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~~THE PRESIDENT HAS SEEN~~

THE WHITE HOUSE

WASHINGTON

NOVEMBER 25, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: New York City Speech

An agreement involving actions by New York State, City, union and financial community leaders is expected to be consummated today at 3:00 p.m. A discussion at the EPB Executive Committee and with Ron Nessen, Bob Hartmann and others has produced the following options for consideration regarding the announcement of your position on New York which you indicated last week you would make after reviewing the actions taken by New York officials.

Draft legislation, the New York Seasonal Financing Assistance Act of 1975, has been prepared and cleared by the Departments of Treasury, Justice, the White House Counsel's Office, and OMB. A fact sheet for release following any statement or speech is being prepared and should be completed by the end of the day.

Options

Option 1: Deliver a medium length (10-15 minute) address from the Oval Office at noon tomorrow.

Advantages:

- o A noon announcement would likely be carried live by the major networks and would also receive maximum coverage in the network evening broadcasts.
- o A noon announcement has two advantages over an evening announcement when large numbers of people could be expected to be travelling on Thanksgiving Eve and when it would not receive coverage in the nightly network news programs.

Option 2: Deliver a medium length (10-15 minute) address from the Oval Office at 7:30 p.m. tomorrow.

Advantages:

- o It is expected that the major networks would provide time for live coverage.

Option 3: Request network television time for coverage of an announcement of your position at a meeting with designated New York officials (Governor Carey, Mayor Beame and a few others) in the Cabinet Room.

Advantages:

- o This would provide a new setting and permit you to commend the New York officials personally on the measures that they have taken. New York officials who have been quietly approached on their reaction to such a meeting have indicated that they would be receptive to the idea and that they would respond positively during such a meeting.

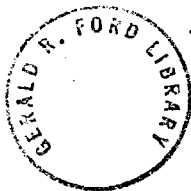
Option 4: Announce your position on New York in a prepared statement at the beginning of a press conference tomorrow.

Advantages:

- o An announcement of your position in the context of a press conference maintains the visibility of such an announcement while permitting attention on other issues at the same time (i.e. the China trip) and thereby reducing the perception that your announcement represents a major change in your position.



Jim



A handwritten signature in dark ink, appearing to be "MCF". The signature is stylized and somewhat cursive.

Max Friedersdorf's office would
like the President to see this immediately
after the conference.

Trudy

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

November 26, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: MAX L. FRIEDERSDORF *m.l.*
SUBJECT: New York City Reaction

Congressional reaction to the President's New York City statement tonight included the following:

Senator John Tower - Strongly endorsed the Presidential message, indicated he would issue supportive comments. Particularly pleased that the assistance will be loans.

Senator Bob Griffin - Not enthusiastic but indicated he would not be critical and realizes the President had no choice. I am taking a fact sheet by his house tonight.

Senator Garn - "As you know, I've been very opposed, but I do prefer loans to loan guarantees. If you guaranteed that would make New York's paper more valuable than Salt Lake City's AAA." Was very pleased to have been called.

Senator Young - "It won't be popular out here, but I guess he had to do it. I doubt if I could vote for it unless my vote was the deciding one. He has forced New York to make some basic changes."

Representative Barber Conable - Excellent statement and will lend all possible support. Believes that the President's firmness has resulted in the best possible solution.

Representative Bill Stanton - Supports the President all the way. Will issue statement and "Dear Colleague" letter to Republicans urging support. Will personally contact the Minority Members of House Banking & Currency Committee.

Representative Lud Ashley - Get the bill up right away. Will consider substituting the President's bill for the Committee bill now scheduled for House Floor action on Tuesday, December 2.



Senator Bellmon - "Let them default. They got into the mess. The President must make a case of having forced New York City to put its house in order. Hopefully, it is not a long-term commitment into perpetuity. What will he (the President) do on common situs and energy?"

Representative Lou Frey - Oscar Juarez, Frey's AA, called from Orlando and asked for a reading. He was very pleased and felt it would be acceptable to Frey and Floridians generally. Oscar felt the emphasis on essential services and monthly granting of the loan money was good.

Senator Hruska - "Will he ask for bankruptcy legislation? It should be part of the package. They may still try to postpone and bring on default so they can get larger federal help. I am pleased that Simon is the Federal official who will administer the program. I will listen carefully and try to say something helpful. We should really stress the bankruptcy legislation. I am pleased about the monthly provision."

Representative Caldwell Butler - Believes the President's announcement is a graceful retreat from his earlier position. Supports the legislative proposal as the most satisfactory, available solution to the New York City problem. Foresees this proposal as precluding further Congressional action on pending bankruptcy legislation. Will support the President's new position.

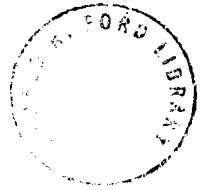
Representative Jim Cleveland - "I know Bill Loeb, the Governor and Reagan will call it a bailout. I plan to duck calls on it tonight. I will cogitate tomorrow and plan a press conference on Friday. I have been traveling the state for three days and it's not good at all. I'm not saying we will get licked, but it is a lot of things like that crazy Nessen remark about skiing in New Hampshire." (I read Cleveland the good reports we are getting, particularly from Frey's AA in Florida, and urged him to take a positive attitude, but Cleveland remained skeptical.)

