IN THE HOUSE OF REPRESENTATIVES

OCTOBER 31, 1975

Mr. Ashley (for himself, Mrs. Sullivan, Mr. Rees, Mr. Patterson of California, Mrs. Spellman, Mr. Tsongas, Mr. St Germain, and Mr. McIntyre) introduced the following bill; which was referred to the Committee on Banking, Currency and Housing

NOVEMBER 6, 1975

Reported from the Committee on Banking, Currency and Housing with amendments, and referred to the Committee on Ways and Means for a period ending not later than November 13, 1975, for consideration of title II; and ordered to be printed

[Omit the part struck through and insert the part printed in italic]

A BILL

To authorize emergency guarantees of obligations of States and political subdivisions thereof; to amend the Internal Revenue Code of 1954 to provide that income from certain obligations guaranteed by the United States shall be subject to taxation; to amend the Bankruptcy Act; and for other purposes.

1. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

2. § 1. Short title

3. This Act may be cited as the “Intergovernmental Emergency Assistance Act”.

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TITLE I—INTERGOVERNMENTAL EMERGENCY
ASSISTANCE

§ 101. Definitions and rules of construction

(a) The definitions and rules of construction set forth
in this section shall be applicable for the purposes of this
title.

(b) The term "State" means any State, the District of
Columbia, the Commonwealth of Puerto Rico, or any terri-
tory or possession of the United States.

(c) The term "political subdivision" shall have the
same meaning as used in section 103 of the Internal Rev-
ue Code of 1954.

(d) Any action authorized or required under this title
by or with respect to a State may be taken by or with re-
spect to any agency or instrumentality thereof approved by
the Board for that purpose, having regard to the purposes
of the State law creating any such agency or instrumentality.

§ 102. Establishment of the Board

There is created an Intergovernmental Emergency As-
sistance Board (referred to in this title as the "Board")
composed of the Secretary of the Treasury, as Chairman, the
Secretary of Housing and Urban Development, the Secretary
of Health, Education, and Welfare, the Chairman of the
Board of Governors of the Federal Reserve System, and the
Chairman of the Securities and Exchange Commission. Decisions of the Board shall be made by majority vote.

§ 103. Authority for guarantees

The Board may guarantee the payment, in whole or part, of interest, principal, or both, of obligations of States (including agencies and instrumentalities thereof as described in section 402a 101(d)) the interest on which is subject to Federal taxation, in accordance with this title. The Board shall give prompt consideration to any application for a guarantee under this title and shall, in the event such guarantee is denied, set forth the reasons for such denial in a written statement copies of which shall be furnished to the Governor of the State concerned, the Committee on Banking, Housing and Urban Affairs of the Senate, and the Committee on Banking, Currency and Housing of the House of RepresentatIVES.

§ 104. Purpose

The Board may make guarantees under this title only for the purpose of—

(1) enabling a political subdivision of a State to continue to provide essential public services and facilities; or

(2) preventing, or mitigating the effects of, default in the payment of obligations of a political subdivision of
a State where such default has had, or, in the judgment
of the Board, could reasonably be expected to have, a
serious adverse effect on general economic conditions or
on the marketability of obligations of States and their
political subdivisions in general.

§ 105. Conditions of eligibility

(a) Except as provided in subsection (b) of this sec-
tion, the Board may make guarantees under this title to a
State for the benefit of a political subdivision thereof only
if—

(1) the Board finds that the State or State agency
whose obligations would be guaranteed (hereinafter
referred to as "the applicant State") and the political
subdivision whose credit needs would be financed by
such obligations (hereinafter referred to as "the assisted
municipality") are effectively unable to obtain credit in
the private market or elsewhere; elsewhere in amounts
and terms sufficient to meet the municipality's financing
needs during the period covered by the plan required
to be submitted pursuant to section 105(a)(2) of this
title;

(2) the assisted municipality submits, with the
approval of the Governor of the applicant State, in such
detail and in accordance with such accounting principles
as the Board may prescribe, a plan for bringing its
operating expenses into balance with its recurring revenues for its second full fiscal year following the initial application for assistance, and thereafter for as long as any such assistance remains outstanding;

