New York Newsday EDITION

New York Newsday - December 14, 1994

Will Orange County Get a Big MAC?

New York City thrives on other people's problems. After a season of layoffs, puny bonuses and cutbacks in corporate perks, the financial community has discovered the profits to be made chasing a calamity. The Orange County, Calif., bankruptcy is the best Christmas present that New York's investment banks could have wished for.

Pooling tax revenues from 187 communities and agencies, Orange County - guided by aggressive Merrill Lynch bankers based in California - lost more than $2 billion in the bond market. During the past year, as interest rates rose. Orange County's highly leveraged investments lost value, and today local school budgets are at risk, capital projects have been canceled and basic government services are threatened. All because a few local elected officials tried to make easy money by betting that interest rates would decline.

Across the country, local governments and school districts are absorbing big losses from their risky investments. Fortunately, this is one disaster that will not strike New York. Ever since the fiscal crisis of the 1970s, severe restrictions limit the way in which New York's local jurisdictions can invest their funds.

Furthermore, New York is the only city in the world with the creativity and expertise in financial services to rescue Orange County from its own greediness. Despite all the hype about firms leaving Manhattan for Dallas, Tampa and Salt Lake City, the big investment banks capable of solving Orange County's problems are all located within three miles of the Empire State Building. Even California's entertainment industry recognizes that the financial brainpower is in Manhattan. Los Angeles may be a great place to make films, but they are financed in New York.

Apart from some large commercial banks and a few financial boutiques, there is simply no significant investment banking industry in the nation's largest state. No combination of modems, fax machines and mobile phones has yet undermined New York's hegemony as a financial capital. As Donald Carey, managing director of CS First Boston (a New York firm, by the way) says, "The New York knowledge base can't be moved by technology." Manhattan bankers like Silicon Valley computer scientists thrive by being close enough to collaborate with and absorb new ideas from each other, even as they offer competing products and services.

The Municipal Assistance Corporation (MAC) has equipped our bankers with the experience needed to pay off public debt. The drill is simple: Bankers identify a stable revenue stream, then a new entity is created to collect the revenue, which is dedicated to pay the debt the county cannot afford to service. Of course, local taxes must be raised to compensate for this loss of revenue. A big MAC could be in Orange County's future, but it must be done within the context of California's constitution, which makes raising taxes very difficult.

Just as wars create heroes, financial crises create Wall Street wizards. The Orange County debacle will produce a new generation of geniuses. Even New York law firms will prosper, since so many California law firms that contributed to the Orange County crisis will be forced to step aside in the bail-out. And New York-based financial firms have already designed cash-management funds to prevent any future Orange County-type episodes.

For New York's investment bankers, there is a Santa Claus, but he's moved from the North Pole to sunny California.
