The original documents are located in Box C38, folder "Presidential Handwriting, 4/7/1976" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

April 7, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN

FROM: JAMES E. CONNOR JEC

SUBJECT: District of Columbia FY 1976 and Transition Quarter Budget Amendment

Confirming phone call last evening to Jim Jura of your office, the President reviewed your memorandum of April 2 on the above subject and approved the following:

1. Reject an increased Federal payment in the TQ except for Bicentennial funding (+$3 million), and approve increased short-term advances (+$15 million).

2. Approve extension of Treasury borrowing authority and that you transmit the D. C. capital budget which assumes this extension.

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

April 6, 1976

MR PRESIDENT:

District of Columbia FY 1976
and Transition Quarter Budget
Amendment

The attached memorandum was staffed to Messrs. Buchen, Cannon, Friedersdorf, Marsh and Seidman.

All of the above agreed with OMB's recommendation.

Jim Connor

THE PRESIDENT HAS SEEN....

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

APR 2 - 1976

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: JAMES T. LYNN

SUBJECT: District of Columbia FY 1976 and Transition Quarter Budget Amendment

The District of Columbia has submitted an amendment to its FY 1976 and transition quarter (TQ) budget for transmittal to the Congress. The original FY 1976 budget was submitted to Congress in November 1975 and has yet to be enacted. The Congress is awaiting receipt of this amendment.

Provisions

The amendment requests:

- a net increase of $21.6 million in the FY 1976 operating budget which brings the revised total to $1.047 billion. The amended budget represents an increase of $139 million over FY 1975.
- a net increase of $13.6 million in the capital budget, which brings the request for new authority to $156.2 million.

The amendment reflects decreases due to delays in starting new programs (operating and capital) and adjustments for salary annualization offset by a series of program increases, none of which presents a Federal interest issue.

To finance these changes, however, in addition to local tax increases, the District proposes increased Federal outlays of: 1) $6.5 million in the Federal payment for the TQ; 2) $15 million in interest-free cash advances; and, 3) $69.4 million (over 5-8 years) in Treasury borrowing authority for capital construction.

The District's rationale is:

- the fully authorized TQ Federal payment ($70 million) represents only 34% of local tax revenues for that period, when 40% is "considered an equitable Federal share of the District's financing requirements."

- the TQ increase is "required for the maintenance of essential city services during that period."

- additional advances ($15 million) are for 'cash flow' purposes only, until "revenues from the city's new tax program begin to flow into the D.C. Treasury."

- an extension of Treasury borrowing is required in FY 1976 to pursue necessary capital improvements while Congress restricts the city's issuance of bonds.

Discussion

- Federal payment and advances

The Federal payment represents an annual Federal contribution to the city's operating budget. Since 1937, the Federal Government has also made short-term, interest-free cash advances in anticipation of tax revenues. These funds are comingled with local funds to make-up D.C. "revenues."

The Federal payment generally has represented between 28.1% and 37.1% of annual local tax revenues in recent years. The FY 1976 payment ($254 million) represents approximately 37.0%. D.C. is requesting an increase in the Federal share for the TQ. Inasmuch as local tax revenue will increase during the TQ (estimated $42 million), and the rate of spending will not increase, an increased Federal appropriation will in essence be used to repay outstanding debts to the Federal Government. There has been no detailed analysis of real needs in the TQ by the city. It is not clear that any "essential services" will be diminished by denying the requested increase in the Federal payment. Therefore, we recommend against an increase in the TQ Federal payment. We do recommend that additional advances be allowed ($15 million in FY 1976). Given increased local revenues, and the delay in operating under an enacted 1976 budget, temporary cash support is all that is necessary.

The D.C. budget may be transmitted to Congress with any changes to the request deemed appropriate. Unlike D.C. itself, you are not required to transmit a "balanced budget," nor is Congress required to enact one—although D.C. must enact revenue measures to provide any necessary balancing, once an appropriation is enacted. If you approve our recommendations, the higher outstanding advances will provide a "cash balance."

