MAJOR THEMES AND ADDITIONAL BUDGET DETAILS FISCAL YEAR 1984

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Major Themes and Additional Budget Details

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OVERVIEW

CHAPTER I

OVERVIEW

In his State of the Union Address, the President spoke of the criteria used in developing the 1984 Budget.

- It must be bipartisan. Overcoming the deficits and putting the Government's house in order will require the best efforts of all of us.

- It must be fair. Just as we all will share in the benefits that will come from recovery, all should share fairly in the burden of transition.

- It must be prudent. The strength of our national defense must be restored so that we can pursue prosperity in peace and freedom, while maintaining our commitment to the truly needy.

- Finally, it must be realistic. We cannot rely on hope alone.

Application of these principles leads to the four major elements of the 1984 budget:

- A freeze on Federal spending. Taken as a whole, the budget will increase no more than the rate of inflation. The bipartisan National Commission on Social Security Reform recommendation for a 6-month freeze on cost of living adjustments will be applied to other Government benefit programs. A one year freeze will also be applied to Federal civilian and military pay.

- Specific measures to control the growth of the "uncontrollable" spending programs.

- $55 billion in defense savings over the next 5 years; and,

- A stand-by tax, limited to no more than 1% of GNP, to start in fiscal year 1986 and to last no more than 3 years. The tax is contingent upon Congressional enactment of the President's proposed budget.

The principles of bipartisanship, fairness, prudence and realism were also applied to specific programmatic proposals. As shown below, the 1984 changes in the budget can be organized according to themes. This perspective yields a useful grouping of programs by purpose, and changes by rationale.

INCOME SECURITY AND HEALTH

The President has endorsed the bipartisan National Commission on Social Security Reform's proposed solution to the social security crisis.

Reforms in the means-tested programs, such as food stamps and AFDC, are aimed at reducing administrative costs, while preserving benefits for those individuals who must depend on the Federal Government for their welfare. Housing reforms replace costly inefficient subsidy programs with programs that serve more eligible households at substantially lower costs.

To slow the skyrocketing cost of Federal health care provisions, the Administration will introduce a number of incentives and constraints into the Medicare and Medicaid systems. By reducing some of the inflationary pressures in the nation's health care system, these reforms will benefit all. The President also proposes that the Government provide catastrophic coverage for Medicare beneficiaries.

OTHER NON-DEFENSE SPENDING

The 1984 Budget contains a number of initiatives designed to improve the nation's infrastructure. Investment in human capital is also stressed, with several initiatives and program increases targeted at helping workers find jobs, more effectively providing financial assistance to needy students, and creating incentives for teachers in math and science.

The Administration also proposes a number of changes in programs designed to assist special groups. The initiatives range from increasing the Federal fiscal commitment to providing State and local government with more resources and responsibilities to relying more on the private sector.

The Federal Government will also increase its investment in research and development (R&D), including a 29% increase in Department of Defense R&D and a 10% increase in support of basic research through the National Science Foundation and other agencies.

Finally, the Administration is continuing its efforts to focus agency resources more efficiently on services that the taxpayers want the most and that the Federal government can best provide.

NATIONAL SECURITY

The 1984 Budget continues the President's policy of strengthening our military capability, a capability that declined substantially throughout the 1970's. A sustained commitment to reduce any significant imbalance will not only strengthen our deterrent capabilities but will also improve prospects for agreements on arms control and reductions.

CREDIT

During the last decade, the rapid growth of Federal credit assistance has had serious effects on the Nation's financial markets. Federal intervention through direct and guaranteed lending preempts capital that could be used more efficiently by unsubsidized, private borrowers; and since federally assisted borrowers are frequently less productive than private borrowers, Federal credit activity diminishes economic efficiency.

The Administration is committed to controlling the growth of Federal credit assistance, and upon assuming office, the Administration took immediate steps to reverse previous growth trends. These efforts will continue in 1984.

FEDERALISM

The President continues his effort to devolve to State and local government the responsibility for those programs for which Federal administration and rules are too cumbersome. Several new block grants and consolidations will increase the ability of citizens to direct collective resources to those areas where they will be most effectively used.

FEDERAL PERSONNEL POLICY

The dramatic growth in Federal personnel expenditures over the past decade has forced this Administration to carefully scrutinize several of the factors that drive up these costs.

The proposed reforms for 1984 deal directly with controlling costs of salary, retirement and health insurance benefits. The pay freeze is short-term in nature, while the changes proposed for the Federal retirement and health benefit programs represent substantial structural reforms.

REFORM '88

One of the highest Administration priorities is significant and lasting improvement in the management of the Federal Government. The Administration will maintain its efforts to reduce fraud, waste and abuse. At the same time it will initiate or expand several activities to modernize and restructure the management and administrative systems with which the Government operates.

INCOME SECURITY AND HEALTH

CHAPTER 2

INCOME SECURITY AND HEALTH

Income security and health are two of the largest and most important functions in the Federal budget. The 1984 Budget contains several significant new reforms in these areas, as well as proposals for change which build upon major improvements enacted in the first two years of the Reagan Administration.

In this chapter, the following proposals are discussed:

- *Social Security and Other Retirement.* Major new reforms in Social Security, along with changes in the related Railroad Retirement System, are examined in the first section of this chapter. Fundamental reforms in Federal employee retirement programs are discussed in chapter 7, which deals with Federal personnel policy.

- *Means-Tested Benefits.* Proposals for means-tested entitlement or automatic spending programs, which build upon previously enacted reforms, are discussed in the second section of this chapter.The proposals are designed to:

  -- Simplify and improve the integrity of these programs.

  -- Strengthen employment incentives so that those who can work do so.

  -- Take more fully into account the family circumstances of program beneficiaries, in order to better target means-tested assistance and prudently manage scarce public resources.

  In addition, proposed reforms in assisted housing programs, which also provide benefits to individuals, are explained. Numerous other programs which are designed to benefit low-income individuals are discussed in other chapters, most notably Other Non-Defense Spending (Chapter 3) and Federalism (Chapter 6). Thus, for example, education programs benefiting low-income college students are discussed in the context of Administration proposals for a major restructuring of Federal student financial aid. Similarly, Head Start and programs targeted to specific minority groups are reviewed in Chapter 3, while block grant programs helping the needy fall under the discussion of Federalism

- *Health Entitlements.* The final section of this chapter deals with major reforms proposed in Medicare and modest proposals for Medicaid, all designed to stem the rising tide of health care costs without adversely affecting the health of the nation's elderly and poor. As part of the Medicare reform, beneficiaries would be provided catastrophic protection against hospital expenses. Federal employees health care programs are discussed in the chapter on Federal personnel policy.

SOCIAL SECURITY AND OTHER RETIREMENT

SOCIAL SECURITY AND OTHER RETIREMENT

Without corrective legislation in the very near future, beginning no later than July 1983 the Old-Age and Survivors Insurance (OASI) trust fund will be unable to make benefit payments on time. Under present law, and on the basis of any reasonable set of economic assumptions, the expenditures of the OASI program will continue to exceed income from payroll taxes and other sources through at least 1986. To date, benefit payments have been made on a timely basis by drawing down the assets of the OASI trust fund and interfund borrowing to cover the shortfall. However, the assets of the OASI trust fund have been reduced to such a low level that they will not be able to continue making up the difference between outgo and income much longer. The bipartisan National Commission on Social Security Reform was created by the President as a result of this continuing deterioration of the financial position of the OASI trust fund, the inability of the President and the Congress to agree to a solution, and the concern about eroding public confidence in the social security system.

The Commission was assigned the critical job of assessing whether the social security program has financing problems in the short run and over the long-range future and, if so, recommending how such problems can be resolved. The Commission agreed that there is a financing problem for both the short run, 1983-89, and the long range, through 2056, and that action should be taken to strengthen the financial status of the program.

The Commission reached a bipartisan consensus for meeting the short-range financial requirements. The bipartisan solution recommended by the Comission was an Accord endorsed by the President, the Speaker of the House, and the Senate Majority Leader. The bipartisan solution assures the timely payment of full social security benefits and would restore social security to long range actuarial balance.

The bipartisan solution is based on a balanced approach, one constructed after months of detailed study, meetings, and analysis. While neither the Commission members, the President, the Speaker of the House, nor the Senate Majority leader would necessarily support each individual element, taken as a whole, they strongly endorse the overall package and urge *enactment of the Accord in its entirety*.

The provisions of the Accord are detailed in the section on social security. As discussed, the elements of the Accord have relatively minor effects on employees, employers, and the retired, but have the significant outcome of putting the social security system on a sound financial basis -- which is the goal of the bipartisan Accord. The Accord has a special provision protecting the needy elderly social security recipients who might otherwise by adversely affected by the six month COLA delay, as well as a series of provisions which improve the equity of social security and the treatment of women.

The social security Accord will improve somewhat the financial condition of railroad retirement, which includes both social security equivalent benefits (financed by social security) and rail industry pensions. Under the 1981 law enacted at rail labor and management's urgings, rail industry pension annuities are linked to rail industry pension contributions. Since the social security level of railroad retirement would be automatically conformed to the enacted provisions of the Accord, for administrative simplicity the industry pension will also be conformed as appropriate.

SOCIAL SECURITY (BIPARTISAN SOLUTION)

AGENCY: Social Security Administration Funtional Code: 601

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT LAW							
Budget Authority	146,207	161,948	163,047	183,584	203,373	221,399	242,718
Outlays	154,144	170,324	182,388	196,326	210,719	226,239	242,269
REAGAN BUDGET							
Budget Authority	146,207	182,448	172,963	198,833	219,497	241,510	278,201
Outlays	154,144	168,268	178,310	191,869	205,991	221,092	236,823
PROPOSED CHANGES							
Budget Authority	--	20,500	9,916	15,249	16,125	20,111	35,482
Outlays	--	-2,056	-4,078	-4,457	-4,728	-5,147	-5,446

PROGRAM DESCRIPTION

The social security program provides income to retired and disabled workers, their dependents, and survivors. The program has been financed by payroll taxes paid by employees, employers, and self-employed individuals.

PROPOSED CHANGE

The National Commission on Social Security Reform recommended a bipartisan solution to the social security solvency problem that has been endorsed by the President, the Speaker of the House, and the Majority Leader of the Senate.

The main elements of the recommended solution are:

- Cover all non-profit employees and new Federal employees under social security, and ban withdrawal from coverage by State and local employers;
- Credit to the OASDI trust funds the revenues raised by having only those taxpayers with adjusted gross incomes in excess of $20,000 for an individual and $25,000 for a couple pay income taxes on 50% of their OASDI benefits;
- Shift the automatic increase in benefits to a calendar year basis, making the increase payable in January instead of July;
- Move the OASDI tax rate increase scheduled for 1985 to 1984, reschedule the 1988- 89 rate, and provide a refundable tax credit for the year 1984 for the part of the emplyee rate that was rescheduled;
- Improve the equity of social security benefits;
- Make the self-employment tax rate comparable to the combined employer- employee rate, allowing one-half of the combined rate to be deducted as a business expense;
- Reimburse the OASDI trust funds for the full cost of certain military service credits and uncashed OASDI checks;
- Provide for reallocating the OASDI tax rates between OASI and DI and for inter-fund borrowing during 1983-87, from Hospital Insurance to OASDI; and,

- Provide a series of long-range reforms to stablize the financial condition of the OASDI trust funds and restore the system to actuarial balance.

The recommended bipartisan solution also included an additional $30 of social security benefits to be disregarded in calculating Supplemental Security Income (SSI) benefits.

RATIONALE

Without changes to current law, the largest of the social security trust funds, the old age and survivors insurance (OASI), trust funds would be unable to pay full benefits on a timely basis starting in July 1983.

The SSI disregard proposal is designed to prevent adverse impact on the retired elderly poor of the six-month delay for the social security cost-of-living adjustment. By increasing the SSI disregard, low-income recipients who have worked and are eligible for social security will receive a greater increase in total benefits, beginning July 1, 1983, than they would have received if regular cost-of-living adjustment had been made.

EFFECTS OF THE PROPOSED CHANGE

The bipartisan solution recommended by the National Commission on Social Security Reform is projected to keep social security solvent in the short term as well as correct the long-range actuarial imbalance facing social security. Approximately 1.6 million SSI/OASDI recipients would receive increases in their SSI benefits starting in July 1983. The cost of the proposal is already included in 1984 Budget at $195 million for 1983, $530 million for 1984, and comparable amounts for future years.

RAILROAD RETIREMENT BOARD

AGENCY: Railroad Retirement Board — Functional Code: 601

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT LAW							
Budget Authority	5,210	5,356	5,501	5,778	5,957	6,118	6,304
Outlays	5,732	5,828	5,375	5,547	5,884	5,999	6,285
REAGAN BUDGET							
Budget Authority	5,210	5,356	5,501	5,778	5,957	6,118	6,304
Outlays	5,732	5,828	5,375	5,547	5,884	5,999	6,285
PROPOSED CHANGES							
Budget Authority	--	--	--	--	--	--	--
Outlays	--	--	--	--	--	--	--

PROGRAM DESCRIPTION

The Railroad Retirement Board (RRB) administers social security plus rail industry pension benefits to former rail workers and their families:

- Social security benefits are funded from social security trust funds.
- Rail industry pensions are financed by rail pension contributions, which were collectively bargained by rail labor and management and subsequently enacted by Congress.

The social security benefits administered by the Board remain financially sound because they are funded by the social security trust funds. Major changes in the rail industry pension plan sought by rail labor and management and enacted by the Congress in 1981 require the Board to adjust industry pensions to available resources. These "benefit preservation" provisions require that:

- — Full social security benefits be paid;
- — Monthly rail pensions be paid during the year at the highest level rate financed by rail industry contributions; and
- — Representatives of rail labor and management may submit proposals to alter the system's financing or pensions.

PROPOSED POLICY

As required by the provisions of law negotiated by the rail sector and enacted in 1981, full social security level of benefits and the level of industry pensions financed by the rail sector will be paid. The rail industry pension, even though Federally administered, should be funded by rail labor and management, as are all private industry pensions. The American taxpayer should not "bail out" the rail industry pension fund. Rather, rail labor and management should collectively bargain any desired increased in industry pension contributions or restructuring of industry pension payments.

RATIONALE

- Current law benefit preservation provisions agreed to by rail labor and management in 1981 and enacted by the Congress:
  - — "protect the government's primary responsibility for social security equivalent benefits", according to the Congress; and

- "... save the system for its millions of present and future beneficiaries and will do so not at public expense but at the expense of railroad employees and employers ...", according to rail representatives.

- All agree that rail labor and management should assume full responsbility for financing rail pensions.

  - Representatives of rail labor and management in 1974: "[the rail sector] is perfectly prepared to fund the Railroad Retirement System in every respect in which it bears a reasonable resemblance to any other private industry pension plan."

  - The General Accounting Office, 1981: "Funding of the private portion of benefits is the railroad industry's responsibility."

  - The congressionally chartered Commission on Railroad Retirement, 1972: "[there are] no valid grounds for Federal subsidy to the system, either directly or indirectly."

- Rail labor and management's strong tradition of proprietary stewardship for the rail pension carries with it the responsibility that changes in benefits and/or financing come from within the rail sector.

  Major Rail Sector Representatives:

  - criticize Federal oversight as subjecting the rail pension system to "changing viewpoints and whims -- of both the executive and legislative branches of government";

  - state with pride that "the [rail industy pension] is paid for by the industry, *the Federal Government pays nothing, absolutely nothing* ... the U.S. Treasury Department acting as a mere conduit of funds -- *our* funds". (Emphasis in original)

EFFECTS OF THE PROPOSED CHANGE

Current law provisions sought jointly by rail labor and management:

- guarantee retirees their basic social security benefit;
- grant rail retirees the industry pension financed by rail contributions;
- do not restrict rail labor and management from negotiating changes to their industry pension contributions or restructuring industry pension payments.

FEDERAL WINDFALL SUBSIDY

AGENCY: Railroad Retirement Board Functional Code: 601

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	390	430	420	405	385	365	350
Outlays	378	441	420	405	385	365	350
REAGAN BUDGET							
Budget Authority	390	430	350	350	350	350	350
Outlays	378	441	350	350	350	350	350
PROPOSED SAVINGS							
Budget Authority	--	--	70	55	35	15	0
Outlays	--	--	70	55	35	15	0

Subsidy Per Rail Worker Under Reagan Budget

1984	1985	1986	1987	1988
946	972	986	1,000	1,014

PROGRAM DESCRIPTION

The Federal Windfall Subsidy funds duplicative payments for certain former rail employees, their spouses and their survivors. Rail workers and their families gained unintended, anomolous benefits because the rail sector kept its social insurance and retirement system separate from social security. Rail employees who worked in normal social security covered employment at some time in their careers -- or those whose spouses worked -- gained disproportionately higher benefits, with the excess due solely to the failure of the rail industry pension to coordinate with social security.The cost of windfalls was shifted from the rail sector to the American taxpayer in the Railroad Retirement Act of 1974, which was based on rail labor and management's negotiated agreement. The subsidy lowers rail industry pension costs by hundreds of millions of dollars annually. Both this administration and the two previous ones sought to limit the taxpayers' subsidy to the rail industry pension. The Carter Administration sought to cap the annual Federal subsidy at $350 million or 40% more than the parties' previous $250 million annual estimated cost to the taxpayer.

Based on rail labor and management's negotiated agreement, the Omnibus Budget Reconciliation Act of 1981 restructured windfalls. Representatives of rail labor and management claimed these changes would:

> "...save the system for its millions of present and future beneficiaries and will do so not at public expense but at the expense of railroad employees and employers...the proposal controls the overall rate of benefit escalation...there are constraints imposed...[these changes] automatically limits windfall benefits [to $350 million annually]...."

PROPOSED CHANGE

Limit the Federal subsidy for windfall payments, as proposed by this and prior administrations.

RATIONALE

- Subsidies are not needed.
  - — Rail workers are one of the highest paid industries, with projected *average* earnings of $34,000 in 1984.

— Railroad retirement, according to a Congressional Budget Office (CBO) study, is one of the most generous pension systems in the country. The *average* rail worker receives tax-free pension income *exceeding* pre-retirement take-home pay according to CBO.

— 97% of windfalls go to families receiving monthly benefits in excess of the average social security benefit level, according to the General Accounting Office. The same study found that only $16 million went to pay windfalls of those who would otherwise be below the poverty level.

- Sudsidies to this industry pension are inappropriate.

  — In response to requests from both rail labor and management for a Federal subsidy, the Commission on Railroad Retirement in its report and 1,785 page, three volume supporting analysis found:

  "...no valid grounds for Federal subsidy to the system, directly or indirectly. The payment of basic social security benefits to railroad workers can be fully assured in the future by a proper realignment: a statutory amendment providing for their direct payment by the Social Security Administration. A special Federal subsidy for the second tier would be undesirable on economic grounds and is not defensible on social grounds, given the many competing needs pressing on the Federal budget. If this system received a subsidy, many other pensions would then want subsidies, too."

- Windfall costs exploded after rail labor and management's original $250 million estimate for the 25 level annual subsidy appropriations was made.

EXPLODING WINDFALL COSTS

Fiscal Year	*Enacted Subsidy Estimate*	*"Revised" Subsidy Estimate*	*Congressional Appropriation*
1976	250	250	250
1977	250	250	250
1978	250	350	250
1979	250	350	313
1980	250	350	313
1981	250	499	350
Subsidy under 1974 Act	1,500	2,049	1,726
1982	250	440	390
1983	250	430	430
Subsidy under 1981 Act	500	870	820
TOTAL Subsidy	2,000	2,919	2,546

EFFECTS OF THE PROPOSED CHANGE

- The subsidy per rail worker would increase from $946 in 1984 to $1,000 in 1987, even under the President's budget policy of maintaining the Federal windfall subsidy appropriation at the same level.

- Reduces Federal deficit by $70 million in 1984.

MEANS-TESTED INDIVIDUAL BENEFITS

MEANS-TESTED INDIVIDUAL BENEFITS

THE NEED FOR REFORM

In the decade and a half before the Reagan Administration came into office, the number of Federal programs providing means-tested cash or in-kind benefits to individuals doubled. During this time, the number of people receiving such benefits soared by almost 300 percent, from 9 to 35 million, although the U.S population grew by only 17 percent. While in 1965 welfare recipients, on average, participated in one means-tested program, by 1980 they participated in 3 to 4.

Although undertaken with the laudable intention of helping the needy, this expansion in benefits left a bitter legacy. At the time the Administration came into office, means-tested programs were fraught with problems.

- Benefits were excessive and poorly targeted.
- Waste and error were rife, partly as a result of poor program design and coordination and partly because of pervasive mismanagement.
- In some cases, fundamental program designs were so profoundly deficient that even the best management could not overcome the perverse incentives, inequities and needless expenditures that resulted.

As a consequence of these problems, literally billions of scarce tax dollars were needlessly wasted.

EXCESSIVE AND POORLY TARGETED BENEFITS

An indication of the extent to which means-tested benefits were excessive and poorly targeted is shown by analyses of Census survey data for 1981, prior to the time when legislative changes enacted under the Reagan Administration had fully taken effect. The results of the analyses are striking, showing that:

- $16.9 billion or 35.7 percent of the income-tested benefits covered in the survey were devoted to households, containing over 23 million people, whose cash benefits and other cash income placed them above the poverty level.
- Significant percentages of benefits in all of the six means-tested programs covered by the survey -- AFDC, SSI, Food Stamps, Medicaid, free or reduced priced school lunches, and assisted housing -- were received by members of households with incomes above the poverty level. The percentages ranged from 21 percent in Food Stamps to 44 percent in Medicaid.

Indeed, the lack of targeting was so acute that substantial resources were received by households whose cash benefits and other cash income exceeded 150 percent of the poverty level.

- Households in which total income exceeded 150 percent of poverty contained individuals who received $8.3 billion in means-tested benefits. These households comprise 12.7 million people.
- The percentage of benefits going to individuals in these nonpoor households was significant in all programs, as shown in the table below:

	Percent in Households Above 150% of Poverty Level: Cash Income (including cash benefits)	
Member of Household Receives	**Persons in Households**	**Benefits**
AFDC	14.2%	10.7%
SSI	33.2	26.8
Food Stamps	15.1	8.1
Medicaid (Insurance Value)	27.5	26.2
Free and Reduced Price School Lunch	25.9	23.3
Public Housing Benefits	10.6	5.7
Section 8 Rent Subsidy	12.5	7.0
One or More of the Above Benefits	28.6	17.5

- To put these findings in perspective, it should be noted that 150% of the poverty level for a family of four in 1981 was $13,930 -- an income level equal to 92% of the median annual earnings of employed workers that year.

As troubling as this picture is, it understates the lack of targeting because the conventional poverty statistics ignore the value of in-kind benefits in measuring individual and family well-being. These benefits constituted 66.4 percent of the total funds for means-tested benefits in the Census survey. When the value of in-kind benefits is taken into account, the analyses indicate that $39.2 billion of income-tested benefits -- fully 82.7 percent of the total -- was devoted to nonpoor households. Of these resources, significant amounts benefited households whose total income (cash plus in-kind) placed them above 150 percent of the poverty level. These households accounted for $20.0 billion or 42.1 percent of total income-tested benefits, as shown in the table below:

	Percent in Households Above 150% of Poverty Level: Cash Plus In-Kind Income (including all benefits)	
Member of Household Receives	**Persons in Households**	**Benefits**
AFDC	29.0%	26.9%
SSI	62.5	61.4
Food Stamps	30.2	24.5
Medicaid (Insurance Value)	46.2	53.3
Free and Reduced Price School Lunch	34.9	32.5
Public Housing Benefits	38.3	46.7
Section 8 Rent Subsidy	45.9	54.0
One or More of the Above Benefits	42.4	42.1

These analyses understate the impact of goverment spending for benefits, as people responding to the survey generally do not report all their income and benefits. In addition, the survey covers only non-institutionalized persons so that many Federal program expenditures are not fully reflected.

WASTE AND ERROR

Error and waste are due in part to poor program design, such as overly complex requirements and a lack of coordination among related programs. However, they also result from poor program administration, which was common in means-tested programs when the Administration took office. The magnitude of error and waste was significant at that time, as illustrated by the examples below:

- States, which administer the AFDC, Medicaid, and Food Stamp programs, improperly paid $3.5 billion in benefits in FY 1981. In the Food Stamp program alone, $1 out of every $10, or over $1 billion, was spent on overpayments and payments to ineligible families. Of this total, one-third was associated with a complex set of deductions and exclusions from the income counted for purposes of determining benefit eligibility and amount.

- In Medicaid, States were failing to collect funds from private health insurers for coverage the insurers were legally responsible for paying on behalf of Medicaid recipients. Studies by the Health Care Financing Administration indicate that in 1980 a half billion dollars of insurance payments could have been collected to offset program costs.

- States were also failing to ensure that parents who had left their families met their responsibilities for contributing to their support by collecting court-ordered support payments for AFDC families. Only one-third of AFDC recipients were covered by court orders, and only half of covered cases were receiving full payment. Overall, about $1 billion in court-ordered payments for AFDC recipients went uncollected in 1981.

- Local school systems were improperly claiming Federal reimbursements for school lunches. The USDA Inspector General and the General Accounting Office estimated that $400-500 million was overpaid in FY 1980 as a result of invalid applications for free and reduced price lunch benefits and inflated meal counts.

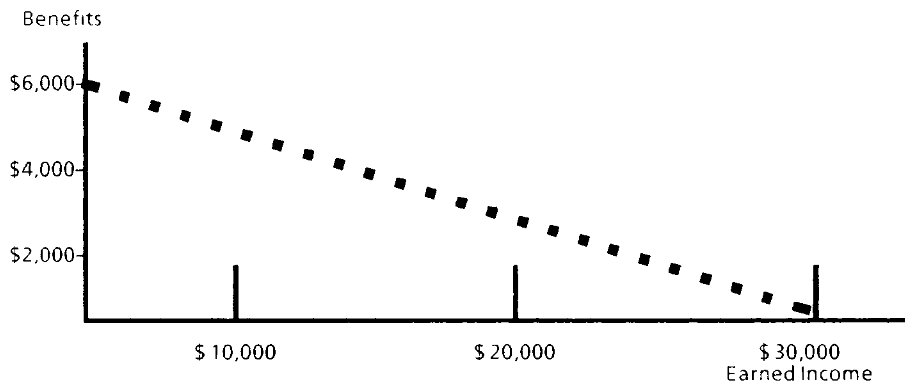
DEFICIENT PROGRAM DESIGN

In many cases, scarce tax dollars have been needlessly spent as a result of program design defects so profound that even superlative management could not have averted the expenditures. The inherent flaws in the basic concepts underlying public assistance, medical care and housing programs when the Administration took office illustrate this point.

PUBLIC ASSISTANCE

For over a decade a fundamental concept underlying means-tested programs has been that work effort is most appropriately encouraged by not reducing welfare benefits dollar for dollar as earned income increases. Thus, work incentive disregards of some earned income and deductions for work expenses were added to many welfare programs. The concept was never fully implemented, for carrying it to its conclusion would result in a welfare system that is both unaffordable and untenable.

To illustrate: under this concept, benefit levels must be generous enough to support a family in which members cannot find work, and the system must apply a low benefit reduction rate on earned income. The result of these provisions in combination, however, is that families with substantial income are eligible for welfare. The graph below shows the benefits which a family of four would receive at different income levels, if the benefits were $6,000 reduced by 20 percent of earned income. As indicated, benefit eligibility would continue until the $30,000 income level:



The end result of attempting for more than a decade to pursue this concept while limiting benefits to lower income families was a welfare system with generally high combined benefits and relatively high benefit reduction rates on earned income. The work disincentives and inequities in this system were apparent when the Administration came into office.

- Only 12.6 percent of AFDC adults and 17.7 percent of Food Stamp household heads age 18 to 59 worked at all according to survey data for FY 1981.
- Those on welfare who did work, as a group, were substantially better off than the majority of working low income families *not* on welfare. In 1981, 70 percent of wage earning families with cash incomes below 150 percent of the poverty level received no AFDC, Food Stamps, Medicaid or housing benefits at all, while, as discussed above, significant tax resources designed to benefit those in need went to families whose cash incomes placed them above 150 percent of the poverty level.

