

SEP 0 3 1975

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, New York 10015

Thomas G. Labrecque
Executive Vice President



CHASE

Mr. Felix Rohatyn
General Partner
Lazard Freres & Company
1 Rockefeller Plaza
New York, N.Y. 10020

Dear Felix:

As part of our efforts to establish the financial community's ability and willingness to undertake the particular parts of the proposed September - December financing package for New York City, we held a meeting of the New York State Note (Bank and non-bank) Syndicate Managers. The purpose of the meeting was to obtain an indication whether they believed the market would accommodate the proposed \$750 million of new State Tax Anticipation Notes as contemplated in the plan, on top of the State's already announced need for \$505MM over the same period.

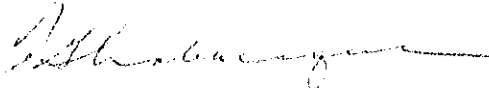
Assuming that there are no legal problems in the proposal and that a clean legal opinion from counsel to the underwriters is obtainable, the concensus of the Managers was as follows:

1. The Managers felt that this three month total of \$1,255 million State financing (which includes their normal needs) given the State program for New York City was not impossible. Moreover, they felt the \$750 million, which represents the September need under the proposed plan, has a better chance of success than doing the \$505 million of State financing while letting the City go into default.
2. The total State financing package however, would be very difficult to execute and the Syndicate could not guarantee success.

3. The overall conclusion of the Managers was that they would make every effort to develop a very strong, comprehensive plan to place these Notes.

With these thoughts in mind, we are developing a preliminary marketing plan for the State Notes, for next week.

Sincerely,



Copy to Mr. Arthur Levitt
State Comptroller

September 3, 1975



Under review

FIRST NATIONAL CITY BANK

EDWARD L. PALMER
CHAIRMAN OF THE EXECUTIVE COMMITTEE

399 PARK AVENUE, NEW YORK, N. Y. 10022

September 3, 1975

Mr. Felix G. Rohatyn
Chairman, Finance Committee
Municipal Assistance Corporation
2 World Trade Center
New York, New York 10047

Dear Felix:

You have asked the leading Municipal Assistance Corporation syndicate managers to comment upon the feasibility of raising \$250,000,000 from the private sector as contemplated by the financial and legislative plan developed by MAC and presented to the Governor on Monday.

After full review of the plan with the principal commercial and investment bank members of the syndicate, it is their joint conclusion that market conditions preclude a successful underwritten distribution of this additional \$250,000,000 of MAC obligations at this time.

However, the commercial bank members of the syndicate believe that, despite the risks which are inherent in the plan as you have pointed out, essentially the same result might be accomplished through a direct sale of such MAC obligations to New York financial institutions such as commercial banks, thrift institutions and insurance companies as well as possibly to other New York business firms.

As you know, the New York City commercial banks already hold substantial amounts of MAC obligations as well as even larger amounts of New York City obligations. Nevertheless, these banks are keenly aware of the urgent need to implement the plan promptly - especially to raise from the private sector the \$100,000,000 called for by the plan during September.

Accordingly, a number of the major New York City commercial banks on short notice yesterday afternoon considered the merits and risks of the proposed plan and, we are pleased to report, expressed their readiness to purchase for their respective accounts an additional aggregate \$100,000,000 of MAC obligations provided their terms are reasonable and the other elements of the plan fall into place.

There will, of course, be difficulties in persuading other members of the New York financial and business community to purchase the remaining \$150,000,000 of MAC obligations. However, the syndicate managers stand ready to assist the Governor and MAC in this effort.

Sincerely,

July 22, 1975

Mr. Thomas Flynn
Chairman of the Board
Municipal Assistance Corporation
for the City of New York
c/o Arthur Young and Co.
277 Park Avenue
New York, New York

Dear Mr. Flynn:

Having been selected as lead underwriters on the next New York City MAC issue, we felt that we should follow up our meeting last week with an update of the environment for MAC securities and the actions we feel are necessary in order for there to be a market for another financing.

I. Background

It is critically important, as one looks toward any future underwriting of the Municipal Assistance Corporation (MAC) debt, to analyze, from a private investor's viewpoint, New York City's overall fiscal condition within a longer-term perspective.

There has been far too much talk of a "super-crisis," unfortunately creating an expectation that instant solutions might be found to cure problems that were created and allowed to grow extensively over a long period of time.

All parties concerned must understand that the problems are not short-run; not "August 1," or "August 2;" moreover, the issue is not the "next underwriting for MAC," but, instead, how to restore the total fiscal condition of New York City in a manner that will rebuild investor confidence across the country - confidence that has significantly eroded in the last six months, and on an accelerating basis in more recent months.

