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THE WHITE HOUSE

WASHINGTON

October 30, 1975

THE PRESIDENT'S BRIEFING BOOK

Key Questions For

METROMEDIA ANCHORMEN INTERVIEW

Los Angeles, California

TAB A

NEW YORK CITY

TAB B

GENERAL URBAN

IS DEFAULT DEFINITE?

Q. In your estimation is the New York City default a foregone conclusion?

A. City and State officials in recent Congressional testimony stated that the financial resources of the City and State will have been exhausted by December.

Accordingly, if the City and State continue to be unwilling to take the measures necessary to avoid a default, it seems likely that a New York City default will occur.

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CURRENT DEBT SITUATION

Q: What is the current debt situation in New York and how much additional financing does the City need in order to avoid default?

A: According to the City's financial plan, the City will require \$4.055 billion between December 1, 1975 and June 30, 1976 to retire maturing short-term debt, to meet debt service obligations on long-term bonds, and to pay operating and capital expenses.

Due to seasonal cash flow patterns, the City will need close to \$1 billion to meet its obligations in December.

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STATE DEFAULT

Q. Will the State of New York default if New York City defaults?

A. There is no reason for New York State to default because they are in sound financial position. Once appropriate action has been taken with respect to New York City, New York State should have no problems if officials act in a responsible way.

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RIPPLE EFFECT

Q. What ripple effect do you expect on the financial community from a New York City default?

A. There are two risks in any major financial reversal: financial and psychological.

We have carefully assessed the financial risk--the impact on the markets, and the impact on the banking system--and we believe these risks are manageable. Markets tend to discount future events and to some significant degree a potential default by New York City has already been discounted. These conclusions have been confirmed by many disinterested observers.

The psychological risks cannot be measured. However, it is clear that the dire predictions and alarmist rhetoric employed by those who seek to force a Federal bail out for New York City have enhanced the psychological risks. It remains of utmost importance that all who concern themselves with the affairs of New York City view the situation objectively.

In short, if all those concerned act responsibly, the ripple effect would be minimal.

IMPACT ON BANKS

Q: How many banks will be placed in difficulty in the event of a New York City default? What are the names of the banks?

A: The federal bank regulatory agencies have conducted an exhaustive review of holdings of New York City securities in our banking system and the potential impact on that system of a default by New York City. They have concluded that no major bank would be materially affected, as a direct consequence of a default by New York City.

While the impact on a handful of smaller banks could be more serious, the Federal Reserve and the FDIC have adequate mechanisms to protect bank depositors and the banking system.

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CREDIT INVESTMENTS

Q: Are the creditors going to lose their investments?

A: Major states and cities have defaulted before -- for example Arkansas and Detroit -- and in all these cases the creditors have received 100 cents on their dollar. Accordingly, if New York City acts responsibly, eventaully all creditors could be paid if New York City officials act responsibly in handling the city's fiscal affairs.

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FRAUD PROSECUTION

- Q. Do you expect there to be prosecutions in fraud resulting from a default of New York City?
- A. I am confident that the responsible agencies will take whatever action may be appropriate.

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SPECIFIC CUTS

- Q. What specific expenditure cuts do you propose that New York City make?
- A. As I mentioned, New York City expenditures appear out of line by comparison to expenditures of other cities. It is up to the appropriate New York State and City authorities to make specific decisions regarding cuts.

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REUSS PROPOSAL

- Q. What is your view of Henry Reuss' proposal to extend loan guarantees to the State of New York for the benefit of the City subject to the City's bringing its budget into balance, the GAO being empowered to audit the City to ensure a balanced budget, securing any Federal exposure by a first lien on all payments which the Federal Government may in the future owe the City or State, and acceptance by the large creditors of New York City of a stretch-out of their debt.
- A. However clothed, the proposal basically involves the taxpayers of American financing the cumulative deficit of New York City which I oppose. Moreover, the proposal involves a tremendous expansion of direct Federal control over the fiscal and financial affairs of State and local government.