HOUSING AND MEDICAL PROGRAMS

These programs depend on the private sector to provide benefits to recipients, but the programs have failed to rely on market forces to control costs and supply appropriate services. Normal incentives for efficiency, cost effectiveness and price competition were being neutralized or even reversed by perverse program design.

In the Section 8 housing program, the Government has offered to pay an administratively determined local "fair market rent." This practice has guaranteed a price higher than normal rents in many instances.

- Owners of units joining the Section 8 Existing Housing Program have been able to raise their rents to the Government guarantee level. With the amounts tenants pay set by their income, there has been no incentive for them to negotiate on their rents. Consequently, rents for units in the Section 8 Existing Housing Program average 26 percent above rents for comparable non-subsidized units.
- Section 8 New Construction units have also been excessively costly because they are built to justify higher than normal rents. The President's Housing Commission's 1981 Final Report found costs of these new units were 17 percent higher than their "market value."

The lack of cost control incentives stemming from basic design flaws in Medicaid has been a major factor in service, utilization and cost increases far in excess of inflation and beneficiary population growth.

- Medicaid has relied on conventional cost-based fee-for-service medical care delivery with its incentives for excessive use of services and its insulation of the provider from any financial risk for overutilization. Cost reimbursement for hospitals intensified the incentives in fee-for-service delivery toward overutilization and waste. Having been assured of a pass-through of costs to taxpayers, hospitals had no reasons to prudently and efficiently manage resources and thereby hold down prices.
- Rigid Federal requirements also restricted State capacity to introduce incentives for efficiency and cost control into the Medicaid program. For example:
  - Volume purchases of services such as laboratory tests were prohibited and States were required to buy services "retail", despite their capacity to make wholesale purchasing arrangements.
  - Beneficiaries could not be channeled into primary provider relationships, although such arrangements provide continuity of care, are more likely to emphasize preventive care, and would reduce reliance on expensive outpatient hospital facilities -- such as emergency rooms -- for primary care.
- Compounding these design flaws on the supply side of the market was a basic problem on the consumer side.In the Medicaid program, medical care was almost totally free for most beneficiaries, who had, therefore, no reason to be concerned about the cost of services.

As a result, in the decade 1971 to 1981 Medicaid costs rose 354.3 percent or 16.3 percent per year, while the number of Medicaid recipients grew only 1.3 percent per year and the general price index increased 8.4 percent per year. (Medicaid design flaws and their effects are more fully discussed in the next section on Health Policy.)

NEW POLICIES: THE PATH TO IMPROVED WELL-BEING FOR LOW-INCOME FAMILIES

If the means-tested programs essential to helping poor people are to maintain public support, program reform is vital to assure Federal resources are used wisely. Equally important, elimination of unnecessary Federal spending aids the economic recovery program whose success will benefit all low-income Americans.

History teaches us that economic growth is a critical determinant of individual and family well-being. In the decade of the 1970s, the economy failed to perform as well as in the 1960s. Price increases in the 1970s were four times as large as in the 1960s, labor productivity grew at half the rate, and unemployment rates averaged 30 percent higher. At the end of the 1970s, real income per household began to drop. As a result, it was in the 1960s rather than in the 1970s that the greater inroads against poverty were made.

- Between 1960 and 1966, the poverty rate fell from 22.2 percent to 14.7 percent.
- Between 1966 and 1969, when spending on many of the Great Society programs began, the poverty rate dropped an additional 2.6 percentage points.
- During the 1970s, the poverty rate went up and down slightly, as domestic spending burgeoned, but it stood at over 11 percent for most of the decade. As the economy stagnated, it began an upward climb in 1980.

A similar pattern appears when the poverty rate is examined counting only earnings. Special analyses on Census data, drawn from two studies on the years 1963 to 1973 and 1974 to 1981, show the following:

- From 1963 to 1969, the poverty rate based on earnings alone decreased by one-third for all households with earnings, dropping from 17.9 percent to 12.0 percent.
- In contrast, during the period of poor economic performance from 1974 to 1981, the poverty rate based on earnings alone increased for all non-aged persons, rising from 17.2 to 21.1 percent.

Clearly, economic growth is vital to promoting the well-being of working families. But it also benefits those who cannot work, because as the wealth of the nation grows, more money is available to help those in need. Reform of means-tested programs to better target benefits, reduce waste and inefficiency, and eliminate structural design flaws is critical to this growth -- and will promote a better life for all Americans.

REFORMS AND THEIR IMPACT

During this Administration, significant reforms have been enacted. Many of these changes had long been sought and were widely considered meritorious. Others were more controversial, but the fears of critics as to their consequences have not been borne out. In 1984, the Administration proposes to build upon this base of reform to further improve the means-tested programs. The majority of savings reflected in the 1984 proposals would have little or no effect on the typical beneficiary. For example, of the savings proposed in the five entitlement accounts covered in this section, fully 79% would stem from error reduction and other program efficiencies. Only 6% would result from further improvements in benefit targeting. While the remaining 14% would result from the six month delay in cost of living adjustments, the per recipient effects of the delay are small.

TARGETING

In order to focus means-tested benefits on the truly needy and improve equity between those who are subsidized and those who are not, a number of changes have been made and are proposed.

- Gross income caps have been introduced in AFDC and Food Stamps, restricting eligibility to persons whose income before exclusions and deductions is within certain reasonable limits. Income limitations in assisted housing programs also now target benefits to families with incomes below 50 percent of the area median.
- Deductions and exclusions from countable income which permitted AFDC and Food Stamp benefits for families with substantial income have been reduced and partially standardized, and earnings disregards in AFDC have been limited to a four-month transition period. Variations in permissible deductions between Section 8 and Public Housing programs have been ended, so that standardized rent contributions are now made by all assisted tenants. Administration proposals for 1984 would further these reforms by standardizing shelter and earnings deductions in Food Stamps, and by counting Food Stamps as income in the Section 8 and Public Housing programs.
- Various changes in AFDC and Food Stamps have been made to define more appropriately which individuals require support and to include the income and resources of persons who

are in fact part of the family, such as step-parents, in determining eligibility and benefit amounts. For 1984, the Administration is seeking further improvements to ensure the income available to applicants and recipients is more fully taken into account:

— In AFDC, States would be required to include the incomes of parents and all children (except SSI recipients) in household income for purposes of benefit computations, eliminating the option now where a family can exclude the needs and income of a child or other related person when it is advantageous to do so.

— In the Food Stamp program, all individuals living together would be required to file for benefits as a single household, so that recipients no longer can qualify for higher benefits by filing as separate households.

- States have been permitted to pro-rate rent and utility expenses, which are taken into account in setting benefit levels, over non-AFDC household members to reflect the contribution these other household members can make to defraying household expenses. The Administration proposes to make proration a mandatory procedure in 1984.

- Greater recognition has been given in AFDC, Food Stamps and Medicaid to the assets available for the support of the recipient. No additional changes are being proposed in this area.

- Excessive automatic Food Stamp benefit increases have been restricted to be more in line with wage and other income and price increases, as well as to discourage States from holding down AFDC benefits. (Food Stamp benefits are now set and fully funded by the Federal Government, whereas AFDC benefits, which are intended to include basic food costs, are set and funded 46 percent by the States. By holding down AFDC benefits while Food Stamp benefits have continued to increase, States have been able to increase the Federal share of the combined benefits package from 65 percent in 1972 to 76 percent in 1981.)

- Tenant payments in public and Section 8 subsidized housing are gradually being increased to 30 percent of their income (after exclusions), improving equity by requiring subsidized families to pay a share of their income for rent that is more comparable to that paid by non-subsidized families.

In reporting on the changes that have been made, it is important to note that:

- The truly needy have been protected. Benefits to households which have no other sources of support are largely unaffected.

- Critics' fears that reducing benefits for families who work would result in their quitting their jobs to retain their benefits have not been borne out. Initial findings from special State studies on AFDC indicate that, for the vast majority of working recipients, the changes provided the incentive needed to make the transition from welfare to self-support. These studies have been conducted in a number of States that have substantial geographic, demographic, and programmatic diversity. Almost all show the number of individuals who quit their jobs to be very low. For example, studies in Massachusetts, New Jersey, Vermont, Illinois, Michigan, New Mexico and Los Angeles County all suggest that only about 10 percent of all families removed from the rolls have returned. This figure includes not only individuals who may have voluntarily quit their jobs in order to receive welfare, but also individuals who lost their jobs or had their hours of work reduced involuntarily. This latter group was found in a Michigan study to be relatively large, leaving only a negligible number of individuals who were actually quitting their jobs to return to welfare. These findings suggest that labor force attachment is an important factor in avoiding welfare dependency.

- Targeting benefits to reduce excessive costs seems to have positive results for poor beneficiaries. In spite of the difficult economic situation, 22 States increased their AFDC payment standards in 1982.

ERROR AND WASTE

A variety of changes have been made and are proposed for 1984 to improve the accuracy of means-tested benefit payments and to help ensure that parents who have left their families contribute to their support if they are able to do so.

- Recognizing that there is little justification for Federal financing of payment errors in State-administered programs, States now are statutorily responsible for overpayments in excess of target error rates -- for Medicaid, 3 percent; for AFDC, 4 percent in 1983 and 3 percent thereafter; and for Food Stamps, 9 percent in 1983, 7 percent in 1984 and 5 percent in 1985 and thereafter. For 1984, the Administration will propose that the current target rate for Food Stamps be reduced to 3 percent, a rate consistent with those in the other two programs.
- In Food Stamps, States have been given greater flexibility to verify income and eligibility and otherwise improve program administration. The standardization of shelter and earnings deductions proposed for 1984, noted above, would help States to meet their error rate reduction targets.
- To reduce program errors, States now are required in AFDC and Food Stamps to have beneficiaries periodically report on their income and to use actual rather than projected income and expense information in benefit determinations. To further cut down on error and to decrease administrative costs, the Administration is proposing that in 1984 applicants who have been approved for AFDC benefits would automatically be granted a predetermined Food Stamp allotment.
- The administrative requirements for determining eligibility for free and reduced price school lunches have been substantially tightened over previous procedures to reduce the possibility of invalid applications being accepted by schools. To further improve the integrity of eligibility determinations in the school lunch program, the Administration is proposing that the determination process be handled by Food Stamp offices, which have more experience to handle this task.
- Absent parents who have not met support obligations to families who receive AFDC are now subject to withholding from Federal income tax refunds, military pay and allowances, and unemployment insurance. The Administration is proposing reforms of Child Support Enforcement (CSE) to increase total support collections and the cost-effectiveness of the collection process. Federal administrative payments would be changed to provide financial incentives for States to improve collections and would be made conditional on changes in State law to increase CSE effectiveness. States would be required to obtain medical support from absent parents through private (employers) insurance plans, thus making Medicaid the payor of last resort. States would also be given financial incentives to obtain CSE collections for SSI disabled children.

PROGRAM REDESIGN

Beyond better targeting and reducing waste and error, fundamental restructuring of means-tested programs has been instituted, improving work incentives and marshalling natural market forces to hold down costs.

- States now have the option of requiring able-bodied AFDC and Food Stamp recipients to participate in Community Work Experience Programs (CWEP). The Administration is proposing that these optional programs be made mandatory in 1984 to strengthen work incentives and discourage welfare dependency. Under CWEP, those people able to work are encouraged and helped to find jobs in the private sector. If no jobs are available, CWEP participants perform useful public services, meeting community needs that otherwise would be unmet with existing public resources and retaining (or gaining) an attachment to the labor force.Mandatory CWEP removes the disincentives to work inherent in the current system by requiring work as a condition of receiving benefits. Because disregards for work-related expenses and child care would remain in place for those with private sector jobs, private sector employment would be more attractive to participants than community work experience paying the same amount in the form of benefits.

- The Administration will propose a Housing Payment Certificate Program to gradually replace current Section 8 Existing Housing Program subsidies. The Housing Payment Certificate Program would provide rental assistance for tenants based on an area payment standard, with no guaranteed rent level for landlords. With these changes, subsidy recipients would be encouraged to shop for the lowest cost acceptable housing and would be freer to select their own neighborhoods and expenditure levels. Incentives to raise rents above market levels would be ended.

- In Medicaid, the Federal matching payment to each State has been reduced by 3 percent for 1982, 4 percent for 1983 and 4.5 percent for 1984, with a 1 percent offset to this reduction available for each of the following: a qualified hospital cost review program, a high unemployment rate, and third-party and fraud and abuse recoveries exceeding 1 percent of the Federal matching payment. In addition, States whose Medicaid cost increases fall below target rates of 9 percent for 1983 and the rate of increase in the medical care component of the CPI in subsequent years can receive incentive payments up to the full amount of the matching reduction. The Administration is proposing to extend Federal payment changes at a 3 percent level after 1984.

- States now have flexibility to alter the payment policies and modes of service delivery in the Medicaid program to introduce incentives for appropriate utilization and cost control. The changes now authorized, largely through waivers, include prospective hospital reimbursement systems; at-risk, prepaid, and/or case-management primary provider systems; volume purchase arrangements for laboratory services and durable medical equipment; different service packages for different optional eligibility groups; incentives to beneficiaries to use low-cost prepaid providers; and home- and community-based care in lieu of institutional care.

- Blanket prohibitions in Medicaid on copayments for mandatory services to the categorically eligible have been lifted. In recognition of the need for beneficiary cost-consciousness, the Administration's 1984 budget proposes that States be required to charge modest copayments ($1 to $2) on services to all beneficiaries except nursing home patients.

The realignment of incentives in the Medicaid program has successfully combined cost containment and continued service to beneficiaries. The growth in Medicaid costs was dramatically reduced in 1982 to 9.8 percent compared to 18.1 percent in 1981. At the same time as this cost control was being achieved, States were able to maintain or expand their Medicaid programs. States did not make substantial cuts in eligibility or eliminate major optional services in 1982. On the contrary, 13 States added new services or removed service limitations, 10 States expanded eligibility and 12 States increased provider reimbursements. This result reflects creative State use of the new flexibilities:

- States are adopting prospective reimbursement or other non-cost-based hospital reimbursement systems to provide cost-containment incentives for hospitals, as well as ending reimbursements for unnecessary use such as non-emergency weekend hospital admissions, non-emergency use of hospital emergency rooms, or inappropriate use of hospital outpatient departments.

- States are developing, under waiver, case-management systems in which recipients are assigned to a primary care physician, HMO or prepaid group practice which will provide a primary physician relationship and more appropriate service utilization. States are also controlling excessive or abusive physician use by locking in overutilizing participants to one physician or prepaid provider.
- States are arranging to make bulk purchases of laboratory tests, eyeglasses, hearing aids and other durable medical equipment, thereby buying from the lowest bidder or at lower-than-retail price.
- States are obtaining waivers to provide a broad range of home- and community-based alternatives to institutional care for persons who would be eligible for Medicaid services if institutionalized.

COLA CHANGES

In addition to the reforms discussed above, the 1984 proposal to delay cost of living (COLA) increases for six months (see Chapter 1) will affect several means-tested programs. These delays will have little impact on low-income beneficiaries.

- The delay in the SSI COLA is accompanied by a proposal to increase by $30 per month the amount of social security benefits disregarded in calculating SSI benefits, providing additional income to SSI recipients.
- The impact of the delay in the Food Stamp COLA will be small. For example, for a family of four it would total $6 in 1984. The current Food Stamp benefit of about $3,000 for this family will easily cover a standard diet because food prices now are rising less than one percent a year, and the benefits contain an allowance for food discard of approximately $150.
- School lunches will remain fully subsidized for low-income children.

AID TO FAMILIES WITH DEPENDENT CHILDREN

AGENCY: Department of Health and Human Services — Functional Code: 609

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT LAW							
Budget Authority	6,006	7,752	7,816	7,872	8,005	8,133	8,258
Outlays	7,990	7,767	7,816	7,872	8,005	8,133	8,258
REAGAN BUDGET							
Budget Authority	6,006	7,752	7,094	6,917	7,064	7,202	7,313
Outlays	7,990	7.767	7,094	6,917	7.064	7,202	7,313
PROPOSED SAVINGS							
Budget Authority	--	--	722	955	941	931	945
Outlays	--	--	722	955	941	931	945

PROGRAM DESCRIPTION

Aid to Families with Dependent Children (AFDC) finances cash assistance for needy children deprived of parental support by the death, disability, or continued absence of a parent from the home. About half the States also have an AFDC-Unemployed Parent program for low-income families in which both parents are present in the home, but where the principal earner is unemployed. AFDC is administered by State and local governments in conformity with Federal guidelines. Benefit levels are determined by each State, with the Federal Government matching these benefit costs at rates ranging from 50% to 77%. The Federal Government also pays 50% of the cost of State and local administration.

PROPOSED CHANGE

A variety of legislative changes to AFDC eligibility rules and benefit calculations is proposed, as described below. These changes, which would be effective October 1, 1983, are designed to:

- Strengthen AFDC employment incentives by requiring those who are able to work to do so.
- Target AFDC benefit on the neediest by adjusting benefits to reflect actual family circumstances.
- Simplify administration and reduce erroneous and unnecessary payments.

RATIONALE

- *Require all employable AFDC applicants and recipients to participate in work programs as a condition of eligibility.* States now have the option to establish Community Work Experience programs (CWEP) and mandatory job search requirements, but only half the States have done so, even on a limited basis. This proposal would assure that AFDC recipients are encouraged to find work in the private sector and perform useful public services when no private job is available. These requirements would be closely coordinated with Food Stamps. ($-275 million)
- *Remove parent/caretaker from the assistance unit for voluntarily quitting work, reducing earnings, refusing employment, or refusing a CWEP assignment.* The benefit level for the AFDC unit would be reduced because the parent/caretaker would not be counted as a member of the unit when assistance needs are computed. The change would discourage reductions in work effort simply to become eligible for welfare. ($-1 million)

- *Seek no further funding for the Work Incentives (WIN) program.* New work opportunities for welfare recipients created in the Omnibus Budget Reconciliation Act of 1981, including Community Work Experience Programs and Work Supplementation programs, and the reforms proposed in the 1984 Budget make WIN unnecessary. WIN has not been proven to be successful in quickly moving AFDC recipients to permanent, private sector jobs. As WIN funding had been separate from AFDC, savings from this proposal are not included in the AFDC totals in the table above. ($-287 million)

- *End employable parent's benefit when youngest child reaches 16.* Since the parent's presence in the home is no longer essential in these cases, the employable adult should be expected to seek work rather relying solely on public assistance. The child's benefit would not be affected. ($-22 million)

- *Prorate shelter and utilities for AFDC families in extended households.* The economies of shared living expenses in extended households are often not taken into account in AFDC. By taking into account de facto support available to the AFDC unit from other members of the household that is not now considered, benefits would be targeted on those most in need. ($-229 million)

- *Include the income of all parents and minor children as part of the AFDC assistance unit for purposes of computing benefits.* Parents and minor children who have significant separate resources can currently be excluded from the AFDC unit at the option of the welfare family. Counting the resources of all family members would ensure equitable treatment of families with similar needs. Individuals with separate SSI benefits would continue to be excluded from the unit. ($-131 million)

- *Eliminate absence from the home due to employment as a reason for AFDC eligibility.* Welfare benefits should be focused on families who are unable to provide for themselves. Currently, some families qualify solely because a parent is away from home due to job search or work-related activities, even though family ties and financial support continue. These inappropriate benefits would be terminated. ($-5 million)

- *Permit States to require AFDC recipients whose youngest child is age 3 to 6 to register for work if child care is available.* AFDC recipients should seek employment as soon as possible to help avoid long-term welfare dependency. This proposal would expand on demonstration projects which have found work registration practical for recipients with young children, when child care is available. ($-3 million)

The figures in the summary table above also include $56 million savings from increased child support collections which offset Federal and State AFDC costs. The President proposes that States be required to adopt beneficial child support laws and procedures. This and other child support enforcement proposals are discussed in a separate paper in this volume.

EFFECTS OF PROPOSED CHANGE

These changes would ensure that Federal resources are targeted on the neediest, and that individuals and families who are able to support themslves do not continue to rely on public assistance. Federal outlay savings from these changes are estimated at $0.7 billion 1984 and $4.5 billion over the next five years. States will save an amount equal to about 85% of the Federal savings.

1982 AND 1983 CHANGES

Over the past two years, the President has proposed, and Congress has enacted, a variety of long overdue changes in AFDC. These changes were designed to restore AFDC as a program of last resort for those who must rely on it for limited time periods and to help ease severe budget constraints facing all levels of government.

These changes have improved AFDC in four major ways:

- Including income and resources available to a family but previously not counted by AFDC. For example, the income of stepparents living in the same household as the AFDC family is now counted.
- Targeting assistance on those in greatest need. Time limits on earnings disregards, standardization of other disregards and a gross income eligibility limit have all been enacted.
- Strengthening work requirements and enhancing the employability of AFDC recipients. States now have the option to establish Community Work Experience Programs, in which recipients receive on-the-job training and actual work experience and provide useful public services.
- Improving program administration. Changes have included retrospective accounting and mandatory recovery of all overpayments.

These changes have resulted in over $2 billion in annual Federal and State AFDC savings, and have substantially restored AFDC to its originally intended purpose. The President's 1984 Budget proposals build on the success of recently enacted reforms.

CHILD SUPPORT ENFORCEMENT

AGENCY: Department of Health and Human Services — Functional Code: 609

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT LAW							
Budget Authority	459	471	426	485	531	578	632
Outlays	459	456	446	485	531	578	632
REAGAN BUDGET							
Budget Authority	459	471	416	434	462	501	546
Outlays	459	456	436	434	462	501	546
PROPOSED SAVINGS							
Budget Authority	--	--	10	51	69	77	86
Outlays	--	--	10	51	69	77	86

PROGRAM DESCRIPTION

The Federal Government funds State and local administrative expenses at a 70% matching rate for establishing paternity and collecting support payments from legally liable absent parents. In AFDC cases, these collections are shared between the Federal Government and the States to help offset AFDC benefit costs. The figures above reflect CSE-related costs; the Federal share of collections is reflected in the AFDC appropriation elsewhere in the Budget.

PROPOSED CHANGE

The Administration proposes to restructure Federal matching to provide incentives for improved State and local performance. The current imbalanced structure of Federal matching payments and distribution of AFDC collections would be repealed. Instead, a new Federal financing system designed to reward States both for increasing collections and for operating cost-effective programs would be instituted.

Other reforms to strengthen the CSE system are also proposed. States would be required to have in place laws and procedures which facilitate increased collections and cost-effective operations, including mandatory wage assignments when payments are delinquent, State income tax refund offsets, liens against property and estates of absent parents, and use of quasi-judicial and administrative procedures for establishing paternity and support orders. Savings from this proposal ($56 million in 1984) appear as an offset to AFDC costs elsewhere in the Budget, and are not reflected in the figures above.

To ensure that Medicaid remains the payor of last resort, States would also be required to seek medical support from absent parents who have employer-subsidized health insurance available which could cover the AFDC family at reasonable cost. Savings from this proposal ($90 million in 1984) appear in the Medicaid account, which is discussed elsewhere in this volume.

RATIONALE

As the President pointed out in his State of the Union message, an effective child support program is a key component of the Administration's policy of ensuring better financial security for women and for children in single-parent households. Inadequate child support is a significant problem which threatens to grow worse unless States are given strong financial incentives to increase collections and improve the cost-effectiveness of their CSE operations.

- Nine out of 10 AFDC recipients have an absent parent who should be providing financial support to the family. Yet, only one-third of AFDC recipients are covered by court orders for support, and in half of these cases little or no payments are actually made. The taxpayer bears the financial burden when these parents abandon responsibility for their children.
- Between 1970 and 1979, births to unwed mothers increased 50% -- to 600,000 per year. If current trends continue, by the 1990's nearly half of all children will spend at least part of their childhood in homes which have only one parent present.

Current State CSE performance is often poor, and can be improved significantly:

- 19 States collect less from AFDC absent parents than they spend on program administration. Only 11 States have collections to cost ratios which exceed 2:1.
- CSE collections offset only 6% of total AFDC payments nationwide. Some States only collect 1% of AFDC costs; other States collect 19%.
- Marginal State performance is currently rewarded. States need only to collect 48¢ for each $1 administrative costs to "break even" from their perspective. This is because under current law States pay only about 30% of CSE costs, but retain over 60% of collections -- not a businesslike arrangement.

EFFECTS OF THE PROPOSED CHANGE

Restructuring Federal financing would increase the incentives for states to improve the performance of their child support enforcement agencies, and would help to ensure that family financial obligations are fulfilled. The proposed package of CSE reforms would have federal savings of $156 million in 1984 and over $1.1 billion over the next five years due to increased collections from absent parents in AFDC cases and decreased medicaid payments and CSE administrative costs. Increased child support collections would also reduce State AFDC and Medicaid costs by about 85% of this amount.

As a result of these proposals:

- Parental responsibility will be restored.
- Children's needs will first be met by parents who should be responsible for their care.
- Financial security for women and children will be enhanced.
- The Federal Government and States will both realize savings due to improved operations.

These changes will benefit all women and children, not just those who are receiving AFDC. The proposed financial restructuring includes a bonus to States based on cost avoidance due to collections in non-AFDC cases. Improved State laws and procedures will also assist all women and children in receiving the support which they deserve.

1982 AND 1983 CHANGES

Several proposals to strengthen and expand the child support enforcement process have been enacted during the past two years.

- Automatic deductions from Federal tax refunds, military pay and unemployment compensation benefits are now required when absent parents do not fulfill legal support obligations.
- Excessive Federal payments for State and local administrative costs and inequities in Federal/State sharing in CSE collections have been reduced.

These changes are just a beginning. The President's 1984 Budget proposals comprehensively address underlying weaknesses in child support financing arrangements and procedures, as discussed above, and will lead to improved performance and enhanced financial security for women and children.

FOOD STAMPS AND NUTRITION ASSISTANCE FOR PUERTO RICO

AGENCY: Department of Agriculture — Functional Code: 605

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	11,286	12,815	12,492	12,650	12,906	13,125	13,289
Outlays	11,014	12,825	12,496	12,648	12,903	13,122	13,287
REAGAN BUDGET							
Budget Authority	11,286	12,815	11,726	11,598	11,804	12,112	12,314
Outlays	11,014	12,825	11,739	11,599	11,802	12,108	12,312
PROPOSED SAVINGS							
Budget Authority	--	--	766	1,052	1,102	1,013	975
Outlays	--	--	757	1,049	1,101	1,014	975

PROGRAM DESCRIPTION

Food Stamps subsidize the food purchases of low-income households. Monthly coupon allotments are redeemable for food through commercial outlets. These allotments are periodically adjusted to reflect changes in USDA's Thrifty Food Plan. Given its special needs, the Commonwealth of Puerto Rico has authority to design its own food assistance program.

PROPOSED CHANGE

The Administration remains committed to restraining the cost of entitlement programs without jeopardizing assistance to those with genuine needs. Accordingly, many of the 1984 Food Stamp budget proposals are designed to control expenditures by reducing the $1 billion in overpayments made each year. Other proposals will assure further targeting of the program on the neediest individuals.

The President's proposals would:

- Hold States liable for payment errors exceeding 3% of benefits.
- Simplify the benefit calculation by standardizing the shelter and earnings deductions.
- Reform and simplify the definition of a household by requiring all individuals living together to file for benefits as a single unit.
- Simplify Food Stamp application procedures by making AFDC recipients categorically eligible for Food Stamps.
- Require States to adopt a community work experience program in which able-bodied Food Stamp recipients must participate in work-related activities as a condition of their eligibility.
- Delay the cost-of-living adjustment from October 1, 1983, to April 1, 1984.

RATIONALE

- Overpayments in the Food Stamp program account for almost 10% of all benefit costs. Especially in an era of limited resources, we cannot afford to issue erroneously one out of every $10 in Food Stamps. By improving program administration and reducing the amount of dollars spent in error, we can target funds on those individuals in greatest need and restore public confidence in this program.

