections to the Federal Government. The principal requirements are as follows:

-- Certification by the Emergency Financial Control Board that loans requested are consistent with the City Financial Plan.

-- Agreement by the Mayor, City Comptroller, and Control Board to take all actions necessary to insure that revenues securing repayments are paid into a special repayment account, controlled by the Secretary of the Treasury.

-- Power to require the Governor and State Comptroller to prevent disbursement of State-funded repayment revenues, except to the Secretary of the Treasury.

-- Submission of detailed analyses on a regular basis to provide the flow of information needed to track and monitor the City's performance and adherence to the Financial Plan and Credit Agreement.

-- Right to audit and inspect the books and records of New York City and New York State.

Subsequent to the signing of the Credit Agreement, we loaned New York City $240 million on December 31, 1975, $140 million in January, $430 million in February, $250 million on March 1, and $70 million on March 15. All loans are scheduled to be repaid in full during the spring quarter. Two hundred and seventy million dollars mature on April 20, $240 million on May 20, $250 million on June 20, and $500 million on June 30.

Let me focus on the security. As I have indicated, each loan is directly secured by a specific revenue due New

York City on or before the maturity date of the loan. These encumbrances total $1,944 million and consist of $50 million in City tax levy funds, $382 million in State revenue sharing funds, $602 million in State aid to education and higher education, $110 million in State welfare payments and $800 million of advances of fiscal year 1977 State welfare and education aid. The Agreement provides that these funds cannot be used for any other purposes until our loans are repaid.

Arthur Andersen Report

Prior to signing the Credit Agreement, I retained Arthur Andersen and Company to report to me on the Three-Year Financial Plan and to evaluate New York City's financial reporting and accounting systems. In addition, we asked them to help in the preparation of a financial reporting package.

The Report provoked numerous concerns. I wrote to Mayor Beame on January 20 and asked for his comments on six specific questions raised by the Andersen Report. Chairman Proxmire and Senator Stevenson wrote to me on January 23, asking, in light of the Report, to be "apprised of the factors which led (me) to conclude that there is nevertheless a reasonable prospect of repayment by June 30, 1976," and, in addition, for my answers to eight related questions. I am submitting this correspondence for the record.

While we must be aware of the warnings in the Andersen Report, it is equally important to understand its limits. It did not comment specifically on the Federal loan program or address the question of whether there was "a reasonable prospect" of timely repayment by New York City of the Federal loans which have been made to date.

It is not inconsistent to regard as tenuous the assumptions and forecasts of the City's Three-Year Financial Plan, while at the same time concluding that the City will repay the Federal loans on time. The critical issue involves the aid and advances that New York State is committed to provide New York City in the spring quarter. If it receives the State aid and advances that it is scheduled to receive, New York City's cash flow will be sufficient to repay the Federal loans maturing between now and June 30.

As suggested in the Andersen Report, some of the original assumptions and forecasts in the Plan have already been discarded. As predicted by the Andersen report, the estimated deficit today is substantially higher than the October forecast. But, as Mayor Beame's recent proposal makes clear, this does not mean the plan cannot work. If revenues fall short of projected levels, or if expenditures are higher, other revenues will have to be found, or expenditures cut further. In the final analysis, targeted budget balances can be hit and debts repaid on schedule, if there is a will to cut spending.

In this regard, it is important to note that New York City has little in the way of alternatives. Congress did not contemplate and PL 94-143 does not allow the seasonal loan program to become a vehicle for financing New York City's deficits. And New York City can no longer finance elsewhere the level and diversity of programs and activities they would like to provide but cannot afford. Accordingly, without the prospect of either more Federal loans or funds from other sources, revenues and expenditures must balance by fiscal year 1978. As Mayor Beame recognized last week, quoting Governor Carey's State of the State message, "the days of wine and roses are over."

The Mayor's budget reduction proposal is clearly the most significant indication that this important message appears to be getting through. City officials now recognize that major changes in the way the City conducts its affairs have to be made. But before turning to the specifics of Mayor Beame's new budget proposal, let me first outline the progress in other areas.

<u>Management</u>

There is a new top financial management team on the job. Mayor Beame has two new Deputy Mayors: Kenneth Axelson, on leave from his positions as Senior Vice President of Finance and Administration and Director of the J.C. Penney Company; and John Zuccotti, formerly Chairman of the City Planning Commission. The Mayor also has appointed Donald Kummerfeld, formerly Vice President for Public Finance of the First Boston Corporation, to be the City's Budget Director. Comptroller Goldin has hired Martin Ives, formerly Deputy State Comptroller, to be his Deputy. These are first-rate people.

<u>Reporting and Record-Keeping</u>

As I observed earlier, the Andersen Report concluded that the City's present financial reporting, record-keeping and controls systems are inadequate. We have been advised by Mayor Beame that "a major effort is underway to correct deficiencies in these systems." In that connection, Touche-Ross and Company and American Management Systems are designing a new accounting and controls system to be in place by July 1, 1977. By July 1 of this year, an interim obligation encumbrance reporting system for all agencies will be in operation. This step will help tremendously in controlling unbudgeted spending, which until now has been a serious concern.

Monthly Reports

The Credit Agreement requires detailed monthly financial reports to allow us to oversee the City's progress toward budgetary balance. These reports also will enable City and Control Board officials and staff to monitor progress, and to spot any variances from the forecasts before they get out of hand. The reporting package will be refined and improved as time passes and we gain experience. Andersen personnel are assisting us in this area, and we also are working closely with City, Control Board and GAO staff to perfect the monitoring formats.

Expenses

Expenditures are very close to target for fiscal year 1976. Expenses through January were $12 million higher than planned. Spending for social services and education was $28 and $21 million above targeted levels. Debt service, including MAC, was $34 million above forecast. On the other hand, spending on health and hospitals was $38 million below forecast and spending on police protection and higher education was $9 and $10 million below targeted levels.

Employment

Significant progress has been made in reducing New York City's large payroll. In the first seven months of fiscal year 1976 -- July 1, 1975 to January 31, 1976 -- the payroll was reduced by the equivalent of nearly 35,000 full time employees. And when these gains are added to progress made earlier in calendar 1975, the total payroll reduction exceeds 40,000. In my view, trimming a massive public payroll by 15 percent in one year is a truly laudable accomplishment.

Capital Budget

New York City's most recent monthly forecast shows total capital budget expenditures for fiscal 1976 at

$1.597 billion, $3 million below the financial plan. More importantly, the forecast shows a significant acceleration of the removal of operating expenses from the capital budget.

The original October plan included $697 million of operating items in the fiscal 1976 capital budget and forecast a $50 million annual reduction in both fiscal 1977 and 1978, reducing the total amount included in the capital budget to $597 million in 1978.

The current forecast shows a further reduction of $22 million to $675 million for this fiscal year. For fiscal 1977, the amount eliminated will be almost double that originally planned: a $95 million cut reducing the balance to $580 million. Another $60 million will be cut in 1978, leaving a balance of $520 million, $77 million better than the original projection.

<u>The Budget, the Financial Plan and Mayor Beame's New Proposals</u>

Let me turn now to the highly complex, but critically important, subject of New York City's budget deficit and how it will be eliminated. In evaluating the current status, let's begin with the forecasts of the October financial plan.

The October plan forecast operating deficits of $1.19 billion in fiscal year 1976, $932 million in fiscal year 1977 and $693 million in fiscal 1978, <u>before</u> taking into account the effect of the expenditure reduction program. In other words, New York City predicted that its annual operating deficit would decrease by some $500 million in the normal course of events and thus premised its expenditure reduction plan on the projected 1978 deficit of $693 million. According to the plan, this amount was to be cut from the budget in three steps: $200 million in fiscal 1976, $262 million in fiscal 1977 and $262 million in fiscal 1978. Since the program reductions imposed in 1976 and 1977 would of course also result in savings in 1978, the gross savings in 1978 would be $724 million, generating a $31 million operating surplus.

The $500 million "natural" decrease in the deficit was suspect from the start, and data released by New York City in February confirmed the error. The February forecast showed that the deficit to be eliminated in fiscal 1978 -- again before the effect of any spending cuts -- is $986 million, $293 million more than had been projected in October.

For clarity, let me emphasize one point. Program cuts imposed in 1976 and 1977 obviously have the effect of reducing the operating deficits in those years. But in evaluating the financial plan, we must keep in mind that the target is a balanced budget in fiscal 1978. Accordingly, all cuts -- irrespective of the year in which they are implemented -- should be viewed as reducing the $986 million 1978 deficit.

Until Mayor Beame's recent announcement, New York City had not announced the details of any expenditure reductions other than the $200 million announced and imposed in the current fiscal year. Accordingly, the Beame Plan must and does address the remaining 1978 deficit of $786 million.

The Beame plan calls for deficit reductions of $379 million in fiscal 1977 and $483 million in fiscal 1978. When added to the $200 million savings anticipated this year, the total savings are $1.062 billion, eliminating the projected fiscal 1978 deficit of $986 million and generating a $76 million surplus.

The Beame proposals are incorporated in a detailed document that was submitted to the Control Board on March 26. I am submitting a copy for the Record.

FISCAL YEAR 1977

The Beame plan proposes reducing expenditures by $379 million during the fiscal year ending June 30, 1977. Fifty-four million dollars of this reduction would result from proposed increases in Federal and State funding. The remainder would be achieved through the City's own efforts -- nearly all through reduction in the scope and cost of services and programs currently provided.

The City would cut $250 million by reducing existing programs. Cuts in current programs and residual savings would reduce the City's expenditures for education and higher education by $84 million. Police expenditures would be cut by $40 million, primarily through personnel reductions and management improvements. Previously identified proposals would reduce payments to the Health and Hospital Corporation by $27 million. These proposals, and other means for reducing the City program expenditures by nearly $250 million, are spelled out in the Mayor's Plan.