Further, the practicality of handling the situation in this way is doubtful. Particularly, in dealing with small creditors, union contracts, and other obligations.

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IF NEW YORK CITY CAN'T SELL SECURITIES?

Q: Supposing they cannot sell securities or otherwise raise funds to pay for essential services?

A: We have said we will work with the Court to assure essential police, fire and other services are maintained -- whatever it takes to provide these will be done.

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LOAN GUARANTEES?

Q: Would you consider any form of financial assistance to assist New York in financing its short term financial needs?

A: Under our proposal, one of the ways in which the City can finance short term needs is by the issuance of certificates authorized by the Court. It must be remembered that in order to begin the judicial process, the City must submit a plan for balancing its budget. If that is done they should be able to raise necessary funds.

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NEW YORK: FUNDS FOR ESSENTIAL SERVICES

Under your proposal, how would New York City get the funds to meet essential services?

- A. According to New York City's figures, the City's cash needs for operations and capital projects (not including any payments of principal and interest on outstanding debt) will exceed revenues by approximately \$700 million during the period December 1, 1975 - June 30, 1976. There are at least three ways this gap could be made up.

First, New York State could impose a temporary and emergency tax -- perhaps a package involving the income, gasoline and sales taxes -- to generate the necessary cash.

Second, the assets of the pension funds could be used to collateralize borrowing by MAC or the City. State and City pensions hold well in excess of \$10 billion of unencumbered assets which would be used for this purpose.

Third, in the context of an orderly debt restructuring proceeding, the court could authorize the City to issue certificates of indebtedness, to be payable, on a prior claim basis, out of revenues in years after the budget balancing process is complete.

BACKGROUND:

There are really two problems: the net cash flow shortfall referred to in the answer and the so-called seasonal problem. The remaining seven months of the fiscal year can be broken down into two periods: December - March in which the City runs a \$1.3 billion cash deficit (net of debt service) and April-June in which it runs a \$600 million surplus. On a direct revenue anticipation basis, the City should be able to borrow \$600 million during December-March, but it needs one of the mechanisms described in the answer to borrow the remainder.

OTHER CITIES USE THE LEGISLATION?

Q. Do you expect cities other than New York to utilize the legislation you are proposing?

A. Absolutely not. No other major city in the United States has engaged in consistent deficit spending and, therefore, no city has a cumulative deficit of any size, much less the size of New York's.

However, the statute applies to all cities over 1,000,000 population not just to New York.

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NEW YORK'S IMPACT ON OTHER CITIES

What impact is the New York City financial crisis having on other large cities? If New York City defaults, will it precipitate defaults by other cities?

- A. In the third quarter of this year, state and local governments raised a record \$13.5 billion in municipal bonds and notes. And in the last three weeks alone, average municipal borrowing costs, as measured by the Daily Bond Buyer index have dropped a full one-half percentage point.

With respect to defaults by other cities, such a risk would be presented only if such cities needed to borrow to pay off maturing debts. Very few cities finance in this way. And for those that do, the market will judge them according to their ability to pay. Amidst all the scare talk about the impact on cities in New York State, just last week Syracuse, New York sold nearly \$10 million in bonds. And the previous week Philadelphia, often cited as a city impacted by New York City's problems, borrowed \$75 million.

In short, those cities which are able to pay their bills will be able to borrow.

TIMING OF SPEECH

Q: Why did you give this speech now?

A: It was becoming increasingly likely that New York City might default because actions to prevent default were not forthcoming. Thus, I think it was important to provide for an orderly system for handling the situation should this occur.

10/29/75

October 2, 1975

SUBJECT:

FEDERAL ASSISTANCE TO
NEW YORK CITY

The total Federal assistance to New York City totals about \$3.5 Billion. A rough breakdown is as follows:

	<u>(Billions)</u>
Payments to Individuals	\$ 2.0
Medicaid	1.115
Public Assistance	.650
Food and Nutrition	.135
Other	<u>.137</u>
General Revenue Sharing	.263
Transportation (mainly mass trans)	.203
Education and Manpower	.408
Other	.580

JGC

URBAN POLICY

Q. What is the urban policy of the Ford Administration?

A. The urban policy of this Administration is to assist locally-elected officials by delivering financial resources to them in a flexible and equitable manner so that they can better design the policies and programs to address the needs of their community. This principle can best be served if the Federal government maintains a position of philosophic neutrality. The general revenue sharing program and the community development block grant program are examples of Federal programs which support this policy.