(3) the applicant State demonstrates that it has the authority to control the fiscal affairs of the assisted municipality for the entire period during which the Federal guarantee will be outstanding including the authority to determine all revenue estimates, set aggregate expenditure limits, disapprove all expenditures not in compliance with the plan required under paragraph (2), and approve all borrowing and contracts during that period; and

(4) the applicant State agrees to provide in accordance with this subsection a grant or loan to the assisted municipality for each fiscal year of the municipality during which a guarantee under this title may be outstanding. Such grant or loan shall—

(A) be in an amount determined by the Board but not exceeding one-third of the anticipated operating deficit of the assisted municipality for that fiscal year or portion thereof as determined in accordance with accounting principles prescribed by the Board;
(B) be derived from the general tax revenues of the applicant State;

(C) be in addition to all other grant or similar assistance provided to the assisted municipality by the applicant State pursuant to programs established or commitments made prior to its initial request for a guarantee under this title;

(D) be provided at such times as the Board may prescribe; and

(E) be used by the assisted municipality to meet its operating expenses in accordance with the financial plan required under paragraph (2)

(b) In the case of a political subdivision which has filed a petition under the Bankruptcy Act or which has actually defaulted on one or more of its obligations, the Board may, for a period of six months following the filing of such petition or the date of such default (as determined by the Board), make guarantees under this title without regard to one or more of the conditions prescribed in subsection (a) of this section to a State for the benefit of such political subdivision if the Board determines that an emergency exists which makes compliance with such condition or conditions impracticable.

§106. Guarantee fees

Whenever any obligation is guaranteed under this title,
the Board shall assess and collect from the obligor a guaran-
tee fee which shall not exceed three-quarters of one percent
per annum. Any such fees shall be paid into the Emergency
Municipal Debt Guarantee Fund established under section
111 of this title.

§ 107. Limitations on amount of guarantees outstanding

(a) Except as provided in subsection (b) of this sec-
tion, the total amount of all guarantees (exclusive of un-
cashed interest) which may be outstanding under this title
at any one time shall not exceed—

(1) $5,000,000,000 during the period from the
date of enactment of this title through September 30,
1989, and

(2) $3,000,000,000 during the period from Oc-

(b) In addition to the amounts authorized under sub-
section (a) of this section, prior to October 1, 1978, there
may be outstanding at any one time not exceeding $2,000,-
000,000 in the form of guarantees of obligations having a
maturity of eleven months or less from date of issue.

(c) No obligation may be guaranteed under this title
which has a maturity beyond September 30, 1999.

§ 108. Obligations callable after three years

Any obligation guaranteed under this title may be called
for redemption at the option of the issuer and without the
payment of a call premium at any time more than three years after the date of issue.

§ 109. Additional terms and conditions

(a) As a condition to making any guarantee under this title, the Board shall impose reasonable requirements with respect to the renegotiation or exchange of outstanding obligations entered into by, on behalf of, or for the benefit of, the political subdivision for whose benefit such guarantee is intended. Where such renegotiation or exchange involves the terms of bonds, notes, or similar obligations previously entered into, the Board shall require that a substantial percentage of such obligations be exchanged for nonguaranteed obligations bearing a substantially longer maturity, a substantially lower interest rate, or both. Where such renegotiation involves the terms of contracts of other provisions for compensation (including pensions and other benefits) for personal services rendered or to be rendered, there may be taken under consideration the compensation and other benefits provided for similar services by other employers, with particular reference to employers which are political subdivisions of the same State or of other States. In any renegotiation, there may also be taken into consideration the reduction which the results of such renegotiation may effect in the risk that the political subdivision involved would be unable to fulfill its commitments.
(b) In addition to the terms and conditions otherwise required by or under this title, the Board may impose such terms and conditions, not inconsistent with the general purposes of this title, as it deems appropriate with respect to the making of any guarantee under this title.

§ 110. Audits

(a) No guarantee may be made under this title for the benefit of any State or political subdivision thereof unless the General Accounting Office is authorized to make such audits as may be deemed appropriate by either the Board or the General Accounting Office of all accounts, books, records, and transactions of the State, the political subdivision, if any, involved, and any agency or instrumentality of such State or political subdivision. The General Accounting Office shall report the results of any such audit to the Board and to the Congress.