- A 3% error rate target would give States the incentive they now lack to improve administration since benefits are 100% federally financed. Actual error rates are lower in the AFDC and Medicaid programs, where States share program costs. This proposal would set the Food Stamp error targets at the same level as those currently applicable for AFDC and Medicaid.
- A major cause of the present 10% error rate is the complicated process of calculating benefits. For example, the total of a household's housing costs and utilities must exceed half of its net income to qualify for a shelter deduction. The proposals to standardize the shelter and earnings deduction as well as establish categorical eligibility for AFDC recipients would simplify program administration and help States to meet their target rates.
- Unrelated recipients can manipulate current rules and gain higher benefits as separate Food Stamp households, although they live together and consequently have lower living expenses. Requiring all individuals living together to file as a single unit would end this abuse.
- The Community Work Experience Program would continue past Administration efforts to target assistance on the neediest individuals and assure that able-bodied Food Stamp recipients are encouraged to find work in the private sector, or to perform useful public services when no private job is available.
- In 1984, the COLA freeze can be offset by just a 4% reduction in the waste factor built into Food Stamp allotments to account for waste.

EFFECTS OF THE PROPOSED CHANGE

- An estimated 21.5 million persons are expected to receive Food Stamps in FY 84 - more recipients in a full year than under any previous Administration.
- The Food Stamp program's protections for the elderly remain intact, including the special deduction for high medical expenses and the exemption from the regular income and asset limits. The proposal to revise household definition will also allow elderly living with their children to continue to apply as separate households.
- The proposed changes will not become effective until fiscal year 1984. In the interim, the Administration is requesting over $1 billion in supplemental 1983 funds to ensure that the nutrition needs of low-income Americans are met.

1982 AND 1983 CHANGES

Among the major changes for 1982 were the creation of a gross income eligibility standard of 130% of poverty rather than a net standard, prohibitions against participation by strikers, tougher disqualification penalties for fraud and misrepresentation, periodic reporting and retrospective accounting of income, an optional workfare program and adjustments in the value of the Thrifty Food Plan.

The 1983 revisions included reforms in the error liability system, further adjustments in the Thrifty Food Plan and an expansion of protections for the elderly and disabled.

CHILD NUTRITION PROGRAMS

AGENCY: Department of Agriculture Functional Code: 605

Funding ($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	2,847	3,178	3,245	3,439	3,668	3,934	4,163
Outlays	3,020	3,199	3,243	3,428	3,655	3,919	4,149
REAGAN BUDGET							
Budget Authority	2,847	3,178	2,932	3,052	3,209	3,389	3,558
Outlays	3,020	3,197	2,948	3,045	3,200	3,379	3,548
PROPOSED SAVINGS							
Budget Authority	--	--	313	387	459	545	605
Outlays	--	2	295	383	455	540	601

PROGRAM DESCRIPTION

The Child Nutrition programs finance school lunches and breakfasts, meals served at child care centers and summer feeding sites, and State administrative expenses. Meal subsidies consist of both cash and commodity assistance.

The Child Nutrition programs do not represent the total resources devoted to nutrition assistance for children. The listing below indicates other food program monies targeted to children and provides a fuller context in which to consider Child Nutrition funding.

	1977	1981	1983	1984	1985	1986	1987	1988
Child Nutrition*	2,619	3,438	3,197	2,948	3,045	3,200	3,379	3,548
Special Milk	156	104	20	20	21	22	24	25
WIC**	202	731	879	859	859	859	859	859
Section 32 Commodities	97	175	365	365	365	365	365	365
TOTAL	3,074	4,448	4,461	4,192	4,290	4,446	4,627	4,797

* Funds for nutrition assistance for Head Start centers are not included in 1984-88 totals.
** Portion of total funding attributed to assistance for infants and children.

PROPOSED CHANGE

The School Breakfast, Child Care Feeding and Summer Feeding programs would be consolidated into a General Nutrition Assistance Grant to States. Meal assistance for Head Start centers, formerly provided by the Child Care Feeding program, would be available through a corresponding increase in Head Start funding. While States could choose to provide nutrition assistance to family day care homes, funding for these groups would not be included in the grant base.

- Eligibility for free and reduced price school meals would be determined by food stamp offices instead of by school authorities.
- Cost-of-living adjustments to meal reimbursement rates would be frozen for six months, consistent with proposals for other entitlement programs.
- Reimbursement rates for meals in all price categories would be increased by the same cost-of-living adjustment.

- Federal mini-grants for nutrition education programs would be discontinued.

RATIONALE

- The General Nutrition Assistance Grant would permit States greater flexibility to design assistance programs for meals served to children outside a school lunch setting. States could continue programs similar to those the grant would replace or establish new programs more appropriate to the needs of their population. States would no longer have to apply a complex set of reimbursement rates or comply with cumbersome Federal regulatory requirements; 100 pages of Federal regulations would be eliminated.
- Schools would be relieved of the burden of determining eligibility for school feeding programs. Instead, food stamp offices, already experienced in this task, would perform eligibility determination. Food stamp offices would be reimbursed for any costs they might incur. More vigorous efforts to determine eligibility will better target meal benefits to the truly needy.
- The COLA freeze would be a part of a government-wide effort to contain escalating costs in entitlement programs.
- At present, cost-of-living adjustments to reduced price meal rates substantially overcompensate for inflation. This proposal would adjust all meal rates, including those for reduced price meals, by the same inflation factor.

EFFECTS OF THE PROPOSED CHANGE

- Federal meal subsidies for all school lunches would continue for almost 23 million students. Enhanced efforts to identify those wrongfully receiving benefits will permit Federal funds to be concentrated on those truly needing assistance.
- States would target nutrition assistance more effectively, developing programs that meet the particular needs of their children and avoiding the current problems in program administration and design.
- Head Start centers would no longer have to fulfill the requirements of two programs administered by different Federal agencies, thereby simplifying their financial management and record-keeping.

1982 and 1983 CHANGES

In 1982, a number of changes were enacted to focus assistance on needy youngsters, to reduce duplication in subsidies, and to restrain the growth in Federal costs: subsidies for non-needy students were reduced; the Special Milk program was removed from schools that participate in other Federal meal subsidy programs; procedural changes were made to discourage fraudulent claims and to establish eligibility for Federal subsidies more accurately; and the summer feeding program was limited to government sponsors in areas with high concentrations of lower-income households.

HUD SUBSIDIZED HOUSING PROGRAMS

AGENCY: Department of Housing & Urban Development Functional Code: 604

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES 1/							
Budget Authority	12,245	5,846	13,234	11,460	13,848	14,440	15,064
Outlays	6,880	7,937	8,981	9,936	10,804	11,417	12,116
REAGAN BUDGET							
Housing Payment Certificate Program:							
Budget Authority	--	--2/	1,362	2,489	2,878	6,793	1,197
Outlays	--	--	346	1,314	2,220	2,670	2,913
Total Subsidized Housing: 1/3/							
Budget Authority	12,245	4,267	-2,319	-2,093	2,053	8,052	2,942
Outlays	6,880	7,774	8,532	9,235	9,690	10,004	10,258
PROPOSED SAVINGS 1/							
Budget Authority	--	1,579	15,553	13,553	11,795	6,388	12,122
Outlays	--	163	449	701	1,114	1,413	1,858

1/ Includes funding for the Public Housing Modernization program.

2/ The Administration would make $642 million available for Section 8 Housing Payment Certificates in 1983 if legislation is enacted early enough in 1983 to implement these reforms.

3/ Includes Housing Payment Certificate program.

PROGRAM DESCRIPTION

The Department of Housing and Urban Development currently administers several programs that assist low-income individuals in meeting the cost of purchasing and renting adequate housing. Under these programs, the Federal Government has entered into long-term (15 to 40 year) contracts with lenders, private landlords or local housing authorities to subsidize the mortgage interest payments and rents for eligible low-income households. The 3.5 million households currently receiving subsidies pay a monthly rent that is 27% to 30% of their income.

Each of the major HUD rental subsidy programs is described briefly below:

- *Public Housing.* The Public Housing Program houses 1,224,000 families renting units owned and operated by local public housing agencies (PHA's). HUD supports the construction of this low- income public housing by making annual payments to PHA's to amortize their tax exempt debt issued to finance these projects. The Government also spends over $1.5 billion annually to assist PHA's in meeting the high cost of operating their projects (see Public Housing Reform Proposals Fact Sheet).

- *Section 8 New Construction Program.* HUD provides assistance to 571,000 households living in privately owned, newly- constructed, and rehabilitated rental housing (i.e., built or rehabilitated after 1975). Under this program, HUD makes commitments to housing developers to pay "fair market" rents for these units for 20 to 40 years if the landlord agrees to rent to eligible low-income tenants.

- *Section 8 Existing Housing Program.* HUD currently provides subsidies to 955,000 households living in private market rental housing that rents for amounts below a certain established level and meets certain housing quality standards. Under this program, eligible tenants select private housing that rents below a maximum "fair market rent" level established and revised annually for the area by HUD. Tenants pay 27% to 30% of their income toward rent and HUD's Section 8 Existing Housing Program subsidy covers the remainder.

PROPOSED CHANGE

- The Administration proposes to replace the Section 8 Existing Housing Program with a Housing Payment Certificate Program as current commitments with PHA's, which administer the current Section 8 Existing Housing Program, expire and when current Section 8 Existing Housing Program subsidy recipients leave the program.

  The Housing Payment Certificate Program, which builds upon the Section 8 Existing Housing Program, would:

  - replace the Existing Housing Program's maximum "fair market rent" with a "payment standard";
  - shorten the length of the subsidy commitment from 15 years to 5 years; and
  - allow PHA's at the State and local level to determine the amount by which the subsidy level should be adjusted to reflect changes in rent levels.

- The Housing Payment Certificate Program would provide rental assistance for tenants through housing certificates which are to be used to rent units meeting certain housing quality standards.

  - The value of the certificate would be based on an assumed tenant contribution (based on income) and an area "payment standard" reflecting area rental costs.
  - As under the current Section 8 Existing Housing Program, eligibility for the Housing Payment Certificate Program would be limited to households with incomes less than 50% of area median income.
  - The local PHA's issuing these housing ceritficates would give greater priority to displaced tenants, tenants currently living in substandard housing, or those currently paying a disproportionately high percentage (greater than 30%) of their income for housing.
  - The amount of the subsidy provided under the Housing Certificate Program would be a function of a family's geographic location, size, and annual income. The average beginning subsidy will be about $2,000 per recipient household.

RATIONALE

- Under the current Section 8 Existing Housing Program, rents for subsidized units exceed rental costs for private market rental units by about 26%. Landlords have an incentive to raise rents to the published fair market rent level, and tenants have no incentive to negotiate their own rents. In the Housing Payment Certificate Program, the subsidy would not be related to actual rent for the unit chosen by the tenant and subsidy recipients would be encouraged to "shop around" for the lowest cost acceptable unit, since any rent savings would not reduce the value of the tenant's housing certificate and therefore would accrue to the tenant. Unlike the current Section 8 Existing Housing Program, which has a maximum rent level, tenants could rent above the "payment standard" if they desire. As a result, subsidy recipients would have greater choice in selecting suitable neighborhoods and expenditure levels. Current landlord incentives to raise rents above market levels would be ended.

- The subsidy commitment term under the current Section 8 Existing Program is 15 years. Such long-term commitments lasting until the turn of the century are fiscally imprudent given the uncertainty of the long-term need for such subsidies. The shortened 5-year Housing Payment Certificate subsidy commitment would provide greater flexibility to adjust or reconsider subsidized housing policy in the future.

- Under the current Section 8 Existing Housing Program, subsidies are automatically increased nationwide to reflect increases in estimated rental costs. Unlike last year's Modified Section 8 Housing Certificate Program, the Housing Payment Certificate Program currently being proposed provides for increases in the tenant subsidy to reflect changes in tenants' incomes and rent levels. By allowing PHA's who actually administer the program and are more familiar with rental housing market conditions to determine these subsidy adjustments, Housing Payment Certificate Program costs would be better targeted

EFFECTS OF THE PROPOSED CHANGE

- The Administration's 1984 budget provides funds for 80,000 incremental Housing Payment Certificates (i.e., new households served) and 26,000 Section 8 Existing Housing Program units that will be converted to the Housing Payment Certificate Program when HUD's current commitments with the PHA's expire. In addition, 94,000 Section 8 Existing Housing Program units will be converted when current subsidy recipients leave the program. These Housing Payment Certificates will be funded within HUD's current Section 8 Existing Housing Program contract with the PHA.

- The initial Housing Payment Certificate subsidy would be approximately equal to the benefit currently received by households now entering the Section 8 Existing Housing Program However, the budget authority per unit per year needed to fund one Housing Payment Certificate for five years would be considerably lower than the budget authority to fund a Section 8 Existing Housing unit for 15 years. This is because the Section 8 Existing Housing Program unit needs a much larger amount of budget authority set-aside to fund inflation adjustments over the additional 10-year subsidy term. (Section 8 Existing Housing Program needs $3,943 of budget authority per unit per year under Current Services versus $2,000 per unit per year under the Housing Payment Certificate Program.)

- These reforms to the susidized housing programs will contribute to reducing the average 1988 outlay per subsidized housing unit from $2,768 under Current Services to $2,430 per unit under the proposed budget. The cumulative 1984 - 1988 outlay savings from this reform totals $2.5 billion.

1982 AND 1983 CHANGES

- The 1981 Omnibus Reconciliation Act authorized the Administration's proposal to increase -- from 25% to 30% of income -- the rents charged to tenants in HUD subsidized housing.

- The 1982 Congressional supplemental appropriation provided that funds previously appropriated for other purposes be used to convert units under the Rent Supplemental and Rental Housing Assistance programs to the Section 8 program. This conversion was necessary in order to ensure that adequate long-term funding existed for current subsidy recipients. The Administration's 1984 budget defers $3.081 billion of 1983 budget authority in order to ensure that adequate funding is available to complete the conversion of these units to Section 8.

- The 1983 Congressional budget was consistent with the Administration's proposal that, except for elderly housing, no newly constructed rental housing be funded.

PUBLIC HOUSING REFORM PROPOSALS

AGENCY: Department of Housing and Urban Development Functional Code: 604

Funding ($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Public Housing Operating Subsidies							
Budget Authority	1,491	1,351	1,552	1,714	1,836	1,961	2,093
Outlays	1,008	1,582	1,516	1,634	1,775	1,898	2,027
Public Housing Modernization1/							
Budget Authority	1,800	2,589	2,625	2,756	2,894	3,038	3,190
Outlays	--	--	--	--	129	260	398
Total							
Budget Authority	3,291	3,940	4,177	4,470	4,730	4,999	5,283
Outlays	1,008	1,582	1,516	1,634	1,904	2,158	2,422
REAGAN BUDGET							
Public Housing Operating Subsidies							
Budget Authority	1,491	1,282	1,637	1,525	1,481	1,470	1,550
Outlays	1,008	1,551	1,520	1,581	1,503	1,475	1,511
Public Housing Modernization1/							
Budget Authority	1,800	2,589	1,400	1,000	700	350	--
Outlays	--	--	--	--	129	199	249
Total							
Budget Authority	3,291	3,871	3,037	2,525	2,181	1,820	1,550
Outlays	1,008	1,551	1,520	1,581	1,632	1,674	1,760
PROPOSED SAVINGS							
Public Housing Operating Subsidies							
Budget Authority	--	69	-84	189	355	491	543
Outlays	--	31	-4	53	272	423	516
Public Housing Modernization1/							
Budget Authority	--	--	1,225	1,756	2,194	2,688	3,190
Outlays	--	--	--	--	--	61	146
Total							
Budget Authority	--	69	1,141	1,945	2,549	3,179	3,733
Outlays	--	31	-4	53	272	484	632

1/ **Outlays for modernization program from 1983 and subsequent year budget authority only.**

PROGRAM DESCRIPTION

Public housing provides 1.2 million low-income households with housing which generally meets minimum standards of quality with rents which are set on average at about 25 percent of income.

The Federal Government pays the full cost of the construction of public housing. In addition, since 1969, a separate operating subsidy program has made payments to public housing authorities to supplement their rental and other income sources. Since 1976, these operating subsidies have been based upon a formula which essentially adjusts 1975 operating costs for inflation and other factors. Outlays for operating subsidies have grown rapidly, with the Federal Government now paying roughly half the cost of operating public housing.

A separate public housing modernization program was initiated in the early 1970's. This program provides funds for a wide range of capital investments, from routine replacement of appliances, to major repairs and renovations of buildings.

PROPOSED CHANGE

A new operating subsidy formula is planned for 1984 which will base payments to housing authorities upon the same rent levels used in the Section 8 rental housing assistance program. Unlike the current formula, which covers only operating expenses, the new approach will include funding for ongoing capital improvements now supported by the Modernization Program. A transition program of modernization funding will continue, but the separate Modernization Program is proposed to be phased out by 1988.

RATIONALE

- Since 1970, the operating subsidy program has grown at a 37 percent compound annual rate of growth. The present operating subsidy formula, which is based primarily upon historical costs, has become outdated and difficult to administer. Operating cost increases have been largely passed along to the Federal Government. On the other hand, private landlords in the same rental markets have had to make energy conservation investments, find other methods to offset operating cost increases, or shut down uneconomical apartment units. Appropriations to cover Federal subsidies based upon the current formula have resulted in wide swings between underfunding in one year and overfunding in the next year,
- Moreover, modernization funds have been allocated almost entirely without reference to operating cost savings which could be achieved. Indeed, there are incentives under the current arrangement to allow excessive deterioration of facilities, rather than paying for continued maintenance out of operating funds, in order to do periodic substantial upgrading with modernization money. The availability of modernization funding -- not necessarily the optimum timing for replacement and renovation work -- has influenced when capital improvements and repairs are undertaken.
- The new market based operating subsidy program would address these shortcomings by:
  - determining operating subsidies based upon actual rental revenues available to private landlords operating rental housing in the same market;
  - providing an objective standard to help public housing agencies (PHA's) determine those projects whose continued operation is not the lowest cost means of providing housing subsidies to low income households; and
  - promoting increased management flexibility for public housing agencies by allowing Federal subsidy payments to be completely fungible between their application to pay for operating costs or capital improvements.

EFFECTS OF THE PROPOSED CHANGE

The proposal would permit the upgrading and maintenance in good condition of all the Nation's economically viable public housing stock. Adequate funding levels and appropriate economic incentives would be provided to allow PHA's to manage their public housing units efficiently and flexibly to provide good housing for over 1 million households. Use of a market-based standard will also provide PHA's with funding levels that reflect the same kind of cost increases and adjustments made by private landlords supplying rental housing in the same rental markets. To the extent that the use of these reforms cause some high-cost public housing projects -- which cannot be operated as efficiently as private rental housing in their markets -- to be identified, it may be necessary for Federal and local officials to evaluate alternative future uses of the buildings and land involved. Any tenants in projects being withdrawn from use as public housing will be given Section 8 Housing Payment Certificates.

1982 AND 1983 CHANGES

- Tenant rents have begun to be increased and are scheduled to reach 30 percent of adjusted income by 1986.
- Modernization funding of $1.8 billion in 1982 and nearly $2.6 billion in 1983 will be used first, to meet health and safety requirements; second, to address energy conservation needs; and third, to bring most projects up to minimum standards prior to the introduction of the new subsidy system.

HEALTH POLICY

HEALTH POLICY

GROWTH IN HEALTH COSTS – A MAJOR NATIONAL PROBLEM

The growth in health care costs over the last several decades has been explosive. Between 1960 and 1980, total public and private spending for health increased from $27 billion to $244 billion. Spending as a share of GNP grew from 5.3% to 9.5%. The Federal share grew from $3 billion to $71 billion during that period--an increase of over 2,000%. In just the last year, community hospital expenditures increased over 19% while GNP rose only 5.6%.

Normal market forces in the health care industry have failed to restrain these out-of-control cost increases. The dominant mode of financing and purchasing health care services--both public and private--insulates participants in the medical market from the cost consequences of their decisions:

- institutional providers have traditionally been paid for whatever they charge or reimbursed for whatever costs they incur;
- individuals with substantial insurance coverage feel no economic constraints on the quantity and quality of services demanded;
- physicians -- faced with the choice of ordering services that might help, add to income, and cost the patient little or nothing -- have few incentives to restrain service use; and
- hospitals or other institutional providers, reimbursed largely on a cost or cost-plus basis, are restrained only by their inability to maximize the use of their facilities.

These factors result in service upgrading, increased volume, and cost expansion.

THE FEDERAL SHARE OF HEALTH COSTS – MEDICARE AND MEDICAID

The unrestrained inflation in health care costs burdens not only the national economy, but also the Federal budget. Medicare and Medicaid--the two largest Federal health programs-- are key elements of the social contract. In 1984, these programs will be the main funding source for the health care of almost 50 million poor, disabled, and aged people--almost one in every five Americans.

As a result of the excessive inflation in health care costs and fundamental flaws in program design, Medicare/Medicaid have become major contributors to the budget's structural deficit. Between 1967 and 1982, the two programs grew from $3.9 billion to $64 billion. By 1986, if no changes are made, the two programs will cost more than $100 billion annually. Baseline spending for 1984 to 1988 will be almost one half trillion dollars without reforms. As a share of the budget, the two programs grew from 3.9% in 1967 to over 8.8% in 1982. In 1984, even if all the Administration's proposals are adopted, Medicare and Medicaid will account for almost 20% of total 1984 budget growth. Equally serious, the Medicare Hospital Insurance Trust Fund will be bankrupt by 1987 unless the President's proposals are adopted.

Medicare and Medicaid are very large purchasers of health care services. Together, they pay more than a third of all hospital expenditures and almost one quarter of physician expenditures. Medicare and Medicaid are not only victims of excessive health care cost increases, they are major contributors to market failure in the health industry. Key structural defects in the design of the two programs contribute to excessive inflation rates and budget costs. These defects include:

- *Hospital reimbursement methods*. Before 1983, Medicare and Medicaid traditionally paid whatever costs hospitals incurred. Hospitals had no incentives under such a cost plus reimbursement system to hold down costs or limit Medicare admissions. For this reason, the growth in Medicare hospital costs has exceeded, by large amounts, inflation in the general economy. In 1982, Medicare Hospital Insurance costs grew 19%--a rate almost 3-1/2 times as fast as GNP. Overall, even in constant dollars, the cost of a day in the hospital almost quadrupled between 1955 and 1980, from $80 to $310. By contrast, alternative reimbursement systems can reduce hospital costs. When New York instituted such a system in the mid-1970s, the rate of growth in hospital cost per admission fell to 30% below the national average from 1975 to 1980.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provided new incentives for hsopital efficiency, but the TEFRA reforms expire in 1985. Moreover, the TEFRA reforms maintain a reimbursement system based on cost. Hence, the full market efficiencies inherent in a price system cannot be realized.

- *Cost-sharing provisions.* Studies have shown that patient cost-sharing can provide more economical and efficient use of services. Studies have demonstrated that free care, i.e., first dollar health insurance coverage leads to significantly higher overall health expenditures, more frequent office visits, and higher hospital use. In one study, modest cost-sharing resulted in a 20 percent reduction in total health costs and a one-third reduction in hospital costs.

  Medicare and Medicaid, however, offer few incentives for beneficiaries to use the medical care system efficiently or only when needed.

  — Other than a modest inpatient hospital deductible, Medicare cost-sharing for hospital stays does not apply until after the 60th day.

  — The Medicare patient usually pays nothing other than a deductible equal to the average cost of a day of hospitalization. Thus, neither the physician nor the patient have an incentive to limit hospital stays to the minimum necessary. Cost-sharing after the 60th day does little to affect the average hospital stay, which is under 11 days.

  — Until recently, Medicaid care was almost always provided at no cost to the recipient.

- *Poor Insurance Protection.* At the same time, Medicare does not protect the incomes of those aged patients with very long, costly illnesses. After the 60th day of care in a spell of illness, beneficiaries must pay 25% of the inpatient hospital deductible for 30 days. The hospital deductible will be about $350 in 1984; thus, beneficiaries would have to pay about $88 per day for days 61-90. For subsequent days, beneficiaries would have to pay 50% ($175) per day until they exhaust their 60 lifetime reserve days, at which point they would be liable for whatever the hospital charges. A beneficiary with a 150-day stay, thus, would be liable for over $13,000 if he had not previously used any of his reserve days and for over $24,000 if he had no reserve days left.

- *Lack of Competition.* Medicare is a program that controls health insurance for 30 million elderly Americans. Beneficiaries are unable to use their entitlement to buy alternative types of health insurance coverage that best meets their needs. Private insurers can not compete by offering more cost-effective coverage.

- *Responsibility for Program Costs.* Federal taxes for Medicare hospital costs are collected from the working population, not the aged. In addition, the Federal Government subsidizes 75% of the aged's use of physician services--a proportion that will grow under current law. Thus, an ever larger share of program costs are shifted from beneficiaries to the taxpayer and the Federal Government, even though beneficiaries were originally supposed to pay 50% of premiums for physician services to Medicare beneficiaries.

TAX SUBSIDIES

The structural defects of the two major financing programs are not the only way in which Federal policy has promoted market failure in the health care industry. Federal tax policy also contributes to inflationary tendencies in the private health sector.

Under Federal tax law, contributions by employers for health insurance are tax-free to employers. This subsidy distorts private decisions in favor of health insurance over wages or other forms of compensation. Thus, expensive health insurance policies, e.g., low cost-sharing, first dollar coverage, are encouraged by current tax policies. Between 1955 and 1980, the share of health care costs paid by third parties grew from under 42% to over 67%. First dollar coverage, without cost-sharing, fosters the use of "free" health services and provides no incentives to moderate the excessive growth in the cost of medical care. Overall, Federal tax subsidies pay for almost $30 billion of private health insurance coverage.

SOLVING THE PROBLEM

In his 1984 budget proposals, the President is recommending the first set of comprehensive reforms to address these problems since the institution of Medicare and Medicaid. The major elements are:

- Medicare hospital reimbursement will be improved to establish additional incentives for hospitals to provide care efficiently. Five year savings of $20 billion are anticipated.
- A one-year freeze on Medicare physician reimbursement rates and a one-year elimination of hospital reimbursement increases over inflation will hold down the costs to patients. This proposal will save $6 billion over five years.
- Additional Medicare hospital cost sharing will increase cost consciousness on the part of physicians and patients for short hospital stays and will help pay for increased protection for the aged who must undergo long and catastrophically expensive hospital stays. Under the President's proposal, the cost to the patient of a five month extended illness would be reduced from $13,475 to $1,530. About 150,000 beneficiaries annually would benefit from this proposal.
- States will be required to impose modest copayments on all Medicaid services except nursing home care.
- A voluntary Medicare voucher will be established to promote competition among private insurers in the provision of cost-effective coverage. This voucher will allow beneficiaries to choose health insurance plans that best meet their needs at prices they are willing to pay.
- Between 1985 and 1988, the share of the Medicare Supplementary Medical Insurance (SMI) program paid by beneficiaries will be increased from 25% to 35% to reduce the subsidy that beneficiaries get from general revenues.
- Tax subsidies will be limited to employer premium contributions of $175 monthly for a family plan and $70 monthly for an individual plan. The portion of premium contribution above these levels will be taxed on the same basis as other income, allowing employers and workers to make an unbiased choice between higher wages and additional coverage. The levels of tax-free premium contributions allowed under the President's proposal will still permit adequate coverage, but will make the tax law neutral between wages and increased health insurance.