The Plan provides considerable detail about how the City plans to save an additional $75 million: reducing non-mandated welfare costs ($30 million), reducing fringe benefits ($24 million), and an anticipated reduction in power costs ($16 million) are the key measures.

Finally, the City plans to receive approximately an additional $54 million in Federal and State revenues during FY 1977. State assumption of court and probation costs on April 1, 1977 would save the City $24 million. Increased Federal subsidies for public housing and senior citizens under existing programs is estimated to provide the remaining $30 million.

FISCAL YEAR 1978

The largest saving in 1978 ($113 million) would result from phasing out City support for the City University. In addition, the City would expect to achieve $100 million in savings through further program reductions, increased productivity, greater management efficiency, and other measures.

The remaining savings would be achieved through several measures: withdrawal from the Social Security system ($43 million); increased use of community development funds for tax levy purposes ($50 million); and further reductions in non-mandated welfare costs ($30 million). Additional savings would result from further reductions in power costs, and other measures.

Finally, the Plan calls for an additional $128 million in deficit reductions during fiscal year 1978 through increased State and Federal funding. Most of this is attributable to proposed assumptions by the State of additional court and correction costs ($103 million). The remaining $25 million would arise through proposed Federal assumptions of certain costs for public housing and senior citizen rent increase exemptions. It should be noted, however, that the plan also includes contingency reductions in City programs to be used in the event the State does not agree to participate.

The Mayor submitted his Plan to the Control Board on March 26 with a letter stressing the need for immediate action. The proposal was generally well received and is being intensively reviewed. A full Control Board appraisal is expected by May 1.

Mayor Beame's plan plainly dispels two myths which have permeated the year-long debate on New York City. How often have we heard it said in some quarters that it was simply impossible for New York City to balance its budget within three years? And how often have we heard from others that New York City officials simply were incapable of facing up to the hard decisions and developing sound and credible solutions?

Mayor Beame's plan shows that New York City's budget can be balanced -- soundly and credibly -- within the alloted time frame. And in so doing, it reflects a recognition that hard measures must be taken and that detail is required now. It does not attempt to avoid cuts in 1977 by unduly backloading them into 1978. It recognizes that some assumptions are questionable and identifies contingency measures in the event they prove too optimistic. All in all, it reflects an unambiguous desire to deal with, not evade, the problems New York City faces.

New York State's Prospects

To conclude my status report, let me briefly review the financial situation in New York State. Our analysis indicates that the state's financial condition is fundamentally sound, and that its cash flow later this year will be adequate to repay its borrowings this spring. These factors should enable the State to raise the funds it needs. If it does, New York City will receive the State aid and advances required to repay the Federal loans.

In recent months, the State's leaders have directed their efforts toward financing the state agencies, producing a credibly balanced budget and obtaining financing for seasonal needs. The first two jobs now have been done. Substantial progress has been made toward completing the third.

With the help of the State's retirement systems, a $2.5 billion financing package was put together, allowing the state agencies to refund short-term notes into bonds and to finance completion of projects now in progress. No further projects will be undertaken. And, most significantly, moral obligation bonds are now prohibited by law.

Second, the State legislature adopted what appears to be a credibly balanced budget. Significantly, expenditures in the new budget are only $123 million higher than in the fiscal year that ended yesterday. Investors are certain to be reassured by this move to hold down spending.

As a result, the State now should be able to place the $4 billion of securities it must sell before mid-June. As of now, all but $1.7 billion has been tentatively placed with various State funds and New York City's commercial banks.

III. Long-Term Prospects

While the recent actions by New York City are clearly a major step toward a solution to New York City's immediate financial crisis, prior to June 1978 unforeseen events will undoubtedly require more in the way of actions and responses. However, while we should not be complacent in dealing with the immediate situation, I believe the time has come to address the longer term outlook as well. Accordingly, I would like to devote the remainder of my time this morning to setting the framework for what I hope will be a comprehensive review of New York City's economic condition and outlook.

Let's begin by identifying the objectives. First, and foremost, New York City must recreate an environment in which economic activity can flourish. That in turn requires a rational approach to business taxation and a stable and satisfied labor force. As Mayor Beame and Governor Carey have squarely recognized in recent weeks, New York City's economic future depends upon its ability to attract and retain business investment.

My remarks today are only a beginning. In the months and years ahead New York City's leadership must mobilize all elements of society -- the business and financial community, organized labor and the citizenry at large -- toward achieving this common goal. Without it, the herculean efforts of the past months will be viewed by future generations as an empty gesture.

To put this portion of the discussion into context, let's first explore on a fundamental plane the problems which led New York City into a unique dependency relationship with the Federal Government.

New York City is bound by local and State Laws to balance its operating expenses and revenues. Accordingly, the first response to spending pressures was more and higher taxes. Ultimately, the tax base was pushed beyond its ability to generate more in the way of revenues and deficit spending, hidden by accounting gimmicks, was the inevitable option. As a consequence, New York City has run operating deficits each year since fiscal year 1961. By fiscal year 1975, these deficits totalled over $4 billion. In addition, more in the way of past deficit spending is forever buried in the capital program.

As a first step in a program of long-term economic reform, the spending pressures which precipitated the problem in the first place must be evaluated. If these pressures can be moderated, then we will have made major progress in creating an environment where business can invest and citizens can settle.

I. Spending Pressures

Unique Services

New York City simply provides services that other cities do not provide. The 1975-1976 fiscal year budget, as originally submitted, provides, apart from pension costs, $477 million for higher education, $890 million for City hospitals, $586 for charitable institutions, most of which consist of payments to private hospitals, $90 million for activities of the Health Department, including mobile health units and labs, $71 million for addiction services, $5 million to administer mental health programs, $137 million for various housing activities and $180 million in subsidies for the transit system. State and Federal matching programs account for a major share, but the City's taxpayers must provide $1 billion to fund these activities.

Health and Hospitals

It must be determined whether New York City residents could receive a satisfactory level of health care if public outlays for this purpose were reduced. The operating expense budget for New York City's Health and Hospitals Corporation in fiscal year 1975-1976 called for total expenditures of $1 billion, including pension costs; $390 million of this amount comes from city taxes. Of the City tax funds, approximately $165 million is spent for medicaid and other necessary programs. The remaining $225 million reflects administrative costs and delivery of health care services over and above those paid for by third party programs such as medicaid, medicare, workmen's compensation, and private insurance. Such extra services may be desirable, but it must be asked whether they are affordable under present conditions.

Progress clearly has been made in the health area. The Beame plan provides for large cuts by the Health and Hospitals Corporation. However, the possibility of similar cuts by the Health Department and Addiction Services Agency, in the budget for Charitable Institutions, and in mental health programs must also be studied. Particular attention ought to be paid to the possibility of eliminating unnecessary administrative expenses.

Transit

Re-evaluation of the system of financing mass transit is needed. Transit subsidies now cost New York City's taxpayers $183 million per year. As we look into the future, alternative approaches must be evaluated. An across the board fare increase might hurt the poor; but if that is the concern, why not explore the feasibility of a direct method of helping the poor, while more affluent riders pay their fair share.

Another area to explore is the fare structure. Many cities have sucessfully experimented with a fare based on distance travelled, and with off-peak discounts and rush-hour premiums. The possibility of these innovations should not be ruled out in advance.

Fringe Benefits

Everyone would agree that no long range study of New York City's economy can ignore the question of public employee fringe and retirement benefits. In the current fiscal year, employee fringe benefits -- pensions, health insurance, vacations and the like -- will cost New York City's taxpayers more than $2 billion. Based on the 232,000 person full time equivalent payroll at the end of January, this cost averages more than $8,600 per employee. In other words, New York City's taxpayers spend more per employee on fringe benefits than the annual income of the average American.

Clearly, ample fringe benefits are essential to an efficient, productive and contented labor force. But given the large costs, and the significant disparity between New York City and other employers, a careful study is certainly warranted.

Before turning to particular benefits, let's review the overall level of benefits for certain key employee groups. The cost of vacations and sick leave are excluded from these examples because of the difficulties in making precise calculations. But these costs are well above average and would add considerably to the level of disparity.

The base pay of a New York City patrolman first grade, including the latest cost-of-living adjustment, now is $16,800. Fringe and retirement benefits, excluding vacations, equal $8,500 or 51% of the base. For a sanitationman, benefits are 39% of the base. For a fireman first grade they are 49%. For a teacher with a masters degree and eight years of service they are 37%. For senior clerks, using their median salary, benefits equal 34% of the base. All of these percentages dwarf the national average of less than 20 percent.

Specific Benefits

The current costs of certain key fringe benefits are:

- Pensions	$1,165 million
- Social Security	214 million
- Health and Hospitalization Insurance	170 million
- Union Welfare Funds	107 million
- Union Annuity Funds	36 million
- Uniform Allowances	19 million
- Training Funds	1 million
	$1.712 billion

Social Security

New York City has announced that it is withdrawing from the Social Security System as of March 1978. Given my concern for the financial condition of the Social Security System, I cannot be entirely sanguine about this development. However, it may have been inevitable under the circumstances.

Ideally, Social Security benefits should be integrated with pension benefits to provide a reasonable level of retirement income. However, accomplishing such integration in New York City is complicated by two factors. First, the New York State Constitution has been interpreted to prohibit reduction in levels of pension benefits already vested. Second, a New York State law enacted at the time state and local governments were made eligible for Social Security, prohibits taking Social Security benefits into account in collective bargaining regarding pensions. In light of these factors, and given the anticipated savings of nearly $200 million a year, New York City may have had little choice but to withdraw.

Annuity Funds

New York City now pays $36 million per year into Union Annuity Funds. These funds involve per diem contributions toward the provisions of still more retirement benefits in the form of annuities for certain employee groups. The continuation of these payments should be assessed in light of the overall level of retirement benefits employees now receive.