Representative Norman Lent - "That's great. It will be a big help to New York City. I will embargo the information, but I heard essentially that on the radio a few moments ago."

Representative John Rhodes - Fine statement. Will issue supportive statement indicating he recommended these steps recently and pleased that the President forced New York City to take responsible financial steps.

Representative Bob Michel - Non-committal. Just returned from the District and wonders about pollsters who report public turning around on New York City. His people still strongly opposed to any assistance. People told him the President shouldn't give in on New York City. "I'm glad Reagan waffled and seemed soft on this issue because I'm afraid he could hurt us."

CONGRESSIONAL REACTION TO PRESIDENT'S NEW YORK
CITY ANNOUNCEMENT



The Speaker

Enroute to North Carolina. Gave message to Mike Reed. He was non-committal, but seemed satisfied.

Chairman George Mahon

Enroute to Dallas. Nancy Langston will relay message. Was enthusiastic. Believes the Chairman will approve of this approach.

Chairman Henry Reuss

In Africa. Gave message to James Galbraith, Banking and Currency Committee Counsel. He seemed to buy the approach and felt the Chairman would want to convene the Committee speedily to report out the legislation as a committee amendment which could be offered to the pending bill under the open rule.

Rep. Jack Wydler

Very supportive. Urged that the President's statement expresses sympathy for the people of New York City who have been the victims of their elected leaders.

Rep. John Anderson

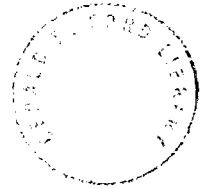
Enroute back to Washington. Gave message to Mike Masterson, who felt the Congressman would support this approach and issue a statement.

Rep. Stewart McKinney

Could not be reached at his home in Connecticut. Left message with Mrs. McKinney and with Jerry McKiernan, his Press Aid here. McKiernan was enthusiastic.

Rep. J. William Stanton

Already had essence of the plan from Max.



Rep. Joe Waggoner, Jr.

Initially reacted with the following questions:

- Will New York City retirement plans be made contributory?
- Will New York City impose salary freezes for City employees?
- Are Federal audits planned for New York and New York City in order that we may be assured of their financial positions?
- Will New York City's previous abuses of welfare programs, higher education and retirement plans be corrected?
- Will the Federal government be assured that "essential services" will not be allowed to go on strike while being Federally financed?
- In the event of default on seasonal loans, does the Federal government have a means to retrieve loaned monies -- i.e. withholding of commensurate amounts of revenue sharing monies, etc.?

The Congressman indicated he did not feel the President's announcement would be warmly accepted throughout the country. However, he stated that he would do everything he could to lend public support to the President on this matter and all others.

Rep. Ed Hutchinson

As a result of the President's announced loan program, believes Congress will forego action on pending bankruptcy legislation.

In travelling through his district, the Congressman has found that his constituents will only support amendments to the Bankruptcy Law. They do not believe Federal assistance of any sort should be made available to New York City. Therefore, the Congressman stated he would not be able to publicly support the President's announcement.

Thomas P. O'Neill, Jr. (D-Mass.)

Will this require legislation? Yes. I'm delighted at the President's action. I won't be critical. "I'm in Cape Cod and don't expect any calls but if he does he'll say that the President has done the right thing and thank God for the nation."

Peter W. Rodino, Jr. (D-N.J.)

Spoke with Francis O'Brien, A/A - Rodino will probably have a reaction but don't know what that reaction will be until he sees the fact sheet on the President's statement.

Thomas L. Ashley (D-Ohio)

He talked to Seidman and wants fact sheet this afternoon and hopes that's understood so he can coordinate the necessary legislative action. Ashley bill put onto the Senate calendar to avoid filibuster. If he has to start with new language or bill then something has to be done to keep the number of the bill, understand the legislative situation and act accordingly. He talked to Burns and says Ford exposing himself a little on direct loan -- politically he's exposed himself on direct loans and budget implications. There also may be problem because this doesn't discourage other cities as the Ashley bill does by setting conditions so onerous that they wouldn't consider it. This smacks of direct bail out and people will shake their heads. He'll make no commitment until he sees the fact sheet and language of the bill. Bill Seidman told him that Ed Schmultz of the Counsel's office is to meet with him on Friday, November 28.

John J. McFall, (D-Calif.)

Is this going to require going back to Committee with new legislation? Hope not, we should be able to work something out legislatively. Glad its worked out this way and hope we can work out the legislative situation next week.

Norman F. Lent (R-N. Y.)

Could not be reached.

<u>SENATOR</u>	<u>PLACE</u>	<u>TIME</u>	<u>REACTION</u>
Scott, H.	D. C.	4:15 *	His reaction is favorable. The action to continue the viability of New York City is desirable. Will support it.
Buckley	New York	4:20	Spoke to A.A. He will transmit message and advise us of reaction.
Brooke	D. C.	4:20	Senator and A.A. unreachable. Spoke with Secretary, Sheila Crowley, but did not read the message to her.
Mansfield	Florida	5:15	Fine! The President played this just right. The situation could have been chaotic. N. Y. now has a chance to work out of a situation on a firm basis.
Javits	New York	5:30	The President has done well. I will issue a statement in support.
Proxmire	Milwaukee	5:40	Sounds alright to me. Will the loans be direct treasury loans? If so, they will require authorization and appropriation. The figures sound a little low.