§ 111. Emergency Municipal Debt Guarantee Fund

(a) There is established in the Treasury an emergency municipal debt guarantee fund (hereinafter referred to as the "fund") to be administered by the Board. The fund shall be used for the payment of the expenses of the Board and for the purpose of fulfilling the Board's obligations under this Act. Moneys in the fund not needed for current operations may be invested in direct obligations of, or obligations
that are fully guaranteed as to principal and interest by, the
United States or any agency thereof.

(b) Sums realized from the guarantee fee required
under this Act shall be deposited in the fund. Notwithstanding
any other provision of law, the Secretary of the Treasury
shall deposit in the fund any payment, or portion thereof,
which a State government or unit of local government would
otherwise be entitled to receive under the State and Local
Fiscal Assistance Act of 1972, or any comparable program
of fiscal assistance to State and local government, and which
is waived by such government pursuant to this Act.

(c) Payments required to be made as a consequence of
any guarantee by the Board shall be made from the fund. In
the event and to the extent that the moneys in the fund are
insufficient to make such payments the Secretary of the Treas-
ury is authorized and directed to make such payments on
behalf of the Board and for that purpose he is authorized to
use as a public debt transaction the proceeds from the sale of
any securities issued under the Second Liberty Bond Act, as
amended, and the purposes for which securities may be issued
under that Act are extended to include any such payments.

§ 112. Federal Reserve banks as fiscal agents

Any Federal Reserve bank which is requested to do so
shall act as fiscal agent for the Board. Each such fiscal agent
shall be reimbursed by the Board for all expenses and losses
incurred by it in acting as agent on behalf of the Board.
§113. Protection of Government's interest
(a) The Attorney General shall take such action as
may be appropriate to enforce any right accruing to the
United States or any officer or agency thereof as a result
of the issuance of guarantees under this title. Any sums
recovered pursuant to this section shall be paid into the
emergency loan guarantee fund.
(b) The Board shall be entitled to recover from the
borrower, or any other person liable therefor, the amount
of any payments made pursuant to any guarantee agree-
ment entered into under this title, and upon making any
such payment, the Board shall be subrogated to all the
rights of the recipient thereof.
(c) There is hereby reserved to the United States the
right to offset against any sums otherwise due for any reason
from the United States (including but not limited to any
sums which may be due under the State and Local Fiscal
Assistance Act of 1972, or other comparable general purpose
financial assistance) to any State whose obligations are guar-
anteed under this title, or to any political subdivision for
whose benefit any guarantee is made under this title, the
amount in whole or part of any payment actually made by
the United States pursuant to any such guarantee. Such right
of offset shall be exercised only with respect to such sources
of Federal revenue, and at such rate, as the Board may deter-
mine to be appropriate with a view to reimbursing the United
States as expeditiously as may be practicable under the cir-
cumstances as they exist at the time.

(d) Whenever any guarantee under this title is out-
standing, and there is a failure on the part of the obligor
or on the part of the political subdivision for whose benefit
such assistance was extended to fulfill any commitment or
undertaking which it agreed to fulfill in consideration of
such assistance, the Board may, in its discretion, for any
period during which such failure continues, assess an addi-
tional guarantee fee in any amount such that the total of
the original guarantee fee and any such additional fees for
such period does not produce a total which is at a rate in
excess of three times the rate otherwise authorized under
section 106.

§ 114. Reports

The Board shall submit to the Congress quarterly a full
report of its operations under this title.

§ 115. Termination

The authority of the Board to make guarantees under
this title terminates on September 30, 1979. Such termina-
tion does not affect the carrying out of any contract, guaran-
tee, commitment, or other obligation entered into pursuant to this title prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this title.

TITLE II—AMENDMENT TO INTERNAL REVENUE CODE OF 1954

§ 201. Taxability of certain federally guaranteed obligations

Section 103(a)(1) of the Internal Revenue Code of 1954 (relating to interest on certain governmental obligations) is amended by inserting immediately before the semicolon at the end thereof the following: "except in the case of an obligation whose payment is guaranteed in whole or part under authority of section 103 of the Intergovernmental Emergency Assistance Act".

TITLE III AMENDMENT TO THE BANKRUPTCY ACT
A BILL [Report No. 94-632, Part I]

H. R. 10481
48th CONGRESS