Union Welfare Funds

The 1976 fiscal year budget provides for direct payments of $107 million to municipal unions. These funds enable the unions to provide both active and retired workers with still more in the way of fringe benefits: free dental care, eyeglasses, counseling and legal services. Certainly these benefits are desirable for the employees. But their value must be weighed against the burden imposed on New York City's taxpayers.

Uniforms

Uniform allowances and training funds now are budgeted at $19 million per year. Uniform subsidies can, of course, be justified in the cases of policemen and firemen. But the allowances also are given to marine engineers, aqueduct captains, speech and hearing therapists, public health nurses, nurses aides, ambulance technicians, food service supervisors, bridge operators, deckhands, water plant operators, and swimming pool operators. Uniform allowances should be carefully studied to determine whether certain allowances could be eliminated and whether cost savings could be achieved by direct City purchases of essential uniforms.

Health Insurance

Like many private employers, and certain other cities, New York City pays 100% of the cost of employee health insurance programs. But most cities, and the Federal Government as well, require the employee to pay a fair share of the cost of providing health care protection for the employee and his family. In light of the current fiscal and financial realities, division of this expense between the City and its employees warrants study.

Working Time

Additional areas of study include night shift pay provisions, vacation benefits and working hours. The night shift pay differential is normal -- 10%. But night is defined to cover 16 of every 24 hours. Cutting it down to 8 hours, or even 12 hours, would produce annual savings of approximately $10 and $20 million.

Vacation and sick leave costs are quite high. For example, such costs are estimated to exceed $4,000 per year for patrolmen and $3,000 for sanitationmen. These high costs are attributable to the fact that every employee is entitled to 20 vacation days in the first year on the job and most have unlimited sick leave privileges. By comparison, new Federal employees receive only 13 days vacation and do not reach 20 days until their fourth year of service.

In the case of patrolmen, consideration should be given to reducing the current work day from 8 and 1/2 hours to 8, while increasing the work year by the equivalent number of days -- 18, from 243 to 261. Little is gained by the 8 and 1/2 hour day, while the cost of the 243 day year (versus 261) is nearly 7 and 1/2% of total compensation, or $57 million per year under the current contract.

Many other New York City employees now work only 35 hours per week. Others work 37½. In addition, under the "summer hours" program, an even shorter work week is the norm in some cases. The possibility of moving to a 40 hour week -- thus achieving substantial reductions in costs without a loss in services -- should be examined.

Pensions

Quite appropriately, many aspects of the pension situation are under careful review at present. I have already noted one step New York City has taken: its planned withdrawal from Social Security. In view of the substantial disparity in net pension benefits between New York City and other large cities, further actions might be considered.

For example, a married New York City employee who retires at age 65, with 25 years of service, receives in net after tax retirement income an amount equal to 125 percent of his disposable income in his last year on the job. In Atlanta the same worker receives 43 percent, Chicago 47 percent, Dallas 52 percent, Los Angeles and Memphis 54 percent. Only Denver and Detroit -- at 91 and 104 percent -- are even close.

* * *

Let me reiterate the spirit in which these areas for discussion have been identified. I mean absolutely no criticism of the creative plan Mayor Beame announced last week. I do not mean to suggest that the plan as currently proposed will not accomplish its intended objective. I simply want to make clear that if New York City is to recapture its proper leadership role the plan can not be viewed as defining the outer limits of possible fiscal and financial reform.

The Real Estate Tax Base

The heart of any great city is its real estate. Not only does it provide the physical facilities for housing and economic activity, but it is also an important financial asset, since real estate taxation is the core of any city's revenue stream. Accordingly, in providing for New York City's future, we cannot avoid a careful look at the impact on the tax base of the long and costly experiment with rent controls and stabilization.

Like many of the programs we have discussed today, rent control is a subsidy program and must be evaluated as such. Simply stated, rent control provides a subsidy to a small, largely middle class group, the members of which have occupied apartments for a substantial period of time and are paying rentals which bear no resemblance to current costs. Few poor people benefit: typically, they have arrived too recently or moved too frequently to qualify under the program. But all poor people, indeed all citizens, pay for the subsidy in the form of higher taxes, deterioration of the housing stock and a general decline in the economic well-being of the city.

Let's look at some specific costs. Since 1960, 300,000 rental units have been abandoned, and abandonments are now running at an annual rate of 30,000 per year.

From 1965 to 1975, New York City's housing stock increased only 2%, and the number of rental units declined 3.8%. The City's supply of rental units is old. Nearly half were built before 1929. More than half are "walk-ups."

The aging, decay and decline of New York's housing stock should come as no surprise. Rents have not been allowed to increase as fast as operating costs. Landlords have been compelled to absorb the larger part of the sharp increases in fuel costs. Small wonder that maintenance has been postponed and tax delinquencies and abandonments have increased. Landlords cannot suffer losses endlessly.

But landlords are not the only ones to suffer. All New Yorkers suffer in their capacities as taxpayers and users of City services. Everyone suffers because property values and, as a corollary, property taxes, decline. In this regard, total arrears of real estate taxes are estimated to be over $700 million, not including arrears in water rents and sewer rents.

Because of the erosion of its real estate tax base, New York City has had to resort to more taxation of business and personal incomes. Such taxes tend to drive employers and higher income workers out of town.

The ability to own one's own home -- one of the fundamental goals of our society -- is another frequent victim of the rent control system. Applications to restore subdivided brownstones to the original one or two family status can take over a year to process through the rent control bureaucracy and often are turned down, despite the neighborhood improvement which would result. Clearly, the administrators of the complex rent control laws do not recognize the direct relationship between the spread of urban blight and the flight of middle-class families from New York City.

In short, rent control is inequitable as well as uneconomic. If it were phased out, the following benefits would accrue:

-- the existing housing stock would be better utilized, reducing both over-crowding and under-occupancy;

-- new construction starts and rehabilitation work would create thousands of jobs and provide New York City's underemployed youth with a chance to learn a skill;

-- the real estate tax base would stop eroding and start growing;

-- the need for public housing projects, which have been a tremendous drain on the City's financial resources, would decline;

-- business and personal taxes could be reduced and, as a result, investment, jobs and income earners would return to New York.

Welfare and Federal Aid

Before concluding, let me turn briefly to the role of the Federal Government, particularly in the welfare area. Mayor Beame's statement of last week reiterated a commonly heard contention: New York City would not have a financial problem if the Federal Government took over welfare. In light of such contentions, it may be useful to outline the large and growing Federal role in financing state and local governments generally. But before I do, let me address specifically the welfare question.

First, let me reiterate my conviction that we need a comprehensive re-examination of Federal, State and local relationships in the area of assistance to the disadvantaged. I personally favor the simple, non-bureaucratic approach of income maintenance. But whatever the outcome, we plainly must assure ourselves that current policies are consistent with the needs of the last quarter of the twentieth century.

As is clear from my remarks to this point, however, I do not believe a change in welfare policy is itself a solution to New York City's financial problems. To be sure, it is factually correct to say that if the Federal Government assumed all of New York City's welfare obligations, the budget deficit would be substantially reduced since City expenditures would fall by approximately $800 million. But it is equally correct to say that the same effect would be realized if the Federal Government took over responsibilty for schools, for operating the police and fire departments, or by paying for any of the other services which New York City now provides. Accordingly, if the arguments regarding welfare have any validity, they must be accompanied by a credible showing that New York City's welfare problem is somehow unique. And the facts simply don't bear that out.

The percentage of New York City's population which is on welfare is 10.9%, a lower percentage than in Philadelphia, Washington, D.C., St. Louis, Newark, or Baltimore. Median minority family income is $8,108, almost $2000 more than the national average. The proportion of families below the poverty level fell by more than a third in the 1960's and is well below the national average. These facts plainly belie the allegation that New York City is a haven for the poor and, as such, performs a service which Federal taxpayers must pay for.

The real financial problem presented by welfare in New York City is a problem which has its roots at the State level: specifically the division of responsibility between the State Government and local governments for the non-Federal portion of the welfare payment. This Committee is well aware of the burden New York State has traditionally imposed on its local governments: 25 percent of total welfare costs, as opposed to 1 percent in Illinois and 12 percent in California. But this Committee is also aware of the fact that New York State is hardly in a financial position to change this formula now.

Let me turn now more generally to the subject of Federal aid. Federal aid to State and local governments has risen steadily during the post-war period, and very rapidly since the late 1960's.

In 1950, direct Federal aid to state and local government was $2.3 billion. Two decades later, in 1970, aid had increased tenfold, reaching $24.4 billion. And this fiscal year the figure will more than double again to $60 billion. These are only direct grants. If other Federal expenditures -- in the form of housing subsidies, transfer payments, Federal employment and the like -- are included, the total benefit is more than $100 billion higher.

Moreover, the growth in Federal aid to New York City has outpaced even these rapid increases. In fiscal year 1965, direct Federal aid to New York City was $228 million and equalled 6% of the City's general revenues. By the current fiscal year, direct Federal aid had grown to $2.437 billion: 22% of scheduled general revenues. This eleven fold increase in aid is precisely double the nationwide growth rate over the same period.

Federal aid has hurt New York City -- and every other city -- in one respect. The bulk of Federal aid is in the form of categorical grants. Of the total $2.437 billion being provided to New York City in the year ending June 30, 1976, $2.174 billion, or nearly 90%, consists of categorical grants. These grants are nearly always tied to matching funds being provided from State and local sources. Matching programs provide a clear and dangerous path to over-commitment of local financial resources.

There is nothing more important that the Congress can do to help New York City (and other municipalities as well) than to enact the President's proposal to extend revenue sharing, and to embrace the Administration's proposal to substitute functional or block grants for large elements of the present categorical matching grant system. We need to let states and municipalities decide by and for themselves the kinds of activities they want to support, and how much of their own financial resources they want to put into these activities.