The facts are these:

- (1) The total outstanding debt of New York City as of July 22, 1975, is \$11,661,070,460, excluding the \$1 billion issued by MAC on July 1, 1975.
- (2) Between now and December 15, 1975, approximately \$2,573,504,000 (see attached Schedule A) of New York City debt, in the form of notes and bonds, will mature.

- (3) Of the total outstanding City debt of \$11,661,070,460, only approximately 10.7% is held today by the major New York City Commercial banks.

The market is much larger than the New York City commercial banks -- it is a broad spectrum of individual and institutional investors, widespread geographically, throughout the country. Recent efforts to market debt have required ever increasing rates because investors have no faith in the will of the City to provide its own solution and have yet to see a concerted commitment and leadership.

Rates in New York City issues are a reflection of the investors' judgment of the risks of eventual payment. Investors need to be responded to by providing them with a credible, fiscally sound program which reduces their apprehensions. Only in this way can interest rates be reduced. This cause-effect relationship cannot be reversed by simply reducing the effect and hoping the cause will go away.

II. The Recent MAC Underwriting:

The recent MAC underwriting, and the reaction in the marketplace to the price of those bonds on Monday, July 21, only serve to demonstrate a corroding lack of confidence that truly viable solutions to New York City problems will be found.

The marketplace is not interested in announcements that negotiations are taking place. Confidence will only be restored when concrete results are announced, and swiftly executed.

What is the marketplace really saying?

- (1) That there is country-wide apathy to New York City's problems.
- (2) That there is a strong perception by investors that the City continues to operate in a "business as usual" mode. At the risk of over-stating the situation--three weeks have passed without one significant program having been effectively implemented.
- (3) That there is a perception by investors that the State of New York is not taking the lead in seeing that the City's problems are solved but is only reacting, when forced to do so.

The clearest possible indication of what the marketplace is saying came yesterday when, on the first day of trading, the price of MAC bonds dropped 10 to 11 points, from \$1,000 to 880 or 890. There is little reason to believe that this condition will improve without significant change.

III. What must be done:

It makes no sense whatever to propose that the New York City commercial banks make a further bridge loan in the hope that the problems will disappear before the City needs additional funds. MAC is, in essence, a bridge but to this point the basic problems have not been solved. Modest bridge loans as a part of an overall package, as done in the past, are clearly constructive, but such a tactic in the absence of a total plan, can only be construed by investors as temporizing and, therefore, self-defeating.

In order to have a chance at a solution, the following steps must be taken:

- (1) An immediate, dramatic and creditable program putting a firm, spartan control on the total expenses of the City, which is endorsed and visibly supported by the Governor and the legislative leaders, and implemented by the Mayor and the MAC Board.
- (2) A highly accelerated effort on the part of MAC to put in place the monitoring and accounting efforts as authorized by the Legislation and outlined in the Prospectus.

This is not the time for recrimination. How the City got to its present condition is irrelevant for the time being.

The City is on trial for its life. Its chances are slim and mere words will not suffice.

Merrill Lynch, Pierce, Fenner,
& Smith Incorporated

The Chase Manhattan Bank, N.A.

SCHEDULE A

OUTSTANDING

NEW YORK CITY DEBT - BONDS AND NOTES

MATURING 5/1/75 THROUGH 12/15/75

<u>MATURITY DATE</u>	<u>NOTES</u>	<u>BONDS</u>
8/1/75		\$ 68,924,000
8/15/75		20,027,000
8/22/75	141,000,000	
8/22/75	600,000,000	
9/1/75		60,505,000
9/11/75	46,000,000	
9/15/75	400,000,000	20,613,000
10/1/75		39,555,000
10/15/75		17,251,000
10/17/75	420,405,000	
11/1/75		77,600,000
11/10/75	250,000,000	
11/15/75		4,863,000
12/1/75		2,071,000
12/11/75	400,000,000	
12/15/75		4,690,000
<hr/>		
TOTAL: 8/1 to 12/15	\$2,257,405,000	\$316,099,000
	OR	
	\$2,573,504,000	

BEAUME AND M.A.C.

ASK A QUICK RISE IN TRANSIT FARES

Step Viewed as the Kind Needed for Bond Sale--Warning Given on Democratic Convention

By FRED FERRETTI

Mayor Beame and the Municipal Assistance Corporation asked the Transit Authority yesterday to increase the 35-cent fare on subways and bus lines by an unspecified amount as part of a program to restore the city's fiscal credibility.

