

## SENATOR WILLIAM PROXMIRE

WISCONSIN

FOR RELEASE AFTER 6:30 P.M. WEDNESDAY, MARCH 29, 1978

Senator William Proxmire (D-Wis) said late Wednesday "I am releasing today figures showing that the six biggest New York City banks have cut their holdings of New York City-related securities significantly since the federal loan program was enacted in late 1975. At the same time these banks have increased their total assets by 24 percent and their total capital by 22 percent.

"These figures give convincing evidence that the big New York banks have the capacity to do far, far more to help the city in the coming years. They should give firm commitments now to make major new investments in Municipal Assistance Corporation (MAC) and New York City bonds and notes during the period covered by the city's four-year Financial Plan, to tide the city over until it regains full access to the public markets," Proxmire said.

Proxmire is Chairman of the Senate Banking, Housing and Urban Affairs Committee, which has jurisdiction over New York City financing legislation. The Committee issued a report in February which concluded that resources available from banks and pension funds in New York City and New York State should be sufficient to meet the city's financing needs after the federal seasonal loans expire on June 30, 1978, with or without additional federal aid.

In a statement from his Washington office Proxmire said, "I asked officials of six top New York City banks who testified before the Committee last December to submit information on their holdings of City and MAC securities for September 30, 1975, (before the seasonal loan legislation was passed) and for September 30, 1977. Those banks included Citibank, Chase Manhattan, Morgan Guaranty, Manufacturers Hanover, Bankers Trust, and Chemical Bank. Data provided by the Comptroller of the Currency and the Federal Reserve Board show that these banks presently have combined assets of \$232 billion and total capital of \$10.1 billion.

"The figures supplied by the banks reveal that at a time when the federal government is being asked to increase its financial exposure enormously by providing 15-year guarantees instead of one-year seasonal loans, the New York City banks are going in just the opposite direction. These banks have dropped the proportion of their assets and capital invested in City-related securities by about 20 percent.

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"In September, 1975, before the federal loan program began, these six banks had just under one percent of their assets invested in New York City and MAC obligations, 0.92 percent to be exact. As of September, 1977, these investments had dropped to 0.72 percent of assets. Similarly, in September, 1975, City-related securities held by the banks were 20 percent of capital. As of September, 1977, that figure had dropped to 17 percent.

"Looking at the dollar amounts, four of the six banks reduced their actual holdings of City-related securities from 9 percent to 16 percent, while at the same time they showed asset gains of from 16 to 22 percent and increases in capital of from 9 to 35 percent. One bank, Morgan Guaranty, kept its holding constant, but during that period its assets increased by 21 percent and its capital by 31 percent. The only bank to show larger holdings of City-related securities in 1977 was Citibank. While the fact of the increase is commendable, Citibank had in 1975 and continues to have the lowest proportion of capital and assets invested in New York City of any of the banks studied.

"Obviously, the federal loans have provided a convenient way for the banks to get out of New York City securities. Fifteen-year federal guarantees could get the banks off the hook even more, which would be just the wrong way to go--bad for the city, and bad for investors, including the banks. This is the wrong way to go for several reasons:

"1. The New York City banks are in a far better position to provide the kind of discipline and leadership needed to keep the city on the right fiscal track than the federal government is. After all, every other city must face this kind of free market discipline to hold down spending in order to sell its securities to its bankers and to the public.

"2. The banks will be better able to see to it that the controls put in place by New York City and New York State stay strong and effective--the balanced budget plan, the new accounting system, the outside audits, and the pending plans to establish a long-term fiscal monitor and to segregate revenues for payment of debt service.

"3. Given the large and continuing growth in their assets and capital, the banks can afford to make far larger commitments to invest in City-related securities now than in 1975, when they were actually lending more to the city.

"4. The banks can make these investments without in any way jeopardizing either their financial condition or their fiduciary obligations, because of the progress the City has made since 1975 toward balancing its budget and restoring fiscal responsibility. New York City's record of repaying the federal seasonal loans in full and on time is a firm indication that the city will live up to its commitments and repay its borrowings.

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"Assuming their growth continues at the current rate of about 12 percent a year, the banks could invest \$1.7 billion in MAC and City securities over the next four years and still not go over their 1975 level of commitment of 0.92 percent of assets. If they agreed to go a little higher, up to 1 percent of assets-- a small fraction of their foreign lending--then this would mean \$2 billion for New York City from these six banks alone. According to Treasury Department estimates, such a commitment would take care of almost half of the city's \$4.5 billion long-term financing needs over the next four years.