MEDICARE: OVERVIEW

AGENCY: Department of Health & Human Servives — Functional Code: 550

Funding ($ in millions)1/

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	51,382	42,868	60,988	68,524	78,744	87,839	96,902
Outlays	46,568	53,005	61,534	70,640	79,201	90,151	101,985
REAGAN BUDGET							
Budget Authority	51,382	42,865	61,486	67,877	77,221	85,135	92,830
Outlays	46,568	53,031	59,829	67,548	74,515	83,351	93,059
PROPOSED SAVINGS2/							
Outlays	--	-19	1,640	2,912	4,383	6,243	8,321
Offsetting Receipts	--	(-119)	(-151)	(245)	(1,292)	(2,610)	(4,202)
DETAILS OF SAVINGS							
Medicare hospitalization catastrophic protection	--	--	663	1,164	1,327	1,499	1,682
Reimbursement freeze and limit	--	100	780	1,070	1,200	1,410	1,550
Medicare SMI Premium	--	-119	-151	245	1,292	2,610	4,202
Hospital reimbursement reform3/	--	--	(1,450)	(2,620)	(3,980)	(5,280)	(6,870)
Other Medicare	--	--	348	433	564	724	887

1/ Medicare offsetting receipts and collections subtracted. Budget authority in 1983 reflects interfund loans of $12.4 billion to OASI.

2/ Savings shown are net of Medicaid impact; hence savings in Medicare will not equal the difference between current services and the Reagan Budget.

3/ Savings are the same as TEFRA reform during 1986 through 1988 and are thus included in current services.

The Medicare program finances medical care for Americans over 65 and for the disabled. The program is funded by payroll tax contributions, general revenues, and beneficiary premiums. The growth in Medicare hospital expenditures far exceeds growth in payroll tax receipts. As a result, the Hospital Insurance Trust Fund faces bankruptcy in 1987 unless Congress acts to place it on a firm financial footing. Currently, Medicare covers 29 million people.

The Administration's 1984 budget proposals for Medicare are designed to reduce the explosive rate of growth in program costs, increase the financial stability of the Hospital Insurance Trust Fund, and improve the social insurance against catastrophic hospital costs that can bankrupt the aged and disabled. The rapid inflation in Medicare costs has been a major cause of the structural deficit and has contributed to excessive inflation in health care costs generally.

Major Medicare reforms include:

- better catastrophic hospital costs protection for retirees and the disabled in conjunction with a more effective cost-sharing structure;
- a one-year freeze on Medicare physician reimbursement rates and hospital reimbursement increases above inflation;
- a voluntary Medicare voucher;
- a temporary freeze on SMI beneficiary premiums followed by a gradual increase in the share of program costs financed by premiums; and
- changes in hospital reimbursement to moderate cost increases.

These reforms will improve beneficiary insurance protection against catastrophic hospital costs, reduce the rate of inflation in Medicare costs, and save $23.5 billion during the 1984-1988 period.

MEDICARE: CATASTROPHIC HOSPITAL COSTS PROTECTION AND COST SHARING

AGENCY: Department of Health and Human Services — Functional Code: 550

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED SAVINGS*							
Outlays	--	--	663	1,164	1,327	1,499	1,682

* **Medicare savings shown are net of Medicaid costs.**

PROGRAM DESCRIPTION, PROPOSED CHANGE AND RATIONALE

Medicare beneficiaries now run the risk of high out-of-pocket payments for long stays in the hospital due to severe illnesses. In 1984, a continuous five-month hospital stay will cost the Medicare beneficiary $13,475. Just one extra month would cost an estimated $10,000 more.

The Administration proposal would protect the elderly from the risk of these catastrophic hospital costs. Under this proposal, beneficiaries with a continuous five-month hospital stay in calendar year 1984 will incur maximum out-of-pocket expenditures of $1,530 -- $11,945 less than under current law. In addition, the Administration is proposing to reduce the maximum out-of-pocket skilled nursing care costs for the elderly under Medicare by $2,100 for each spell of illness: from $3,500 to $1,400. The catastrophic hospital costs proposal will protect about 150,000 Medicare beneficiaries.

To finance this additional protection and to encourage cost consciousness about hospital stays generally, the Administration proposes:

- modest coinsurance of 8% of the hospital deductible ($28 in 1984) for the 2nd through 15th day and 5% of the hospital deductible ($17.50 in 1984) for the 16th through 60th day of a spell of illness. Medicare beneficiaries would no longer be threatened by large copayments of 25% of the hospital deductible ($87.50 in 1984) for the 61st through 90th day and 50% of the deductible ($175 in 1984) for the 91st through 150th day, along with 100% of the hospital charges for all days after the 150th day of care;
- to limit the beneficiary's liability to 60 days of cost-sharing per calendar year compared to the unlimited liability under current law;
- to limit to two the inpatient hospital deductibles that beneficiaries can be charged for in a year; and
- to reduce the skilled nursing facility copayment for the 21st through 100th days from 12.5% to 5% of the inpatient hospital deductible in each spell of illness.

The example below shows a comparison between current law and the proposed catastrophic plan:

	Number of Days in Hospital			
	75	**90**	**150**	**180**
1984 Current Law Costs	$1,663	$2,975	$13,475	$23,975*
1984 Catastrophic Hospital Costs Protection	$1,530	$1,530	$1,530	$1,530

* **Assumes cost per day in hospital of $350.**

EFFECTS OF THE PROPOSED CHANGE

The proposal would:

- guarantee financial protection for hospital costs and skilled nursing care costs for the severely ill;
- create incentives for more cost-effective use of hospital services by physicians and beneficiaries as a result of modest cost-sharing payments;
- create a reasonable basis for beneficiaries to use skilled nursing care where appropriate since their copayment amount in the nursing home would be reduced to a level equal to or below the copayment for hospital care;
- create incentives for physicians to perform medical procedures in a non-hospital setting which would be less costly to the beneficiary, such as an ambulatory surgical center; and
- spread costs of catastrophic hospital protection among an estimated 7.5 million people.

MEDICARE: PHYSICIAN PAYMENT FREEZE AND HOSPITAL REIMBURSEMENT LIMIT

AGENCY: Department of Health and Human Services — Functional Code: 550

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED SAVINGS							
Outlays	--	100	780	1,070	1,200	1,410	1,550
Hospital	--	(--)	(80)	(170)	(200)	(210)	(250)
Physician	--	(100)	(700)	(900)	(1,000)	(1,200)	(1,300)

PROGRAM DESCRIPTION AND PROPOSED CHANGE

Physician charges paid by Medicare would stay at the 1983 rates during 1984. Hospital payments per admission would increase only by the hospital market basket index -- a measure of the costs of goods and services that hospitals purchase -- in FY 84.

RATIONALE

This physician freeze and tightened hospital limits would hold health care providers to a one-year delay in reimbursement increases to help stem spiraling health care costs. This is consistent with sacrifices asked of Federal workers, the military, Federal retirees, and Social Security beneficiaries.

EFFECTS OF THE PROPOSED CHANGE

Limiting hospital reimbursement to the market basket index for hospitals would allow full pass-through of average price increases in the goods and services hospitals purchase in order to operate. Increases beyond inflation would not be allowed in 1984. The physician reduction would be only 3.3% of Supplementary Medical Insurance (SMI) current services expenditures in 1984.

1982 AND 1983 CHANGES

Under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), a major reform of the current Medicare hospital reimbursement system was enacted. Hospitals with rates of cost increase of more than the market basket plus 1%, or with high costs relative to other hospitals, will experience reimbursement reductions. At the same time, hospitals that control their cost increases effectively can receive reimbursement bonuses.

MEDICARE: SUPPLEMENTARY MEDICAL INSURANCE--PREMIUMS AND DEDUCTIBLES

AGENCY: Department of Health and Human Services Functional Code: 550

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED SAVINGS*							
Premiums (Offsetting receipts)	--	-119	-151	245	1,292	2,610	4,202
Deductible (Outlays)	--	--	46	119	198	287	381

*Medicare savings shown are net of Medicaid costs.

PROGRAM DESCRIPTION AND PROPOSED CHANGE

Premium: Supplementary Medical Insurance (SMI) enrollees pay a monthly premium (now $12.20) to cover insurance for physician services. The premium is set each year; the premium level is tied to program costs. Under current law, premiums change each July 1. This proposal will delay the next SMI premium increase from July 1, 1983, to January 1, 1984. On January 1, 1985, the SMI premium will be raised from the current level of 25% of program costs to 27 5%; it will grow annually until it reaches 35% of program costs on January 1, 1988.

Deductible: Under current law, and despite large increases in physician costs, the SMI deductible -- the amount that beneficiaries must pay before Medicare begins to pay for services--has changed only twice since Medicare began. The deductible is now $75. The proposal would index the SMI deductible to the Medicare economic index (MEI). The MEI measures price increases for physician services. Indexing the deductible by this measure will keep the economic value of the deductible constant.

RATIONALE

Premium:

- The proposal would insure that beneficiaries would not pay additional premium costs while Social Security benefits are frozen.
- When the SMI program began, beneficiary premiums were supposed to finance 50% of SMI program costs; the remaining 50% was financed by general revenues. This was the case from 1966 to 1971. From 1972 to 1982, however, the SMI premium increase was limited by the rate of increase of social security benefits and fell to under 25% of program costs. Currently, SMI premiums are scheduled to cover 25% of program costs through 1985, when they would once again be linked to social security benefits. In view of the economic difficulties confronting the working population, this proposal would shift more of SMI financing to those who choose SMI rather than have the taxpayer bear an increasing burden for SMI; this is consistent with the original program design.

Deductible: SMI's deductible has increased only twice since Medicare began: from $50 in 1966 to $60 in 1973 and to $75 in 1982. Had it been indexed to the CPI, it would now be over $100. Without indexing, the deductible's economic value will continue to erode.

EFFECTS OF THE PROPOSED CHANGE

Premiums: Premium amounts under current and proposed law are:

		1983	1984	1985	1986	1987	1988
Current Law (July 1)		$12.20	$13.50	$15.90	$16.70	$17.40	$18.20
Proposed Premiums (January 1):							
With Other Medicare Proposals		12.20	14.20	17.80	21.70	26.30	31.60
Without Other Medicare proposals	12.20	14.80	18.60	22.80	27.60	33.30	

Deductible: Under this proposal, the deductible will be:

1984	1985	1986	1987	1988
$80	$85	$90	$95	$100

1982 AND 1983 CHANGES

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) provided that premiums be set to cover 25% of program costs in 1984 and 1985. Hence the premium proposal will maintain the TEFRA level for 1985. The Omnibus Budget Reconciliation Act of 1981 (OBRA) increased the SMI deductible from $60 to $75, effective January 1, 1982.

MEDICARE: VOLUNTARY VOUCHERS

AGENCY: Department of Health & Human Services Functional Code: 551

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED INCREASES							
Outlays	--	--	50	50	50	50	50

PROGRAM DESCRIPTION AND PROPOSED CHANGE

Medicare is a $66.5 billion program that controls health insurance for 29 million elderly Americans. Beneficiaries are, however, unable to use their entitlement to buy alternative types of health insurance coverage that best meets their needs; because of this, private insurers do not compete by offering more cost-effective coverage.

This proposal would establish a voluntary Medicare voucher that beneficiaries could use to purchase insurance in the private market if they believed alternative coverage to Medicare would be more advantageous. No beneficiary would be required to take the voucher, and Medicare would always be available for those who become dissatisfied with their private coverage. The voucher would be priced at 95% of Medicare's average adjusted per capita cost (AAPCC). The AAPCC would be adjusted to reflect Medicare's cost fairly by taking into account such factors as age, sex, health status, and area health care costs.

RATIONALE

The Medicare program would be opened to competition. Beneficiaries would be able to choose the mode of delivery or benefit package that meets their needs most effectively. The proposal would also stimulate competition in the medical marketplace and encourage private sector development of cost-effective systems of care.

EFFECTS OF THE PROPOSED CHANGE

The number of beneficiaries that will choose vouchers or how quickly the private market will offer alternative benefit packages is not known. Nevertheless, the voucher proposal will create an opportunity for some 30 million Medicare beneficiaries to shop for alternative benefit packages. Even if only a small percentage chooses to exercise the voucher option, it could become an important stimulus to private sector innovation in health insurance coverage The proposal is an important part of the overall Administration strategy to improve market forces in Medicare and the general health care system.

1982 AND 1983 CHANGES

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) established a similar voluntary voucher, but it was restricted to health maintenance organizations and other pre-payment plans and imposed excessively rigid requirements on the benefits that such plans could offer.

MEDICARE: FIRST FULL MONTH OF ELIGIBILITY

AGENCY: Department of Health & Human Services Functional Code: 550

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED SAVINGS*							
Outlays	--	--	201	248	286	329	367

* **Medicare savings shown are net of Medicaid costs.**

PROGRAM DESCRIPTION AND PROPOSED CHANGE

Individuals would become eligible for Medicare coverage at the beginning of the first full month in which they are 65. Under current law, eligibility begins on the first day of the month in which the 65th birthday occurs.

RATIONALE

- The proposal would make initial eligibility requirements for Medicare benefits consistent with the initial eligibility requirements at the time individuals qualify for Social Security benefits.
- Most group plans extend coverage until Medicare coverage begins. Hence, beneficiaries would not lose needed health insurance coverage.

EFFECTS OF THE PROPOSED CHANGE

Roughly 30 million Medicare beneficiaries will have full coverage in 1984. About 2 million new beneficiaries will be affected.

MEDICARE: ELIMINATE PSRO, PRO, AND MANDATORY UTILIZATION REVIEW FUNDING

AGENCY: Department of Health and Human Services — Functional Code: 550

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROPOSED SAVINGS							
Outlays	--	--	58	60	62	64	66

PROGRAM DESCRIPTION

The Professional Standards Review Organization (PSRO) program has traditionally funded physician-sponsored organizations to review the quality of medical care and length of hospital stays of Medicare beneficiaries. In 1984, this activity would continue under a new program title -- Peer Review Organizations (PROs) -- with the same basic review responsibilities as the current program. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) has, however, changed Medicare so that there is no longer a need for traditional peer review.

PROPOSED CHANGE

The Administration is proposing legislation to eliminate PSROs, PROs and mandatory utilization review by hospitals and skilled nursing facilities. Voluntary utilization review will continue to be reimbursed to the extent that the costs of such review are reasonable.

RATIONALE

TEFRA established Medicare reimbursement limits for each hospital. These limits give hospitals the incentive to reduce length-of-stay, which is the primary review function of PSROs. Thus, the need for PSROs/PROs is diminished. Moreover, the Administration's new prospective payment system for hospitals will pay a fixed amount for each admission. As a result, length of stay reviews are unnecessary since payment levels will be independent of hospital lengths-of-stay.

EFFECTS OF THE PROPOSED CHANGE

Quality of care will be maintained through accreditation standards and HHS's quality control system In addition, market-oriented payment systems, along with HHS's admissions monitoring system, will provide a more effective basis for controlling unnecessary hospital use than the current burdensome regulatory review process.

1982 AND 1983 CHANGES

In 1982, Congress provided the Secretary of HHS with the authority to refuse to renew agreements with PSROs found to be ineffective and inefficient. In 1983, Congress established the peer review organization program (PROs), which consolidated the 143 existing PSROs into 52 PROs, at least one PRO per State. These PROs would be established in 1984 and would have the same basic function as current PSROs. Also, TEFRA gave Medicare contractors additional authority to perform utilization review.

MEDICAID

AGENCY: Department of Health and Human Services Functional Code: 550

Funding

	($ in millions)*						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	18,014	14,795	21,038	23,990	26,068	28,546	31,242
Outlays	17,391	19,333	21,092	23,990	26,068	28,546	31,242
REAGAN BUDGET							
Budget Authority	18,014	14,795	20,738	23,132	25,346	27,835	30,556
Outlays	17,391	19,326	20,799	23,132	25,346	27,835	30,556
PROPOSED SAVINGS							
Budget Authority	--	--	249	795	719	788	856
Outlays	--	--	249	795	719	788	856
DETAILS OF SAVINGS							
Mandatory copayment							
Budget Authority	--	--	249	270	278	289	299
Outlays	--	--	249	270	278	289	299
OBRA extension							
Budget Authority	--	--	--	525	441	499	557
Outlays	--	--	--	525	441	499	557

* **Medicaid savings numbers do not include impact of AFDC and other proposals; hence savings totals will not equal the difference between current services and the Budget. Excludes Federal program administration costs.**

PROGRAM DESCRIPTION

The Medicaid program makes grants to States to assist them in financing medical care of low-income families and individuals. States receive open-ended matching payments for their expenditures, with the Federal matching rate ranging from 50 to 78% of the cost of the program. Currently, Medicaid provides benefits for 22 million people.

PROPOSED CHANGE

- *Mandatory cost sharing by Medicaid recipients.* Under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), States may require that Medicaid recipients share in the cost of services they receive. This proposal would expand the present copayment provisions passed by Congress in 1982 by requiring States to impose small copayments. Such copayments would be $1.00 and $1.50 for physician visits and $1.00 and $2.00 for each day in the hospital. The lower copayments would apply to who were also receiving cash welfare payments. Medicaid nursing home patients would be exempted from mandatory copayments because they typically have incurred large out-of-pocket costs before entering nursing homes or gaining Medicaid eligibility.

- *Extension of the Omnibus Budget Reconciliation Act (OBRA) Targets and Penalities.* The Omnibus Budget Reconciliation Act of 1981 (OBRA) established targets for State Medicaid spending and imposed penalties on excessive State spending of up to 3%, 4%, and 4.5% of Federal payments in fiscal years 1982, 1983 and 1984, respectively. Reductions of one percentage point in the penalty would be made for (1) a hospital cost review program, (2) an unemployment rate of 150% or more of the national average, and (3) fraud and abuse recoveries of one percent of Federal payments to the State.

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RATIONALE

MANDATORY COPAYMENTS

Nominal copayments can help deter unnecessary use of medical services, and reduce State Medicaid expenditures, without deterring use of necessary health care services. A nominal copayment will encourage beneficiaries to stop and think before using services.

OBRA EXTENSION

Extension of OBRA provisions would encourage States to continue efforts to reduce expenditures and implement program efficiencies.

EFFECTS OF THE PROPOSED CHANGE

Mandatory copayments and extension of OBRA provisions will result in lower total costs.

1982 AND 1983 CHANGES

MANDATORY COPAYMENTS

As described above, under the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), States were allowed to impose nominal copayments on all but (1) services to children under 18; (2) pregnancy, family planning, and emergency services; and (3) services in nursing homes or to categorically needy persons in HMOs.

OBRA EXTENSION

As described above, OBRA established target amounts for Medicaid cost increases to encourage States to limit the program's explosive growth. Federal matching funds are reduced for States whose spending exceeds targets established by Congress.

CAP TAX SUBSIDY FOR PRIVATE HEALTH INSURANCE PREMIUMS

AGENCY: Department of Health and Human Services — Functional Code: 550

Funding ($ in millions)

	1982	1983	1984	1985	1986	1987	1988
PROPOSED SAVINGS							
Receipts	--	--	2,283	4,408	6,026	7,990	10,729

PROGRAM DESCRIPTION AND PROPOSED CHANGE

Current tax law exempts from income tax the amounts employers contribute to health insurance premiums for their employees. The Administration proposes to limit tax subsidies for employer health insurance premium contributions. The subsidy would be limited to the portion of premiums under $175 monthly for a family plan and $70 monthly for an individual plan. These levels permit adequate coverage, but make the tax law neutral between wages and increased health insurance in excess of those levels. Between 1955 and 1980, the share of health care costs paid by third parties grew from under 42% to over 67%. Overall, Federal tax subsidies pay for almost $30 billion of private insurance coverage.

RATIONALE

The current law tax subsidy distorts private decisions in favor of health insurance over wages or other forms of compensation and gives an inequitable, disproportionate subsidy to high-income workers. The subsidy makes an untaxed dollar of health insurance coverage more valuable than a taxed dollar of wages. For this reason, expensive health insurance policies, e.g., low cost-sharing, first dollar coverage, are encouraged. Moreover, first dollar coverage without cost-sharing fosters the use of "free" health services and provides no incentives to moderate the excessive growth in the cost of medical care. In addition to undesirable health policy effects, the tax subsidy favors workers with higher incomes.

EFFECTS OF THE PROPOSED CHANGE

This proposal will encourage development and purchase of more cost-effective health insurance plans. Thus, it will reduce the rate of health care cost inflation. Approximately 18% of workers (30% of those with health insurance) will have employer contributions above the cap in 1984. Tax expenditure savings will total $31 billion during the 1984-88 period.

OTHER NON-DEFENSE SPENDING

CHAPTER 3

OTHER NON-DEFENSE SPENDING

INFRASTRUCTURE/PUBLIC WORKS

The Administration is taking actions to build an environment for stronger economic growth with initiatives that will restore, improve and expand the Nation's infrastructure. These actions will assure that scarce public resources are used as effectively as possible, that those directly benefitting from an improved infrastructure contribute their fair share of the costs, and that the resources used by inefficient programs are reallocated to better meet our national needs.

- Significant increases in Federal funding will provide for completion and rehabilitation of the interstate highways, as well as for repair of primary system roads and for bridge rehabilitation. In addition, the Federalism initiative will contain a Transportation Block Grant, consolidating programs for which State and local governments are principally responsible.
- For mass transit, there will be increased funding for rehabilitation of existing bus and rail systems, rolling stock purchases, and other capital assistance. Newly enacted formulas will target more funds to those communities with greatest need, and UMTA will ensure that discretionary funds are distributed to best meet current capital needs. Operating assistance will decline in order to encourage a greater reliance by localities on user fees to fund needs and priorities.
- The Administration is proposing major increases to fund aviation infrastucture, including state-of-the-art surveillance, navigation, and communications facilities and airport development. These capital improvements will be fully funded by increased user fees, including a higher passenger ticket tax, increased general aviation fuel taxes, and other aviation excise taxes. Without these increased fees, the necessary upgrading and expansion of the system would not be possible.
- The Administration will reintroduce Enterprise Zone legislation designed to stimulate private sector productivity, job creation, and investment in distressed areas by reducing tax and regulatory burdens.
- Increased expenditures for Corps of Engineers, waterways and port facilities, including locks, dams, and channels will be recovered by increased user fees. The current practice subsidizes not only domestic shippers but also foreign navigation, creates an excessive demand for waterway and port facilities, and results in an inefficient use of scarce federal resources.

Improvements to our national infrastructure will also result from other measures the Administration is taking. These include spending, tax and regulatory reforms that lower interest rates and reduce the borrowing costs of States and localities; that lower inflation rates and stimulate investment by reducing the uncertainty about future costs; and that encourage new technological innovation and increase the Nation's productivity.

EDUCATION, TRAINING, AND EMPLOYMENT SERVICES

The Federal role in meeting education and training needs should be limited to those specific areas where a demonstrated Federal responsibility exists. Historically, the responsibility for meeting most of these needs has rested with State and local governments and the private sector. The 1984 Budget requests $18.5 billlion for education, training and employment programs, compared to $19.0 billion in 1983. (This includes $912 million in funding for later transmittal to finance training and employment programs on a calendar year basis).

EDUCATION

The Budget would provide $13.1 billion for education activities. This includes:

- $4.6 billion for student aid;
- $4.6 billion for elementary, secondary and vocational education programs; and
- $2.1 billion for handicapped education and vocational rehabilitation services.

The request is $1.0 billion below the 1983 enacted level (adjusted for a technical reestimate affecting 1983 costs of the Guaranteed Student Loan Program).

The request preserves funding at approximately current levels for nearly all major student aid and State grant programs. Major initiatives include:

- Legislation to restructure student aid, within current resource levels, to ensure that families and students pay their fair share of education costs. Also proposed is a tax incentive to encourage savings for education.
- To ensure choice of education alternatives, legislation for tuition tax credits for all parents and for a voucher option for compensatory education for the educationally disadvantaged.

The budget also includes $50 million in budget authority for the Department of Education and $20 million in budget authority for the National Science Foundation for the training of new and existing teachers to help in improving the teaching of science and mathematics in secondary schools.

Significant reductions are proposed for vocational education because the Federal incentive to States is no longer needed to encourage States to create large, responsive vocational education systems. The systems are in place; further Federal funding should provide limited flexible resources to help States meet local needs. Other reductions are proposed for smaller grants and categorical programs because these are of lower priority or duplicate other services.

TRAINING AND EMPLOYMENT SERVICES

Federal financing of training and employment programs is intended to enhance individuals' long-term employment and earning prospects and to improve the operation of the labor market. The 1984 Budget provides $5.4 billion for these activities.

Training and employment activities are financed through grants to States for training, summer youth employment programs, assistance to dislocated workers, and the Employment Service; and through various national programs, including the Job Corps. Legislation enacted in 1982 will enhance the operation of our Federal system in this area by providing States with more flexibility in the use of grants for training and the Employment Service.

- Block grants to States are provided under the new Job Training Partnership Act of 1982 (JTPA) which consolidated several categorical grants of Federal assistance to States for training into a block grant. This grant provides the States with the discretion to use these resources to address their most pressing training and employment problems. It is expected that the $1.9 billion in budget authority requested for 1984 will support 406,000 years of service, compared to 303,000 to be served under the replaced programs in 1983.
- The summer youth employment program is continued by the new Job Training Partnership Act. Estimated outlays of $638 million in 1984 will provide approximately 718,000 summer jobs, about the same as in 1983. Legislation is proposed to reduce the minimum wage for youth during the summer months to enable employers to afford to hire unskilled youth. Such youth will then be able to obtain invaluable work experience.

- Assistance to dislocated workers will be provided under the JTPA which authorizes this new program of grants to States to help them assist unemployed workers who are unlikely to return to their previous jobs or occupations. Proposed budget authority of $240 million in 1984 will provide assistance to approximately 96,000 workers.

- National training and employment service programs include:

  — The Job Corps -- a residential training program for disadvantaged youth that will provide about 40,000 years of service in 1984.

  — The Administration is proposing a mandatory community work experience program that will provide work experience for AFDC recipients that is more useful than what is now provided under WIN. Therefore, the Work Incentive (WIN) program is not funded in the 1984 Budget. The program has not been demonstrated to be cost-effective. In addition, training will continue to be available under the JTPA which requires that AFDC recipients be provided service on an equitable basis.

  — Special programs for, among others

    - Veterans

    - Native Americans

    - Migrant and seasonal farm workers.

- Federal-State employment services have new flexibililty under the JTPA, which revised the Wagner-Peyser Act, to plan and operate basic employment services. The revisions permit greater coordination by the States between the employment service and Federal training activities. Estimated outlays of $886 million in 1984 will provide the same overall level of employment services as are financed in 1983.

SPECIAL ASSISTANCE

The Federal Government provides assistance to particular groups of people and for certain kinds of activities. Some of this assistance is quite properly the province of the Federal Government, some would be more appropriately administered by State and local governments, and some is not appropriate to any level of government and should be left to the private sector.

The President's 1984 Budget proposes a number of significant changes in many of the special assistance programs. For example:

Indians The President's budget contains $2.3 billion in assistance for Indians. Major changes include:

- Replacement of the current Indian housing activities scattered among Interior, HHS, and HUD with two alternatives approaches to be administered by HUD: (1) a $76 million housing grant program: and (2) a $75 million Community Development Block Grant program which allows new housing construction as an eligible activity.

- Permitting federally recognized Indian tribes to receive direct funding under the Title XX Social Services Block Grant.

- Permitting federally recognized Indian tribes to be funded directly under the Science and Mathematics Teachers Development Act.

- As a supplement to appropriations, expanding third-party reimbursements (through, for example, health insurance plans) for services offered by the Indian Health Service.

Veterans The 1984 Budget proposes the following changes in veterans programs:

- $714 million increase in budget authority and 2,300 higher full time equivalent employment over 1983 for medical care and construction. These increases reaffirm the Administration's commitment to quality care for the Nation's Veterans.

- Veterans pensions will be covered under the six-month delay in cost-of-living adjustments recommended by the bipartisan National Commission on Social Security Reform.

- Provide, beginning in April 1985, annual cost-of-living increases on a graduated scale, aligned with the degree of disability.

Minorities Major changes in programs aimed at providing assistance for minorities include:

- The Minority Business Development Agency management and technical assistance program will continue to focus attention on the development of private sector market opportunities for minority businesses. Beginning in 1984, $6 million (10%) of MBDA's program level will be financed through private sector cost sharing, which will increase gradually to 25% by 1987.

