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THE WHITE HOUSE
WASHINGTON

August 25 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

PAUL H. O'NEILL

FROM:

JAMES E. CONNOR *JEC*

SUBJECT:

Pennsylvania Avenue Development
Corporation

The President has reviewed your memorandum of August 18th
and approved Alternative #3 -

"Submit authorization now, but fund program
beginning with 1977 budget."

Please follow-up with appropriate action.

cc: Don Rumsfeld



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

AUG 18 1975

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: PAUL H. O'NEILL

Choice

SUBJECT: Pennsylvania Avenue Development Corporation

The purpose of this memorandum is to seek your guidance on whether the Administration should submit legislation to authorize funding to implement the Pennsylvania Avenue Development Plan. The plan was developed under the provisions of P.L. 92-578, enacted October 27, 1972. The act also authorized Treasury loans of up to \$50M, as specified in appropriation acts, for implementation of the plan.

Background

On November 19, 1974, the Pennsylvania Avenue Development Corporation transmitted the plan to the Congress. If, during the 60 day legislative review period neither House passed a resolution rejecting the plan, then execution could begin.

During the budget review process for FY 1976, the Corporation requested resources for plan implementation as well as salaries and expenses. At that time, you decided to request only salaries and expenses for the Corporation in 1976 and defer the decision on authorization of resources for plan implementation until the 60 legislative days of congressional review had expired.

The 60 legislative days have run and no adverse congressional resolution was passed. Under the terms of the act, no construction or structural improvement in the area may take place unless in conformity with the plan, thereby placing a cloud over all property within the development area. Property owners in the area have threatened to file suit against the Federal Government unless some action is taken to remove the current uncertainty. The owners of the Willard Hotel site are currently involved in litigation with the Corporation, et al, and are challenging the constitutionality of the moratorium.

Discussion

The authorization request for plan implementation consists of a \$130M Federal appropriation for the "public improvements" included in the plan, and two loan requests totalling \$200M to assist in the development of the project. The Corporation requests that the Budget Authority for the \$130M Federal appropriation and the \$200M loan be made available immediately, though the outlays would occur over the approximately 14-year life span of the Corporation's development of the project.

The rationale for this form of financing is that appropriation of the full Federal share would be a catalyst for private investment in the project. Presently, it appears that there is little likelihood of significant private investment, given the area's deteriorated surroundings. The Corporation's staff strongly argues that the front-end authority is needed to provide adequate assurance that the \$250M private investment called for by the plan can be realized.

The \$130M appropriation would be used to pay for public costs not normally borne by private developers. These costs include public works, relocation assistance, site improvements, historic preservation and renovation, and costs for changes in land use, e.g., the downzoning of one site from commercial to residential.

The \$200M in borrowing authority is to be used to finance land acquisitions. These costs would be recovered from either ground sales or ground leases. It is anticipated that \$50M of the \$200M in borrowing authority would be used in a construction revolving fund to finance all mortgageable expenses involved in building costs (construction, taxes, interest, insurance, etc.). These costs would be recovered at mortgage closings and the use of revolving funds should allow savings in time and cost.

Alternatives

Alternative #1. Submit authorizing legislation and budget request providing the resources necessary to begin plan implementation. Use existing \$50M in authority as soon as possible.

- Alternative #2. Endorse implementation of plan now but submit legislation and budget request as part of the 1977 budget.
- Alternative #3. Submit authorizing legislation now with budget request as part of 1977 budget submission.
- Alternative #4. Submit legislation to repeal the plan and further Federal involvement in the development of Pennsylvania Avenue.

Pros and Cons

- Alternative #1. (Provide immediate resources for implementation)

Pro

- Would provide for immediate actions to improve the Pennsylvania Avenue area based upon a detailed agreed upon plan.
- Would remove all clouds over property in the area and negate threats of court suits through purchase of affected properties.
- Would carry out previous Administration commitments and sponsorship of the program.
- Follows-up on presumed intent of Congress to implement the plan.

Con

- Would begin a "new start" in FY 1976, although major expenditures would occur in future years. (FY 1976 outlays--\$23-28M.)

- Alternative #2. (Endorse implementation of the plan now but submit legislation and budget request as part of the FY 1977 program)

Pro

- Would confirm Administration endorsement of program but avoid new Federal expenditures in FY 1976.

Con

- Leaves the Corporation staff with lower level of functions in 1976.

- Risks possibility of no congressional funding for salaries and expenses of Corporation staff in FY 1976.
- Leaves a 12 month cloud over already negatively affected private property in area, because of requirement that construction be in conformance with the plan. Suits against the plan quite possible.
- Could contribute to further and more rapid deterioration of the area.
- Conflicts with presumed intent of Congress in allowing plan to become effective.

Alternative #3. (Submit authorization now, but fund program beginning with 1977 budget)

Pro

- Would confirm Administration endorsement of program but avoid new Federal expenditures in FY 1976.
- Earlier authorization would speed appropriations.
- Might lessen threat of legal action because of firm Administration commitment and early congressional authorization.

Con

- Same as Alternative #2.

Alternative #4. (Submit legislation to repeal plan implementation)

Pro

- Eliminates substantial Federal resources for a limited political and geographical area which is not as economically depressed as others (locally or nationally).
- Removes all questions regarding Federal involvement and allows private market forces to operate.
- Insures no future Federal expenditures for this proposal.

Con

- Could lead to haphazard development of the "National Avenue."
- Some other Federal plan for avenue development could again become law.
- Contrary to long-standing previous Presidential commitments and presumed congressional intent in allowing plan to become operative.

Recommendation

OMB recommends Alternative #3. Endorsement of the plan by sending forward authorizing legislation now may help ward off additional suits against the plan, even though funding would not begin until FY 1977. There appears to be a strong possibility that the House Interior Committee would initiate authorizing legislation shortly after an indication of Administration support.

These alternatives have been reviewed by the Domestic Council, Jack Marsh and Office of the Counsel. They also recommend the approach of Alternative #3.

alt #3