* all times P. M.



THE PRESIDENT HAS SEEN....

THE WHITE HOUSE

WASHINGTON

November 28, 1975

MEMORANDUM FOR THE PRESIDENT

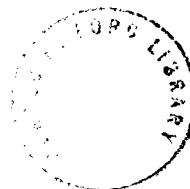
FROM: MAX L. FRIEDERSDORF *M.L.F.*

SUBJECT: New York City/Senator Proxmire

JRF

Bill Kendall personally delivered the New York City legislation to Senator Proxmire today and received a favorable reaction.

I am attaching Kendall's brief report on the Proxmire meeting.



THE WHITE HOUSE

WASHINGTON

November 28, 1975

MEMORANDUM FOR: MAX L. FRIEDERSDORF

FROM: WILLIAM T. KENDALL *WTK*

SUBJECT: Senator Proxmire's reaction to the
New York City legislation

I was able to deliver the New York City legislation to Senator Proxmire personally this morning before he left for Wisconsin. He approves of the legislation and hopes that it can be passed by the House by the middle of next week. His chief staff man was also in on the conference. The staff man suggested two minor changes: (1) that GAO audit city finances-- but not necessarily before the loans are made-- (2) and that a quarterly report be submitted to the Congress from the President on the New York City situation.

Proxmire cautioned his staff man that he wanted to accept whatever the House sent over and that any such changes should be made on the House side. He feels that it will be necessary to lay down a cloture petition on Thursday for a possible Monday, December 8 vote. He thinks that there are a good 45 Democratic votes for the bill.



THE WHITE HOUSE
WASHINGTON

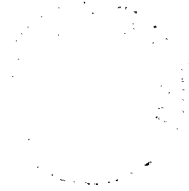
President said on 12/9/75 that he
wanted to hold on this statement --

Bill was sent forward.

per Jim Connor

THE WHITE HOUSE
WASHINGTON

December 9, 1975



MR PRESIDENT:

The attached signing statement on New York Seasonal Financing Act of 1975 was prepared by EPB and approved by Bob Hartmann. Your approval is requested.

Approve _____ Disapproved _____

Jim Connor

December 9, 1975

SIGNING STATEMENT ON NEW YORK SEASONAL FINANCING ACT OF 1975

I am signing into law today H.R. 10481, a bill authorizing the Federal Government to assist the City of New York in meeting its temporary financing needs over the next two and one half years.



Under this legislation, the Federal Government is authorized to provide loans of up to \$2.3 billion a year to the State of New York. State authorities will in turn channel the funds to the City of New York to enable the city to continue providing essential services to its residents. By the end of each fiscal year the loans are to be repaid to the Federal Government in full and with interest. It is anticipated that there will be no cost to the taxpayers in the rest of the United States.

This measure climaxes a long, arduous but ultimately successful effort to ensure that New York assumes primary responsibility for solving its own financial problems. They have begun this process through a self-help program. This includes:

One, meaningful spending cuts have been approved to reduce the cost of running the City; Two, more than \$200 million in new taxes have been voted; Three, payments to the City's noteholders will be postponed and interest payments will be reduced through passage of legislation by New York State; Four, banks and other large institutions have agreed to wait to collect on their loans and to accept lower interest rates; Five, municipal employees will be required to bear part of the cost of their pension contributions and other reforms will be made in the pension funds; Six, the City pension system is to provide additional loans of up to \$2.5 billion to the City. All of these steps -- adding up to \$4 billion -- are part of an effort to provide financing and to bring the City's budget into balance by the fiscal year starting July 1, 1977.

I am gratified that these constructive efforts are continuing. I also want to take this opportunity today to commend the Congress for its rapid action in securing passage of this authorizing

bill; I look forward to a companion appropriations bill within the next few days.

While this occasion represents a significant milestone in resolving New York's financial difficulties, none of us should be lulled into complacency about what still needs to be done. In many ways, this still represents only the beginning for New York. As I have said before, the provision of seasonal loans by the Federal Government is contingent upon the continued good faith efforts by the leaders of New York to carry out their own self-help program.

Looking beyond the current self-help plan, let us recognize that in New York -- as in Washington and elsewhere around the country -- all of us still have a great responsibility to take the hard, tough steps that will actually bring public spending into line with public revenues.

A fundamental lesson to be learned from New York's experience is that sound fiscal management is an imperative of self-government.

No individual, no family, no business, no city, no State, and no Nation
can go on indefinitely spending more money than it takes in.



~~THE~~ PRESIDENT HAS ~~SEEN~~ ~~IT~~
THE SECRETARY OF THE TREASURY
WASHINGTON 20220

RBC HAS SEEN

February 2, 1976

MEMORANDUM TO THE PRESIDENT

Subject: Update on New York City and New York State

The New York City Loan Program

To date we have loaned \$510 million under the New York City Seasonal Financing Act of 1975. It is anticipated that additional loans of \$350 million will be made in February and \$400 million in March, bringing the total outstanding at the end of March to \$1,260 million.

