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THE PRESIDENT HAS SEEN....



THE VICE PRESIDENT
WASHINGTON

Agenda for the
Meeting with the President
Thursday, September 9, 1976, 2:00 p. m.

1. Secretary Coleman's Aviation Plan TAB A
2. Campaign
 - a. The Vice President's Role, and Schedule TAB B
 - b. Substantive Issues
3. New York City TAB C

°Major uncertainties characterize the City's situation this week:

 - (1) Will housing mortgage revenues fall short of the estimate?
 - (2) Will teachers be fired, and salaries for others increased?
 - (3) How can the "Medicaid" scandal be dealt with?
 - (4) What will the SEC discover about Mayor Beame and Comptroller Goldin?
4. Labor

SUMMARY OF WHAT THE PROGRAM DOES
AND HOW IT WOULD WORK

1. Cuts airplane noise pollution.
2. Saves up to 30% of fuel consumption.
3. Provides 600,000 job-years of employment.
4. Increases passenger comfort.
5. Involves no additional Federal expenditure.
6. Involves no increase in cost of air travel to the passengers.
7. Will revitalize and restore America's pre-eminence in the aviation industry for sales at home and abroad.

How the Program is Financed

- A. There are two alternative methods of financing -- either of which accomplishes the objective without any additional government assistance to general aviation.
 - I. Allocate 2% of the 8% air traffic tax which the government now collects for airport development -- which is not being used and which Congress is considering repealing -- to cover 1/3 of the purchase of new, quieter planes.
 - II. If Congress prefers to reduce the air traffic tax from 8% to 6%, then let the CAB, with the support of the Secretary of Transportation, add a 2% surcharge to air fares, and dedicate the funds collected to finance 1/3 of the cost of new, quieter planes in order to accomplish the noise-abatement program.
 - III. Cost of financing the retro-fitting of limited number of existing planes with quieter engines would be met as called for under Secretary Coleman's plan.

B. In either case

- I. There would be no net increase in travel cost to the users.
- II. In both cases, it is the users who will be paying the cost of noise abatement.
- III. How the plan would be administered:
 1. The funds for the 2% of air-traffic tax dedicated to noise abatement would be put in a special fund under the management of Secretary of Transportation, to be used for the limited purpose of financing 1/3 of the cost of new, quiet equipment for U.S. airlines, based on equipment-purchase plans submitted by the airlines and approved by the Secretary of Transportation.

DRAFT PRESIDENTIAL ANNOUNCEMENT

I have said before -- and I say again -- as your President, I am impatient with doomsday prophets who say we must stop our technological advances in order to save our environment.

We can enhance our environment, and we can do it through technological improvements. These two objectives are compatible. It takes only determination, intelligence, and some of that traditional American ingenuity, for which we have been noted, to accomplish them.

It is possible for Americans to live in healthful and more pleasant surroundings and at the same time to encourage the industrial progress so essential for real jobs for all who can work and so essential to a good standard of living for all.

The aviation industry offers a dramatic example.

The airplane and the aviation industry have been major factors in our growth as a great nation, in our national defense, in our foreign trade, and in employment for thousands of workers. Both directly, in air transportation, and indirectly, through the myriad of other supporting services and activities that aviation has created, this nation has prospered.

But every advance has its problems. In aviation, the noise of aircraft taking off and landing over populated areas is one of the most serious. The older generation of four-engine jets imposed the severest noise on airport neighborhoods -- about 25% more noise than the newer generation of jet planes.

Replacing these older, noisy jets with newer, quieter aircraft, and improving some present aircraft with new engines and noise suppressing elements, can drastically cut airport neighborhood noise.

In addition, the efficiency of the newer, quieter jets is such that they could provide as much as a 30% savings in fuel as well as add to passenger and neighborhood comfort.

A major program to replace these noisy aircraft and engines would give work to American aviation airframe, engine and other component manufacturers across the country. It would give them an incentive to come up with new designs and models for sale -- not only here in the United States, but abroad. And let's face it, there is strong competition from foreign aircraft manufacturers, not only for world markets but for our own airline services right here at home.