Conclusion

I began my testimony today by suggesting that the situation is much as we expected it to be. The financing package and the Federal seasonal loan program have served the purpose they were designed to serve: they have provided New York City with ample time and ample opportunity to solve its fiscal and financial problems.

At this time, no one can predict with complete confidence whether the job will be done. Clearly the challenges are great. But the potential rewards are even greater. New York City has been given the opportunity to restore itself to pre-eminence among our urban centers. And in so doing, its accomplishments can serve as a model for all the cities of the nation -- and for the Federal Government as well.

The question is very straightforward: what do the people want from their Government and what are they willing to pay for? Most political units must answer this question every day. Congress has given New York City two more years to find the answer. It must use this time wisely.

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THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON, D.C. 20220

MEMORANDUM FOR EXECUTIVE COMMITTEE, ECONOMIC POLICY BOARD

SUBJECT: Update on New York

1. Loans to Date

Loans in the amount of $130 million at an interest rate of 6.92% and $240 million at 6.68% were made on 12/15 and 12/31. A further loan of $140 million is scheduled for 1/15.

2. Credit Agreement

The master credit agreement was signed 12/30 (copy attached). It provides the following protections to the Government.

Certification by the Emergency Financial Control Board that loans requested are consistent with the City Financial Plan.

Submission to the Secretary of a Borrowing and Repayment Schedule, approved by the Control Board, showing expected receipts and expenditures for the current and next fiscal years, amounts and dates of anticipated borrowings and specification of repayment sources.

Agreement by the Mayor, City Comptroller and Control Board that they will take all actions necessary to insure that revenues specified as repayment revenues are paid into a specified repayment account. In the event that there is any doubt about the availability or sufficiency of the repayment revenues, the Mayor, Comptroller and Board agree to specify alternative sources of repayment.

Power to require the Governor and State Comptroller to prevent disbursement of State funded repayment revenues except as provided by the Loan Agreement.

Agreement by the City and Board to use "best efforts" to see that the Financial Plan is carried out and its assumptions fulfilled.

Submission of detailed reports on a regular basis to provide the flow of information needed to track and monitor the City's performance and adherence to the Financial Plan and Loan Agreement.

Submission of economic condition analyses semi-annually, commencing July 31, 1976.

Audit power.

Agreement that the City will put in place a new accounting system by July 1, 1977.

3. <u>Arthur Andersen Report</u>

Treasury has retained Arthur Andersen to evaluate the City Financial Plan and the City's accounting systems and to devise a reporting and monitoring package. This engagement is expected to terminate by February 1.

A. Financial Plan

The report (copies of which should be available by the 1/14 Executive Committee meeting) pinpoints key problem areas in the City Financial Plan.

The spending cuts called for by the City's Three Year Financial Plan are running behind projections.

Pension plans are underfunded.

There may be substantial reduction of revenues below levels projected in the Plan, up to $571 million because of reduced State aid, revision of the real estate tax equalization rate and repeal of the bond transfer tax.

The Plan assumes that real estate tax collections will be 90% of taxes levied in this and the succeeding fiscal years, despite prepayment in FY 1975 of $192 million. This assumption may be optimistic.

The Plan assumes that revenues will grow at 5, 7, and 7 percents in FY 1976, 1977 and 1978, apart from recently adopted new taxes. This assumption may be unrealistic.

The Plan assumes welfare costs will not rise.

B. Future Problems

The Andersen Report also points out that even if the plan is met, the City will face major problems in FY 1979. There will be demands for large wage increases, pressure to catch-up on deferred and terminated capital projects and the moratorium will be over.

C. Inadequate Reporting System

The Andersen Report is extremely critical of the City's current financial system and controls.

4. Reporting Package

A reporting package has been designed to provide the flow of information needed to track and monitor the City's performance (the package is an Exhibit to the credit agreement). The State Comptroller's office also is designing a reporting package, and the two will be coordinated as much as possible.

5. Congressional Liaison

A liaison group has been established with key staff members of the Senate and House Banking and Appropriations Committees. This group was briefed on December 18 and will be briefed again on January 14. At least one briefing per month is expected. This group has received the Credit Agreement and will receive the Andersen Report.

Edwin H. Yeo III

NYC

THE WHITE HOUSE

WASHINGTON

January 7, 1976

MEMORANDUM FOR MAX FRIEDERSDORF

THROUGH BOB WOLTHUIS

FROM TOD HULLIN

SUBJECT JOINT ECONOMIC COMMITTEE HEARINGS ON MUNICIPAL FINANCING CRISES

Sol Mosher, Assistant Secretary of HUD for Legislative Affairs, has been requested by Ralph Scholsstein, Staff Director of the Joint Economic Committee (Sen. Hubert Humphrey, Chairman), to provide a witness for a hearing on the subject of "New York City: Will It Happen Elsewhere?" to be held on Friday, January 23.

The Committee plans to have a panel of government witnesses, including Paul O'Neill of OMB and Ed Yeo of Treasury in addition to the HUD witness. Mosher feels that the Committee does not expect the agency heads to appear, but rather to designate a witness.

The Committee would like testimony discussing the steps, if any, that HUD is taking to forecast future municipal financing crises like that of New York City, and plans HUD has for dealing with such events.

I have alerted Paul O'Neill and Roger Porter about this request. I suggest that your office coordinate the response to this request.

If I can help, please give me a call.

cc:
Jim Cavanaugh
Paul O'Neill
Roger Porter

Roger P.
agenda item
soon! 12/29

Michigan State Housing Development Authority
David L. Froh, Executive Director
300 South Capitol Avenue
Lansing, Michigan 48926
(517) 373-1385

State of Michigan
William G. Milliken, Governor

December 17, 1975

Mr. L. William Seidman
Assistant to the President
for Economic Affairs
The White House
Washington, D.C. 20500

Dear Mr. Seidman:

This comes to you as an update to conversations held over the past two weeks with you and members of your staff. Following our discussions, meetings with a HUD task force on co-insurance headed by Morton Baruch of Assistant Secretary David Cook's staff resulted in what we believe to be a workable co-insurance method that shows great promise. Members of the board of the National Council of State Housing Agencies have endorsed this scheme in principle. Our understanding is that it is presently being refined and put into workable form by HUD. We have submitted the plan to counsel and firms who underwrite bonds to determine its legality and potential effectiveness in improving the acceptability of our financings.

This system is a variation on mortgage co-insurance which was the subject of our discussions. It would not go into effect until the State Housing Finance Agency had come to the point of technical default on its bond payments and the State had failed to honor its moral obligation. Significant to the method is a system proposed by the state housing group to HUD that would enable an objective evaluation of the effectiveness of state agencies to determine their eligibility for co-insurance.

Of overriding significance are some minor amendments to Section 244 of the 1974 Housing Act that would allow co-insurance to operate in the manner proposed. It is my understanding that these amendments have been approved by the Committee on Banking, Housing and Urban Affairs of the U. S. Senate.

Your assistance and support in the above matters is urgently needed. If we are to resume marketing notes and bonds and undertaking subsidized housing production in 1976, action will be needed no later than the month of February.

Respectfully yours,

John T. Dempsey
John T. Dempsey
Chairman

David L. Froh
Executive Director

cc: Birge Watkins
Staff Assistant to L. William Seidman

Douglas Metz
Assistant Director-Operations

nyc

THE WHITE HOUSE

WASHINGTON

January 13, 1976

MEMORANDUM FOR SECRETARY CARLA A. HILLS

FROM: L. WILLIAM SEIDMAN LWS

The Economic Policy Board Executive Committee will review the New York City financial situation at the regular Executive Committee meeting tomorrow morning at 8:30 a.m. in the Roosevelt Room. I understand that the Department of Housing and Urban Development has been requested to testify at hearings on "New York: Can it happen again?" scheduled by the Joint Economic Committee for January 23. In light of that upcoming testimony you may wish to attend or send a representative to the Executive Committee meeting tomorrow.

The papers relating to the New York agenda item for tomorrow's discussion are attached.

THE WHITE HOUSE

WASHINGTON

January 14, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: New York City Seasonal Financing Program

At this morning's EPB Executive Committee meeting Treasury reported on New York City's financial situation and reviewed the report from Arthur Anderson & Co. relating to the City's financial condition and its accounting procedures.

The EPB Executive Committee unanimously agreed that a statement from the Secretary of the Treasury to you reporting on the New York City situation and the Anderson report should be prepared and submitted today. This report has been prepared and is attached at Tab A.

In view of the publicity that the Anderson Report is likely to receive in the press, the EPB Executive Committee also unanimously recommended that the statement from Secretary Simon to you be released to the press.

Treasury officials are briefing congressional staff members and New York State congressmen on the New York City financial situation this afternoon.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 14, 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: New York City Seasonal Financing Program

I received today a report from the public accounting firm of Arthur Andersen & Co. concerning matters relating to New York City's financial condition and its accounting and reporting systems. Pursuant to the authority conferred on me by Public Law 94-143, I retained Arthur Andersen & Co. on a limited and short term basis to provide me with an independent and professional review of the above matters. Based on Arthur Andersen's findings, as well as my own independent review, I have been able to conclude at present that there is a "reasonable prospect of repayment" within the meaning of Public Law 94-143.

Credit Agreement

On behalf of the Department, I have executed a Credit Agreement with the State of New York, the City of New York and the Emergency Financial Control Board. The Credit Agreement authorizes the Treasury to make demand loans if numerous terms and conditions are met. These terms and conditions include strict compliance with New York City's three-year financial plan (and regular certification to that fact by the Emergency Financial Control Board), extensive financial reporting requirements and identification of specified revenues as a source of repayment for Federal loans.

Pursuant to the Credit Agreement, Treasury has advanced $370 million to date and we expect to advance an additional $140 million tomorrow. These advances are consistent with our expectations as to cash needs.