It should be emphasized that Federal efforts to assist urban areas must include programs which address the problems of crime, education, transportation, housing, community development, job training, etc. We have sound programs in each of these areas.

In addition, we have a responsibility to keep this Nation on the road to economic recovery without refueling the fires of inflation -- a problem that plagues American citizens and American communities. This requires Federal, state and local governments to be fiscally responsible.

TRH/10/28/75

REVITALIZATION OF THE CENTRAL CITY

- Q. Is your Administration doing anything to assist in the rejuvenation of our central city area?
- A. Under the Housing and Community Development Act of 1974, Mayors and citizens are showing a healthy interest in rebuilding central city areas. Many cities are demonstrating this by allocating significant percentages of their block grant funds to rehabilitation programs to bring the city housing up to code. Over 60 cities have shown an active interest in the Urban Homesteading Demonstration program provided for under this Act. Open space and improved streets are other concerns being addressed under this Act.

TRH
10/29/75

LOW-INCOME HOUSING

Q. How do you propose to house low-income Americans in urban areas?

A. It is the policy of this Administration to assist low-income families in obtaining decent homes and suitable living environments through programs which:

- maximize freedom of choice by offering a subsidy directly to the low-income family;
- emphasize the use of existing structures rather than new construction so that more families can be assisted with a given amount of Federal resources.

The Department of Housing and Urban Development has a new program which addresses the housing problems of low-income families. This new program, the "Section 8 program", authorizes the Federal government to pay the difference between the fair market rent and the portion of that rent that is affordable by the tenant.

Background

Administration Actions

President Ford signed the Housing and Community Development Act of 1974 on August 22, 1974. This Act established a new Section 8 program of housing assistance for low-income families which authorizes the Federal government to pay the difference between (i) the fair market rent and (ii) a portion of such rent -- between 15% and 25% of the gross income -- affordable by the tenant. This new program has the following advantages over the old subsidized programs:

- the lowest income families can be reached since subsidy payments cover the difference between what a family can afford and what it costs to rent the unit;
- freedom of choice is increased because tenants are free to choose their own housing units and are not forced into subsidized housing projects;
- costs can be better controlled through the use of rent levels prevailing in the private market.

President Ford's 1976 budget authorized HUD to enter into subsidy agreements with up to 400,000 families.

HOME MORTGAGE ASSISTANCE

- Q. Increased interest rates and rising land values have contributed to the decline in new housing starts. What is the government doing to assist in the housing recovery?
- A. The Administration sought and achieved passage of the Emergency Housing Act of 1975 (PL 94-50) which among other things authorizes an additional \$10 billion for the purchase of mortgages at below market interest rates. Currently the Congress has a \$5 billion appropriation under consideration for this section of the Act. To date over \$15.5 billion have been pumped into the economy to enable would-be homeowners to purchase homes at below market interest rates.

TRH
10/29/75

REDIRECTION OF FEDERAL RESOURCES

TO THE COMMUNITY

- Q. Will there be a redirection of Federal resources to assist local governments become an effective force in eliminating blight and making communities a better place to live?
- A. In addition to general revenue sharing, Federal financial assistance is available to local governments to improve neighborhoods, construct community facilities, improve streets, sewers, and meet other needs under the Housing and Community Development Act of 1974.

The major thrust of this program is to redirect Federal resources based on need rather than "grantsmanship" but a transition period of a total of five years is involved to soften the impact on those communities receiving funds under the old HUD program such as Urban Renewal and Modern Cities to enable the communities to reaccess their priorities and seek alternate means of financing in some cases.