We need the kind of export of aircraft we have had in years past to further our trade and to help our international balance of payments.

This replacement activity would mean thousands more jobs -- real, well-paid jobs for Americans. The airlines of America, however, are not presently in a financial position to attract sufficient private capital.

Nevertheless, this can be done. It can be done without fueling inflation. It can be done without raising any taxes. It can be done without raising airfares for airline passengers.

It can be done by taking one quarter of the present air

ticket tax of 8% - that is 2% of the ticket value - and earmarking it for this environmental-improvement, employment-stimulation, and energy-saving program.

Or, the tax could be cut by 25%, air fares increased 2%, and the proceeds of this 2% put in a trust fund for this purpose. Either way the Congress may choose to go, there would be a trust fund administered by the Secretary of Transportation. These funds would be available to pay one-third of the cost of new, quieter equipment, with the airlines paying the remaining two-thirds of the cost.

The trust fund will accumulate \$3.5 billion over the next 10 years, and will generate a \$7-billion airline expenditure over the same period. This means a total of \$10 billion. It is estimated that this program will generate 600,000 job-years of employment.

To ensure the program is carried out fully, each airline would submit to the Secretary of Transportation its plan for conversion to the quieter, more efficient equipment. After the plans are approved by the Secretary of Transportation, the funds would be made available and the implementation of the plan would proceed expeditiously.

Within a decade, we shall have accomplished the conversion to quieter aircraft with benefit to our communities, with great savings in petroleum fuels, with new opportunities for American industry, and with the creation of thousands of new jobs.

B

SUMMARY

1. More "bad" than "good" developments in City's 1976-77 financial plan - after two months.
2. Some developments in connection with the City's basic economic problem.
3. School teacher salary dispute still unresolved.
4. No important visible action by City or State following Senator Moss's Medicaid revelations.
5. New City "Official Statement" issued.
6. Mayor Beame and City Comptroller Goldin testify before SEC.

September 9 Weekly Report on New York City

1. More "Bad" Than "Good" Developments in City's 1976-77 Financial Plan - After Two Months

- A. Although it is too early to attempt to evaluate the City's entire fiscal year on the basis of the first two months, the experience so far has shown more "bad" than "good" signs.
- B. There is uncertainty about whether the full \$350 million from the sale of Mitchell-Lama housing mortgages -- with Federal mortgage insurance -- will be realized. The projected unsold remainder may range from about \$75 million to much more. The principal problem seems to be delay in getting mortgages ready to sell. Federal delays are not yet a problem.
- C. Debt service costs are up \$11 million, because of the exchange of Municipal Assistance Corporation bonds, which require interest payments, for City notes, which are under the moratorium.
- D. Some revenue collections are falling below estimates, but others are above. As of now there is no cause for concern on this count.
- E. Comment. The City is preparing to make necessary alternative cuts from the list totaling \$85 million which was submitted on August 1. Unless there are more favorable developments than unfavorable ones from now on, it may be necessary to use all of the "backup" list of cuts.

2. Some Developments in Connection with the City's Basic Economic Problem

- A. The State AFL-CIO, with 2,000 delegates at its convention on August 31, joined with Governor Carey's recently-created Coalition of Northeastern Governors in order to promote economic recovery in the north-east region and to obtain a larger share of Federal assistance. The Governor, who spoke at the Convention, reiterated the Coalition's goal, which he had first outlined when the Coalition was announced last June 23rd, of a "united front to lobby in Washington" for Federal policies favorable to the Northeast - in connection with high unemployment, obsolete transportation systems, energy shortages, slow economic development, and high living costs.