The loans are scheduled to be repaid in full during the spring quarter. Each loan is directly secured by a specific revenue source expected to flow to New York City during the spring quarter. These sources total more than \$2 billion and consist of City tax levy funds, State revenue sharing funds, State aid to education, and prepayments of aid to education and higher education. The State will have to borrow to meet this and its other commitments. Thus, timely repayments of the Federal loans to the City depend upon the State's ability to borrow this spring.

New York State

New York State and its agencies face immense financing needs in FY 1977. We are monitoring the situation very closely, as is the Federal Reserve. Treasury and New York Federal Reserve personnel were in Albany last week to review New York State's fiscal and borrowing situation. On the fiscal side, we believe New York State will be in sound shape if a reasonable FY 1977 budget is produced by the Legislature.

The key concern is New York State's needs this spring. The State must raise \$3.7 billion -- largely seasonal financing -- during the spring quarter.

Ordinarily, the seasonal needs would be funded by open market sales of tax anticipation notes. However, given the overall concerns regarding New York securities, there is at least some question whether a public sale of the entire \$3.7 billion will be possible.


Accordingly, I have asked Ed Yeo quietly to explore the possibilities of establishing a nationwide back-up bank line of credit for New York State. To date, he has had preliminary discussions with a limited group of bankers in New York City and on the West Coast. With the help of the information we developed in Albany, this approach will be pursued further.

New York City's Progress

Attached are copies of recent correspondence I have had with Mayor Beame (Tab A) and with Senators Proxmire and Stevenson (Tab B). These letters, along with information obtained from monitoring meetings of the Emergency Financial Control Board, indicate that New York City has made some progress towards living within its revenue constraints. However, much remains to be done, especially in light of the fact that revenues will fall below the estimates in the current Financial Plan. That Plan is now being revised to reflect these shortfalls and other changes. The revised Plan will be ready by mid-February.

Congressional Oversight

As reflected in the attached correspondence with Senators Proxmire and Stevenson, Congressional interest remains strong. Our liaison work with the staffs of the relevant Committees is continuing. We understand informally that Senate Banking and House Appropriations are planning oversight hearings in April.


William E. Simon

Attachments



A



THE SECRETARY OF THE TREASURY
WASHINGTON 20220



JAN 20 1976

Dear Mayor Beame:

I am sure that by now you have seen the Arthur Andersen & Co. report regarding New York City's financing requirements under PL 94-143, and have had time to digest its substance. The report calls attention to a number of reasons for concern about the ultimate success of the seasonal financing loan program under PL 94-143. I would appreciate your prompt responses to the concerns raised by the Andersen report.

(1) Changes in programs planned for this fiscal year call for expenditure cuts of \$200 million in the expense budget on an annual basis. As of December 29, 1975, savings having an annual effect of only \$50 million had been identified and only \$12 million actually achieved. I understand, however, that further substantial progress has been made since December 29, 1975, and has been reported to the Emergency Financial Control Board. Please provide me with the details of these savings. In addition, I would appreciate your arranging to have future progress reports on the identification and achievement of scheduled expenditure cuts transmitted to me when they are submitted to the Control Board.

(2) Staff of the City Comptroller have called attention to the possible loss of \$571 million in revenues in this and the next two fiscal years. How do you evaluate this possibility? More generally, what revisions in the Financial Plan are contemplated to cover any revenue shortfall? Are there alternative revenue sources? The Treasury Department must be immediately informed about all revenue developments which might affect the size or timing of the City's loan requests and the availability of revenues for repayment.

(3) The Financial Plan, drawn-up in October, assumes that salaries will be maintained at the 1975-1976 level through FY 1978, that savings will offset the effects of inflation on other than personal service costs, and that the public assistance caseload will remain stable. How do you now evaluate these assumptions? Please keep me informed about developments which affect them.

(4) Recognition of unfunded pension liabilities will raise future pension costs substantially. How will this change the Financial Plan?

(5) The Andersen report indicates a shortfall of \$408 million in current cash sources to cover this year's needs. Prepayment of \$192 million of real estate taxes last year accounts for nearly half of this amount. Will prepayments approach \$192 million this year? What cash sources are available to cover the \$408 million shortfall?

(6) The Andersen report expresses serious doubts about the City's current ability to generate reliable financial data. What steps have been taken to assure that reliable data, as agreed upon in the Credit Agreement, are supplied to the Treasury on a timely basis?

I look forward to your reply by January 31. It is absolutely essential that the Treasury be kept informed of all developments pertaining to the implementation of the Financial Plan, any revisions in it, and to be supplied reliable up-to-date financial data on a timely basis. Without such information and data, we cannot make the judgments we are required under the enabling legislation.

Sincerely yours,

(Signed) William E. Simon

William E. Simon

The Honorable
Abraham Beame
Mayor of the City of New York
City Hall
New York, New York 10007

cc: Governor Carey



THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, N.Y. 10007

January 29, 1976

Mr. William E. Simon
Secretary of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

This is in response to your letter of January 20, 1976 in which you pose several specific questions.