BACKGROUND:

Of those communities seeking community development funds from the Discretionary Funds, HUD was able in FY 75 to fund approximately ten percent of those which applied. Consequently, there is criticism of the program, especially in the most rural areas.

HELP FOR MINORITIES

Q. What, specifically, is your Administration doing to provide better housing, jobs, education, and services for minority people?

A. I am greatly concerned that all Americans be brought into the mainstream of American life, that everyone have equal opportunities for education, jobs, adequate housing.

In aiding Blacks, for example, we currently are spending approximately \$9 billion--and that does not include Federal food aid, welfare and other programs to aid low income persons.*

And we are making progress. But we would be kidding ourselves if we thought the problems of Blacks or any other disadvantaged group could be solved overnight.

We must continue effective programs, and we must all work together to eliminate poverty and injustice--which incidentally effect all of us.

*See attached pages

JBS
10/29/75

HIGHLIGHTS OF ADMINISTRATION INITIATIVES
IN CIVIL RIGHTS AND RELATED SOCIAL PROGRAMS

(NOTE: All years without months refer to fiscal years)

A. Civil Rights

1. Total outlays for civil rights activities have risen from \$1.1 billion in 1970 to \$3.1 billion in 1976.
2. Outlays for civil rights enforcement have risen from \$75 million in 1969 to \$395 million in 1976.
3. In 1976, outlays for equal opportunity in the military services, including the U.S. Coast Guard, will increase to \$43 million. An additional \$17.1 million will be expended for contract compliance, fair housing and title VI activities.

B. Equal Employment Opportunity

1. As of November 30, 1973, 20.9 percent of Federal employees were from minority groups as opposed to 19.3 percent as of November 30, 1969.
2. Between November 1969 and November 1973, the number of minorities in the GS 16-18 group increased 107 percent (from 97 to 201 supergrades).
3. The budget of the Equal Employment Opportunity Commission has increased from \$11 million in 1970 to \$60.3 million in 1976.
4. Executive Order 11246, as amended, prohibits the practice of discrimination in Federal contracts, subcontracts, and on federally assisted construction projects. In 1976, Federal agencies responsible for implementing this order will spend \$39.3 million compared to \$13.3 million in 1971. Approximately 500,000 new hires and promotions will be effected by such affirmative action goals.

C. Minority Enterprise

1. Federal funds for minority businesses have increased from \$200 million in 1969 to \$1.1 billion in 1976.
2. Small Business Administration loans and guarantees to minority enterprise has increased from \$41.3 million in 1968 to \$351 million in 1976.

3. The Office of Minority Business Enterprise will spend \$49.6 million in 1976.
4. Special efforts to procure goods and services from minorities will total more than \$501 million. In the aggregate, these efforts to assist minority business development will expand 280% between 1970 and 1976.
5. Under the 8(a) program of SBA, sole source contract awards to minority firms have risen from \$9 million in 1969 to an estimated \$275 million in 1976.
6. Since 1970, sixty-nine Minority Enterprise Small Business Investment Corporations (MESBIC's) are currently in operation; with Federal matching funds they can produce a total of more than \$68 million in capital for the minority business effort.
7. A combined private sector/Government program has resulted in a substantial increase in the deposits of the Nation's 57 minority-owned banks. These deposits totalled \$1.16 billion as of June 30, 1974, compared with \$396 million in 31 minority-owned banks at the start of the program, September 30, 1970.

D. Educational Opportunities

1. Under the emergency school aid program, Federal aid will be continued to help overcome the effects of minority group isolation in school systems. In 1976, this program is proposed for operation on a fully discretionary basis at a requested level of \$75 million.
2. About 1.3 million needy college students will receive \$1.05 billion in basic education opportunity grants. By the 1976 school year, every eligible disadvantaged student will receive up to \$1400.
3. In 1976, \$110 million will be obligated to support improvement of developing institutions, including Black colleges.
4. In 1976, \$1.7 billion will be spent for disadvantaged students at the elementary and secondary levels.

5. Office of Child Development activities -- primarily in the Head Start program have increased from \$189 million in 1972 to \$434 million in 1976.