Summary of Andersen Report

The Andersen Report is in three parts. Part I evaluates New York City's three-year financial plan and the assumptions which underlie it. Part II reviews New York City's current system of financial controls and reporting. Part III comments on certain critical issues relating to New York City's operations.

In substance, the report's findings confirm the factors you considered in connection with your decision to propose and support the seasonal financing concept. Andersen's findings show that spending cuts in the financial plan are running behind projections, that many of the underlying assumptions as to levels of revenues and expenditures are optimistic and that additional expenditure cuts will be required if revenue growth does not meet current projections. In addition, the report indicates that New York City's accounting and reporting systems require substantial and immediate improvement.

These concerns reflect the tremendous challenges New York City and New York State face in the next two and one-half years. Virtually every page of the report identifies an important target which must be met if New York City is to be returned to a totally sound fiscal and financial basis. I can assure you that I will take all steps within my power to insure that these targets are met.

Congressional Liaison

A liaison group has been established with key staff members of the Senate and House Banking and Appropriations Committees. This group was briefed on December 18 and will be briefed again today. At least one briefing per month is expected. This group has received the Credit Agreement and will receive the Andersen Report at today's briefing.

William E. Simon

to: Mr. Roger Porter

Department of the Treasury

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

room: ________ date: 1-22-76

Office of Capital Markets Policy

Forwarded per Mr. Harper's request.

Helen C. Jackson

Helen C. Jackson
Secretary to
Robert A. Gerard

Room 3208

Ext. 2103

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

January 14, 1976

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William E. Simon

NYC

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

FEB 24 1976

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Update on New York City

On Tuesday, February 17, I received the first formal financial report from New York City, submitted pursuant to the Credit Agreement we entered into with New York City, New York State and the Emergency Financial Control Board. Two key points stand out in the report:

1. New York City is close to target with respect to the current fiscal year (ending June 30) and should be able to repay our loans without disrupting services and without tapping other sources of funds (i.e., the pension funds) for substantial amounts.

2. The budget deficit which must be eliminated over the three fiscal years is substantially larger than was previously forecast: $1.021 billion versus $724 million.

This memorandum is in two parts. The first part addresses the outlook for New York City, both immediately and over the longer term. Part two deals with the current New York State situation, which is significant not only in its own right, but also because of its direct impact on New York City's finances.

Outlook for New York City

As noted above, New York City appears close to schedule for the current fiscal year. For the six months ending December 31, 1975, expenses were $3 million higher than planned. For the fiscal year as a whole, expenses are forecast at $218 million above the plan, due primarily to a $118 million increase in welfare and social services costs and a $90 million increase in debt service. This expenditure increase, however, will be largely offset by a $151 million increase in forecasted revenues.

While we cannot be certain that New York City will not incur at least a slight cash flow deficit this fiscal year, the Federal Government's immediate financial interest is protected by the fact that approximately $2.2 billion of the pension funds' $2.53 billion three year commitment remains available. Any shortages can be made up from this source.

The longer term outlook is considerably less clear. Given the enormity of the further budget cuts required -- over $400 million in FY 77 and an additional $400-500 million in FY 78 -- I doubt whether the job can be done with the piecemeal approach employed to date. In other words, unless New York City and New York State are willing to address head-on one or more of the following key problem areas, a permanent solution is unlikely:

-- employee compensation and fringe benefits;

-- welfare and social services;

-- courts and correction system;

-- City University.

Compensation. Employee compensation, particularly fringe benefits, is the root of the overall problem. Nationwide, fringe benefit costs average less than 20 percent of direct salary costs. In New York City, the average cost of fringe benefits exceeds 50 percent of direct salary. To quantify this burden: if New York City reduced its fringe benefit costs to the national average, the annual savings would be in the $1.5 - 2 billion range, creating an annual surplus well in excess of $500 million without any other expenditure cuts.

There is, at least theoretically, the opportunity in the months ahead to make significant progress in this area. Negotiations are beginning on the transit workers contract which expires March 31. The Teachers' contract, negotiated last fall but rejected by the Emergency Financial Control Board, has not been finalized. And most other major labor contracts will be up for negotiation this summer and fall.

The current transit negotiations will, in effect, serve as the bellweather on this front. If a cut in overall costs, either through a pay cut or a reduction in fringe benefits, is achieved, it will be a highly favorable sign. If, on the other hand, the new contract provides for higher compensation, it would be a cause for serious concern.

Firm action in this area could well precipitate one or more major strikes. More importantly, given Governor Carey's political ambitions, it is unlikely that he would be willing to take a strong position, which would be viewed as anti-labor. Accordingly, I do not believe we can be confident of meaningful progress in this area.

Other Areas. Progress in the other three areas -- welfare, courts and corrections, City University -- in effect requires a shifting of the financial burden to New York State. In light of New York State's own fiscal condition, it is unrealistic to expect a meaningful step in the welfare area, especially because any change in the relative state/local shares would have to be applied statewide. Such a statewide shift would substantially increase the billion dollar cost of taking over New York City's share.

The courts and the university are different matters. New York City is the only jurisdiction in the state that pays for its own portion of the state courts and corrections system. Integrating the system with the overall state system would result in a savings to New York City of $200 - 250 million. Given the efficiencies of integration, the additional cost to the state would be considerably less.

This is even more true in the case of the university. Transferring the university to New York State would save New York City more than $300 million, yet a rough estimate of the cost to the state is $100 - 150 million. The possibility of such a transfer is being given serious consideration by both Beame and Carey. We know of no concrete steps, however, towards implementing it.

In short, of the four key areas, the larger two -- compensation and welfare -- must be viewed as unlikely. However, the smaller two are quite feasible. I am confident that if New York City were relieved of the $500 - 600 million courts/university burden, that action, coupled with the existing cost reduction program, would result in achievement of a balanced budget by fiscal 1978.

Proposals for Delay. In the past week, both Governor Carey and Felix Rohatyn have expressed the view that New York City's problems may be too great to solve in 3 years and that an extension of the plan to 5 or even 10 years could be required. In addition, Rohatyn has taken the position that some new type of Federal aid will be necessary: either some permanent deficit financing for New York City or an RFC-type program for all cities.

Mayor Beame has publicly disassociated himself from this position. He was asked at a press conference about the Carey suggestion of a stretch-out and replied: "the law says three years and I intend to obey the law."

The problem can be resolved within the three years only if all interested parties -- New York City, New York State and the Emergency Control Board -- exert the maximum, good faith, effort. Given this necessity, it is especially disturbing that Governor Carey, as Chief Executive of two of the parties, shows signs of taking a different tack.

We suspect that the Carey/Rohatyn remarks could be the forerunner of a new bail-out type initiative in Congress. We will be watching closely for signs of this.

New York State

The outlook for New York State is considerably better, but there are bases for concern. New York State must find a way to meet its own seasonal financing needs of nearly $4 billion in April, May and June. Failure to raise these funds will render the State unable to make aid payments to New York City and every other local jurisdiction in the State. Since our loans were made in anticipation of these payments and since many other jurisdictions have borrowed in anticipation of such payments, a failure to make the aid payments would result in numerous defaults.

There are two threshold requirements to a successful spring financing by the State. First is prompt adoption of a balanced budget for the State's 1977 fiscal year (April 1). Second, there must be a solution to the financing problems of the State's agencies, particularly the New York State Housing Finance Agency.

Budget. At present, there appears to be bi-partisan recognition in the New York State Legislature of the importance of adopting a balanced budget quickly. While it is too early in the budget process to predict with any confidence whether this objective will be met, recent statements by leaders of both parties suggest a considerable change in attitude from that which prevailed last year. Accordingly, we are cautiously optimistic in this area.

Agencies. The agencies of New York State require approximately $2.5 billion in permanent financing. The bulk of this amount is to refund short-term notes which mature at a rate of $80 - 100 million per month over the next 18 months; the remainder is to finance completion of construction projects now in progress. It is clear that the market will not continue to supply any portion of the financing on a month by month basis. Accordingly, sources for the entire $2.5 billion must be committed at the outset.

The agency financing is itself contingent upon the adoption of a balanced budget. If a balanced state budget is adopted, a complex, but credible and workable, package has been developed to finance the entire amount.

New York State. The State picture is as follows. Approximately $1.6 billion of the $4 billion seasonal financing need can be handled through various state funds, leaving $2.4 billion to be done by the private sector. According to current plans, the private portion will be done in three ways:

-- bank credit;

-- public sale of securities;

-- pre-payment of taxes by major corporate taxpayers (in effect, tax anticipation financing).

In recent days, we have detected a new sense of determination and optimism among the leaders of the New York City financial community. Previously, key institutions were negative, hoping they could assume that more Federal help would be forthcoming. We made it clear that financial assistance would not be available.

The cooperative attitude of State Comptroller Levitt is also partially responsible. Much credit must be given to a newly created advisory board consisting of Bill Morton (former President of American Express and a municipal bond expert), Bill Martin (former Chairman of the Federal Reserve) and Gene Black (former Chairman of the World Bank). Given the fundamental soundness of the State and the adequacy of its cash flow, the current problems are largely psychological. Accordingly, the entry of new, but experienced, faces has given the entire effort an important lift.

The next 2 - 3 weeks will be critical in finalizing the financing arrangements for both the Agencies and the State. An essential element will be substantial participation by major banks located outside New York State. In that regard, Arthur Burns and I may well be called upon to help with the process of persuading such banks. I have quietly indicated that under appropriate circumstances -- a balanced budget and a sound overall financing package -- I would play such a role.

Congressional Activity

Senate Banking and House Appropriations have scheduled oversight hearings on April 1 and April 6 respectively. In addition, our liaison group with Senate and House Banking and Appropriations staffs will have its fourth meeting on February 26.