1. With reference to expenditure cuts of \$200 million in the expense budget, substantial progress has been made since the December 29, 1975 report of Arthur Andersen & Co. As reflected in the enclosed Status Report to the Emergency Financial Control Board, as of January 23, 1976 action has been completed on 60% of the programs to be cut or in which revenues are to be increased in this fiscal year. Timely progress is being made on an additional 30%.

These reductions amount to \$95.29 million in annualized savings out of \$116.2 million in anticipated savings.

Ten percent of the planned reductions are behind schedule. This represents 16 reduction actions amounting to \$20.9 million in annualized savings. The principle item involved is \$17.5 million in reduced Medicaid costs. At the time the Financial Plan was prepared, it was expected that this saving could be achieved by administrative action. However, it has since been determined that State legislative action may also be necessary. This action is contemplated in the State budget recently submitted to the Legislature.

I have directed that future progress reports on these matters be transmitted to the Treasury at the time of transmittal to the Control Board. It is anticipated these reports will be monthly.

2. With reference to the reported possible loss of \$571 million in revenues over this and the next two fiscal years, the Financial Plan is currently being revised. This revision is scheduled to be completed by February 15, 1976 and should answer fully the revenue shortfall questions you raise.

In the present year, the Financial Plan is being adjusted to reflect a \$35 million shortfall in General Fund revenues as well as changes in other revenues, expenditures and debt service. The revised Plan will include provision for the impact of all required changes during the three years covered by the Plan.

3. The maintenance of salaries at the 1975-1976 level through FY 1978 remains in collective bargaining. The Financial Plan provides that salaries be maintained at said levels. To the extent that increases occur, they must be offset in savings in the same manner that inflation is offset in other areas covered by the Plan.

The public assistance case load level is not stable. The current rate of increase in the case load is slightly less than anticipated. However, indications are that there may be an increase next year that had not been previously anticipated. This matter is being considered in connection with the current revision to the Financial Plan.

It is significant to note that despite the smaller case load increase this year, the cost of public assistance is larger than estimated. This is due directly to rent increases which increase the welfare grants.

4. As you are aware, the Mayor's Management Advisory Board (the "Shinn Committee") is investigating the matter of unfunded pension liabilities and their effect on future pension costs. The Committee is scheduled to report about March 1, 1976. A determination as to the effect of these liabilities on the Financial Plan will be made after this report is received.

5. With regard to cash sources available to cover cash shortfalls, I attach a memorandum from the Hon. Harrison J. Goldin, Comptroller of the City of New York, addressed to the Emergency Financial Control Board which discusses this question in detail.

A significant aspect of the cash sources question concerns the ability of the five New York City employee pension funds to meet their commitment to

purchase New York City serial bonds. The next purchase is to be on or about February 20, 1976. This purchase cannot be assured without legislation concerning certain provisions of the Internal Revenue Code. I am pleased that Treasury has communicated to me and the Joint Committee on Internal Revenue Taxation its support in principle of this proposed legislation. If this objective cannot be achieved in time for the pension investment to be made as scheduled, the City will seek to advance the next intended loan from the Treasury.

6. The City has taken substantial steps to improve its financial systems reporting. I attach a memorandum to the Control Board which addresses this issue specifically.

The City is eager to maintain close communication with Treasury and will make every effort to keep your office timely and fully advised of the progress of the implementation of the Financial Plan.

Sincerely,


Abraham D. Beame
MAYOR

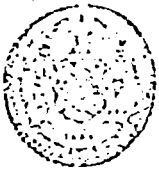
THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER

HARRISON J. GOLDIN
COMPTROLLER

January 21, 1976

TO: Emergency Financial Control Board
FROM: Harrison J. Goldin
SUBJECT: Arthur Andersen Report -
Cash Shortfall

The attached memorandum should explain the confusion surrounding Arthur Andersen's assertion of a \$400 million cash shortfall.



STEVE CLIFFORD
SPECIAL DEPUTY COMPTROLLER

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
MUNICIPAL BUILDING
NEW YORK, N. Y. 10007

HARRISON J. GOLDIN
COMPTROLLER

January 21, 1976

TO: Harrison J. Goldin
FROM: Steve Clifford
SUBJECT: Arthur Andersen Report - Cash Shortfall

Arthur Andersen stated that "to meet the cash requirements for fiscal 1976 the city must find additional sources of over \$400 million." The Comptroller's Office made available to Arthur Andersen detailed computerized cash projections for the remainder of the fiscal year demonstrating that all cash shortages can be covered by seasonal loans plus long term financing already arranged with the City's pension funds. We do not know whether these projections were reviewed in depth by Arthur Andersen; however, they were not included in the discussion of cash needs in their report.

Instead, they based their assertion of a \$408 million cash shortfall on their analysis of aggregated annual financial plan totals displayed on page 52 of the report. This analysis failed to adjust for a number of distinctions between cash flow on one hand and accrual-based financial plan data on the other hand. Specifically, the following items should have been included in Arthur Andersen's analysis:

1. State Advance - \$162 million

Of the funds advanced by the State to the City in the fourth quarter of fiscal 1974-75, only \$628 million was included as financial plan revenue for 1975-76, the remainder being credited to 1974-75. Were the State to discontinue this advance, cash receipts in 1975-76 would then be \$628 million less than accrued revenue under the plan. However, since the State will advance \$800 million this fiscal year, cash receipts will exceed accrued revenue by \$162 million.