- The number of and average amount of grants to historically Black colleges (HBC's) would increase from the level to be financed from the 1983 appropriation, allowing faster progress by more of these institutions toward self-sufficiency.

- Funding for civil rights activities will increase by $68 million over 1982 outlays. Outlays for principal civil rights agencies will be increased or maintained at current levels.

Chapter 6, Federalism, provides information on assistance programs that should be administered on the State and local levels.

Private Sector Responsibilities The 1984 budget also proposes reductions in or elimination of assistance that is unwarrented because it is a private sector responsibililty. For example:

- The Legal Services Corporation would not be authorized. The States should be given the flexibility and discretion to use block grant funds and private attorneys should fulfill their ethical obligations to serve the poor.

- Postal subsidies would be reduced. Although there are grounds for complete elimination of the subsidy, it has been decided to maintain the subsidy at the $400 million level because the Administration recognizes the substantial role played by churches and charitable institutions in contributing to volunteer fund raising efforts.

- Federal funding for public broadcasting would be reduced 14% over the next 3 years, requiring the public broadcasting industry to more aggressively seek funding from other sources---from individuals, corporations, and other non-Federal organizations.

SCIENCE AND TECHNOLOGY

The Federal Government invests in scientific research and technology development to meet direct Federal needs such as Defense and to assist in meeting national needs such as support for basic research. Total Federal funding for R&D, including R&D facilities, is proposed at $47 billion in 1984, an increase of 17% above the 1983 level.

The increase in the 1984 budget for research and development reflects the Administration's policy to exercise greater selectivity in funding R&D, based upon excellence, pertinence to national needs, and the appropriateness of Federal involvement. Thus, the Budget provides:

- A major (29%) increase across all R&D programs of the Department of Defense.
- A significant (10%) increase, through programs of the National Science Foundation (NSF) and other agencies, in support of basic research, with emphasis on the physical sciences and engineering. Advances in these fields are key to future national defense and the long-term competitiveness of the U.S. economy, particularly in high technology industries.

The 1984 Budget, in keeping with Administration policy, also proposes continued reductions in Federal subsidization of near-term civilian R&D and demonstration programs (e.g., in non-nuclear energy technologies). For such programs the private sector, not the Federal Government, has the expertise and capability to select and fund the advancement of technologies that can be successfully brought into the market place.

The Administration will seek, in 1984, to make more effective use of increased research funds, particularly in the basic sciences, by:

- Directing most of the additional basic research funds to universities to increase the production of new knowledge as well as the training of new scientists and engineers.
- Attracting the highest caliber scientists and engineers, particularly young faculty members, into research and encouraging and supporting them in their careers. These efforts will assist in ensuring a high quality scientific workforce to meet the needs of the Nation both in the near- and long-term;
- Encouraging greater and more creative interaction among university, Government and industry scientists to bring the Nation's best scientific expertise together in addressing the most challenging scientific and technical problems and opportunities to advance scientific and industrial growth; and
- Upgrading the scientific instrumentation of universities to enhance productivity and excellence in both research and the training of scientists and engineers.

The budget also includes support for new or enhanced programs in the NSF and the Department of Education to encourage national efforts to improve the teaching of science and mathematics in secondary schools. The Federal funding will help catalyze efforts by the State and local governments and the private sector to reverse the decline in science and mathematics education and assure that the Nation's future workforce will possess the science and mathematics competence necessary in an increasingly technological society.

ONGOING FUNCTIONS OF GOVERNMENT

These general government functions comprise those basic operations that can or should best be performed by government. They include:

- Federal responsibility for protection of life and property -- particularly in the context of criminal interstate or multijurisdictional actions.

  Although public safety is primaily a local responsibility in our federalist sysem, the Federal Government enforces a broad range of laws that are best handled on a national basis because of their multijurisdictional or unique nature.

Fighting drug trafficking is a top Administration priority. The Administration is increasing resources for both Federal law enforcement agencies and for the Federal prison system. Furthermore, direct financial assistance will be provided to State and local governments for effective projects to improve their criminal justice activities.

— The budgets for the FBI, DEA, Immigration and Naturalization Service, U.S. Customs Service, BATF and the criminal investigative arm of IRS are increasing by $228 million, an 11% increase over 1983.

— Work on three new correctional facilities is planned.

— $90 million will be provided for the criminal justice assistance program.

- Collection of Federal revenues through an efficient and fair tax administration system.

In order to assure that all taxpayers pay their fair share, IRS will be devoting significant resources during 1983 and 1984 to the improvement of tax enforcement.

New administrative provisions of the Tax Equity and Fiscal Responsibility Act should also increase IRS ability to assure compliance.

— As a result there will be additional receipts of $9 billion in 1984 and over $50 billion through 1988 from increased compliance alone.

— The provisions for withholding on dividends and interest income will contribute a significant portion of this receipts increase, $6 billion in 1984 and $26 billion through 1988.

In 1984, IRS will further seek to assure equity by targeting assistance to those taxpayers who need it most and must depend on the IRS for help - the elderly, the handicapped, low income, and non-English speaking persons.

- Prudent management of Federal and national assets and holdings, including disposal of surplus Federal property and the efficient utilization and costing of Federal office space.

The Administration will continue in the effort to improve management of real property holdings by identifying and disposing of properties that are in excess of the Federal Government's needs.

— In the category of acquired lands GSA will conduct targetted surveys of high value sites that may be excess to agency operational needs.

— Public lands will be identified for disposal using criteria established by the Federal Land Policy and Management Act.

The budget presumes that space rental charges (SLUC) will rise to reflect true commercial equivalent rates. This will force agencies to recognize that space is not a free good and will provide dollar incentives for improved space utilization.

INFRASTRUCTURE/PUBLIC WORKS

HIGHWAYS

AGENCY: Department of Transportation — Functional Code: 401

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	8,765	13,207	13,840	14,579	15,360	16,235	17,160
Obligations	8,533	13,531	13,517	14,319	15,220	16,086	17,003
Outlays	7,988	8,852	12,370	13,074	13,724	14,579	15,464
REAGAN BUDGET							
Budget Authority	8,765	13,184	13,932	14,672	15,433	15,374	15,375
Obligations	8,533	13,046	13,449	14,279	14,694	14,635	14,636
Outlays	7,988	8,817	12,041	12,887	13,563	14,048	14,238
PROPOSED CHANGES							
Budget Authority	--	-23	+92	+93	+73	-861	-1,785
Obligations	--	-485	-68	-40	-526	-1,451	-2,367
Outlays	--	-35	-329	-187	-161	-531	-1,226

NOTE: **Increases in Reagan Budget over Current Services for 1984-1986 represent initiation of new Motor Carrier Safety Grant program and transfer of Appalachian Development Highway System funding to the highway budget.**

PROGRAM DESCRIPTION

The highway programs provide grants to the States for the Federal share of costs to construct or rehabilitate highways included in these highway systems: Interstate, primary, secondary, and urban. Funds also are provided for rehabilitation or replacement of bridges, for highway safety projects, and for a number of small, separate categorical programs which provide special purpose grants. The Surface Transportation Assistance Act of 1982 significantly increased revenue available to support the Federal highway program. This additional revenue has allowed a major expansion of highway funding in 1983 and 1984, over 1982 levels.

PROPOSED CHANGE

The Administration's budget implements the recently enacted Surface Transportation Assistance Act of 1982. Major increases in funding are provided to upgrade and maintain highway systems which provide the greatest benefit to the Nation as a whole because they carry the majority of interstate traffic:

- Funding for interstate completion and rehabilitation will increase by 64% over 1982 levels and 8% over 1983 levels.
- Interstate rehabilitation funding will show the biggest percentage increase (i.e., 200% over 1982 and 23% over 1983) reflecting the priority given to preserving this system.
- Primary system and bridge rehabilitation programs will increase by 56% over 1982 and 9% over 1983 levels.
- Highway programs primarily benefitting States and localities will be funded at about the 1982 and 1983 levels.
- The 1987-88 reductions from current services reflect the fact that the authorizations in the Surface Transportation Assistance Act terminate in 1986. While Administration projections

basically freeze the 1987-88 budget authority at 1986 levels, the current services estimates increase with inflation.

Overlaying the proposed changes is the Administration's Federalism Initiatives which will include a Transportation Block Grant incorporating a number of highway programs of primary interest to State and local governments.

RATIONALE

The Budget proposals reflect the Administration's thrust to preserve the Nation's basic highway infrastructure while focusing Federal funding on the highest Federal interest programs.

- The Interstate highway system will be funded at a level leading to rapid completion of the system by the early 1990's. Deterioration of the Interstate highway network will be stopped and existing decay will be overcome.
- Rehabilitation of the aging primary highway system, which carries half of all interstate traffic, will receive a high priority as will the repair or replacement of unsafe highway bridges.
- Highway systems that carry basically State and local traffic are of lower priority in terms of a national highway program. While continuing to receive Federal funding, the total infrastructure needs of these systems must be addressed at the State and local level where the real need and priority can best be determined.

EFFECTS OF THE PROPOSED CHANGE

Deterioration of the Nation's highway infrastructure will be abated, providing a safe, efficient network for the movement of people and commerce. In particular, the aging interstate system will be repaired and rehabilitated and bridges will be brought up to higher standards.

1982 AND 1983 CHANGES

The Surface Transportation Assistance Act of 1982 initiated expansion of Federal funding for highway infrastructure. The Act also increased the Federal gas tax from 4¢ to 9¢ per gallon effective April 1, 1983.

TRANSIT

AGENCY: Department of Transportation — Functional Code: 401

Funding

($ in millions)	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	3,532	4,345	5,043	5,122	5,358	5,661	5,982
Outlays	3,864	3,873	4,234	4,410	4,754	5,129	5,460
REAGAN BUDGET							
Budget Authority	3,532	4,345	3,915	3,437	3,447	3,452	3,442
Outlays	3,864	3,873	3,730	3,690	3,522	3,588	3,564
PROPOSED SAVINGS							
Budget Authority	--	--	1,128	1,686	1,911	2,210	2,540
Outlays	--	--	504	721	1,233	1,541	1,896

PROGRAM DESCRIPTION

The Federal Government provides grant assistance for mass transit through a variety of formula and discretionary grant programs. Funds are provided to grant recipients for capital and operating assistance, planning activities, demonstration of innovative management techniques and advanced technologies, managerial training, and university research.

The Surface Transportation Assistance Act of 1982 restructured the transit program, creating a new formula grant to be distributed to urban and rural areas starting in 1983. In 1983, the grant can be used for capital assistance only; in 1984, for both capital and operating assistance. The Act also set aside one cent of the five cent per gallon motor fuels tax increase for transit use. In 1983, these funds are for the new formula grant. In 1984, and future years, they are to be used for the existing discretionary grant program for capital projects only.

PROPOSED CHANGE

- Capital assistance obligations increase 22% between 1982 and 1983 and 34% between 1982 and 1984. Operating obligations subsidies would drop to 53% of 1982 levels by 1984 and be eliminated in 1985.
- Capital assistance will be available for rehabilitation of existing transit systems, new system construction (to a limited degree), and bus facilities and rolling stock.
- The formula grant program provides proportionately greater assistance to urbanized areas with large, complex transit systems. These are the systems where problems associated with aging infrastructure are greatest. Discretionary grants will also be targeted by UMTA toward those cities with the greatest infrastructure needs.
- The programs funded by new motor fuels taxes will be capped at approximately the levels of receipts estimated by Treasury from those taxes.

RATIONALE

- The Administration proposes a major increase in capital funding because it recognizes the value of mass transportation to the Nation's cities and intends to meet current transit capital needs.

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- UMTA estimates transit capital needs to be $50 billion over the next ten years (includes Federal and non-Federal funding). In order to meet critical rail needs -- mainly in the Northeast and North Central parts of the Country -- and the capital needs of the hundreds of cities providing bus service, the Administration's proposed funding levels are necessary.

- Federal operating subsidies should be reduced because: these funds have supported marginally effective transit services that would not have been provided if Federal assistance did not exist; operating subsidies have permitted fares to remain artificially low; regulations attached to Federal assistance increase transit costs; and productivity has declined during the existence of Federal operating subsidies.

  Federal operating subsidies have also reduced funds available for transit capital needs.

EFFECTS OF THE PROPOSED CHANGE

- Cities with aging fixed rail systems will particularly benefit, as funds are directed toward their long deferred capital needs. The average age of the nation's bus fleet will remain 8 to 9 years and bus facilities will be rehabilitated and constructed as the need arises.

- As Federal operating assistance is reduced, State and local funding will increase and inefficient service will be eliminated. Federal dollars will be redirected to meet transit needs.

1982 AND 1983 CHANGES

- Operating subsidies were cut marginally, 8% from 1981 to 1982 and 17% from 1982 to 1983.

- Capital funding dropped 12% from 1981 to 1982 with a large increase in 1983.

- Transit assistance was reconfigured significantly by the Surface Transportation Assistance Act of 1982, as indicated above.

MODERNIZATION OF THE AVIATION INFRASTRUCTURE: AIRPORT IMPROVEMENT PROGRAM AND FAA CAPITAL PLANT

AGENCY: Department of Transportation — Functional Code: 402

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	818	1546	1778	1808	1875	1912	2008
Program Level	663	1143	1340	1484	1590	1678	1762
Outlays	720	910	1291	1335	1456	1572	1664
REAGAN BUDGET							
Budget Authority	818	1546	2280	2663	2609	2374	2698
Program Level	663	1143	1789	1995	2253	2430	2578
Outlays	720	910	1442	1719	1952	2177	2400
PROPOSED INCREASES							
Budget Authority	--	--	502	855	734	462	690
Program Level	--	--	449	511	663	752	816
Outlays	--	--	151	384	496	605	736

PROGRAM DESCRIPTION

The primary mission of the Federal Aviation Administration (FAA) is to ensure the safe and efficient movement of air traffic. Adequate airport capacity as well as state-of-the-art surveillance, navigation and communications facilities are essential.

To provide the necessary aviation infrastructure to meet forecasted demand, the FAA administers airport improvement grants and programs for engineering, development and procurement of facilities and equipment.

PROPOSED CHANGE

- For engineering, development and procurement of facilities and equipment, the budget requests $1.3 billion, a 72% increase over 1983 and 64% increase over the 1984 current services level.
- For airport improvement grants, the 1984 budget includes obligations of $700 million. This represents a healthy increase over the 1982 and 1983 obligation limitations as well as an increase over the 1984 current services level.

RATIONALE

- Upgrading and expanding the aviation infrastructure is essential to meet forecasted demand through the year 2000.
- FAA workload indicators, such as services provided to general aviation pilots or number of aircraft handled by air traffic controllers, are projected to increase anywhere from 60% to 80% during 1981-2000.
- The $1.3 billion to modernize the FAA capital plant includes the fully authorized level for the engineering and development activities and the procurement funds necessary to place under contract all programs which will be ready during 1984.

- The $700 million obligation level for airport improvement grants will fund safety-related work, reconstruction and improvement of existing facilities, and expansion needed to resolve critical capacity problems.

EFFECTS OF THE PROPOSED CHANGE

The 1984 budget request will allow the FAA capital modernization program to continue on schedule.

1982 AND 1983 CHANGE

The Airport and Airway Improvement Act of 1982 was signed into law on September 3, 1982, as part of the Tax Equity and Fiscal Responsibility Act. The Act increased the passenger ticket tax to 8% and the general aviation gasoline tax to $.12 per gallon, established a $.14 per gallon tax on general aviation jet fuel and reinstated other aviation user fees to the 1980 levels.

These increased user fees will pay 100% of the costs associated with airport improvement grants and the modernization of the FAA capital plant as well as cover a portion of the FAA's costs to operate and maintain the National Airspace System. Without the increased user fees, the necessary upgrading and expansion of the aviation infrastructure would not be possible.

ECONOMIC DEVELOPMENT ADMINISTRATION

AGENCY: Department of Commerce | Functional Code: 452

Funding

	($ in millions)						
	1982	**1983***	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	224	192	238	252	265	279	294
Outlays	453	349	269	297	267	255	272
REAGAN BUDGET							
Budget Authority	224	34	18	9	7	5	5
Outlays	453	325	181	134	59	19	8
PROPOSED SAVINGS							
Budget Authority	--	158	220	243	258	274	289
Outlays	--	24	88	163	208	236	264

***President's budget includes a 1983 supplemental to transfer $158M in budget authority to the Small Business Administration (SBA) for increased guaranteed loan defaults.**

PROGRAM DESCRIPTION

The Economic Development Administration (EDA) provides grants, loans, and loan guarantees to assist economically distressed areas and to help localities adjust to economic disruptions such as those caused by the closing of a major company or government installation. The annual EDA funding level for economic development assistance was about $500 million up to 1981.

PROPOSED CHANGE

- As part of its policy of placing greater emphasis on the private sector and transferring primary responsiblility for administering community and economic development assistance to States and local governments, the Administration proposed, in March 1981, termination of EDA at the end of 1981. Funds were made available in 1982 to provide for a more gradual phase out of EDA programs and for a longer adjustment period prior to termination.
- The Administration now proposes to terminate EDA as soon as possible in 1983. In 1983, funding will be provided for close-out costs. EDA has exhausted all eligible projects in the pipeline for 1982. No program funds have been requested in 1984.

RATIONALE

- Economic expansion and job creation will be stimulated through the President's overall economic recovery program, which includes general tax, spending, and regulatory reduction measures. Furthermore, States and their localities will continue to receive Federal assistance for economic development through block grant programs that distribute Federal funds more efficiently and provide for more local discretion.
- There is little evidence that EDA public works projects help the unemployed: public works projects employ relatively few people; those who get jobs are mainly skilled construction workers--not the average unemployed worker; and public works implementation is too long term to help in the worst of a downturn.

- The original purpose of EDA was to provide special financial assistance to those few economically distressed areas of the country that were by-passed by general prosperity. The program has evolved to the point where over 80% of the nation qualifies as a distressed area. The legislative proposal pending in the Congress to narrow the eligible areas would still provide EDA funds to 60% of the counties in the U.S.A.
- There is little evidence that the expenditures from these programs have induced development and infrastructure in distressed areas that would not have occurred either there or elsewhere without this investment. In fact, State and local government may actually lessen and delay overall expenditures for public works projects in hopes of Federal funding.
- There is no evidence that the programs being terminated have created new jobs nationwide. Rather, such programs appear to encourage potential growth in some areas at the expense of other areas. Similarly, the Government does not create net new jobs in the economy by moving productive resources from the private sector to the public sector.

EFFECTS OF THE PROPOSED CHANGE

- Because EDA programs often substitute Federal resources for expenditures that would have been made for infrastructure, including industrial parks, water and sewer systems etc., by the private sector or the local public sector in distressed areas or elsewhere, the impact overall of terminating the programs will be insignificant.
- Funds for State and local community and economic development programs will continue to be available in 1984 through the Urban Development Action Grant program ($0.5 billion program level) and the flexible Community Development Block Grant program ($3.6 billion program level) which distributes Federal funds more efficiently than EDA. Likewise, specialized assistance for rural areas will continue to be available through the Farmers Home Administration.
- Job creation and revitalization of highly distressed urban areas will be stimulated by the President's urban enterprise zone initiative which is based on a reduction of tax and regulatory burdens.

ENTERPRISE ZONES

AGENCY: Department of Housing and Urban Development Functional Code:451

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Tax Incentives	--	--	--	--	--	--	--
REAGAN BUDGET							
Tax Incentives	--	--	85	400	765	1,060	1,140
PROPOSED CHANGES							
Tax Incentives	--	--	85	400	765	1,060	1,140

PROGRAM DESCRIPTION

Enterprise Zones is an experimental, free-market approach for dealing with distressed areas. It has two purposes: to create jobs in depressed areas, especially for disadvantaged workers, and to redevelop and revitalize the areas themselves. This represents a new approach to the problems of distressed areas, relying primarily on market processes rather than direct Federal subsidies and central planning.

It would do this by:

- Providing tax relief at the Federal, State, and local levels.
- Reducing unnecessary red tape at the Federal, State, and local levels.
- Improving local public services, possibly through experimentation with the privatization of some public services.
- Involving private, local, and neighborhood organizations in the program.

Through a competitive process and based on applications from States and local governments, the Secretary of the Department of Housing and Urban Development would select 75 enterprise zones (25 per year for three years) in areas of poverty, unemployment, and general distress. In evaluating applications, the Secretary would consider State and local contributions in the areas of tax and regulatory relief and the provision of public services. Once designated, Federal tax incentives relating to investment, payroll, employee income, and capital gains would be applicable to activity within the zones.

PROPOSED CHANGE

Enterprise Zone legislation was first proposed by the Administration in 1982. The Senate Finance Committee approved legislation, but the House failed to act. The proposal will be reintroduced in 1983.

RATIONALE

Past Federal efforts to revitalize distressed areas and provide employment for the disadvantaged and unemployed, though well intentioned, have been far too costly and prescriptive and have not resulted in significant success, especially in highly distressed areas. One major reason for this lack of success has been that these federally financed and administered programs often ignored, and at times worked against, the productivity, job creation, and investment powers of our Nation's strongest economic force, the private sector. Because of our past failures, it is now quite clear that the only way to succeed is to work with the private sector, States, and local governments. By providing free-market incentives for new investment, jobs, and better public services in distressed areas, Enterprise Zones will promote their revitalization.

EFFECTS OF THE PROPOSED CHANGE

In the 75 zones to be selected over a three year period, increased economic activity, new jobs (particularly for the disadvantaged), and investment are anticipated as a result of reducing business tax and regulatory burdens, increasing public services, and providing incentives for increased employment.

CORPS OF ENGINEERS WATERWAY AND PORT USER FEES

AGENCY: Corps of Engineers-Civil/TVA — Functional Code: 301

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROGRAM LEVEL							
Budget Authority	1180	1070	1090	1160	1120	1090	1100
Outlays	1180	1070	1090	1160	1120	1090	1100
OFFSETTING RECEIPTS							
Current Law	30	36	47	52	65	72	80
Policy Increase	--	--	440	460	545	570	595
PERCENT RECOVERED							
Current Law	3	3	4	4	6	7	7
Policy Increase	--	--	40	40	49	52	54

PROGRAM DESCRIPTION

Locks, dams, and channels are constructed and maintained by the Corps of Engineers and Tennessee Valley Authority for barge traffic on the inland waterways. The Corps dredges harbor channels and constructs and maintains other facilities for ocean-going and Great Lakes traffic.

Construction and upkeep of both inland and deep draft waterways have traditionally been provided at almost no cost to commercial users. A fuel tax on inland waterways is being phased in but it will recover less than a third of the cost of maintaining the inland system.

PROPOSED CHANGE

The Administration proposes to recover new construction, and operation and maintenance costs from the users of most navigation facilities.

RATIONALE

- The U.S. trade positon can be improved by making the port system more efficient. Better and more efficient harbors translate into stable jobs in our coal fields, railroads, trucking industry and ports.
- Ports in the U.S. are a big business. Foreign payments for U.S. port expenses (does not include Federal dredging) were $4.6 billion in 1979, and the value of marine terminal facilities is currently in excess of $40 billion.
- People and firms who benefit from the use of these Federally-constructed commercial facilities should share in the cost.
- Federal deep draft dredging and operation of the inland waterway system is a $700 million per year subsidy to the users of the harbors and waterway system.
- 15 percent of intercity tonnage travels on the inland waterway system, while rail, its principal competitor, carries 35 percent and pays all its expenses.

EFFECTS OF THE PROPOSED CHANGE

- Funds from user fees will be used to improve and restore these important parts of the nation's infrastructure.
- Traffic on some waterway and harbors may be diverted to other modes of transportation or to other harbors. However, it is unlikely that total economic activity will be affected. Total transportation system efficiency will be improved.

EDUCATION, TRAINING AND EMPLOYMENT SERVICES

HELPING WORKERS FIND JOBS

AGENCY: Department of Labor Functional Code: 504 and 603

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	3,741	7,113	4,899	5,162	5,430	5,703	5,992
Outlays	4,924	7,005	4,758	5,114	5,380	5,652	5,938
Tax Expenditures	505	530	710	530	195	35	5
REAGAN BUDGET							
Budget Authority	3,741	8,878	4,442	4,494	4,548	4,603	4,661
Outlays	4,924	8,778	4,394	4,499	4,549	4,603	4,661
Tax Expenditures	505	715	1,350	800	260	75	30
PROPOSED CHANGES							
Budget Authority	--	+ 1,765	-457	-668	-886	-1,100	-1,331
Outlays	--	+ 1,773	-364	-615	-831	-1,049	-1,277
Tax Expenditures	--	185	640	270	65	40	25

PROGRAM DESCRIPTION

Workers may receive Federal assistance to help prepare them for work and to help them find jobs through training and employment programs, existing tax credits for hiring the disadvantaged, proposed tax credits for employers hiring the long-term unemployed, and the Employment Service.

The Federal Government's principal training and employment programs are authorized by the Job Training Partnership Act (JTPA) of 1982. JTPA grants are allocated to States which then designate service delivery areas of over 200,000 population, or combinations of such areas, to run local programs. Grants to States are used to provide various types of training, counseling, and other supportive services to unemployed and economically disadvantaged individuals. A temporary program of Federal Supplemental Compensation provides additional weeks of unemployment benefits to those who have used up all their weeks of benefits but have not yet found work. Allocations to States finance a network of local employment service offices which help workers find jobs.

PROPOSED CHANGE

1984 will be the first year of full implementation of the Job Training Partnership Act (JTPA), which replaces the Comprehensive Employment and Training Act (CETA) programs. Reforms included in JTPA assure that disadvantaged youth and adults will be trained for jobs. The program of block grants to States for training, to be funded in 1984 at $1.9 billion, provides for reforms that would:

- vest in the States the principal responsibility for job training programs;
- assure business a major role in the development of job training programs through local private industry councils which will provide policy guidance and oversee local programs;
- require that 70% of resources be spent on training (only 18% of CETA grant resources were spent on training);
- limit to 30% the amount that could be spent for stipends, other support services, and administration; and
- prohibit public service employment.

In addition, a new JTPA program of job search, job training, and relocation assistance for experienced workers who lose their jobs due to plant closings, technological changes, or other structural causes will be expanded almost ten fold in 1984 to $240 million to help more than 100,000 workers. The residential Job Corps program will be continued at its 1983 level of $586 million, and the Summer Youth Employment program will provide about the same number of jobs as in 1983.

The Administration proposes legislation to establish a differential minimum wage for youth under the age of 22 for jobs from May 1 to September 30. This youth opportunity wage will be $2.50 per hour, 25% below the regular minimum wage of $3 35. Of course, this wage is only a minimum, and it is expected that youth who already have skills and experience will be paid more.

Under legislation proposed by the President, unemployed workers eligible for Federal Supplemental Compensation could get instead vouchers which would entitle an employer hiring them to a tax credit. This incentive to hire the long-term unemployed, part of the President's proposed FY 1983 extension and modification of the Federal Supplemental Compensation program, would be available until March 31, 1984.

A separate legislative proposal would permit States to use a portion of their unemployment insurance tax receipts for training, job search, and relocation for unemployed workers. The number of workers assisted and the outlays under this program will depend on State actions.

In 1984, States will have greater flexibility in planning and using Federal allotments for basic employment services under amendments included in the JTPA. The 1984 budget request for the Employment Service is the same as the 1983 appropriation, adjusted for expected cost increases.

RATIONALE

- The private sector accounts for eight of every ten jobs. The best way to assure that training will be for jobs that exist is to have business in a pivotal role in the development of training programs.
- The training block grant will place responsibility for training and employment programs at the State level which already has the responsibility for related programs such as vocational and adult education and the Employment Service.
- Stipends accounted for over 40 percent of CETA spending. These monies, which were paid for participation in training programs, can duplicate or supplant regular income maintenance programs. In addition, they can induce people to enter training programs for short-term income gains rather than for long-term improvements in employment and earnings. Placing limitations on the use of stipends assures that most of the resources will be spent for training and for those who are most serious about improving their employability.
- Many inexperienced youth do not have the skills to produce enough of value to make it worthwhile for employers to pay them the current minimum wage. This is especially true for summer jobs, since employers cannot expect to benefit from a youth's productivity improvement resulting from that work experience. Thus these youth are denied the opportunity to gain work skills and experience during summer months that they could use to demonstrate their qualifications to potential permanent employers. This proposal for a summer youth employment differential in the minimum wage would help many to find their first job and gain valuable work experience.
- Tax credits encourage employers to hire the disadvantaged and long-term unemployed workers.
- States should be given the flexibility to use some of their unemployment insurance receipts for retraining, job search, and relocation, if they wish to do so.