"It is clear that the New York City banks should take the lead in meeting the City's financing needs, both short-term and long-term, in the post-June 30 period, and not the federal government. The banks and other financial institutions located in New York City and New York State have an enormous stake in the city's financial condition and in its continued solvency. Their fate and fortune are linked to those of the city.

"Congress and the Administration must push the banks to increase, and not decrease, their financial commitment to New York City."

NEW YORK CITY BANKS -- TOTAL ASSETS AND TOTAL EQUITY CAPITAL

(Dollar amounts in millions)

	<u>As of September 30, 1975</u>		<u>As of September 30, 1977</u>		<u>Percent Change in Assets</u>	<u>Percent Change in Capital</u>
	<u>Total Assets</u>	<u>Total Capital</u>	<u>Total Assets</u>	<u>Total Capital</u>		
Bankers Trust	18,586	822	21,573	897	16.1	9.1
Chase Manhattan	40,756	1,927	48,346	2,114	15.7	8.3
Chemical	23,374	829	28,259	1,121	21.0	35.2
Citibank	53,071	2,640	70,651	3,243	24.9	16.5
Manufacturers Hanover	26,926	970	32,872	1,252	22.1	29.1
Morgan Guaranty	25,161	1,160	30,340	1,515	20.6	31.5
<u>Total</u> All Banks	<u>187,874</u>	<u>8,348</u>	<u>232,041</u>	<u>10,142</u>	<u>23.5</u>	<u>21.5</u>

NEW YORK CITY BANK HOLDINGS OF CITY-RELATED SECURITIES  
 (including New York City Bonds and Notes and MAC Bonds)

(Dollar amounts in thousands)

Bank	As of September 30, 1975			As of September 30, 1977			Percentage Change in Holdings
	Dollar Amount	As Percent of Assets	As Percent of Capital	Dollar Amount	As Percent of Assets	As Percent of Capital	
Bankers Trust	149,119	0.80	18	135,700	0.63	15	- 9.3
Chase Manhattan	423,116	1.03	22	383,501	0.79	18	- 9.2
Chemical	377,994	1.62	46	317,089	1.12	28	- 16.1
Citibank	333,043	0.63	10	421,013	0.60	13	+ 26.0
Manufacturers Hanover	262,748	0.98	27	230,058	0.70	18	- 12.6
Morgan Guaranty	188,700	0.75	16	188,900	0.62	13	--
Total All Banks	1,734,720	0.92	21	1,676,261	0.72	17	- 3.3



"The Committee recommends that New York City work with the State and the Federal government in the period prior to June 30, 1978 to make arrangements for obtaining the financing necessary to cover its basic needs over its next four fiscal years, 1979-1982. These arrangements should include the following:

"(a) Passage of State legislation to increase MAC's borrowing authority by \$3 billion, extend the expiration date of that authority, and permit MAC to do capital financing for the City.

"(b) An agreement with the City pension funds to provide \$2.25 billion in long-term financing for the City over the next four years by maintaining their investments at the fiscal year 1974 level of 35 percent of assets.

"(c) Measures to reduce the City's seasonal financing needs to no more than \$1.4 billion in fiscal year 1979 and less in subsequent fiscal years.

"(d) Commitments by the New York City Clearing House banks to provide at least a \$600 million annual line of credit to the City for seasonal purposes, and to underwrite and invest in additional amounts of short-term City notes.

"(e) Stand-by commitments from New York State and/or the State pension funds to provide any additional seasonal financing that may be needed in any of the fiscal years covered by the January 20 Financial Plan.

"(f) Passage of any legislation needed at the Federal and State levels to permit the City and State pension funds to make the proposed investments in City obligations without infringing on their tax-exempt status or their fiduciary obligations.

"The Committee finds that in order to meet its financing needs after June 30, 1978 without any additional aid from the Federal government, New York City must adopt a Financial Plan to achieve a credibly balanced budget. This requires that the following conditions be met no later than April 1, 1978:

"(a) A schedule for phasing out all of the operating expenses contained in the capital budget (presently about \$643 million) over a period of no more than three years.

"(b) A signed City-wide agreement on the economic terms and budget costs of the City labor contracts over the four-year period covered by the Financial Plan.

"(c) A commitment from New York State to provide substantial amounts of additional, recurring financial aid to the City over that period, in order to enable the City to bring expenditures into line with available revenues.