2. Reserve for Disallowances - \$223 million

The City included in its financial plan an expense of \$315 million for reserve for aid disallowances. As we informed Arthur Andersen, we do not expect to experience the full cash impact of this accrued expense in this fiscal year. Our cash forecast assumes that \$223 million of this reserve will remain a non-cash charge in FY 76-77.

3. Expenses to be Paid Subsequent to June 30, 1976 - Approximately \$83 million

The City's financial plan includes accrued expenses of \$383 million to be paid after June 30, 1976. Expenses paid in fiscal 1975-76 to be charged to prior years is estimated at \$300 million of which \$280 million had been paid through 11/30/75. Cash needs for the current fiscal year should be decreased by the difference, \$83 million.

4. Decrease in Expense Aid Receivables - \$136 million

As of June 30, 1975, valid, collectible expense budget receivables of State and Federal aid were estimated by the Office of Management and Budget to be \$604 million. Through November 30, 1975 we had collected \$538 million of these receivables and we expect to collect an additional \$66 million in this fiscal year. According to the City's financial plan, receivables as of June 30, 1976 will be \$468 million. The difference, \$136 million, should appear as a source of funds.

5. Decrease in Capital Aid Receivable - \$78 million

As of June 30, 1975, capital aid receivables were \$148 million. They have decreased by \$78 million to \$70 million as of December 31, 1975. We expect the year end receivables to be approximately the same as December 31st.

6. Other, Including Non-Plan and Non-Budget Cash Flows - \$10 million negative

The above six adjustments decrease cash needs or increase cash sources by a total of \$672 million. Accordingly, rather than a cash deficit of \$408 million for 1975-76, Arthur Andersen's analysis should indicate a surplus of \$264 million. As stated in the documents supplied to Arthur Andersen by the

January 21, 1976

Comptroller's Office, we are currently forecasting a surplus of \$191 million before adjusting for possible future State legislative actions, not reflected in the financial plan, which may impact this year's cash flow. This document also noted that our projected cash outflows are \$73 million higher than the financial plan. By adding this \$73 million to the \$191 million, our detailed cash forecast can be reconciled to the \$264 million indicated by the aggregate annual flow approach employed by Arthur Andersen.

In light of the above, we have asked Arthur Andersen to issue a clarifying amendment to their report.

January 20 1973

TO: Members of the EFCB

FROM: Steven A. Clifford, Office of the Comptroller
David G. Woodbridge, Office of the Mayor

SUBJECT: Arthur Andersen & Co.'s Comments on Current and Proposed City
Financial Management Systems

The Arthur Andersen & Co. report states that "...a systems change of the magnitude envisioned might take substantially longer to implement than the present schedule of 18 months." This is an appropriate observation as the systems changes mandated on the City are immense. However, these changes are required by law. Accordingly, we are organizing our efforts with a view to complying with the statutory mandate.

Recognizing the critical shortage of City personnel available for this task, we have laid out the program so that three consulting firms will be involved, two of which have already been selected and have been at work on the project for a number of weeks. While this project will be difficult to accomplish within the time frame available, we believe, nevertheless, that it is not an impossible goal.

With respect to the present accounting activities, Arthur Andersen & Co. stated that "...it is our conclusion that the present circumstances demand immediate improvement." In view of the City's limited personnel resources, we are devoting primary attention to accomplishing the major systems project. However, steps are being taken on an interim basis that will improve the City's recordkeeping and reporting. For example, the City is revising its procedures so that monthly statements can be issued of the type called for in the credit agreement with the Treasury Department. As we have advised the U.S. Treasury, initially these statements will be partially incomplete and no doubt deficient with respect to some of the information reported. However, continuing efforts will be made to improve the completeness and reliability of these reports. In the months ahead other steps will be under way to speed up the processing of data in City agencies and improve the monitoring of State and Federal aid collections.

B

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United States Senate

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

WASHINGTON, D.C. 20510

January 23, 1976

The Honorable William E. Simon
Secretary of the Treasury
Fifteenth Street and Pennsylvania, N.W.
Washington, D.C. 20220

Dear Secretary Simon:

On January 14, 1976, you announced the commitment of an additional \$140 million in loans to New York City beyond the \$370 million previously advanced pursuant to the New York City Seasonal Financing Act of 1975. In doing so, we understand that you concluded, as required by law, that there is a "reasonable prospect of repayment." However, on the same day you announced receipt of an Arthur Andersen & Co. report on the financial condition of New York City which generally concluded that the City does not yet have adequate financial accounting and reporting systems and that spending reductions are running behind schedule. The Arthur Andersen report points out that there are many questionable assumptions and deficiencies in the City's three-year financial plan, including unrealistic projections of anticipated revenue and prospects for holding down expenditures through fiscal year 1978.