On February 20, a Senate/House conference reached agreement on new municipal bankruptcy legislation. We were successful in persuading the conferees to include language addressing the concern expressed by some state and government groups that the legislation would harm the bond market by making it too easy to go into bankruptcy.

William E. Simon

William E. Simon

NYC

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

DEPUTY ASSISTANT SECRETARY

March 17, 1976

MEMORANDUM FOR THE EXECUTIVE COMMITTEE
ECONOMIC POLICY BOARD

SUBJECT: Up-Date on New York City

I. March 15 Monthly Report

The March 15 monthly report, covering the period ending January 31, shows continued steady budget reductions roughly in accordance with the financial plan for fiscal 1976. It should be noted that the plan still calls for annualized expenditure reductions of only $200 million in fiscal 1976, notwithstanding the $300 million increase in the deficit estimates. What remains of most concern is the fact that no concrete plans have yet been announced to cover the $400-$500 million reductions required in each of the next two fiscal years.

II. Other New York City Matters

The transit workers' contract expires on March 31 and negotiations are currently underway. The Union is demanding a substantial wage and benefit increase and is taking the position that since the Transit Authority is technically a State agency, its employees are not covered by the city employee wage freeze. Needless to say, whether or not this position is factually correct, as a practical matter a substantial wage and/or benefit increase will make it extremely difficult to hold the line on other city contracts which will be negotiated this spring.

Last week, Governor Carey announced the removal of Herbert Elish as Executive Director of the Emergency Financial Control Board, and appointed Stephen Berger, currently State Welfare Commissioner, to the position. Berger is extremely familiar with the finances of New York City since he served as Executive Director of the Rockefeller-created Scott Commission which raised some key warning signals in 1973 and 1974. Berger has a reputation as an honest and tough, if somewhat abrasive, administrator. If, notwithstanding the Governor's public pronouncements regarding stretching out the financial plan and similar comments by Felix Rohatyn, the Control Board is committed to carrying out the plan, Berger can be an effective force.

In April, New York City will return to the front burner in Congress. Proxmire will hold oversight hearings beginning on April 1. Secretary Simon will be the lead-off witness; Mayor Beame, other City and State officials, and GAO representatives will also testify. On April 6, both the Senate and House Appropriations Subcommittees will hold hearings on the issue in connection with our fiscal 1977 administrative expenses appropriation. Congressman Ashley's Subcommittee of House Banking is expected to hold oversight hearings on or about April 20 (the date the first loan repayment is due).

III. New York State

There is room for optimism with respect to the financing requirements of New York State. The $2.6 billion State Agency financing package appears to be firmly in place.

With respect to the State's own financing requirements, considerable progress has been made. The legislature is expected to adopt a conservatively balanced FY-77 budget sometime this week. The New York clearing house banks have agreed to provide approximately $1 billion of the $2.75 billion to be raised from the private sector. The principal question mark is the $700 million scheduled to be provided by commercial banks outside of New York State. No formal approaches have been made to these institutions, pending adoption of the budget and the issuance of a State prospectus regarding the offering. An informal contact with the institution expected to take the largest share provides basis for hope, but it is still too early to tell.

RAG

Robert A. Gerard
Deputy Assistant Secretary
Financial Resources Policy Coordination

To: LWS etc

Is Anyone Serious?

W.S. Journal 5/18/76

Senator Proxmire's Banking Committee has urged Treasury Secretary Simon to cut off federal loans to New York City if there are "serious deviations" from its three-year financial plan, as seems likely to be the case. But we find reason to wonder whether even the Senator is serious about taking such a step, however justified it may be.

Secretary Simon is charged with certifying that the loans have "a reasonable prospect of repayment." Any such certification would have to be based on a finding that the city is living up to its three-year plan, contemplating a balanced budget in its third year. (At its best, the plan makes no provision for repaying debt now in various types of default, but its underlying assumption is that in the fourth year the city will be able to sell short-term notes to private buyers in order to deal with seasonal cash-flow problems.)

In any event, there are plenty of reasons to doubt that the plan will be met. The Banking Committee cited failure to change the destructive rent-control law, and failure to scale back lavish fringe benefits for city employes. It pointed out that the three-year plan is partly based on the assumption that the state and federal government will take over certain services, in particular a gimmicky plan for federal take-over of certain housing subsidies. And of course the plan calls for a wage freeze, which is breached by the settlement with the transit union. This pact has been sent back for renegotiation, but the transit workers are threatening to strike if they do not receive the promised raise July 1.

Secretary Simon has given no public indication he is considering decertifying the loans, and the timing will make any such action an immensely difficult decision for Mr. Simon and President Ford. The mechanics of the city's cash flow and fiscal year mean that the decision on certifying the next year's loans will probably have to be made in the first week in July. The Democratic National Convention is booked into Madison Square Garden during the second week in July.

Unimaginable chaos is entirely predictable if the Democrats meet in a city that has just skipped its payroll, perhaps in a city besieged by a strike of all public employes. Since such an event would display before a national television audience the bankruptcy of policies advocated by the typical Democrat, their embarrassment would be acute. Their obvious response would be to attack the decertification decision as politically motivated, an attempt by Mr. Ford and Mr. Simon to ruin the convention.

Now, Senator Proxmire is a loyal if not entirely regular Democrat. If he were serious about supporting decertification, it seems to us he would certainly go to the Democratic National Committee to warn, "Say fellas, we may have a problem." Some way around the timing dilemma might even be found. But Democratic Party officials met in New York the week before last to firm up convention plans, and as the meeting wound up no one had told them about the decision Mr. Simon faces the week before they convene.

NYC

THE WHITE HOUSE

WASHINGTON

May 26, 1976

MEMORANDUM FOR THE ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: New York Emergency Financial Control Board May 18, 1976 Resolutions

Two resolutions adopted by the Emergency Financial Control Board at its meeting on May 18, 1976 are attached for your information. The resolutions concern: (1) general wage and salary policies applicable to collective bargaining agreements of the City and covered organizations during the emergency period; (2) the conditions and limitations of the Board's approval of the collective bargaining agreement between the New York City Transit Authority and the Transport Workers Union of America and the Amalgamated Transit Union.

Attachment

MAY 12 REC'D

MAY 21 REC'D

State of New York

Emergency Financial Control Board

For the City of New York

270 Broadway

New York, New York 10007

212—488-4294

May 20, 1976

Mr. L. William Seidman
Assistant to the President
for Economic Affairs
The White House
Washington, D.C. 20500

Dear Mr. Seidman:

Enclosed herewith for your information are copies of the following Resolutions adopted by the Emergency Financial Control Board at its meeting on May 18, 1976: one, a Resolution setting forth general wage and salary policies applicable to collective bargaining agreements of the City and covered organizations during the emergency period; and, two, a Resolution setting forth the conditions and limitations of the Board's approval of the collective bargaining agreement between the New York City Transit Authority and the Transport Workers Union of America and the Amalgamated Transit Union.

Very truly yours,

Stephen Berger

Enclosures

RESOLVED, that the Board adopts the following general wage and salary policies which shall be applicable, during the emergency period or until such earlier time as the Board shall determine, to collective bargaining agreements of the City or covered organizations:

1.) No agreement shall provide for general wage or salary increases or increases in fringe benefits.

2.) No agreement shall provide for increases or adjustments to salaries or wages, including those based upon increases in the cost of living, unless such increases or adjustments are funded by independently measured savings realized, without reduction in services, through gains in productivity, reductions of fringe benefits or through other savings or other revenues approved by the Board, all of which savings shall be in addition to those provided for in the financial plan.

3.) Each agreement shall provide for a mechanism to permit savings in pension costs or other fringe benefits during the term of agreement.

FURTHER RESOLVED, that to the extent that the collective bargaining agreement recently negotiated by the Transit Authority does not give effect to the general wage and salary policies herein adopted, the Board will establish such conditions and limitations on the performance of such agreement as shall be necessary to insure that such agreement does give effect to the wage and salary policies herein adopted.

WHEREAS, the Emergency Financial Control Board on April 30, 1976 received and took under consideration proposed collective bargaining agreements (hereinafter the "contracts") between the New York City Transit Authority as employer and the Transport Workers Union of America and the Amalgamated Transit Union representing the hourly rated employees of the Transit Authority and the hourly rated and clerical employees of the Manhattan and Bronx Surface Operating Authority; and

WHEREAS, after due consideration the Board decided that it could not approve the contracts as submitted, requested the Authority to submit revised contracts that would guarantee the City no adverse impact on its financial plan and no new cost to the State, and assigned Stephen Berger, Executive Director of the Board and John Zuccotti, First Deputy Mayor of the City of New York to observe and report on the Authority's meetings with the Unions; and

WHEREAS, the observers report that no contract revisions have been made, the Unions contending that joint good faith implementation of the productivity provisions of the contracts will generate savings in operating costs at least sufficient to meet any reasonably foreseeable increase in the cost of living allowances provided by the contracts and that the contracts as submitted satisfy the requirements fixed by this Board in its April 30 resolution; and

WHEREAS this Board, without reflection on the good faith of the Transit Authority and Unions, may not under its statutory responsibilities and in view of the serious financial crisis faced by the City and the Transit Authority, approve collective bargaining agreements which will increase the take home pay and the cost of fringe benefits of the employees, without ensuring that the payment of such increases has no adverse impact on the City's financial plan or on the financial plan submitted by the Authority; it is therefore

RESOLVED, that the proposed contracts are hereby approved and returned to the parties for execution and performance subject to the following conditions and limitations:

1. The cost-of-living adjustments ("COLA") provided by the proposed contracts shall be calculated and paid at a rate of one cent per pay hour for each full four-tenths (0.4) of a point increase in the consumer price index, rather than at the rate specified in the proposed contracts. The difference between the rate so approved and the rate specified in the contracts is deferred.