"The Committee finds that New York City will have to satisfy certain conditions designed to insure investor confidence in order to be able to meet its financing needs in the public credit markets after June 30, 1978. These include the following:

"(a) Establishment of an accounting and budgetary control system which will produce reliable City financial statements developed in accordance with generally accepted accounting principles.

"(b) Outside audit of the City's financial statements by a reputable accounting firm on at least an annual basis, with reports made available to the public.

"(c) Establishment of an independent long-term fiscal oversight mechanism, along the lines of the present Emergency Financial Control Board, with authority to require that the budget be balanced and that the City follow reasonable budgeting and borrowing practices.

Members of the Committee are as follows:

- COMMITTEE ON BANKING, HOLDING, AND URBAN AFFAIRS  
 WILLIAM PROXMIRE, Wisconsin, Chairman
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| JOHN SPARKMAN, Alabama                 | EDWARD W. BROWNE, Massachusetts  |
| HARRISON A. SCHLESLEY, Jr., New Jersey | JOHN TOWLER, Texas               |
| THOMAS J. MCINTYRE, New Hampshire      | JACK GARN, Utah                  |
| ALAN CONANTON, Colorado                | H. JOHN BURNS, III, Pennsylvania |
| ALLEN E. STEVENSON, Illinois           | HENRY G. TUCKER, Indiana         |
| ROBERT MORGAN, North Carolina          | HARRISON ELLIOTT, New Mexico     |
| DONALD W. MITCHELL, Jr., Michigan      |                                  |
| PAUL B. HARRIS, Maryland               |                                  |

Copies of the Committee report will be available to press in Room 5300, Dirksen Senate Office Building.

Statement by Senator Proxmire

March 11, 1977

I am satisfied that Treasury Secretary Blumenthal's decision to approve a \$255 million loan to New York City conforms to the requirement in law that there be a "reasonable prospect of repayment" of this loan and all outstanding federal loans, which will now total \$2.1 billion.

I believe the Secretary is justified in determining that the agreement reached yesterday by New York State and City officials on a plan to pay off the \$983 million in moratorium notes gives adequate assurances that the federal loans will be repaid as required by June 30 of this year.

According to information supplied to me by Secretary Blumenthal, the federal government's financial interest is now fully protected. First, there will be about \$2.5 billion in state aid payments coming to the City in April, May and June, and this money will go directly to the Secretary for repayment of the loans before any of it is released to the City. Second, the terms of the moratorium note repayment plan insure that payments to noteholders which must be made before June 30 can be made out of funds which the City will have on hand.

The Banking Committee, in a report issued on February 1, contended that there were sufficient resources available in New York City to pay off the moratorium notes, without any need for additional federal aid, and it urged that the parties involved in the City's finances make every effort to reach swift agreement on a repayment plan.

I am pleased that the plan has now been adopted, and I commend those parties in New York City who worked hard and cooperated in the difficult task of resolving this problem.

More effort and cooperation will be needed in the months ahead. The City is required by state law to balance its budget in the fiscal year beginning on July 1, and some of the terms of the <sup>note</sup> repayment plan

may place additional strains on the City's finances as it carries out its budget balancing plan.

In addition, the Credit Agreement with the Treasury requires the City to attempt to meet some of its financing needs in the private markets during the next fiscal year, and the Committee believes it is most important that that requirement be met. This means there will have to be a good faith effort on all sides in the next few months to develop an adequate financing instrument so that New York City can get back in the private credit markets after June 30, 1978, when the federal loan program ends.

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FOR RELEASE AFTER 6:30 P.M. SUNDAY, MAY 16, 1976

Senator William Proxmire (D-Wis) warned that "New York City will have the fight of its life to balance its budget, pay off its Federal loans and avoid bankruptcy in 1978. The City can make it, but only with even greater sacrifices than it has made so far."

In a statement prepared for delivery on the Senate floor Monday, Proxmire announced the release of the Report on the New York City Loan Program prepared by the Committee on Banking, Housing and Urban Affairs. The Senator is Chairman of that committee, which held oversight hearings on the program on April 1 and 2. The report details the Committee's findings and recommendations, based on information gathered in the hearings and subsequently.

"New York City has made significant progress since the crisis days of last year. Mayor Beame, Governor Carey and their associates deserve a great deal of credit for making some hard, tough decisions. They have taken 45,000 people off the payroll, a 15 percent reduction, since January, 1975; and they have cut back garbage collections, library hours, fire companies, and a host of other City services. Furthermore, Mayor Beame has announced a financial plan to reduce City spending by another \$862 million over the next two years in order to balance the budget by June 30, 1978, as State law requires.