In light of that report, we would appreciate being apprised of the factors which led you to conclude that there is nevertheless a reasonable prospect of repayment by June 30, 1976. In addition, we would appreciate your response to the following questions which are suggested by the report:

1. What action is anticipated by New York City and the Treasury if the short-term debt moratorium is declared invalid by the courts?
2. Has New York State made a firm commitment to prepay \$800 million in State aid in the spring of each year during the life of New York City's three year financial plan? What is the source of such funds? Has the City accounted for these funds properly to date, or have there been instances of double-counting, e.g. as both cash on hand and revenues coming due. What steps have been taken to remedy any problems rising from erroneous accounting for these funds?

The Honorable William E. Simon
January 23, 1976
Page Two

3. Has the City specifically identified the reductions in budgeted expenditures needed to fulfill the plan (total of \$1.5 billion during the three-year period)? If so, would you specify such reductions?
4. Does New York City or New York State have a contingency plan for raising additional revenues or making additional expenditure reductions in the event the assumptions of the financial plan are not met? If so, would you describe that plan?
5. Has the City entered into negotiations to reduce the cost of City pension plans? If not, why not, and what are the prospects?
6. The Arthur Andersen report states that the City's financial plan continues to include operating expenditures in the capital budget (\$677 million in Fiscal 1976, \$607 million in Fiscal 1977, \$557 million in Fiscal 1978) and that this practice will continue over a ten year period before being ended. The report views this as a "major departure from sound accounting and public reporting" and implies that it could hinder access by New York City to the capital markets after Fiscal 1978. Why is the practice being allowed to continue for so long? What efforts have you made to eliminate this practice?
7. The Andersen & Co. report suggests that the City's implementation of the State Comptroller's Uniform System of Accounts may not be possible by July 1, 1977. If not, why not and what must be done to achieve that goal.
8. In your judgment, has the City achieved an adequate interim system of budget control? If not, why not?

Your cooperation is appreciated.

Sincerely,


William E. Proxmire


Adlai E. Stevenson



THE SECRETARY OF THE TREASURY

WASHINGTON 20220

Dear Mr. Chairman:

I am pleased to respond to your request for additional information concerning our conclusion that there is a reasonable prospect that New York City will repay the loans made to date under the New York City Seasonal Financing Act of 1975. Your concern, as I understand it, is based on the observation, contained in the report to me prepared by Arthur Andersen & Co., that there are many questionable assumptions and deficiencies in New York City's current three-year financial plan.

Many of the concerns provoked by the Andersen report and reinforced in recent days by the prospect of reduced aid under recently announced State and Federal budgets appear to be based on the erroneous assumption that the three-year plan is immutable. It is not. Revenue shortfalls or expenditure overruns, arising from unforeseen circumstances or from miscalculations by the City or the Emergency Financial Control Board last October, can and must be offset by modifying the plan to compensate for such shortfalls or overruns. I expect that timely compensating actions will be taken as warranted by the emerging facts. Even now the City and Control Board are amending the plan to compensate for actual and newly projected revenue shortfalls and expenditure overruns that have been recognized or acknowledged since October. These revisions are scheduled to be completed by mid-February.

We expect the modified plan to take account of many of the concerns identified in the Andersen report in a manner designed to insure that New York City will complete the current fiscal year with its cash flows in balance. Under such circumstances, New York City will have ample cash to meet all of its obligations, including the Federal loans. It is this conclusion which has served as the primary basis for my finding that a reasonable prospect of repayment currently exists.

In addition, however, there are several other specific protections designed to insure repayment of the Federal loans. First, pursuant to the Credit Agreement dated December 30, 1978, between the Treasury, New York State, New York City, and the Emergency Financial Control Board, each Federal loan is directly secured by a specific and specified State aid payment flowing to New York City. These payments will go into a special account from which disbursements cannot be made, except with my permission. These "trapped" funds will be applied first to the repayment of outstanding Federal loans. Moreover, New York City will need seasonal financing next year. City officials recognize that this year's seasonal loans must be repaid in order to obtain future seasonal financing. This statutory requirement serves as a powerful incentive to do what is necessary to repay the Federal Loans on time.

In short, I am satisfied that a number of considerations provide an adequate basis for my finding that there currently exists a reasonable prospect of repayment.

Your letter also identified a number of specific concerns regarding the financial situation in New York City. Many of these concerns mirror questions I recently addressed to Mayor Beame. Accordingly, I am attaching to this letter a copy of my letter to Mayor Beame and his response thereto. My responses to your specific questions are set forth below.

1. Given the judicial decisions to date, we do not expect the moratorium to be overturned. In the event that it is, our actions will depend on the actions of other parts of the financing component of the three-year plan. Specifically, we would want to know whether the pension funds, the banks and the State adhere to their commitments. The notes in moratorium would, of course, be in default. New York City and the Control Board would then have to decide whether to pay interest on these notes while the courts adjudicated claims of noteholders.

2. Governor Carey has agreed to take the actions necessary for the prepayment of \$800 million in State aid to New York City during the period covered by the financial plan. In addition, at the time the Credit Agreement was executed, I received from the leaders of the New York State Senate and Assembly written commitments to support the payment of such advances.