EFFECTS OF THE PROPOSED CHANGE

- The most effective program approaches (on-the-job training and classroom training) will be stressed in Federal technical assistance to States, while the least effective approaches, such as public sector work experience and subsidized jobs, will be de-emphasized.
- The budget authority requested in 1984 will finance 406,000 years of service in the block grant to States for training, a one-third increase over 1983.
- The summer youth employment program will be maintained at historical levels providing 718,000 youth with summer work opportunities that will help them when they seek full-time jobs.
- An expanded program of job search, relocation assistance, and training for workers who lose jobs because of plant closings, changes in technology, or other reasons will assist more than 100,000 people. This is four to five times the number of dislocated workers ever helped before.
- The residential Job Corps program will train over 80,000 severely disadvantaged youth, more than were served in 1980 and the same as in 1983.
- At least 200,000 additional youth would find summer employment in the private sector due to the youth differential minimum wage.
- Some 700,000 long-term unemployed workers in 1983-4 will benefit from the tax credit to employers hiring the long-term unemployed.
- States would be able to augment their resources for training and relocation programs for unemployed workers by using some of their unemployment tax receipts.
- States will have more flexibility in planning and operating basic employment services financed with Federal funds.

STUDENT FINANCIAL AID

AGENCY: Education Activities Functional Code: 502

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	6,643	5,768*	5,963	6,259	6,413	6,682	6,983
Outlays	5,755	5,919	5,875	6,167	6,222	6,479	6,765
REAGAN BUDGET							
Budget Authority	6,643	5,768*	5,615	5,607	5,599	5,615	5,654
Outlays	5,755	5,919	5,476	5,788	5,601	5,611	5,644
PROPOSED CHANGES							
Budget Authority	--	--	-348	-652	-814	-1,067	-1,329
Outlays	--	--	-399	-379	-621	-868	-1,121
Tax Incentives	--	--	13	69	161	268	392

***Adjusted, due to a technical reestimate, downward by $900 million in funds not needed to operate the Guaranteed Student Loan program in 1983. This reestimate has no effect on outlays or program activity.**

PROGRAM DESCRIPTION

Student financial aid includes funds appropriated under the Student Financial Assistance and Guaranteed Student Loan accounts and the new tax benefits to be provided by the Education Savings Account (see below).

- *Student Financial Assistance* provides grants, direct loans and work study to students with demonstrated need either directly or through participating postsecondary institutions.
- *The Guaranteed Student Loan* program provides guarantees and interest subsidies to lending institutions to encourage the availability of capital to eligible students and parents.

PROPOSED CHANGE

- *Student Financial Assistance* Legislation will be proposed that will require every student to contribute (with summer earnings, work study funds, savings or other aid) to the cost of education before receiving a Federal grant. Current Pell Grants would be restructured into Self-help Grants. The Work Study program would be increased by almost 60 percent. No new funding would be provided for Supplemental Educational Opportunity Grants, State Student Incentive Grants and capital contributions to National Direct Student Loans.
- *Guaranteed Student Loans* Legislation will be proposed that would expand the coverage of the need analysis to all applicants (currently limited to those with adjusted gross incomes above $30,000) to ensure that Federal subsidies do not go to those who do not need them. The origination fee charged graduate and professional students would be increased from 5 to 10 percent as their higher expected incomes will allow them to pay more toward the interest costs of their subsidized loans. Advances (loans) to guarantee agencies for their reserve funds, that are no longer necessary, would be recalled.
- *Educational Savings Accounts* Legislation will be proposed that would provide tax exempt status to earnings on funds deposited in special accounts and used for postsecondary educational costs.

RATIONALE

- The 1984 budget would restore the primary roles of the family and the student in meeting the responsibility for postsecondary educational costs.
- Between 1972 and 1982, Federal support for student assistance programs increased by $5.6 billion. This expansion in funding has, unfortunately, been accompanied by a major shift in the traditional responsibility for financing college costs from students and families to the Federal Government.
- Recent analyses indicate that, as the proportion of Federal funds assisting students in meeting educational costs has increased, parental contributions have declined -- despite concurrent increases in parental disposable income. (Between 1970 and 1980, for example, average student charges at public universities, as a percent of median family income, declined by over 2 percent.)
- At many schools, average student contributions represent only a small share of education costs and do not begin to reflect actual student earning capacities. Excessive reliance on federally supported student financial assistance abuses the spirit of student aid as a supplement, not a replacement, for other sources of college financing and ignores the fact that students are the principal beneficiaries of their education.
- To correct these problems, the Administration is proposing that postsecondary students contribute to their own education costs before Federal grant assistance is provided, and that families contribute more and make additional use of savings for postsecondary education costs.

EFFECTS OF THE PROPOSED CHANGE

Budget authority of $5.6 billion is requested, of which $2.7 billion is for Self-help Grants, $850 million is for Work Study, and $2.0 billion is for the cost of the Guaranteed Student Loan program.

- *Self-help grants* After taking into account the family contribution, the student would be required to provide $800 or 40%, whichever is greater, to educational costs before becoming eligible for a Self-help Grant. The grant would be increased from the present Pell Grant maximum of $1,800 to a Self-help Grant maximum of $3,000. This will provide 2.1 million students with awards averaging $1,300.
- *Work Study Funding* would be increased by almost 60% to $850 million. This will furnish 1.2 million students with job opportunities, providing an average of $800, to meet their self-help contribution requirement. The additional funding would expand student employment on campuses, in State and local governments, and in the private non-profit sector.
- Over $550 million will be available on-campus for relending in the Direct Loan program as a result of repayments to institution based loan funds and which can be used to meet self-help requirements.
- *Guaranteed Student Loans* Over 2.7 million loans to students and parents, totalling over $7.1 billion, would be insured and subsidized and available to meet self-help requirements.
- *Education Savings Account* Would provide $13 million in tax exemptions on interest and dividends for the $550 million that is estimated to be deposited in these special accounts in the first year, with substantially greater amounts being deposited in each succeeding year.

1982 AND 1983 CHANGE

1982 Guaranteed Student Loans A five percent origination fee was imposed on student loans and a need analysis was required for all student applicants with adjusted gross family incomes of $30,000 or more.

TUITION TAX CREDIT

AGENCY: Education/Treasury　　Functional Code: 501

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
REAGAN BUDGET							
Tax Incentives	--	--	245	526	753	779	763

PROGRAM DESCRIPTION/PROPOSED CHANGE

Under the proposed tuition tax credit program, to begin in 1983, parents could receive a tax credit for up to 50 percent of tuition costs paid to private, nonprofit elementary and secondary schools. The program would be phased in over three years, with the maximum allowable credit per child equal to $100 in 1983, $200 in 1984, and $300 in 1985 and beyond.

A full credit would be available to those families with adjusted gross incomes of $40,000 or less. The allowable credit would be scaled downward for families with adjusted gross incomes between $40,000 and $60,000, and would phase out entirely at $60,000. Credits would not be allowed for tuition payments to schools that follow a racially discriminatory policy.

RATIONALE

The tuition tax credit program will expand educational opportunity and choice for all Americans and foster diversity in educational approaches. The availability of alternatives to public education allows parents to select the type of schooling that will best meet the needs of their children. The rising cost of education has put the opportunity to select private education beyond the reach of a growing number of families. As a matter of equity, a tax relief measure is necessary to assure that lower and middle income families, like the more affluent, can continue to make choices about their children's education.

Some opponents of tuition tax credits argue that they will benefit the wealthy, erode the tax base, undermine the public school system and the traditional separation between church and State, and benefit segregated schools. To the contrary:

- The primary beneficiaries will be working lower and middle income families who can least afford to pay for private education.
- The tax revenues lost per child are small compared to the cost of educating a child at a public school. While the maximum tax credit per child is only $300, the average annual per pupil cost in public schools exceeds $2,200.
- The availability of educational alternatives leads to competition and innovation which can strengthen public education.
- Aid for children attending private schools, including church-related schools, is a well established concept in Federal education policy. The Elementary and Secondary Education Act of 1965, and subsequent amendments, have affirmed the Federal commitment to providing students enrolled in private schools with their fair share of Federal aid.
- Strong nondiscrimination provisions in the Administration's proposed bill will assure that no credits are allowed for payments to schools that discriminate on the basis of race.

Providing tuition tax credits to individuals is an administratively simple way to broaden educational opportunity while minimizing intrusion into State or local education systems or the lives of individuals and families.

EFFECTS OF PROPOSED CHANGE

It is anticipated that approximately 2,372,000 families will take advantage of the new tax credit. The cost in lost revenues, (i.e., taxes not collected) is estimated to be about $245 million in 1984, $526 million in 1985, and $753 million in 1986.

SCIENCE AND MATHEMATICS EDUCATION

AGENCY: Education/National Science Foundation   Functional Code: 502/250

Funding

	($ in millions)						
	1982	1983	1984	1985	1986	1987	1988
BUDGET AUTHORITY							
Education	--	--	50	50	50	50	--
National Science Foundation	--	15	20	20	20	20	20
OUTLAYS							
Education	-	--	6	40	50	50	45
National Science Foundation	--	8	16	19	20	20	20

PROGRAM DESCRIPTION

Beginning in 1983, joint efforts by NSF and State or local governments or the private sector will provide in-service training for science and mathematics secondary school teachers. The focus will be on upgrading the subject-matter competence of existing teachers. In addition, NSF will fund and administer, with the assistance of the Education Department, a program that gives Presidential teaching awards to outstanding secondary mathematics and science teachers.

The Education Department has no current programs in this area.

PROPOSED CHANGE

The Education Department will initiate a four-year $50 million per year program of block grants to States to assist in training additional science and mathematics teachers. States would provide one year scholarships to persons holding college degrees to enable them to return to school to become qualified to teach science or mathematics at the secondary school level.

Funding for NSF's programs will increase by $5 million in 1984 to a total of $20 million.

RATIONALE

- In order to assist the economic growth of our increasingly technological society, the Nation's future workforce will require better high school training in science and mathematics. Over the years, the quality of this training has declined--principally due to the shortage of qualified science and mathematics teachers. School systems are beginning to address this problem, but more needs to be done and more rapidly.
- A primary goal of the programs being proposed in the budgets of the Department of Education and NSF is to help alleviate this shortage by increasing the incentives for individuals to enter and stay in teaching careers in mathematics and science. The program will also encourage excellence in science and mathematics teaching through the training of new and existing teachers and providing recognition to outstanding teachers.
- All sectors, including State and local governments and the private sector, need to participate in any successful program to solve this problem. Experience from previous NSF science education programs indicates that fragmented efforts by the Federal Government alone are largely ineffective. Therefore, the Federal Government will play a largely catalytic role by combining Federal, State, and private industry efforts through programs designed to assist in alleviating this problem.

EFFECTS OF THE PROPOSED CHANGE

The number of participants in the State block grant training program will depend on how State authorities choose to use their grant funds. The program could train as many as 10,000 people in its first year. NSF's in-service training program would provide subject-matter training for approximately 10,000 current science and mathematics teachers each year. About 100 outstanding teachers would be honored annually under the Presidential awards program.

The Presidential leadership and attention to this problem will encourage industry and State and local governments to increase further their own efforts to solve this problem.

HEAD START

AGENCY: Department of Health and Human Services Functional Code: 506

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES HHS and USDA							
Budget Authority	984	989	1,048	1,111	1,175	1,242	1,312
Outlays	905	995	1,016	1,078	1,142	1,208	1,276
(USDA FUNDS)							
Budget Authority	(72)	(76)	(78)	(81)	(85)	(90)	(94)
Outlays	(72)	(76)	(78)	(81)	(85)	(90)	(94)
REAGAN BUDGET							
Budget Authority	984	989	1,051	1,051	1,051	1,051	1,051
Outlays	905	995	974	1,050	1,051	1,051	1,051
PROPOSED CHANGES							
Budget Authority	--	--	+ 3	-60	-124	-157	-261
Outlays	--	--	-42	-28	-91	-157	-225

PROGRAM DESCRIPTION

Head Start finances comprehensive education, health, nutrition and social services for low-income children and their families. In FY83, grants to 1200 grantees in 2000 communities provide services to 395,800 preschoolers, at least 10% of whom are handicapped and 90% of whom are from families with incomes below the poverty line. The program emphasizes children's cognitive, emotional and physical development to enable them to reach their highest potential in their present enviornment and beyond into school and community life. Head Start stresses the role of parents and family in their children's development.

Like other child care programs, Head Start projects are eligible for reimbursement from the Department of Agriculture's Child Care Feeding program.

PROPOSED CHANGE

The President's 1984 budget requests $1.051 billion for Head Start -- an increase of $62 million over the comparable figure for 1983. This increase will allow Head Start to serve 424,900 children, 29,100 more than in 1983. Funding increases will be directed to: (1) existing projects that have proven cost-effective while maintaining program quality, and (2) projects testing new or innovative approaches, such as employer-based centers and cooperative agreements with private non-profit child care centers. In addition to $62 million in expansion funds, $18 million will be redirected from research and evaluation to cost-of-living increases for existing projects.

The budget proposes that beginning in 1984, Head Start projects will receive all funding directly from HHS, rather than being required to apply separately to USDA for nutrition funding. Head Start's budget has been increased by $76 million, the amount of funding received by Head Start centers from USDA in FY83.

Finally, beginning in 1983, Head Start will strengthen its relationship with State governments by integrating them into the training and technical assistance network.

RATIONALE

- The budget increase will allow Head Start to serve close to 20% of all children from families living below the poverty line. These children will receive services that promote economic self-sufficiency and family responsibility for their children's development.
- The budget increase is supplemented by redirecting research and evaluation funds which are no longer necessary for a mature demonstration program and should be used for direct services to needy children.
- Consolidating USDA funding into the Head Start grant award will vastly simplify financial management for local projects, who must now deal with separate requirements and reporting forms. Projects will have more flexibility to use funds in a way that best meets their children's needs.
- Involving State governments in Head Start technical assistance will improve the delivery of social services, for which State governments have primary responsibility. State governments also have a primary role in determining the use of the resources within the public school systems into which Head Start children move, and can make sure that these children's developmental gains are maintained.

EFFECTS OF THE PROPOSED CHANGE

- An additional 29,100 children will receive Head Start services that promote self-sufficiency and parental and community involvement. These children will be served by almost 80,000 paid staff and close to half a million volunteers. Head Start will serve 43,000 handicapped children.
- Head Start projects will become more cost-efficient while maintaining program quality, by having more flexibiity and control over nutrition funds.
- HHS will continue to implement a Cost Management System developed in fiscal year 1983 which analyzes grantee costs and identifies cost saving opportunities. Cost control will remain a priority for Head Start in order to serve the maximum number of children possible.
- Head Start's linkages to State governments, which play a strong role in educational and social services, will be strengthened.

SERVICES FOR GROUPS WITH SPECIAL EDUCATIONAL NEEDS

AGENCY: Education Activities — Functional Code: 501 and 506

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	5,062	5,315	5,642	5,976	6,320	6,679	7,055
Outlays	4,875	5,197	5,373	5,683	5,988	6,331	6,692
REAGAN BUDGET							
Budget Authority	5,062	5,181	5,161	5,159	5,152	5,152	5,152
Outlays	4,875	5,190	5,188	5,187	5,158	5,153	5,152
PROPOSED SAVINGS							
Budget Authority	--	134	481	817	1,167	1,528	1,903
Outlays	--	7	185	496	830	1,178	1,540

PROGRAM DESCRIPTION

Chapter 1 of the Education Consolidation and Improvement Act of 1981 (ECIA) (1984 BA: $3 billion) provides funds to State and local education agencies to finance supplemental compensatory services for the educationally disadvantaged. Chapter 1 replaced Title I of the Elementary and Secondary Education Act, which provided similar services. Almost 14,000 school districts receive funds under the basic Chapter 1 program. In addition, funds are used by State agencies to support compensatory programs for migrant children, for handicapped children, for neglected or delinquent children, and for administrative expenses.

The Education for the Handicapped (EHA) programs (1984 BA: $1.1 billion) help States provide a free appropriate public education to all handicapped children. In 1984 EHA grants will defray about 8% of the average excess educational costs of some 4.1 million handicapped children. A variety of national discretionary activities support research, demonstration, and dissemination of innovative educational practices as well as training for those preparing to become special education teachers.

The Vocational Rehabilitation programs (1984 BA: $1 billion) provide grants to State agencies to assist physically and mentally handicapped individuals become gainfully employed and live more independently. Education, training, medical and other services are provided, with statutory priority to the severely disabled. This activity also funds research and training in the rehabilitation field, and discretionary rehabilitation projects serving special target groups.

PROPOSED CHANGE

- The Budget proposes a shift of Chapter 1 funding toward basic aid to local school districts and away from the more costly State agency programs. Proposed legislation would give State and local educational agencies the option of providing compensatory education services through a voucher mechanism.
- Overall budget authority for Education of the Handicapped remains equal to the 1983 level. Within the total, resources are shifted toward the basic State grant program and away from Federal discretionary activities.

- Proposed reauthorizing legislation will make changes in the Vocational Rehabilitation State grant program to encourage States to improve their performance in rehabilitating the severely handicapped. Beginning in 1985, up to one-third of State grant funds would be allocated to States based on their success at rehabilitating the severely disabled into suitable, preferably paid, employment. Changes to take effect in 1984 will simplify administration of the program and increase State discretion in service delivery. Overall funding would be maintained at the 1983 level.

RATIONALE

- The Chapter 1 program is the most efficient mechanism for distributing Federal resources to the population of educationally disadvantaged children. The addition of authority for States and school districts to convert the funds into educational vouchers will enhance competition in the delivery of educational services and give parents more control in the education of their children.
- In order to prevent a decline in the Federal share of excess educational costs for the special education services handicapped children receive from local school districts, monies are shifted from federally run discretionary programs, which at times duplicate State responsibilities, to the State grant program.
- Vocational Rehabilitation State grant funds are now allocated based on State population and per capita income. Program performance can be improved by giving States more discretion in determining how services are delivered, while at the same time distributing Federal funds in part on the basis of positive outcomes -- i.e., successful rehabilitations of the severely disabled.

EFFECTS OF THE PROPOSED CHANGE

- The number of school districts receiving Chapter 1 funds will remain stable; the amount of Federal support for their compensatory education activities will rise by $167 million or about 6.5%. This increase will be offset by decreases in the State agency programs, which will be targeted more closely on children most in need of assistance.
- In Education for the Handicapped, the shift in resources will allow the Federal share of average excess educational costs to be maintained at about 8%. States are projected to serve 40,000 more handicapped children in 1984 than 1983. Reductions in discretionary programs will have limited impact on national service priorities.
- By increasing State flexibility in administering the Vocational Rehabilitation State Grant program, and in 1985, including program success as a criterion for fund allocation, the rate of success at rehabilitating the severely handicapped is expected to increase.

1982 AND 1983 CHANGES

Chapter 1, which became effective on July 1, 1982, represents a streamlining and simplifying of the old Title I program of assistance for the education of disadvantaged children. At the same time, States and localities have been given greater discretion over the development and implementation of compensatory activities.

SPECIAL ASSISTANCE

FUNDING FOR INDIAN PROGRAMS -- GOVERNMENT-WIDE

AGENCY: Government-wide

Functional Codes: 300, 450, 500, 550, 600, 800, and 850

Funding

	1982	1983	1984
	($ in millions)		
REAGAN BUDGET			
Budget Authority	2,820	2,673	2,320
Outlays	2,368	2,385	2,619

PROGRAM DESCRIPTION

There are a large number of special programs for Indians and for Federally recognized Indian tribes, principally in the Departments of the Interior, Housing and Urban Development, Health and Human Services, Education, and Agriculture. These special programs fund a wide variety of services, including health and hospital care, housing, welfare, nutrition, education, social services, community and economic development, law enforcement, natural resource management, and tribal government. Funding for these programs is in addition to the proceeds from miscellaneous trust funds held by the Federal Government for the Indian people and benefits Indians receive from Federal programs such as social security and food stamps.

PROPOSED CHANGE

The major changes in Indian programs in the 1984 budget include the following:

- Replacement of the current Indian housing activities scattered among Interior, HHS, and HUD with two alternative funding approaches to be administered by HUD: (1) a $76 million housing grant program; and (2) a $75 million Community Development Block Grant program which allows new housing construction as an eligible activity;
- Proposal of legislation permitting Federally recognized Indian tribes to receive direct funding under the Title XX Social Services Block Grant (SSBG);
- Proposal that Federally recognized Indian tribes be funded directly under the Science and Mathematics Teacher Development Act, consistent with administration policy supporting government to government relationships with Indian tribes;
- As a supplement to appropriations, expansion of third-party reimbursements (through, for example, health insurance plans) for services offered by the Indian Health Service;
- Termination of the special Indian Education Programs in the Department of Education;
- Transferring to the State of Alaska 10 Bureau of Indian Affairs funded Alaska day schools in June 1983 and the remaining 10 in June 1984;
- Closure of four BIA boarding schools in June 1983 (Mt. Edgecumbe (AK), Intermountain (UT), Concho (OK), Wahpeton (ND)); and
- Administration of funding from the HHS Native Americans program for Federally recognized tribes through Interior's Bureau of Indian Affairs, while funds to entities other than Federally recognized tribes will be phased out over three years.

RATIONALE

- The delivery of Indian housing and related infrastructure has not been effectively coordinated among the various departments. The current HUD Indian housing program produces housing that is overly costly and not culturally appropriate for the Indians served. The current housing delivery system, which is based on the public housing authority model, does not work well in Indian reservations. The proposed programs will provide culturally relevant housing at lower cost through tribal governments rather than special housing authorities and will alleviate the need for extensive interagency coordination to ensure that new homes have water, sewer and other infrastructural necessities.

- The proposals for direct funding under the Title XX SSBG and the Science and Mathematics Teacher Development Act are designed to strengthen tribal self-government and the government-to-government relationship between Indian tribes and the Federal Government.

- The expansion of third party reimbursements (e.g., from private health insurers, medicare, medicaid, and Indians with the ability to pay) for health services for Indians will enhance the resources available to continue the traditional Federal role in providing health care to Indian people. This proposal will result in increased IHS flexibility to maintain existing health services levels despite the increasing costs of medical care.

- Education Department programs for federally-recognized Indians are neither necessary nor appropriated in light of current BIA services in this area (especially Johnson O'Malley assistance) as well as other Federal and state education programs for which Indian students and adults are eligible. Special programs for other Indians are also inappropriate in light of their eligibility for the wide variety of Federal, state, and local education programs for which all disadvantaged Americans are eligible. BIA and Impact Aid, plus other programs, will provide $456 million in BA for Indian education in 1984.

- The transfer of the BIA-operated day schools in Alaska is part of a continuing effort to establish a single system of education in Alaska for all children. While Federal funding is reduced, educational services for Alaska natives will be maintained or enhanced.

- The closure of four of BIA's boarding schools is recommended because: the schools are excessively costly to maintain and operate (over $15,000 per pupil at Mt. Edgecumbe); other BIA boarding schools, the Alaska boarding home program, and Alaska public schools have sufficient capacity to accommodate all the Mt. Edgecumbe and Intermountain students; and the Concho and Wahpeton boarding school children should be encouraged to live with their families or in their home communities and attend existing BIA day schools.

- The change in the HHS Native Americans program removes duplication in the administration of programs for Federally recognized tribes and focuses Federal Indian assistance on those tribes recognized as eligible for a special governmental relationship with the U.S.

EFFECTS OF THE PROPOSED CHANGE

- Generally, services to the Federally recognized tribes should be enhanced. Federal outlays will increase by 10% over 1983, and additional non-Federal funds will be attracted to Indian activities, while less of the total will go to non-Federally recognized tribes.

- The change in the HUD Indian housing programs should permit construction of more units in 1984 than Congress provided in 1983, but at lower cost. The housing under the two new programs will be better tailored to Indian cultural needs, delivered through tribal governments, and include funds for necessary infrastructure such as water and sewer, thus avoiding interdepartmental coordination problems.

- Tribal governments should be strengthened through the opportunity to run their own Title XX SSBG program, receive direct funding through the Science and Mathematics Teacher Development Act, and through other initiatives to improve their capacities and develop tribal economies.
- Expansion of third party reimbursements for Indian health services will result in an additional $60 million being available for health services in addition to the $653 million requested for IHS clinical services. Such additional support would strengthen efforts to improve the health status of Indian people.
- Unnecessary duplication will be avoided by the changes in Indian education programs. Additional education funds will be available for many school districts serving Indian children on or near reservations because Impact Aid funding for children whose parents live and work on Federal property (including Indian reservations) is being increased.
- Federal funding for Indian tribes will be more efficiently managed by having BIA administer Administration on Native Americans (ANA) funds. Federally recognized tribes, with whom the Federal government has a government to government relationship, will continue to receive funds from ANA as well as from BIA's Small Tribes Initiative and Tribal Government Services program. Non-Federally recognized tribes who have received ANA transitional assistance may apply to BIA for Federal recognition.

1982 AND 1983 CHANGES

Seventeen day schools in Alaska were transferred to the State of Alaska in FY 1982.

INDIAN HOUSING AND COMMUNITY DEVELOPMENT PROGRAMS

AGENCY: Department of Housing and Urban Development Functional Code: 604 and 451

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Indian Housing Set-aside, HUD Public Housing							
Budget Authority	494	362	380	399	419	440	462
Outlays1/	--	--	--	--	13	26	39
Indian CDBG Grants							
Budget Authority	30	31	33	35	37	39	41
Outlays (est.)	29	30	30	33	34	35	36
REAGAN BUDGET							
Indian Housing Grants							
Budget Authority	--	--	76	76	76	76	76
Outlays	--	--	40	43	45	48	50
Indian CDBG Grants							
Budget Authority	30	31	75	75	75	75	75
Outlays	29	30	31	50	70	75	75
PROPOSED CHANGES							
Indian Housing Grants							
Budget Authority	--	--	-304	-323	-343	-364	-386
Outlays	--	--	+40	+43	+32	+22	+11
Indian CDBG Grants							
Budget Authority	--	--	+42	+40	+38	+36	+34
Outlays	--	--	+1	+17	+36	+40	+39

1/ **Outlays shown are for 1984 and subsequent year budget authority only; outlays from 1983 and prior commitments will continue at $225-250 million over the years shown.**

PROGRAM DESCRIPTION

HUD provides funding for the construction of housing in Indian areas using the public housing delivery mechanism. This arrangement involves the use of HUD construction standards and the creation of Indian housing authorities -- separate from tribal governments -- to administer the program. Related water and sewer facility construction is handled by the Department of Health and Human Services' Indian Health Service and roads are funded by the Interior Department's Bureau of Indian Affairs (BIA). The BIA also operates a separate housing repair program for Indians. The HUD program has built 46,000 houses with another 14,000 in process and commitments for 2,000 more units are planned in 1983. Despite intense efforts to reduce costs, new units currently cost an estimated $71,400 to build.

Indian tribes also receive categorical assistance under the Community Development Block Grant program to support various economic and community development activities, including construction of water and sewer facilities and roads. However, new housing construction is not presently an eligible activity.