"Nonetheless, the Banking Committee's oversight hearings revealed serious problems which could spell defeat for the City's budget-cutting efforts and even push it into bankruptcy when the Federal loans end in 1978.

"Just to begin with the Committee found that of the \$1.26 billion in Federal loans made in this fiscal year, \$500 million will not be repaid until the very last day, June 30. Then the City wants to turn around and borrow back that \$500 million, perhaps even as much as \$1 billion, on July 2. If New York City cannot exist for more than one day without a huge sum of Federal money, how will it be able to repay the loans in the next two fiscal years and get back in the private credit markets in 1978?

"Treasury Secretary Simon should be asking this question and a lot of other questions before July 2. Under the law he has to decide whether there is a reasonable prospect that New York City will repay the federal loans it is requesting for fiscal year 1977. If he makes the loans and the City can't repay them, the Federal government could lose as much as \$2.1 billion on the deal.

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"The key question is whether the City has a credible financial plan for balancing its budget and whether it can and will stick to that plan.

"The City claims it is making the \$200 million in budget cuts required in the current fiscal year; however, the person in charge of auditing the books, Special Deputy State Comptroller Schwartz, says the City is anywhere from 20 to 64 percent behind schedule and may end up spending more than it planned this year. And Schwartz is in the best position to know.

"Evidence of serious slippages in the first year of the plan is most disturbing. While the City claims that it is making substitute cuts where there is slippage, it is not clear that this is happening. The Treasury should work to independently verify that all the \$200 million in cuts are in place by June 30, and not just take the City's word for it.

"The financial plan for the final two fiscal years, announced by Mayor Beame on March 26, has one glaring weakness. Over one-third of the budget cuts proposed depend on actions beyond the Mayor's control, namely on the State government and the Federal Department of Housing and Urban Development (HUD) taking over programs now funded by the City. Questioning in the hearings revealed that the City had obtained absolutely no commitments to do this, either from Governor Carey and the State Legislature or from HUD. In fact HUD has subsequently rejected the City's request for Section 8 housing subsidies, thus leaving a gaping hole of \$55 million in the financial plan.

"The largest portion of the City's budget goes for employee costs--wages and fringe benefits--which total \$4 billion, or one-third of the entire budget. It is vital that the three-year wage freeze imposed by the Emergency Financial Control Board be maintained; otherwise the City may not make it. If the Board had not rejected the transit workers agreement, and if the terms of that agreement had been extended to City employees, this would have made the City spend another \$375 million over the next two years. Even a smaller increase could cost \$200 million more and require still deeper budget cuts elsewhere. All the City's labor contracts expire by June 30, so the Secretary should know by then whether or not the Mayor will stand firm on avoiding wage increases.

"Cuts in fringe benefits offer the best opportunity for New York City to reduce the burden of escalating labor costs. The Committee found that the fringe benefits City workers receive are far and away more generous than those offered by any other city, or by the Federal government or private companies. They include such

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things as free health insurance, uniform allowances for non-uniformed workers and retirement pay higher than the worker's take-home pay while on the job.

"City officials say that they can only cut fringe benefits by a pitiful one percent--\$24 million out of \$2 billion. I think they can do much better. In fact, the Secretary of the Treasury should demand larger cuts as a condition of making the Federal loans.

"Even if the financial plan works and the budget is balanced by June 30, 1978, the City will still face major problems of keeping the budget in line and getting back into the credit markets. There will be \$941 million in notes under moratorium coming due, pent-up demands for large wage increases and questions about the continuation of the State's \$800 million advance payments.

I see no possibility that Congress will extend the Federal loan program; therefore, the State should be able to step in and meet the City's credit needs at that point. Unfortunately, Governor Carey contends that the State Constitution prohibits loans to municipalities. In that case, State officials should take steps now to amend their constitution, since the process takes at least two years. Otherwise, with all the good work and good will in the world, New York City could face bankruptcy again in 1978.

"I think the City can come through: I think it can make it. But success depends on hard work and cooperation by a lot of different players. If the Mayor stands firm, if the Governor and State Legislature do their part, and if the Secretary of the Treasury enforces the law strictly, then New York City should be able to regain its financial health."

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Copies of the report are available from the Senate Banking Committee, Room 5300 Dirksen Senate Office Building.