For the city's 3.8 million daily transit riders, the increase, which the Mayor said should be "immediate," would be the first since the fare rose by five cents in 1972.

The 11-member board of the Metropolitan Transportation Authority can unilaterally impose an increase, although it customarily has done so only after consultation with the Mayor and the Governor.

Late yesterday a spokesman for David L. Yunich, the M.T.A. chairman, said that the board's next scheduled meeting was Aug. 8, that the Mayor's request was "under study," but that as of now no plans for a special board meeting had been arranged.

For the Mayor, the demand constituted a bitter public reversal. It has been his boast that his efforts in Washington and Albany last year had saved the fare at its present level.

elements to the program, the major points of which had become publicly known earlier this week.

Included are, the Mayor said, "variations of a wage freeze," which are being discussed with the city's unions; further layoffs and salary cuts that City Council President Paul O'Dwyer said were also "part of the negotiations"; a continuation of the city's job freeze, and the substitution of \$32-million in cuts at the City University in lieu of tuition.

Other proposals include the take-over by the state of the costs of the Transit Authority's police and the city's courts and corrections systems; an advance "bridge loan" to the city from the banks, and Federal guarantees of M.A.C. bond issues, which the Mayor said were being pressed in Washington yesterday by Felix G. Rohatyn, a M.A.C. board member.

Other Problems Arise

The city's financial predicament was underscored further yesterday when, in Los Angeles, Robert Strauss, chairman of the Democratic party, said that although the decision to hold next year's Presidential conven-

Beame and M.A.C. Ask a C

Continued From Page 1, Col. 2

Legislature, the Mayor, the M.A.C. board, must not only be announced in full detail, but agreed to and acted upon by all parties with no further delay."

Attached was another letter, signed jointly by representatives of Chase Manhattan and Merrill Lynch, Pierce, Fenner & Smith, who will sell the next issue, which said, "The city is on trial for its life. Its chances are slim and mere words will not suffice."

Decisiveness Stressed

Although Mayoral aides denied it, other City Hall sources said flatly that the Rockefeller letter had been decisive in prodding Mr. Beame to divulge the city-M.A.C. plan yesterday instead of waiting until next Tuesday--the deadline he had set for union compliance with the program.

The statements in Mr. Rockefeller's letter were echoed, often word for word, in yesterday's Board of Estimate meeting at City Hall, a meeting that for two hours filled the Blue Room with acrimony and invective, as the revolt against the Mayor by the usually complaisant board continued to mount in intensity.

The chief antagonists in the meeting were Controller Harrison J. Goldin and the Mayor. At one point, Mr. Goldin said with some heat that the city's position had "deteriorated perceptibly" in the last two weeks and that this was due in part to Mr. Beame's failure to act. To which the Mayor responded, "Jay, sometimes I'm convinced you have a death wish."

Mr. Goldin went on reviewing the calendar of the M.A.C. sale, saying that he continued to be "deeply troubled." Mr. O'Dwyer, who said little during the meeting, leaned over the table and said angrily, "Jay, shut the hell up!"

Nevertheless, Mr. Goldin continued to press his point, even

each other's throats. It's happened before, but never like this."

Mr. Connor came in for some barbs from Matthew J. Troy, Jr., the City Council finance chairman, who, after he heard Mr. Connor's resolution, said:

"Hey Bob, why don't you get a Yo-yo and play in the corner."

Said another participant, "It wasn't nice in there at all."

At today's Board of Estimate meeting, Mr. Connor's resolution is expected to be supported by Mr. Goldin, Mr. O'Dwyer, Borough President Percy E. Sutton of Manhattan and Borough President Robert Abrams of the Bronx, but only "as a courtesy," Mr. O'Dwyer said. He doubted that it would pass the board with the necessary three-quarters vote.

The board is also scheduled to ratify through a budget modification, the \$330-million in taxing authority voted the city by the State Legislature earlier this month. The Council is also expected to pass the tax package, although there was rumbling among some Councilmen earlier yesterday that a "gesture" such as not passing the taxes, although authorized, might be impressive to the city's investment community.

An Angry Meeting

Also scheduled for today is another session of the labor "negotiations" between the municipal union leaders and the city and Herbert Elish, executive director of the Municipal Assistance Corporation. Yesterday's two sessions were marred by angry denunciations of both Governor Carey's and Mayor Beame's call for voluntary acceptance of a wage freeze and the imposition of a Tuesday deadline for the negotiations.

"I never accepted any ultimatum in the past and I am not about to start taking them now," said Ken McFeeley, president of the Patrolmen's Benevolent Association. And Victor Catham, executive director of