PROPOSED CHANGE

- A new Indian Housing Grants program would replace the current public housing for Indians to provide federally recognized tribes with assistance for the development of housing and related infrastructure. The new Indian Housing program entails the use of housing grants in order to write down the cost of housing construction and support the building of water and sewer facilities. The FHA mortgage insurance program would be modified to ensure interim and permanent financing without jeopardizing the trust and status of the Indian land. Rental assistance also would be provided over the 15-year term of the underlying mortgage for those very low income families unable to afford the cost of housing provided under the program.
- New housing construction would be added to the range of activities funded by the CDBG program for Indians (as well as other recipients). The precise activities undertaken would be at the discretion of recipient tribes. Funds may be used by them to complement the assistance provided by the Indian Housing Grants, including housing rehabilitation and construction.
- Both programs are being proposed for 1984. The Indian Housing Grants program would coordinate the now separate efforts of the Departments of Housing and Urban Development, Health and Human Services, and Interior in one program. It is anticipated that less costly housing -- averaging \$30,000 - \$40,000 per unit and another \$7,500 per unit for related water and sewer facilities -- can be built with fewer Federal standards imposed. The Indian Community Development Grants program represents a \$44 million expansion of the current categorical assistance provided by the Community Development Block Grant program.

RATIONALE

The Federal Government has a role to help federally recognized Indian tribes due to the special and historic relationships between the Government and these tribes and the trustee responsibilities of the Government. The trust status of Indian lands makes it difficult to rely upon the private market to supply housing on Indian reservations. In recognition of this special relationship and the unique problems facing tribes, these two programs are being proposed in an effort to help federally recognized Indian tribes better address their housing, community development, and economic needs, while acknowledging the important cultural traditions of Native Americans.

EFFECTS OF THE PROPOSED CHANGE

It is estimated that the Indian Housing Grants program will fund 1,500 housing units annually. Additional units may be provided through the Indian Community Development Block Grant program if tribes elect to use these flexible funds for housing construction and rehabilitation.

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INDIAN HEALTH SERVICE

AGENCY: Department of Health and Human Services Functional Code: 550

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	676	688	699	740	783	828	874
Outlays	654	727	746	740	783	828	874
REAGAN BUDGET							
Budget Authority	676	688	653	653	653	653	653
Outlays	654	727	703	670	659	655	654
PROPOSED SAVINGS							
Budget Authority	--	--	46	87	130	175	221
Outlays	--	--	43	70	124	173	220

PROGRAM DESCRIPTION

The Indian Health Service (IHS) provides directly, or through contracts with tribes and private health organizations, a range of health care services to Indians and Alaska natives. In 1982, the IHS service population consisted of approximately 900,000 persons (64% of the total Indian population in the United States). Health care is provided free of charge to all Indians who request service and are members of federally recognized tribes, regardless of ability to pay or the availability of employer or other (workmen's compensation, automobile indemnity, etc.) health insurance coverage.

PROPOSED CHANGE

IHS will embark upon an expanded program of collecting for services from insurance and other sources, as a supplement to the appropriations request of $653 million. Currently, IHS only collects a modest amount ($20 million) from Medicare and Medicaid. The proposal would result in expanded Medicare and Medicaid collections ($40 million) and initiate charges to Indians and collect from those who could afford to pay for services, as well as from insurers (such as employers) who cover Indians and their families, e.g., FEHB program, ($30 million). *Indians will be served by IHS regardless of their ability to pay.*

RATIONALE

This proposed change enhances the resources available to maintain the traditional Federal role in delivering health care to the Indians. In addition to the annual appropriations request, however, this proposal will result in increased IHS flexibility to maintain existing health services levels despite the increasing costs of medical care. It is appropriate to use third party coverage as an untapped source of additional revenue to the extent that Indians have their own health insurance coverage and other resources.

EFFECTS OF THE PROPOSED CHANGE

In 1984, in addition to $653 million requested for free IHS clinical services, up to an additional $60 million could be collected and would be available during the year for health services. Such additional support would strengthen efforts to improve the health status of Indians, while assuring that third-party payors equitably reimburse for required health services.

NATIVE AMERICANS PROGRAMS

AGENCY: Department of Health and Human Services Functional Code: 506

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	28	28	30	32	33	35	37
Outlays	32	28	29	30	32	34	36
REAGAN BUDGET							
Budget Authority	28	28	22	19	15	15	15
Outlays	32	28	26	21	18	15	15
PROPOSED SAVINGS							
Budget Authority	--	--	8	13	18	20	22
Outlays	--	--	3	9	14	19	21

PROGRAM DESCRIPTION

The Administration on Native Americans (ANA) funds social and economic development projects for Indian tribes. The purpose of the program is to stengthen tribal government, to encourage the development of local economic activities that provide jobs, and to reduce dependency on welfare while promoting self-sufficiency.

In fiscal year 1983, ANA will make grants to 88 federally-recognized Indian tribes and Alaska Native groups. In addition, ANA gives transitional assistance to 27 tribes who have not been recognized as having a special relationship with the Federal Government. Finally, ANA makes grants to projects assisting urban and rural Indians, Native Hawaiians and national advocacy organizations.

PROPOSED CHANGE

Beginning in the Spring of 1983, Native Americans program funds for federally-recognized tribes and Alaska Natives will be administered by the Bureau of Indian Affairs in the Department of Interior. HHS will retain legislative authority for the program, but will work with Interior to determine program rules and requirements. Financial operations will be handled by BIA in order to improve coordination of Federal assistance to Indian tribes.

The FY 1984 budget proposes a three-year phaseout of assistance to non-recognized groups, special urban and rural projects, Native Hawaiians and national groups. Funding for these groups would be reduced by one-third each year in fiscal years 1984, 1985 and 1986.

RATIONALE

- As the locus of Federal Indian program activity, BIA will be able to coordinate a comprehensive program for Indian development and to eliminate program duplication. Having ANA funds flow through BIA helps achieve the Administration's goals of self-determination for Indian tribes.
- Federally-recognized tribes are those with which the Federal government has a unique political relationship, based on historical treaty rights and obligations. These tribes have met stringent sociological and anthropological tests documenting this relationship. By definition, nonrecognized groups have no continuing claim on special Federal resources, yet they consumed more than 40% of ANA's budget in FY 1982.

- Federal funds for Indians should be under tribal control and not pass through service organizations and advocacy groups who cannot best determine tribes' individual needs.
- ANA's location in HHS is largely a matter of historical accident dating from the dismantlement of the Office of Economic Opportunity in the early 1970's. This has cut off ANA and its grantees from other Federal Indian programs.

EFFECTS OF THE PROPOSED CHANGE

- Federal funding for Indian tribes will be more efficiently managed by having BIA be the central funding source for these programs.
- Federally recognized tribes with the greatest need to develop core governmental capacities will continue to receive funds from ANA as well as from BIA's Small Tribes Initiative and Tribal Governmental Services program. A total of $83 million for these programs is requested in the FY 1984 budget.
- Those non-federally recognized tribes who have received ANA transitional assistance may apply to BIA for Federal recognition of their government-to-government relationship. If approved, they will qualify for all Federal Indian programs, for which a total of $2.3 billion is requested in the President's FY 1984 budget.

VETERANS PENSIONS

AGENCY: Veterans Administration — Functional Code: 701

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	4,048	3,827	3,950	3,967	4,090	4,258	4,421
Outlays	3,879	3,954	3,940	3,957	4,079	4,247	4,408
REAGAN BUDGET							
Budget Authority	4,048	3,827	3,837	3,818	3,917	4,037	4,155
Outlays	3,879	3,907	3,873	3,807	3,905	4,025	4,142
PROPOSED SAVINGS							
Budget Authority	--	--	113	150	173	221	266
Outlays	--	46	68	150	173	221	266

PROGRAM DESCRIPTION

A pension to provide income for basic needs is paid to needy wartime service veterans who have become disabled subsequent to their military service or who are age 65 or older. Financially needy survivors may also qualify for benefits. Eligibility is based on active duty service during a designated war period, disabilities considered permanent and total (presumed at age 65), and countable income below a given level. Benefit levels are based on countable income, family size, and whether the beneficiary is a veteran or a survivor.

There are three pension programs: Old Law (Pub. 2, 73rd), Prior Law (P.L. 86-211) and Improved Law (P.L. 95-588). Under the Improved Law, the only one of the three pension programs available for new accessions, virtually all family income is counted in determining eligibility and benefit level. Payments are computed by subtracting total family income from specified income standards. Under this law benefit payments as well as income standards are automatically adjusted each year by the same percentage and on the same effective date as Consumer Price Index (CPI) adjustments for Social Security in order to prevent pension payments from being reduced solely as a result of Social Security increases. This program benefits 550,000 veterans and survivors, 30% of all pension cases, and accounts for 61% of all pension benefits paid.

Benefit levels under the other two pension programs are not adjusted to reflect CPI changes. However, in the Prior Law program income standards are adjusted upwards in the same manner as the Improved Law program to prevent the Social Security cost-of-living adjustment (COLA) increase from removing pensioners from eligibility.

The number of pension beneficiaries is expected to decrease from 1,835,000 in 1982 to 1,735,000 in 1983 and 1,660,000 in 1984 as World War I and World War II veterans and, in particular, survivor populations decrease.

PROPOSED CHANGE

The budget proposes a six-month delay in cost-of-living adjustments from June to December of each year for the Social Security program. This proposal results in an identical COLA delay for veterans pensions, since cost-of-living adjustments for these programs are linked by law. The next COLA effective in December 1983 (reflected in January 1984 checks) is estimated to be 5.1%.

RATIONALE

The six-month delay is consistent with Administration policy toward most income support programs. This policy is intended to achieve budgetary restraint in the most equitable way by restraining the growth of these programs while minimizing the effects of such restraint on beneficiaries.

EFFECTS OF THE PROPOSED CHANGE

Since the computation of income eligibility under both the Prior Law and Improved Law programs is tied to changes in Social Security benefits, and since the link in COLA's between pensions and Social Security is maintained in the President's proposal, the veterans pension caseload will not be reduced. On the other hand, if veterans pensions were "delinked" from Social Security and benefits paid without delay, many veteran pensioners would be dropped from the rolls each time an out-of-phase Social Security COLA took effect, because increases in Social Security income due to COLA's without a corresponding increase in the veterans pension income standard would place many pensioners above the income eligibility standard.

1982 AND 1983 CHANGES

The Budget Reconciliation Act of 1982 embodied several changes effective in either 1982 or 1983 to tighten pension benefit programs. This Act requires that benefit payments be rounded down to the nearest dollar, discontinues entitlement for a dependency allowance at the end of the month (rather than the end of the year) in which dependency ceases, and defers commencement of benefit payments until the first full month of entitlement. The expected savings in FY 1983 are $42 million.

HOSPITAL AND MEDICAL CARE FOR VETERANS 1/

AGENCY: Veterans Administration — Functional Code: 703

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	7,802	8,472	8,868	9,258	9,600	9,975	10,358
Outlays	7,517	8,290	8,908	9,324	9,588	9,873	10,227
REAGAN BUDGET							
Budget Authority	7,802	8,474	9,188	9,564	10,014	10,424	10,862
Outlays	7,517	8,292	8,900	9,341	9,656	10,067	10,441
PROPOSED INCREASES							
Budget Authority	--	2	320	306	414	449	504
Outlays	--	2	8	17	68	194	214

1/ Includes construction of medical facilities.

PROGRAM DESCRIPTION

The Veterans Administration (VA) provides hospital and medical care to veterans by operating a nationwide medical care system consisting of 172 hospitals, 226 outpatient clinics, 101 nursing homes and 16 domiciliary facilities, and by conducting a construction program which maintains the physical plant. In 1982 this system treated nearly 1.4 million patients, provided 18.2 million outpatient visits, and obligated $416 million to improve and modernize VA facilities.

PROPOSED CHANGE

- The 1984 medical care and construction budget request is $714 milllion higher in budget authority and 2,300 higher in full-time equivalent employment than 1983.
- Over $300 million of the $714 million increase is in major and minor construction programs. These budget authority levels are, respectively, 66% and 37% higher than 1983 levels.

RATIONALE

These increases in funding reaffirm the Administration's commitment to quality care for the Nation's veterans.

EFFECTS OF THE PROPOSED CHANGE

- All of the staffing and nearly $400 million of the above funding increase will result in immediate improvements in the care and treatment of veterans. These increases will ensure continued quality care for veterans while providing nearly $40 million in program improvements and allowing the activation of new and modernized medical facilities.
- The demand for medical care will be met with nearly 5,000 more patients treated and 230,000 more outpatient visits accommodated than in 1982.
- Program improvements include development of decentralized ADP information systems in 60 hospitals, conversion of over 12,000 inpatient beds in 25 hospitals from a ward stock medication distribution system to a unit dose system, activation of two spinal cord injury home care units, development of an additional Geriatric Research, Education and Clinical Center, and initiation of three projects developing automated electrocardiography, supply and equipment systems. These improvements are expected to enhance the quality of care, offer an alternative to inpatient care and shorten the average length of inpatient hospital stay.

- In 1984, construction work on major projects (those costing $2 million or more) will be undertaken at 35 medical centers. The two largest projects are the construction of a replacement hospital at Minneapolis, MN and modernization of the medical facility at Biloxi, MS. The funding increases will permit a greater effort to correct space and functional deficiencies, replace or modernize outmoded facilities, and provide other facility improvements

VETERANS DISABILITY COMPENSATION

AGENCY: Veterans Administration Functional Code: 701

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	9,590	9,463	10,331	10,961	11,448	11,986	12,527
Outlays	9,276	9,687	10,290	10,915	11,403	11,942	12,471
REAGAN BUDGET							
Budget Authority	9,590	9,463	10,094	10,669	11,071	11,499	11,942
Outlays	9,276	9,687	10,053	10,632	11,036	11,463	11,905
PROPOSED SAVINGS							
Budget Authority	--	--	237	292	377	487	585
Outlays	--	--	237	283	367	479	566

PROGRAM DESCRIPTION

A monthly benefit is paid to veterans and their survivors based on disabilities incurred in or aggravated by active military service, death while on active duty, or death resulting from service-connected disabilities. The disability benefit is intended to indemnify the veteran for service-connected injury or illness and to provide an income supplement that approximates the average loss of income that the veteran is expected to experience because of the disability. Beneficiaries are rated 10% to 100% disabled on the basis of average earnings impairment for any particular disability, with benefit payments ranging from $62 to $1,213 per month on that basis. The total number of beneficiaries is expected to decline from 2,629,000 in 1982 to 2,616,000 in 1983 to 2,612,000 in 1984 largely because older compensation beneficiaries, largely veterans of World War II, are dying faster than new cases are entering the compensation rolls.

PROPOSED CHANGE

- Provide a 5.1% cost-of-living adjustment (COLA) in benefits, effective April 1, 1984, reflecting a 6-month delay from the present *practice* of providing COLA's each October.
- Provide, beginning in April, 1985, annual cost-of-living increases on a graduated scale, aligned with the degree of disability so that those rated at higher disability levels would receive a proportionally larger annual COLA than those with less severe impairments. COLA's would be provided according to the following schedule:

Percent of rated disability	Percent of COLA to be provided
100	100
60-90	85
40-50	60
10-30	45

- Allowances paid to compensate beneficiaries for dependents and to provide clothing allowances to qualified veterans will continue to reflect 100% of the cost-of-living increases.

RATIONALE

- The FY 1984 COLA delay is consistent with the current Government initiative to delay increases or freeze spending in most income support programs across-the- board.

- Providing COLA increases on a graduated scale would restore the emphasis of this program to its intended objective: aiding those veterans in need whose service-related disabilities clearly and substantially restrict their employment opportunities. Those with less severe impairments would still receive annual cost- of-living adjustments, but on a prorated basis.

- Rather than penalizing one group of veterans, the graduated payments proposal would provide a reasonable increase to all disabled veterans in accordance with level of need for additional compensation. Those veterans rated 100% disabled would receive a 100% COLA completely offsetting the increase in the Consumer Price Index each year. Those rated 0-30% disabled would receive only 45% of the COLA since this group is more likely to be working and receiving full COLA's in that capacity.

EFFECTS OF THE PROPOSED CHANGE

- Neither of the proposals would reduce the number of veterans or survivors receiving compensation benefits.

- The moderation of benefits in the graduated payments proposal would be modest for any individual veteran, from $1 per month for those 10% disabled to $4 per month for those 90% disabled. However, because of the large number of beneficiaries, savings would be substantial -- $2.3 billion over 5 years.

1982 AND 1983 CHANGES

The Budget Reconciliation Act of 1982 restricted payments of compensation benefits to the first full month of entitlement and discontinued entitlement for dependency allowances at the end of the month (rather than end-of-year) in which dependency ceases. These changes will cause a $25.2 million reduction in 1983 obligations.

MINORITY BUSINESS ASSISTANCE

AGENCY: Department of Commerce
Small Business Administration

Functional Code: 376

Funding*

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	108	141**	145	150	154	159	163
Outlays	101	139	142	148	152	160	161
REAGAN BUDGET							
Budget Authority	108	141**	137	136	135	134	135
Outlays	101	139	140	137	136	135	135
PROPOSED SAVINGS							
Budget Authority	--	--	8	14	19	25	28
Outlays	--	--	2	11	16	25	26
PROGRAM LEVEL							
Non-Credit Assistance	81	101	102	104	106	108	109
Credit Assistance	238	491	491	491	491	491	491
TOTAL Program Level	319	592	593	595	597	599	600

* **Budget authority and outlay figures do not include the cost of defaulted guaranteed loans.**

** **Includes $12 million carryover from FY 1982**

PROGRAM DESCRIPTION

Management, technical, and procurement assistance (i.e., non-credit assistance) is provided to minority-owned firms by the Department of Commerce's Minority Business Development Agency (MBDA) and the Small Business Administration (SBA):

- MBDA contracts with public and private organizations to provide management and technical assistance to minority firms.
- The SBA provides non-credit assistance by establishing minority procurement goals for Federal agencies, awarding non-competitive 8(a) contracts and Business Development Expense (BDE) grants to minority firms, and providing management and technical assistance through private contractors.
- Credit assistance is provided through SBA's direct and guaranteed business loans and its Minority Enterprise Small Business Investment Company (MESBIC) program. MESBIC's are privately-owned companies, which are licensed, regulated, and supported financially by SBA, to provide equity financing or long-term loans to small minority firms.

PROPOSED POLICY

- MBDA's management and technical assistance program will continue to focus attention on the development of private sector market opportunities for minority businesses. Beginning in 1984, $6 million (10%) of MBDA's program level will be financed through private sector cost-sharing, which will increase gradually to 25 percent by 1987.

- SBA will continue to have the lead responsibility for ensuring that minority firms have equal access to procurement opportunities in the Federal sector. SBA will also continue to allocate a greater proportion of its resources to management and technical assistance for minority firms.
- Guaranteed loans would be used in lieu of direct loans to provide credit assistance to minority firms.

RATIONALE

The planned minority business assistance implements the commitment the President made in his December 17, 1982, Minority Business Enterprise Statement to help minority Americans achieve fuller participation in the market economy.

EFFECTS OF THE PROPOSED POLICY

- Approximately $0.5 billion in credit assistance and $100 million in management and technical assistance will continue to be made available annually to promote minority business development.
- MBDA will continue to promote market opportunities for minority business in the private sector by financing 100 Business Development Centers (BDC's). The Centers are designed to assist minority businesses to develop marketing strategies, package loan applications, and enter into joint ventures.
- SBA will focus its efforts on improving the ability of minority firms to compete for Federal procurement opportunities and, thereby, ultimately for private contracts. SBA will also continue to attempt to increase the number of Federal contracts awarded to minority firms.
- The continued use of guaranteed loans, rather than direct loans, for minority firms will eliminate a tendency to depend on Federal subsidies for survival; will mitigate -- over time -- the perception of financial institutions that minority firms are higher credit risks; and will foster the development of sound relationships between minority firms and private financial institutions.

TITLE III ASSISTANCE TO HISTORICALLY BLACK COLLEGES (HBC's)

AGENCY: Education Activities | Functional Code: 502

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	40.5 1/	41.4	43.5	45.5	47.6	49.7	51.9
Outlays	34.3	40.7	42.0	45.0	45.4	47.3	49.4
REAGAN BUDGET							
Budget Authority	40.5 1/	43.0 2/	45.7	45.7	45.7	45.7	45.7
Outlays	34.3	40.8	43.2	46.9	45.9	45.7	45.7
PROPOSED CHANGES							
Budget Authority	--	+ 1.5	+ 2.3	+ 0.2	-1.8	-4.0	-6.2
Outlays	--	+ 0.1	+ 1.3	+ 1.9	+ 0.5	-1.5	-3.6

1/ Excludes reappropriation (continuation of availability) of $8.1 million of unspent funds already accounted for in this amount.
2/ Includes proposed supplemental of $1.5 million.

PROGRAM DESCRIPTION

Title III of the Higher Education Act authorizes three grant programs for schools with limited financial resources and large percentages of low-income students. The grants are designed to make such institutions more self-sufficient by improving academic quality, program and financial administration, and student service capacity. In the past, HBC's have received about 15% of all grants representing about 30-35% of all funds. In 1982 they received 75 grants.

PROPOSED CHANGE

Even though the total Title III appropriation is proposed to stay at the same level in 1984 as requested in 1983, appropriations language is proposed to ensure that HBC's receive in 1984 what is proposed for 1983 plus adjustments for inflation. The resulting appropriation of $45.7 million is 41% above funds obligated for HBC grants in 1982.

RATIONALE

The President made clear by issuing E.O. 12320 on September 15, 1981 ("Historically Black Colleges and Universities") that a major component of the Administration's effort to ensure equal access to higher education for minority and disadvantaged students would be increased participation by HBC's in Federal programs. These institutions are a major educational resource of the nation's black community, awarding over half of all bachelor's degrees awarded to black students in America. Later Presidential directives stated that agencies should attempt to preserve or increase relative funding for HBC's in the face of overall funding restraint. The 1984 Budget proposes, through appropriations language, exactly such an increase in the share received by HBC's of a total Title III appropriation held level from 1983 to 1984.

EFFECTS OF THE PROPOSED CHANGE

Both the number and average amount of grants to HBC's would increase from the level to be financed from the 1983 appropriation, allowing faster progress by more of these institutions toward self-sufficiency.

HOWARD UNIVERSITY

AGENCY: Education Activities — Functional Code: 502

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	145.2	145.2	152.9	160.4	167.9	175.5	183.4
Outlays	146.2	166.2	158.6	160.1	167.6	175.2	183.1
REAGAN BUDGET							
Budget Authority	145.2	145.2	159.7	158.2	158.2	158.2	158.2
Outlays	146.2	166.2	164.4	159.1	158.2	158.2	158.2
PROPOSED CHANGES							
Budget Authority	--	--	+ 6.8	-2.2	-9.6	-17.3	-25.1
Outlays	--	--	+ 5.7	-1.0	-9.3	-16.9	-24.8

PROGRAM DESCRIPTION

The Federal Government provides a substantial portion of both the operating and capital costs of Howard University, one of the nation's preeminent primarily minority institutions of higher education. The school provides about 10,000 students with high quality undergraduate and graduate education in 17 schools and colleges. It also operates a 500-bed teaching hospital which annually has about 14,000 admissions and about 150,000 out-patient visits.

PROPOSED CHANGE

The 1984 Budget provides:

- Substantial increases in operating support, up 10.6% from 1983 and 24.2% from 1982.
- Continued support of Howard University Hospital at the $22.1 million level agreed to by Howard and the Federal Government in 1977.
- $1.5 million for repair of the Medical Building and continuation of the Freedmen's Hospital renovation project. This meets a one-time funding need of the university; no construction funds are requested in 1985 and beyond.

RATIONALE

Here, as in other areas of support for higher education, the Administration is strongly committed to providing equal access for minority and disadvantaged students. Increased levels of support for Howard will help assure that access by providing needed support to a major educational resource for minorities, particularly black students.

EFFECTS OF THE PROPOSED CHANGE

1984 enrollment will grow to about 10,050, some 2% above 1983 and 4% above 1982. Most of the $13 million increase in operating support will be used for faculty and staff pay increases required to maintain competitiveness with similar institutions. About 30% will be used for improvements designed to eliminate accreditation problems in several of the schools. The construction funds will permit emergency repairs and additional renovation of the Freedmen's Hospital.

FEDERAL CIVIL RIGHTS ACTIVITIES */

Outlays	($ in millions)				
	1980	1981	1982	1983	1984
Federal civil rights activities (total) 1/	512.6	544.3	564.2	607.3	632.2
Major civil rights programs:					
Department of Justice/Civil Rights Division	14.5	16.7	17.2	18.6	20.6
Equal Employment Opportunity Commission	130.8	134.2	137.6	147.0	153.0
Department of Housing and Urban Development/Office of Fair Housing and Equal Opportunity	18.4	21.7	24.6	34.1	30.4
Office for Civil Rights					
Health and Human Services	--	19.3	19.1	19.6	19.6
Education Activities 2/	--	44.1	41.8	44.3	42.7
Total	58.8	63.4	60.9	63.9	62.3
Department of Labor/Office of Federal Contract Compliance Programs	50.6	48.1	42.5	43.8	47.4
Commission on Civil Rights	11.5	11.7	11.9	12.0	12.2

1/ Includes, in addition to outlays by Executive departments and agencies, expenditures by the Legislative Branch and U.S. Postal Service to implement Federal internal EEO requirements. These figures reflect the most current information available, and include some updates and corrections to figures published in Special Analysis J.

2/ These offices were one until 1980, and reliable data for that year is available only on a total basis. Education activities will be proposed for reassignment to appropriate executive departments and agencies pursuant to reorganization legislation to be submitted at a later date.

PROGRAM DESCRIPTION

The Federal Government enforces or implements approximately 130 Federal statutes designed to protect individuals against violations of their civil rights based on race, sex, color, religion, national origin, age or handicap. These statutes are in addition to basic constitutional guarantees and Executive orders. The Federal guarantees are designed to assure equal employment opportunity (within the Federal Government itself, as well as among State, local, and private employers); fair housing; equal credit; nondiscrimination in federally assisted programs and activities; and basic constitutional rights. Federal civil rights activities include agency efforts to implement these guarantees. They also include monitoring and research activities, such as those performed by the U.S. Commission on Civil Rights.

* **More detailed information regarding outlays and accomplishments is provided in Special Analysis J, Civil Rights Activities, Budget of the United States Government, 1984.**

PROPOSED CHANGE

The proposed 1984 Budget provides for an estimated increase of $68 million over actual 1982 outlays for these activities. Outlays for most principal Federal civil rights agencies will be increased or maintained at current levels.

RATIONALE

Spending levels for all civil rights activities reflect the administration's commitment to maintaining and expanding protections for the civil rights of individuals, while realizing personnel and other economies available through management and program reforms, increased efficiency, and enhanced involvement of State and local governments in protecting individual civil rights.

EFFECTS OF PROPOSED CHANGE

The 1984 budget provides outlays sufficient to maintain and enhance the effectiveness of Federal civil rights enforcement efforts. Considered individually, outlays for each of the major Federal civil rights programs will exceed 1982 levels. In the only major civil rights activities for which proposed 1984 outlays do not exceed estimated outlays for 1983:

- The Department of Education's Office for Civil Rights has substantially increased the efficiency of its complaint processing, its primary enforcement function (reducing its complaint backlog, for example, by 27% in 1982). Coupled with a downward trend in complaints filed with the Office, these improvements will enable the Office to maintain current protections against discrimination in education activities while realizing the modest dollar savings proposed for 1984.
- The Department of Housing and Urban Development's Office of Fair Housing and Equal Opportunity's (FHEO) 1983 outlays include substantial "seed money" for developing the capabilities of State and local agencies to process fair housing complaints now handled by FHEO and for the development of Community Housing Resource Boards to involve the private sector in preventing and eliminating discriminatory housing practices. 1984 outlays reflect savings achieved through increased State and local processing of complaints now processed by FHEO, as well as the completion of most of the costly "start-up" activities.