- B. The U.S. Bureau of Labor Statistics announced that, from mid-1975 to mid-1976, there was a loss of 112,000 jobs in New York City, while the national total showed a gain of 2.5 million. This year's loss in New York is smaller than for previous years; the drop in manufacturing was only 6,600 jobs, compared with 74,000 in the prior year.
- C. Real estate tax relief has not become an important factor in the City's economy. Only two important projects -- the Commodore Hotel and a shopping mall in Jamaica -- have been approved, although others are pending. "Normal" bureaucratic delays are partly responsible, but there is also opposition from existing private business.
- D. Comment. The effort to attack the City's basic economic situation remains largely dormant. There are reports of forthcoming developments this Fall. To date, most of those primarily responsible seem too busy with other things or are completely "stumped" because of the difficulty of the task.

3. School Teacher Salary Dispute Still Unresolved

- A. The teacher salary problem outlined in last week's report remains unresolved, with no apparent sign of progress.
- B. The basic issue is the extent to which, within the guidelines established by the Emergency Financial Control Board, the School Board will deny salary increases to teachers in order to provide funds to avoid teacher layoffs. The almost unbelievable complexities surrounding this basic issue are numerous and serious.
- C. Comment. It is impossible to predict with any degree of accuracy just what may happen before a decision is reached. My guess is that, through non-salary savings and the use of some funds already budgeted for salary increases, the Board of Education will grant nominal salary increases to certain groups of teachers and lay off only small numbers of the most marginal ones. If carefully presented, this solution might receive the approval of the Emergency Financial Control Board (Governor Carey, Chairman) -- which is necessary for the decision to become effective. Coincidentally, the Board of Education has suspended three school lunch officials for alleged neglect.

It has also undertaken a review of its own purchasing practices, after City Comptroller Goldin had published a report indicating illegal purchases of materials and supplies.

4. No Important Visible Action by City or State following Senator Moss's Medicaid Revelations

- A. While the Moss report tended to place blame for the Medicaid situation primarily upon the states and cities, Secretary Mathews and Wilbur Cohen, formerly Secretary of HEW, attributed part of the responsibility to Congress. Cohen said that Congress had failed to provide constraints against fraud and had failed to monitor the program.
- B. There is increasing evidence that so-called Medicaid "mills" -- possibly as many as 600 of them in New York City -- have been important factors in the abuse of the Medicaid program. These "mills" are a form of Medicaid clinic in which a group of doctors "process" large numbers of Medicaid cases, with supposedly more attention to the maximum dollars that can be collected than to the health care of the individual patients.
- C. Slowness by the City in making payments to doctors and others is also a problem. This supposedly has encouraged "padding" of bills -- and also "factoring," that is, the sale of receivable bills in order to provide cash for current operating purposes. HEW has recently taken steps to forbid factoring, but there are major problems involved in enforcing such action.
- D. Comment. No doubt some steps are being taken to curb the fraud and abuse that exist in the Medicaid program. To date, these steps have not become apparent, and no results are yet observable.

5. New City "Official Statement" Issued

- A. A new "Official Statement of the City of New York" concerning the City's tangled financial situation appeared on September 4, 1976.

- B. Preparation of this 110-page document has taken almost one year -- under the direction of Kenneth Axelson, Deputy Mayor for Finance.
 - C. The Statement was prepared in order to meet the need for an official document which would provide "complete disclosure" of all aspects of the City's finances. It is especially designed for present and prospective holders of City bonds and notes. It provides the best single, official source of information on the City's finances. It attempts to "tell all," including "warnings" of the soft spots in the City's 1976-77 and 1977-78 financial plans, as well as information on the 50 lawsuits that are pending in connection with various emergency actions taken by the City and the State in order to help the City pull out of its financial crisis.
6. Mayor Beame and City Comptroller Goldin Testify before SEC
- A. Mayor Beame testified for 5 1/2 hours and Comptroller Goldin testified for 20 hours before the SEC in New York City.
 - B. The SEC is reportedly interested in knowing if there is any evidence of fraud growing out of failure on the part of City officials and others, including bankers, to disclose all pertinent facts concerning the City's financial condition in the period prior to the fiscal crisis of 1975.