You have previously approved Federal support (+$3 million) for public safety purposes during the Bicentennial. D.C. will receive these additional Federal funds in the TQ. Funding of this amount within the remaining TQ Federal payment authorization is the only existing means for appropriating such funds directly to the District. This requires congressional concurrence. While it is unusual for the Administration to specify uses for the Federal payment, we believe your transmittal message can distinguish this increased request as an extraordinary one. Given past legislative experience with the level of the Federal payment, Congress may not approve this request. An alternative would be to approve the full requested increase in the Federal payment ($6.5 million) calling one half of it warranted on Bicentennial grounds. This might defuse criticism of the Administration which could come from denying the requested increase. However, this alternative does not seem warranted on fiscal grounds alone.

- <u>Treasury borrowing</u>

The Home Rule Act cut off access to Federal loans for capital projects not approved (<u>i.e.</u> previously funded at some stage) by January 2, 1975. While D.C. gained authority to borrow on the private market, congressional concern over D.C. budget practices has forestalled such action. D.C. does not expect to make its first issue ($50 million) until a Senate-financed audit is completed at the end of April 1976. Any bond issue is unlikely before late 1976. D.C. therefore asks that the Administration support an extension of Treasury borrowing in the amount of $69.4 million in FY 1976 and $26.9 million in FY 1977.

<u>Alternatives</u>

1. Transmit the capital budget in the amounts requested (which presume $69.4 million in

projects requiring new Treasury authority), and amend your FY 1976 budget to indicate that "Additional authorizing legislation is to be proposed." Net Federal outlays will not increase until FY 1978.

2. Reject the D.C. capital budget as submitted, and transmit only amended estimates of Federal outlays for those projects which do not require new Treasury authority. Inform D.C. that you will not transmit capital requests requiring new authority until the Home Rule Act has been amended.

Alternative 1 assumes support of D.C. legislation to extend Treasury borrowing. The amendment materials transmitted to Congress would distinguish between "old" and "new" amounts; Congress could choose to approve at this point only "old" projects. The Administration would not be accused of slowing down the city's necessary renovation of D.C. General Hospital and routine water and sewer projects, none of which can go forward without bond income or "new" Treasury authority.

Alternative 2 requires that we alter the proposed D.C. capital spending program. This method would dissociate the issue of additional Treasury authority from the amendment. An Administration position will ultimately be required, however, in reviewing any draft D.C. bill to extend Treasury borrowing, inasmuch as it affects Federal funds. And if additional Treasury authority is enacted by Congress you would have to transmit a D.C. capital budget supplemental request later. This approach is preferable if you think additional D.C. borrowing authority is questionable or does not seem proper.

We believe that Treasury borrowing should be available as long as access to the bond market is effectively precluded.

There seems to be no valid reasons for halting the D.C. capital program de facto. The Senate District Committee audit, favors extension of interim Treasury borrowing, pending access to the private market.

The capital program is winding down after 12 years of strong activity. An extension of authority will increase the city's total Federal debt, which is now estimated at $2.4 billion. Annual debt service, however, would remain well below the limit set in the Home Rule Act. While new borrowing would increase net Federal outlays, this consideration is tempered in the near term by the fact that FY 1976 outlay estimates for D.C. borrowing have already dropped from earlier allowances.

We recommend Alternative 1--The extension of interim capital financing provision of the Home Rule Act through January 2, 1977, as requested by the District. If you agree, the budget amendment can go forward without waiting for clearance of the draft bill. I recommend citing the capital issue in your transmittal message.

RECOMMENDATION

1. That you reject an increased Federal payment in the TQ except for Bicentennial funding (+$3 million), and approve increased short-term advances (+$15 million).

   Agree MRJ Disagree________ See me________

2. That you approve extension of Treasury borrowing authority and that you transmit the D.C. capital budget which assumes this extension.

   Agree MRJ Disagree________ See me________

THE WHITE HOUSE
WASHINGTON

Trudy:
I called Jim Jones on this & gave him decision.

E.

4/6

6:55