To make these advances to New York City and to other jurisdictions, New York State will be required to issue short term debt during the months of April, May and June. Specifically, in connection with this spring's advances, the State's cash flow projections for its next fiscal year indicate the funds will be advanced in three parts: \$400 million April 1, \$200 million May 1 and \$200 million June 1.

I do not believe the aid advances are materially double counted in New York City's revenue and cash projections. City officials recognize that the extra cash provided by advancing aid payments to the spring quarter was largely used last year.

3. New York City has identified the specific reductions in expenditures for this fiscal year. According to Mayor Beame, itemization of specific reductions for fiscal years 1977 and 1978 is now in progress and will be available shortly.

4. In his attached response to me (see paragraph 2) Mayor Beame indicates that contingency plans will be reflected in further revisions to the financial plan on February 15. I shall have a further response to you on this matter after we have evaluated those revisions.

5. The Mayor's Management Advisory Board on pensions is scheduled to report on March 1, 1976. We expect the report to include recommendations on reducing the cost to the City of its pension plans. Public Law 94-143 does not provide me with legal authority to direct New York City to reduce specific expenditure items or otherwise control the City's management or operations. I will, of course, be monitoring all aspects of New York City's costs structure in connection with my statutory responsibility.

6. Under State law, New York City must eliminate operating expenses from its capital budget over a ten year period and the financial plan under which Congress and the President acted and under which New York City is now operating contemplates such a reduction period. While it obviously would be most desirable to accelerate the process, it is not within my statutory authority to direct New York City to do so.

7. City officials contend that while implementation of a uniform accounting system by July 1, 1977 will be difficult, they will be able to meet the target date.

8. Mayor Beame assures me that "the City has taken substantial steps to improve its financial systems reporting." However, there is not yet in place an obligation encumbrance agency reporting system. Such a system, even in manual form, would be extremely helpful in preventing expenditure overruns. New York City and Control Board officials also recognize this pressing need and efforts are underway to implement a workable interim system within a matter of months.

I am pleased and heartened by your interest. As you know, we have established a staff level liaison group with the Senate Banking Committee and the other Congressional committees directly concerned with the implementation of the seasonal loan program to review relevant matters on an ongoing basis. Please let me know if I can be of further assistance.

Sincerely yours,

William E. Simon

The Honorable
William E. Proxmire, Chairman
Committee on Banking, Housing
and Urban Affairs
United States Senate
Washington, D.C. 20510



THE SECRETARY OF THE TREASURY

WASHINGTON 20220

Dear Adlai:

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With best regards,

Sincerely yours,

William E. Simon

The Honorable
Adlai E. Stevenson
United States Senate
Washington, D.C. 20510



THE SECRETARY OF THE TREASURY
WASHINGTON 20220

2/2/76



MEMORANDUM TO THE PRESIDENT

Subject: Update on New York City and New York State

The New York City Loan Program

To date we have loaned \$510 million under the New York City Seasonal Financing Act of 1975. It is anticipated that additional loans of \$350 million will be made in February and \$400 million in March, bringing the total outstanding at the end of March to \$1,260 million.

The loans are scheduled to be repaid in full during the spring quarter. Each loan is directly secured by a specific revenue source expected to flow to New York City during the spring quarter. These sources total more than \$2 billion and consist of City tax levy funds, State revenue sharing funds, State aid to education, and prepayments of aid to education and higher education. The State will have to borrow to meet this and its other commitments. Thus, timely repayments of the Federal loans to the City depend upon the State's ability to borrow this spring.

New York State

New York State and its agencies face immense financing needs in FY 1977. We are monitoring the situation very closely, as is the Federal Reserve. Treasury and New York Federal Reserve personnel were in Albany last week to review New York State's fiscal and borrowing situation. On the fiscal side, we believe New York State will be in sound shape if a reasonable FY 1977 budget is produced by the Legislature.

The key concern is New York State's needs this spring. The State must raise \$3.7 billion -- largely seasonal financing -- during the spring quarter.

Ordinarily, the seasonal needs would be funded by open market sales of tax anticipation notes. However, given the overall concerns regarding New York securities, there is at least some question whether a public sale of the entire \$3.7 billion will be possible.

Accordingly, I have asked Ed Yeo quietly to explore the possibilities of establishing a nationwide back-up bank line of credit for New York State. To date, he has had preliminary discussions with a limited group of bankers in New York City and on the West Coast. With the help of the information we developed in Albany, this approach will be pursued further.

New York City's Progress

Attached are copies of recent correspondence I have had with Mayor Beame (Tab A) and with Senators Proxmire and Stevenson (Tab B). These letters, along with information obtained from monitoring meetings of the Emergency Financial Control Board, indicate that New York City has made some progress towards living within its revenue constraints. However, much remains to be done, especially in light of the fact that revenues will fall below the estimates in the current Financial Plan. That Plan is now being revised to reflect these shortfalls and other changes. The revised Plan will be ready by mid-February.

Congressional Oversight

As reflected in the attached correspondence with Senators Proxmire and Stevenson, Congressional interest remains strong. Our liaison work with the staffs of the relevant Committees is continuing. We understand informally that Senate Banking and House Appropriations are planning oversight hearings in April.

William E. Simon

Attachments