2. Payments of COLA made under the proposed contracts and these conditions and limitations, shall not be deemed part of wages or compensation for the purpose of computing pension contributions of either an employee or the Transit Authority or in fixing any rights, benefits or allowances of an employee or his beneficiaries under the retirement systems or plan to which he belongs, but shall be included for all other purposes covered by the contracts.

3. No COLA shall be paid for increases in the cost-of-living index during the 1976 calendar year which exceed 6 per cent of the CPI for December 1975 (i.e. a maximum increase of 25¢ per hour over the 22¢ paid as of March 31, 1976), or for increases during the 1977 calendar year which exceed 6 per cent of the index for November 1976. Any difference between the COLA paid pursuant to this paragraph and the COLA calculated pursuant to the provisions of the contracts is deferred.

4. Payments of COLA during any period specified in the proposed contracts may be made only from funds available from actual accrued productivity savings, exclusive of reductions in service. However, payment of the COLA due July 1976 may be made upon certification by the Transit Authority that the Steering Committee and the Joint Productivity Working Committees designated in the contracts are cooperating constructively in developing more effective, more efficient and more economical utilization of the Authority's employees and facilities, and that productivity savings are definitively scheduled to provide sufficient funds to pay said COLA.

For each subsequent period designated for COLA payments in the contracts, the Transit Authority shall determine prior to the beginning of each month whether or not the productivity savings are sufficient to make the COLA payments during such month; and if the Transit Authority so finds, it shall certify this fact to the Board and make the required COLA payments. If the Transit

Authority determines that the savings are not sufficient, the Unions may contest this determination before the Impartial Arbitrator provided for in the contract. If the Impartial Arbitrator determines that productivity savings are sufficient, the Authority shall make the required COLA payments.

The Transit Authority may, in its discretion, subject to review by the Impartial Arbitrator, make COLA payments subject to productivity savings in the various represented entities, namely, in the Manhattan and Bronx Surface Transit Operating Authority, in the TWU represented unit in the Transit Authority, in the ATU unit in Staten Island, and in the ATU unit in Queens.

However, the Board reserves to itself the right to make the final determination as to whether or not the savings pursuant to the productivity provisions of the contracts are adequate to warrant COLA payments. The Board shall monitor the productivity agreements through its duly designated representative, the Special Deputy Comptroller for the City of New York. The Board may, at any time, suspend all or part of the payment of the COLA if it has reason to believe that the productivity savings cannot sustain the payments.

5. The retroactive and prospective payment by the Transit Authority of annual and semi-annual wage increments as provided in the proposed contracts is hereby approved. Payment by the Transit Authority of the COLA under its prior contracts with the unions is hereby approved and continued payment of the COLA, under

the conditions of its prior contracts, in an amount equal to 22 cents per pay hour, during the term of the proposed contract is hereby approved.

6. As to the deferred items, the Board provides that if on March 31, 1977, the monies accumulated by productivity savings are in excess of the amounts needed to defray the cost of the 0.4 cost-of-living adjustment, the TA may, consistent with its then existing overall financial condition, recommend to this Board the use of a portion of these surplus productivity savings (a) to pay the difference between the rate of the COLA as herein limited and the rate provided in the proposed contracts (either retroactively or prospectively or both) and or (b) any COLA deferred by reason of the 6% limitation imposed in #2 above. For the contract period subsequent to March 31, 1977, a similar review may be made on or after January 1, 1978. The Board reserves the right to determine whether the portion of the surplus recommended to be allocated to these payments is consistent with the Transit Authority's overall financial condition as well as what payments may be made.

7. The Transit Authority, under the productivity agreement, will seek to maximize those savings which will eliminate as far as possible, the inclusion in pension costs of other than the basic wage rate of retiring employees. To this end the Transit Authority shall exercise close administrative control as to overtime and overtime distribution; sick leave, sick leave pay and related costs and the distribution of vacation periods over a calendar year."

8. The Transit Authority is directed to insure that payments for salaries and wages, including payments of cost-of-living adjustments as hereby limited, do not exceed the amount budgeted for such purpose in the financial plan submitted to this Board.

RESOLVED FURTHER, that the suspension of salary or wage increases and other payments imposed by Section 10 of the Financial Emergency Act and extended by action of this Board is hereby terminated to the extent necessary to permit the Transit Authority to make payments under the proposed contracts in accordance with the conditions and limitations specified above.

THE CITY OF NEW YORK OFFICE OF THE MAYOR ABRAHAM D. BEAME

Tel: 566-5090 205-76 ALBANY 6-9-76

For Release:
Wednesday, June 8, 1976, 10:00 A.M.

STATEMENT BY MAYOR ABRAHAM D. BEAME

In recent weeks you may have read or heard reports from State agencies which, in varying degrees, criticized the budget and the financial plan of the City of New York because it is, to quote the most recent EFCB Staff report, "unrealistic" in anticipating that the State of New York would assume some of burden which the City has had to bear in areas that legitimately are State functions.

I want to take the next few minutes to talk to you about the responsibility of the State of New York to this City, and let you decide for yourself whether the State is meeting that responsibility.

The City of New York, battered by more than a year of worsening financial crises and economic erosion, accompanied by continuing cuts in manpower and services to our people, was offered the promise of a strong partnership with the State to see it through these difficult times.

The report also fails to point out that when Congress was debating the question of Federal help to the City, the House Banking Committee said that it was only right for the State to absorb up to 33 per cent of the city deficit, while the Senate committee said the State's share of the deficit should rightly be 50 per cent. Secretary of the Treasury

(more)

Simon, in testimony before the Senate Banking Committee, also urged that the State pick up half of our operating deficit.

Yet, despite the intent of the Federal government, the City-State "Partnership" didn't work out that way.

It may come as a shock to some of you, but the State of New York has not given the City of New York one cent in additional aid over existing formulas to meet the City's fiscal crisis. The burden of the most crushing financial cataclysm in our City's history is being borne solely on the backs of New York City taxpayers.

Even more shocking is the fact that the Federal Government and the State Government have both made substantial monetary gains out of this City's miseries. These windfalls came when we were forced to curtail programs and separate tens of thousands of City employees from the payrolls, some of whom were paid for in part by federal and state programs.

During the 1976 and 1977 fiscal years, the City of New York is producing $271 million in State budget windfalls as a result of our economies.

In return, the State of New York has not given the City one extra penny. Indeed, the State -- either administratively or legislatively -- has imposed upon our City still greater costs. These costs, including the City's new tax burden granted it by the State, total $888 million.

This City cannot survive the continuing trauma of relentless cutting of staff and services without some recognition of the role that must be played by the State.

(more)

Accordingly, in developing the revised financial plan, we prepared a rational and legitimate program which transfers to the State government on a gradual basis the financing of several programs which legally, logically and in the name of equity fall under State jurisdicition.

The financial plan calls for phaseout of City funds for the City University's senior colleges.

It also calls for the phased assumption by the State of the costs of courts, probation and correction.

The case for the State financing higher education has been made and accepted time and again. All other public senior colleges in our State are financed by the State; CUNY is the sole exception.

We have taken every step required for the State to assume its proper and legitimate role. The State should accept its responsibility now and provide CUNY with the same level of funding as SUNY. Correcting that inequity would provide CUNY with an additional $200 million. We are not asking for that. We are only asking that the State pass legislation confirming the appropriation level already in its adopted budget for next year for CUNY, and that it provide the needed emergency money to re-open this great institution and schedule future allocations to achieve parity with SUNY.

If that is unrealistic, then so are the hopes of the young people of this City for the opportunity provided by higher education. If we fail to fulfill that promise, then no financial plan, no matter how artfully drawn, will redeem this City or this State.

(more)

We are also asking the State to gradually assume the costs of courts, probation and correction institutions. The takeover of the City's share involves a cost to the State of $24 million in fiscal 1977 and $127 million in fiscal 1978.

The fragmentation and duplication inherent in a dual criminal justice system invites administrative overlap and inefficiency. It costs more for less. Every major report that has analysed the situation has concluded that equity and justice demand the State assumption of these responsibilities. I will only cite a few: the report of the U.S. Advisory Commission on Intergovernmental Relations, issued in 1971; the report on criminal justice of the State Temporary Commission on the State Court System, issued in January of 1973; the State Charter Revision Commission report on criminal justice issued in May of 1975; as well as the City Temporary Commission on City Finances report on court probation and correction services in New York, issued in January of 1976.

A unified State system could dispense even-handed justice, minimizing disparities of services and resources that currently exist. It is right and rational. It is legally desirable and more efficient. It is more humane. It has been achieved elsewhere. Why is it unrealistic here. And when did it become unrealistic?

I have long advocated that these functions are properly the responsibility of the State. This was articulated in the initial financial plan document issued in October of last year. The most recent revision to the financial plan issued in March further detailed these actions. According to press reports, the Governor praised the document then and called it commendable. Why is it unrealistic now?

I will make the cuts that are reasonable and possible against a background of keeping this city alive by effectively delivering vital services so as to keep our people and our businesses in our city. But I am equally determined to resist pressure from the State to make further cuts merely to permit the State to avoid its responsibilities.

Cooperation and a true partnership are the only course.

We have worked together in the past and we must work together now, if the City--and the State--are to recover and thrive.