E. Housing

1. Expenditures for the enforcement of laws against discrimination in housing will increase 11% in 1976 to \$17.6 million.
2. An experimental program will be continued to test the effectiveness of direct cash assistance programs as a means of dealing more effectively with the fundamental problem -- inadequate income -- in achieving the goal of a decent home for all Americans.
3. A new lower income housing assistance program has been initiated to provide a more flexible form of housing assistance. In 1976, support will be provided for 400,000 units.

F. Drug Problem and Other Health Care Services

1. The national effort against drug abuse--made up of Federal, State, local and private efforts--has resulted in the development of treatment capacity for heroin addicts seeking treatment.
2. Nationally, there are an estimated 265,000 drug abuse treatment slots that can provide care to over 450,000 drug abusers. Approximately 50% of these treatment slots are supported by States and localities.
3. Federal outlays for drug abuse prevention and treatment will be \$466 million in 1976 compared to \$403 million in 1974.
4. Medicare and medicaid expenditures will increase from \$17 billion in 1974 to over \$22 billion in 1976, expanding coverage from 43 million to 45 million aged, disabled and low income Americans.
5. In the above total, medicaid outlays of over \$7 billion will help to pay for medical care for almost 26 million low-income Americans. This represents a 40% increase in beneficiaries and a 113% increase in funding since 1971.

G. Anti-Poverty and Other Social Programs

1. Federal outlays for benefits to low-income persons will increase 104% from \$13.6 billion in 1974 to an estimated \$27.8 billion in 1976.
2. Federal food aid increased nearly five times from \$1.3 billion in 1969 to \$5.8 billion in 1976.
3. Recent legislation established the Community Services Administration and provided for a declining Federal share of funding for Community Action.
4. Community Economic Development Activities will be moved from OEO to Commerce and funded at \$39 million in 1976.
5. Under the Work Incentive (WIN) program, 140,000 welfare recipients will be placed in unsubsidized jobs.
6. Some 636,000 training and employment opportunities will be funded under the Comprehensive Employment and Training Act in 1976.

VOCATIONAL JOB TRAINING

- Q. What are you doing to expand and upgrade present vocational job training programs so that they can reach more people and can be more effective?
- A. Vocational job training is tremendously important. The Federal government supports job training in many ways, including more than \$3.2 billion in our present budget for Comprehensive Employment and Training Act programs and vocational education.

Federal agencies also support specialized training in health, environmental protection, public safety and a host of other occupational areas.

One of my chief concerns, however, is that Federal support of vocational education not raise false hopes. The statute authorizing our principal programs for the training and retraining the unemployed says that no person shall be referred for training unless there is reasonable expectation of employment in the occupational area he is being trained for. To do that we need to create more jobs in the private sector, a goal I soon plan to ask Congress to help us achieve.

WELFARE

Q. HEW Secretary Mathews said recently that his department is studying a program to consolidate and simplify welfare programs, in an effort to save billions of dollars. And Vice President Rockefeller has begun a series of public forums on welfare.

Can you give us an idea of how this savings would be accomplished, and whether it will include a single income maintenance plan such as that proposed most recently by former HEW Secretary Casper Weinberger?

A. It would be premature to discuss, at this time, the alternatives we are studying.

We are looking into the whole welfare question thoroughly. We want to provide aid for those truly in need and, at the same time, be fair to the rest of the American people.

JBS
10/29/75

RAIL AND MASS TRANSIT

Q. Do you have any plans to encourage modernization of rail facilities and mass transportation, which would provide jobs, strengthen the economic infrastructure of much of America, and in the long run help save energy?

A. My Administration has strongly supported improvements in railroad and mass transportation facilities and operation.

I worked hard for passage of the National Mass Transportation Assistance Act of 1974 which is providing \$11.8 billion of financial assistance for mass transit.

With regard to railroad modernization, I have proposed legislation to the Congress which will provide \$2 billion in financial assistance and regulatory relief with the hope of revitalizing railroad systems.