# # #

[illegible] IN CITY-STATE "PARTNERSHIP"

(In Millions of Dollars FY 76 & FY 77)

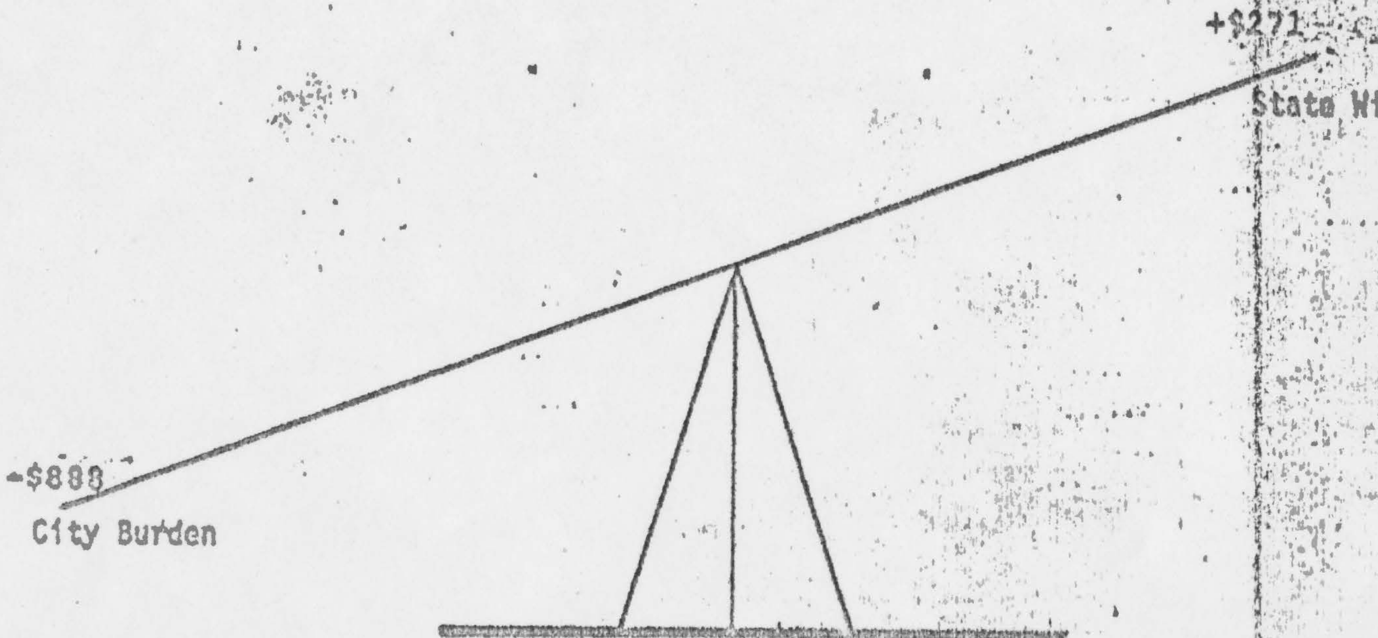
	State Burden	City Burden
ADMINISTRATION AND INTEREST		
Funds given to City by State to help in fiscal crisis	$ 0	-
Overhead Costs of MAC	0	$ 11
Interest on State advances	0	50
MAJOR ADJUSTMENTS TO FINANCIAL PLAN		
Repeal of Estate Tax	0	17
Repeal of Bond Transfer Tax	0	40
CITY TAXES TO MEET FISCAL CRISIS (Enacted by State)	-	770
TOTAL . . .	0	$888

WINDFALL SAVINGS TO STATE FROM CITY BUDGET CUTS

(In Millions of Dollars)

	Fiscal '76	Fiscal '77	Total
Savings to State	$ 149	$ 122	$ 271
Less Proposed Takeover of CUNY, Courts, Probation and Corrections	-	74	74
Windfall Savings after Proposed Takeovers	149	48	197

UNEQUAL "PARTNERS"



(In Millions of Dollars)

THE WHITE HOUSE

WASHINGTON

INFORMATION

June 30, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: New York City Financial Situation

The EPB Executive Committee this morning reviewed the current financial condition of New York City. Treasury reported that New York City has requested a loan of $500 million on Thursday, July 1, primarily to meet debt service and payroll obligations.

Treasury is satisfied that the loan is for seasonal financing and that the financial plan under which New York City will operate during FY 1977 (July 1-June 30) is reasonable. While Treasury believes that the plan, as submitted, is probably at least $100 million short of the target originally outlined in the original plan, the Emergency Financial Control Board has directed the City to identify an additional $135 million in standby reductions by July 31 and to implement at least $50 million of those cuts no later than August 15.

In addition, the Municipal Assistance Corporation (MAC) has proposed to the major New York banks and pension funds, which purchased MAC debt as part of last fall's financing package, that the debt be restructured in a way that would reduce the immediate debt service requirements by $170 million per year. While there is some resistance at this point, Treasury believes it likely that the restructuring will ultimately be agreed to, reducing expenditures at an annual rate of $170 million.

The only remaining question is the settlement of the City's labor contracts. The negotiations involve five major unions representing 96 percent of the City's employees whose contracts expire today. The only major union not directly involved is the teacher's union. Bargaining is intense with especially strong resistance to cuts in benefits. It is not clear at this time as to when and if a settlement will be reached.

The Secretary of the Treasury must make a decision on whether to meet New York's request for seasonal financing by tomorrow.

I will keep you advised of any further developments.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

July 7, 1976

MEMORANDUM FOR ROGER B. PORTER

SUBJECT: New York City Aid

Yesterday you requested the monthly disbursement and repayment schedules for the loans made by Treasury under the New York City Seasonal Financing Act during the City's last fiscal year, the period ending June 30, 1976. You also requested anticipated disbursements and repayments (principal and interest) for the City's current fiscal year, July 1976 through June 1977. The schedules you requested are attached.

You will note that we have presented the precise amount of interest and principal for the period ending June 30, 1976 as well as for the $500 million loan made on July 1. Thereafter, we can provide the City's projected borrowing each month, but we are unable to provide a precise interest rate because the rate is not fixed until the date of each loan. At that time, the interest is fixed at one percent above the rate paid by Treasury for loans of comparable maturity.

If the average interest rate during the period July 1, 1976 through June 30, 1977 were equal to the amount paid on the $500 million loan made July 1, 1976 (7.37 percent) then total interest paid during this period by New York City would equal approximately $100 million. It is quite possible however, that short-term loan rates will increase and that the average interest rate on loans to the City next year will therefore exceed the 7.37 percent paid on the July 1 loan.

By contrast, the City paid approximately $27 million in interest during the period December 1975 through June 1976. This differential arises from several factors: the City expects to borrow more during fiscal 1977 ($2.175 billion versus $1.26 billion during fiscal 1976); the average maturity will be substantially longer; and the interest rate, at the assumed 7.37 percent level, would be approximately one percent higher than last year.

BAG

Robert A. Gerard

Attachments

New York City Borrowing

Fiscal Year 1976

1. Borrowing

December	$370,000,000
January	$140,000,000
February	$430,000,000
March	$320,000,000
TOTAL	$1.26 Billion

2. Repayments

	Principal	Interest	Total
April	$270,000,000	$ 5,120,723.29	$275,120,723.29
May	240,000,000	6,105,336.99	246,105,336.99
June	750,000,000	15,897,901.38	765,897,901.38
TOTAL	$1,260,000,000	$27,123,961.66	$1,287,123,961.66

New York City Borrowing

Fiscal Year 1977

1. Borrowing

July 1976	$850,000,000
August 1976	$225,000,000
October 1976	$125,000,000
November 1976	$175,000,000
December 1976	$475,000,000
January 1977	$150,000,000
March 1977	$175,000,000
TOTAL	$2.175 Billion

2. Repayments

	Principal	Interest	Total
April 1977	$650,000,000	$37,000,000 (est.)	$687,000,000 (est.)
May 1977	450,000,000	26,000,000 (est.)	476,000,000 (est.)
June 1977	1,075,000,000	38,000,000 (est.)	1,113,000,000 (est.)
TOTAL	$2,175,000,000	$101,000,000 (est.)	2,276,000,000 (est.)

THE WHITE HOUSE

WASHINGTON

July 8, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: Federal Seasonal Assistance Loans to New York City

In response to your request Treasury has prepared the attached charts showing disbursements and repayments (principal and interest) both for Fiscal Year 1976 and for Fiscal Year 1977 for Federal seasonal assistance loans to New York City.

I suspect that there are many taxpayers who do not realize that the Federal Government earned approximately $27 million in interest payments from New York during the period December 1975 through June 1976.

Attachment

New York City Borrowing

Fiscal Year 1976

1. Borrowing

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January	$140,000,000
February	$430,000,000
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New York City Borrowing

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April 1977	$650,000,000	$37,000,000 (est.)	$687,000,000 (est.)
May 1977	450,000,000	26,000,000 (est.)	476,000,000 (est.)
June 1977	1,075,000,000	38,000,000 (est.)	1,113,000,000 (est.)
TOTAL	$2,175,000,000	$101,000,000 (est.)	2,276,000,000 (est.)

THE WHITE HOUSE

WASHINGTON

July 8, 1976

MEMORANDUM FOR L. WILLIAM SEIDMAN

FROM: ROGER B. PORTER RP

SUBJECT: Battery Park

I spoke with Dick McGraw, at HUD, on the telephone this morning. I was returning his call. He indicated that he was aware that you were interested in the Battery Park question and were under some pressure to call Bob Georgine on the matter.

He then explained that he had met with Georgine two or three times and that Secretary Hills had talked with Georgine twice on the telephone, the latest time on Tuesday. He said that he had also spent a good deal of time with several of Georgine's people and had taken a trip to New York to look into the situation.

The project involves approximately 2,000 construction jobs and would entail HUD taking a $65 million mortgage. In HUD's view the most serious problem is the marketability of the mortgage, but there are also some environmental clearance and other unspecified problems. McGraw assures me that Georgine is aware of all of these and that they have been in close touch on the matter.

McGraw is presently in the process of trying to put together a definitive package for Secretary Hills that lays out all of the problems that the HUD bureaucracy has with the project. He is currently waiting for inputs from the HUD New York Area Office and from Georgine's people and expects to have them by next Monday. He will be glad to talk with us about it after that and to provide us with a copy of the report he sends to Secretary Hills.

You may also be interested in knowing that the Vice President has talked with Secretary Hills about the issues on at least two occasions.