1982 AND 1983 CHANGES

- The administration continued its efforts to refocus Federal enforcement on protecting the civil rights of individuals. These efforts included:
    - Continued refinement of the Department of Justice's new approach to remedying employment discrimination. This involves, in place of the quotas of the past, requirements that employers guilty of discrimination institute specific programs assuring that members of previously excluded groups are considered for employment opportunities, and that they use genuinely nondiscriminatory procedures in selecting from the resulting pool of eligibles.
    - A wide range of appellate and other litigation by the Department of Justice designed to reassert Title VII's basic requirement that employment decisions be based on individuals' abilities and characteristics, not on presumptions based solely on their race, sex, color, national origin, or religion. The Department filed a brief with the Supreme Court defending Boston firefighters against layoffs based on race, and another challenging the practice of many pension plans of setting contribution or periodic benefit levels solely on the basis of sex. In response to the protests of female, Hispanic, and white male police officers who may be denied promotions they have earned solely because of their race, the Department has intervened in a Circuit Court case involving

the New Orleans Police Department. And the Department obtained a Supreme Court decision establishing, once and for all, that persons employed by subsidiaries of foreign corporations are protected by statutes prohibiting employment discrimination.

— Continued opposition to discrimination against individuals in other significant areas, including a Presidential Task Force's firm rejection of suggestions that quotas be imposed to limit the participation of blacks in the armed services; the Administration's continued opposition to the assignment of students on the basis of race and national origin, either through *de jure* segregation or forced busing; and a proposed amendment to the Age Discrimination in Employment Act designed to ban mandatory retirement based solely on age.

— Continued improvements in EEOC's activities on behalf of victims of discrimination. For example, EEOC complaint processing and legal enforcement resulted in the recovery of $134.6 million in backpay for identified victims of discrimination in 1982 (compared to $77.6 million in 1980).

- The Administration initiated management improvements in civil rights activities throughout the Federal Government. For example, actions to correct long-standing financial and personnel management problems at the EEOC were initiated in 1982, and will be continued through 1983.

- The Administration continued efforts to utilize the capabilities of State and local governments in assuring nondiscrimination. For example, during 1982, the EEOC provided over $17.5 million in grants to State and local nondiscrimination agencies, and deferred 38,800 charges of employment discrimination to these agencies for processing. During 1982, HUD's FHEO referred 56.7% of the Fair housing complaints it received to State and local agencies for processing (compared with only 13% in 1980).

- The President announced his support for extending the Congressional authorization of the U.S. Commission on Civil Rights (due to expire this year) in his State of the Union Message. This is but one indication of the importance to this Administration of the Commission's mandate to assure that the laws protecting individuals against discrimination are faithfully executed.

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LEGAL SERVICES CORPORATION

AGENCY: Legal Services Corporation Functional Code: 752

Funding

($ in millions)	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	241	241	256	272	288	304	322
Outlays	259	242	256	272	288	304	322
REAGAN BUDGET							
Budget Authority	241	241	--	--	--	--	--
Outlays	259	242	21	--	--	--	--
PROPOSED SAVINGS							
Budget Authority	--	--	256	272	288	304	322
Outlays	--	--	235	272	288	304	322

PROGRAM DESCRIPTION

The Legal Services Corporation (LSC) funds State and local agencies that give free civil legal assistance to the poor. LSC is a private non-profit corporation that acts independently of related Federal social and community services programs. Grantees are involved both in cases for individual clients and in broader "law reform" activities.

PROPOSED CHANGE

The Administration proposes that the corporation not be reauthorized and that no further separate Federal funding be provided. LSC funding already enacted by Congress would be used for responsibilities in existing cases, separation costs of Corporation and grantee staff, and related close-out functions.

RATIONALE

The Legal Services Corporation has operated since 1980 without an authorization approved by Congress, due to differences over the proper Federal role, funding mechanism, and administrative structure for legal services. The Administration proposes adopting a different approach: giving States flexibility and discretion to use block grants funds for legal services activities, and relying on private attorneys to fulfill their ethical obligations to serve the poor.

The Administration's $2.5 billion Social Services Block Grant includes adequate authority to fund whatever legal services activities States may wish to provide for their citizens. These sources of funds will give more flexibility to States, and permit the services to be more responsive to the direct needs of their citizens, than the current Legal Services Corporation.

The American Bar Association (ABA) Code of Professional Responsibility states:

> "The basic responsibility for providing legal services for those unable to pay ultimately rests upon the individual lawyer, and personal involvement in the problems of the disadvantaged can be one of the most rewarding experiences in the life of a lawyer. Every lawyer, regardless of professional prominence or professional workload, should find time to participate in serving the disadvantaged."

The nearly 600,000 attorneys nationwide can be a significant resource for legal services for the poor. The Administration believes private bar members can and should do more to fulfill their obligations through *pro bono* services. Private bar activities for the poor have increased modestly over the past two years, in response to the Administration's call for greater involvement, and trims enacted in the LSC budget. However, much more can be done. For example, 40 hours/year per attorney in donoted services would provide more legal aid resources than the entire quarter-billion dollar Federal LSC program.

In addition, the Federal Government should no longer subsidize the private bar in the fulfillment of its ethical responsibilities to the poor. Revenues received by private law firms alone exceed $25 billion per year. Significant legal services for the poor can also be made available through modest fee assessments and service requirements of State and local bar associations, and through inclusion of service requirements in law school curriculum.

Restrictions on advertising, competition, and other barriers to normal market forces for legal services have been substantially reduced over the last few years. This will increase the availability of low-cost private legal services, particularly in "routine" cases such as divorce. Cases involving family law (primarily divorces), consumer finance problems, landlord/tenant relations, and wills and estates -- areas which are handled on a regular basis by a large number of private attorneys -- comprise over 50% of all LSC-funded casework.

Most legal services are now delivered by LSC grantees, operating as staff attorney offices directly handling individual cases. A major Congressionally-mandated study concluded that other legal service delivery systems which make greater use of the private bar are viable - "judicare" (operating in conjunction with staff attorneys) and contracts with law firms. States could use Social Services Block Grant funds to finance such legal services if they so choose.

EFFECTS OF PROPOSED CHANGE

With the use of Social Services Block Grant funds, State priority setting and control over resources will be enhanced, overhead will be decreased and coordination among different social services at the local level will be improved. Increased *pro bono* services will give the poor greater access to the legal system and will help fulfill private ethical obligations. Participating in a variety of direct legal matters with low-income clients will also be a useful professional experience for young attorneys competing in tight job market. Direct assistance to eligible individual clients could be maintained or increased above the current level. States will decide how the Social Services Block Grant funds may be best used in serving the legal needs of the poor, including, for example, coordinating and supporting *pro bono* work by private attorneys.

1982 AND 1983 CHANGES

In each of the last two budgets, the President has proposed eliminating separate LSC funding. Congress has reduced the LSC budget by 25% and imposed tougher restrictions on LSC and grantee activities, but the structure of independent, federally funded legal aid programs in every county in the nation remains largely intact. Efforts to increase private attorney involvement in legal services for the poor have increased, but remain at a relatively low level overall.

OLDER AMERICANS PROGRAMS

AGENCY: Department of Health and Human Services
Department of Labor
Department of Agriculture

Functional Code: 506

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	1,006	1,054	1,105	1,156	1,210	1,264	1,322
Outlays	988	1,041	1,091	1,141	1,195	1,249	1,296
REAGAN BUDGET							
Budget Authority	1,006	1,054	998	998	998	998	998
Outlays	988	1,041	1,108	999	998	998	998
PROPOSED CHANGES							
Budget Authority	---	---	-107	-158	-212	-266	-324
Outlays	---	---	+ 17	-142	-197	-251	-298

PROGRAM DESCRIPTION

Older Americans programs fund nutrition, social and other services designed to promote economic well-being and independence for the elderly. They include: Administration on Aging programs under Title III of the Older Americans Act administered by the Department of Health and Human Services, the Elderly Feeding Program administered by the Department of Agriculture, and the Senior Community Service Employment Program administered by the Department of Labor.

The Administration on Aging (AoA) in HHS makes grants to 57 State and, through them, to 670 Area Agencies on Aging. These agencies deliver a range of social services to over 9 million older Americans including transportation, information and referral, legal services and homemaker/home health services. AoA also funds congregate and home-delivered meals. In FY 1983, 191 million meals were served to over 3 million people. All persons over age 60 are eligible for AoA programs, regardless of income. AoA also makes grants to Indian tribes and conducts research, training, and evaluations.

Under USDA's Elderly Feeding Program, nutrition projects are entitled to reimbusement in cash or commodities for each meal they serve, subject to an overall annual funding level. In FY83, 92% of these funds were paid to States in cash.

The Senior Community Service Employment Program (SCSEP) makes grants to national contractors and State Agencies on Aging to subsidize part-time jobs for low-income persons aged 55 or over. In FY83, 54,200 persons hold subsidized community jobs as day care aides, conservation workers,legal aides,nutrition workers, or home-health care aides. National contractors receive 78% of all funds for this program.

PROPOSED CHANGE

The Administration proposes to consolidate into AoA's existing Title III program those Older Americans programs currently administered by other Federal agencies.The FY84 budget requests $998 million for Older Americans programs. This funding level will maintain the level of services and meals provided in FY83.

Legislation will be proposed to reform and transfer the Elderly Feeding program from USDA to HHS, which administers all other nutrition activities under Title III of the Older Americans Act.

Second, the legislation will broaden AoA's Title III authority to allow continuation of subsidized employment for older persons out of an expanded Title III grant to State and area agencies on Aging. The FY84 budget requests no separate funding for SCSEP.

Reductions are proposed for State administrative activities and research, training and evaluations to preserve funding for activities which directly serve the elderly.

RATIONALE

- Expanding the range of services funded by AoA programs will enhance the ability of State and Area Agencies on Aging to promote economic independence and well-being for the elderly. These agencies are by law the principal coordinators of services to the elderly, and their ability to serve this role will be strengthened if they no longer have to deal with three separate Federal agencies in order to assist the elderly.
- Consolidating two Federal programs into AoA further extends the flexibility already available to States to transfer funds among AoA's categorical programs. The budget proposal will give State and Area Agencies more control over resources and will strengthen their ability to design effective programs.
- AoA administration of senior employment would enhance coordination of programs now assisting the elderly. Almost half the jobs currently subsidized involve service to the elderly. In addition, State and local resources will be maximized since no more than 8.5% of AoA funds can be spent on administration, compared to 15% for SCSEP.
- Similarly, consolidating Elderly Feeding into AoA programs will reduce wasteful and duplicative overhead. Most meal programs already choose to receive cash, and States will be free to continue purchasing commodities from USDA should they wish to do so.
- The FY84 budget request is sufficient to maintain the number of meals served and the level of other services provided at or above their FY83 levels. As the General Accounting Office has pointed out, considerable savings can be achieved by improving the management of AoA programs, without affecting program quality. Further, service levels can be maintained by encouraging voluntary contributions. In 1983, for example, an average contribution of less than 60¢ per meal generated $118 million for Area Agencies to redirect toward the neediest older Americans.
- Reductions in administrative and discretionary activities restrain growth in Federal spending while preserving funding for direct services to older Americans.

EFFECTS OF PROPOSED CHANGE

- Over 11,000 paid staff at the State and local level will serve an even stronger role in planning and delivering services to older American.
- Service levels will be maintained. 191 million meals will be served in congregate settings or home-delivered. Nine million people will receive supportive social services. Employment opportunities will be promoted for older Americans.
- Grants to 83 Indian tribes will support meals and services for 15,000 older Indians.

ACTION

AGENCY: ACTION (Domestic Volunteer Programs) — Functional Code: 506

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	132	129	130	134	139	143	147
Outlays	135	132	130	133	137	141	146
REAGAN BUDGET							
Budget Authority	132	129	110	110	110	110	110
Outlays	135	132	113	110	110	110	110
PROPOSED SAVINGS							
Budget Authority	--	--	20	25	29	33	37
Outlays	--	--	16	22	27	32	36

PROGRAM DESCRIPTION

ACTION provides financial support for volunteers under four major programs. Three are for older Americans: the Foster Grandparents program, which provides stipends to low-income elderly working 20 hours a week in various settings with children who have handicaps or other special needs; the Senior Companion program, which provides stipends to low-income elderly working 20 hours a week to help prevent the institutionalization of the chronically homebound elderly; and the Retired Senior Volunteer Program (RSVP), which pays project costs and incidental expenses for the elderly volunteering to provide various services to their communities. The fourth program is the Volunteers in Service to America (VISTA), which provides expenses, stipends, and allowances to full-time volunteers serving in a variety of community-based organizations. In addition, ACTION provides seed-money assistance to encourage volunteer activities.

PROPOSED CHANGE

The 1984 budget request would complete the phase out of the VISTA program started in the 1981 Reconciliation Act. It would also substantially reduce the portion of the ACTION budget devoted to Federal employment and administrative expenses.

RATIONALE

The VISTA program is both more expensive and less effective than the older American volunteer programs.

In 1982, almost 21% of ACTION's budget went for program support, an extremely high proportion.

EFFECTS OF THE PROPOSED CHANGE

The 1,750 VISTA volunteer service years provided in 1983, an insignificant portion of nationwide voluntary service, would no longer take Federal funding.

The portion of ACTION's budget devoted to program support would be reduced to 16.5%; FTE would decline from 490 in 1983 to 375 in1984.

1982 AND 1983 CHANGES

In 1982, the number of VISTA volunteer years was reduced to 2,227 from the 4,208 financed in 1981. This total was reduced to 1,750 in 1983.

REFUGEE AND ENTRANT ASSISTANCE

AGENCY: Department of Health and Human Services Functional Code: 609

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	689	579	485	355	288	246	200
Outlays	1,011	632	521	366	299	254	225
REAGAN BUDGET							
Budget Authority	689	579	485	355	288	246	220
Outlays	1,011	632	521	366	299	254	225
PROPOSED CHANGE							
Budget Authority	--	--	--	--	--	--	--
Outlays	--	--	--	--	--	--	--

PROGRAM DESCRIPTION

With Federal financial support, States administer programs of cash, medical, and other assistance to refugees and entrants for up to three years after their arrival in the U.S. Other refugee and entrant assistance activities include matching grants to voluntary agencies for Soviet refugee resettlement and public health grants. U.S. refugee admissions and entrant flows have decreased dramatically from a high of 210,000 in 1980 to 90,000 anticipated in 1983. Outlays for refugee and entrant assistance are expected to decline in 1984 and in the future due to reduced flows from Indochina and elsewhere. In recent years, the refugee assistance program has experienced welfare dependency rates as high as 80%.

PROPOSED CHANGE

Consolidate Federal funding in a single per capita grant to State for all assistance to refugees and entrants who are not categorically eligible for AFDC, Medicaid, or General Assistance. Those who are eligible for regular Federal or State welfare programs would not be affected, and Federal reimbursement of these programs would continue.

RATIONALE

States and voluntary agencies directly administer refugee and entrant assistance. The per capita grant for assistance to non-categorically eligible refugees and entrants would give States and localities greater flexibility and discretion needed to reduce high welfare dependency and special refugee/entrant adjustment problems. The complete discretion States would have under the per capita grant program recognizes the wide variations in assistance programs and economic conditions in each State. States could continue the existing programs "as is", or finance a new mix of exemplary services designed to meet the needs of newly arriving refugees given particular conditions in the State. Most of the current Federal constraints on State and local activities and services would be eliminated.

EFFECTS OF THE PROPOSED CHANGE

There would be *no* funding reduction from current estimates of refugee and entrant assistance costs under the per capita grant for FY84.

States would receive formula grants based on the state refugee and entrant population, currently the basis for distributing social services funds.

1982 AND 1983 CHANGES

The Refugee Assistance Amendments of 1982 strengthened work requirements for refugees and entrants on public assistance and prohibited aid to refugees and entrants who are full time students. Beginning in FY82, the Office of Refugee Resettlement implemented new cash and medical assistance regulations limiting Federal reimbursement of such aid to refugees and entrants not categorically eligible for AFDC, Medicaid and General Assistance to 18 months after arrival in the U.S., after which refugees and entrants would be eligible for public assistance as other Americans are.

FARM PROGRAMS

AGENCY: Department of Agriculture | Functional Code: 351

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	16,063	17,858	10,491	11,000	12,400	13,400	12,100
Outlays	11,652	18,859	12,394	13,700	13,400	14,600	12,500
REAGAN BUDGET							
Budget Authority	16,063	15,186	10,418	6,800	5,400	6,200	6,300
Outlays	11,652	18,255	9,255	7,700	6,600	7,000	7,200
PROPOSED SAVINGS							
Budget Authority	--	2,672	73	4,200	7,000	7,200	5,800
Outlays	--	604	3,138	6,000	6,800	7,600	5,300

PROGRAM DESCRIPTION

The Commodity Credit Corporation (CCC) finances price support, export credit and related programs to mitigate the adverse effects of price fluctuations on farmers and help ensure a vital U.S. farm economy. Price support is provided through loans, purchases and direct payments.

PROPOSED CHANGE -- beginning in FY 1983

- *Payment-in-Kind (PIK)* -- In return for reducing their production, farmers of wheat, corn, sorghum, cotton, and rice would receive, at no cost to them, some of the surplus commodities now pledged as collateral for Federal price support loans or owned by CCC (the corresponding loans would be forgiven).
- *Freeze of target prices* -- Target prices for wheat, feed grains, cotton, and rice would be frozen at current (1983 crop) levels.
- *Increased exports* -- Enhanced promotion and credit programs should help increase the amount of farm exports for cash and credit (described in further detail in a separate fact sheet).
- *Increased donations* -- Surplus commodities held by CCC would be made available for donation through international humanitarian organizations.
- *Honey price support* -- The honey price support program would be changed from mandatory to discretionary.
- *ELS cotton price support* -- The extra-long staple cotton support formula would be modified and the acreage allotments and quotas would be eliminated.

The PIK and export initiatives are being implemented now under current authorities. Legislation is being proposed for the other above program changes.

RATIONALE

- The President's farm program is designed to protect formers' income while simultaneously reducing excess inventories and excess production, and enhancing farm product demand, to correct the current agricultural supply/demand imbalance.

- During the past two years, good weather has resulted in unexpected increases in farm crop production. This increased supply, coupled with lower demand than anticipated, has reduced prices and created large surpluses.
- As price support programs automatically cushion the adverse effects of low prices and excess supplies, CCC budget outlays have increased to record highs of $11.7 billion in 1982 and over $18 billion in 1983. This occurred because the Agriculture and Food Act of 1981 built in high and increasing guaranteed target prices based on previously expected inflation in costs and market prices. However, actual farm costs declined, farm prices remained low and supply and demand remained out of balance.
  - The 1981 Farm Program has built in 22-33% cumulative increases in target prices over the 1981-85 crop year period.
  - Costs of production are expected to increase a total of only 13% to 15% over the same period.
  - Current target prices generally cover these increased costs.
- Unless changed now, these excessively high target prices will continue to provide an incentive for overproduction; maintaining large surplus stocks, low farm corp prices and high Government costs.
  - A freeze of target prices would more than cover current and projected increases in farm production costs and provide substantial savings to the American taxpayer.
  - This proposed freeze is consistent with other inflation-related program proposals, including a freeze in cost-of-living adjustments and freezes of many discretionary Federal programs Government-wide.
- This new comprehensive program should be less costly to the general taxpayer and less of a restriction on farm producers than any other course available to us.

EFFECTS OF THE PROPOSED CHANGE

Surplus grain stocks, which have been overhanging the market and depressing prices, are expected to be reduced by one-third from current services levels by crop year 1984.

Outlay savings under the President's farm program can be divided as follows:

	($ in millions)					
	1983	**1984**	**1985**	**1986**	**1987**	**1988**
PIK and other reforms	604	2,588	4,100	3,500	3,300	300
Target price freeze	--	550	1,900	3,300	4,300	5,000
Total savings	604	3,138	6,000	6,800	7,600	5,300

1982 AND 1983 CHANGES

As part of the Reconciliation Act of 1982, Congress approved the Administration's proposal to reduce dairy program costs and enacted a new dairy assessment program which is expected to help bring dairy production more in line with demand and reduce dairy outlays in 1984 and thereafter from levels of $2.2-3.2 billion a year to about $600 million a year. The President's budget assumes continuation of this program.

SOIL AND WATER CONSERVATION

AGENCY: Department of Agriculture — Functional Code: 301, 302 and 304

Funding

	($ in millions)						
	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	798	805 1/	840	864	887	910	935
Outlays	809	816 1/	876	870	890	913	929
REAGAN BUDGET							
Budget Authority	798	730 2/	544	549	549	549	549
Outlays	809	780 2/	711 2/	589	581	579	565
PROPOSED SAVINGS							
Budget Authority	--	75 3/	296	315	338	361	386
Outlays	--	36 3/	165	281	309	334	364

1/ Appropriation
2/ Net of proposed rescissions.
3/ Amount proposed for rescissions.

PROGRAM DESCRIPTION

The Soil Conservation Service (SCS) provides soil and water conservation technical assistance to landowners, conducts soil surveys, and collects national information on soil and water related conservation problems. It also assists sponsors of small water resource projects in planning and implementing works of improvement in small watersheds primarily to reduce flood damage in rural areas and small communities.

The Agricultural Stabilization and Conservation Service (ASCS) administers the Agricultural Conservation Program (ACP), a program of financial assistance to cost share with landowners the cost for installing soil and water conservation practices on private lands.

PROPOSED CHANGE

- The FY 1984 Budget for SCS is $475 million, a net decrease of $44 million from the FY 1983 appropriation (net of proposed rescissions).

	Changes from FY 1983
— *Conservation Operations*	+ $5.3 million
— *Water Resource Programs*	-$23.4 million
— *Great Plains Conservation Program*	-$5.8 million
— *Resource Conservation and Development program*	-$20.1 million

— *Conservation Operations* + $5.3 million
Reflects increase in operating costs and targeting of conservation technical assistance, partially offset by decreases in inventory and monitoring and resource appraisal and program development.

— *Water Resource Programs* -$23.4 million
Reflects reduction in number of new starts for river basin surveys, a no new planning starts policy, and a no new project construction starts policy for small watershed and flood prevention projects

— *Great Plains Conservation Program* -$5.8 million
Reflects reduction in number of new contracts.

— *Resource Conservation and Development program* -$20.1 million
Reflects proposed termination of RC&D program in FY 1983.

- The FY 1984 Budget for conservation cost-share programs of the ASCS provide $69 million for FY 1984, a net decrease of $143 million from FY 1983.

  — *Agricultural Conservation Program, Emergency Conservation Program, Water Bank Program, Forestry Incentives Program* -$155.3 million
  The objective of these cost-share programs are combined in a single consolidated ACP.

  — *Colorado River Salinity Control* + $12.6 million
  New on-farm salinity control program is proposed.

RATIONALE

- Funding for discretionary programs must be carefully controlled if the economic recovery is to be sustained. Accordingly, for these discretionary programs, Federal assistance is proposed for funding critical needs, and selective reductions are proposed for relatively lower priority situations.

- Total funding for soil and water conservation activities in FY 1984 is consistent with priorities established in the Secretary's program for USDA soil and water conservation under RCA for:

  — Targeting Federal technical assistance to geographical areas where there is a concentration of critical problems affecting soil productivity.

  — Assigning highest priority to reducing soil erosion and water conservation.

  — Placing a greater reliance on State and local governments for solutions to resource problems.

- Investments in planning and developing water resource projects were deferrable and their benefits mainly local in nature.

- A substantial portion of water resource projects provide recreation enhancement or offer the potential for increased crop production through flood protection for agriculture lands. These are of lower priority in this budget and fiscal situation.

- Reviews of RC&D programs conducted since 1975 by SCS, USDA and by the GAO have been unable to demonstrate significant measurable program effectiveness. Moreover, the local resource and economic development objectives of RC&D projects primarily are more appropriate as objectives for State and local governments.

- The decrease and consolidation of ACP from the FY 1983 appropriations for the ASCS and for the Great Plains Conservation Program of SCS are both proposed for the following reasons:

  — This Administration's PIK program is designed to substantially increase the acreage of land taken out of production. The lands set aside are likely to be the most erosion-prone land, thereby substantially reducing the need for Federal cost share assistance for reducing soil erosion on cropland.

  — Reductions in these cost-share programs can be more readily made than in other conservation programs involving RIF's of trained personnel.

  — The consolidated ACP would allow State and county offices greater flexibility to make tradeoffs between conservation programs in targeting Federal funds ($56 million) to their most critical conservation needs. This should contribute to a more cost-effective use of available funds.

EFFECTS OF THE PROPOSED CHANGE

- Technical assistance will be targeted to 282 additional counties in FY 1984. A total of 806 counties in 44 States will receive $26.3 million.

- No new planning and no new project construction starts are proposed for the Watershed and Flood Prevention programs in FY 1984. Available funds are concentrated in completing work already underway.
- RC&D would be terminated in FY 1983 and no funding sought for FY 1984.
- The proposed Colorado River Salinity Control Program will provide cost-sharing and technical assistance to reduce salt loading in the Colorado River Basin through improved on-farm water management, and to improve water quality for downstream users in the U.S. and Mexico.
- Proposed reduction for the Great Plains Conservation Program in FY 1984 would come entirely from new cost-share agreements. An estimated 300 new contracts on 625K acres would be signed in FY 1984 and commitments to present cooperators would be honored.

1982 AND 1983 CHANGES

- Allocations for the FY 1983 ACP program have been announced and include targeting of $19 million to the critical areas jointly identified by ASCS and SCS.
- Targeting of technical assistance to critical soil and water resource problem areas was provided in FY 1982 at $6.6 million in 205 counties, growing to $12.5 million in 524 counties in FY 1983.

EXPORT CREDITS AND GUARANTEES

AGENCY: Export-Import Bank Functional Code: 155

Funding

($ in millions)	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Direct Loans	3,516	3,830	4,030	4,230	4,430	4,625	4,835
Guaranteed Loans	5,832	8,000	8,420	8,840	9,250	9,660	10,095
Outlays	1,173	1,192	1,460	956	782	527	578
REAGAN BUDGET							
Direct Loans	3,516	3,830	3,830	3,830	3,830	3,830	3,830
Guaranteed Loans	5,832	8,000	10,000	10,000	10,000	10,000	10,000
Outlays	1,173	1,192	1,433	853	566	190	116
PROPOSED CHANGES							
Direct Loans	--	--	-200	-400	-600	-795	-1,005
Guaranteed Loans	--	--	+ 1,580	+ 1,160	+ 750	340	-95
Outlays	--	--	-27	-103	-216	-337	-462

PROGRAM DESCRIPTION

The Export-Import Bank provides credit support for the sale of American goods and services overseas in the form of long-term direct loans and loan guarantees and insurance against defaults by foreign purchasers. The programs enable U.S. exporters to obtain financing on terms competitive with those offered foreign exporters by their governments or in areas where commercial lenders are either unable or unwilling to extend credit without an Eximbank guarantee.

PROPOSED CHANGE

The Administration proposes to:

- maintain direct lending at $3.83 billion in 1984; and
- increase loan guarantees from $5.8 billion in 1982 to $10 billion by 1984.

In addition, the President will seek a supplemental authorization for direct loan obligations of up to $2.67 billion for 1984 if necessary to meet subsidized foreign officially supported competition.

RATIONALE

The Administration's proposals are designed to respond to market conditions and to counter foreign trade-distorting practices:

- In the past eighteen months, the Administration has successfully negotiated major increases in minimum interest rates on export credits, and market interest rates have declined.
- As a result, the majority of official export credit financing provided by the United States and other OECD countries is now offered at or above market rates. Loan guarantees can provide export financing at competitive rates.
- If, however, market conditions became unfavorable, foreign export subsidies could again become a problem. In this situation, increased direct lending may be justified if it is explicitly temporary, serves the strategic purpose of increasing the cost of interventionist policies by foreign governments, and convinces them to reduce their trade distortions.

- The Administration remains opposed to export credit subsidies because they are a form of protection which hurts the country which adopts them as well as those which respond to them. Nonetheless, the possibility of providing subsidies is held open, in order to serve the strategic objective of reducing foreign trade barriers.

EFFECTS OF THE PROPOSED CHANGE

The Bank's programs supported export financing that covered 2.6% of U.S. merchandise exports in 1982 and are forecast to support 3.7% of exports in 1984 if proposed authority is fully utilized.

1982 AND 1983 CHANGES

- The Bank's programs are now competitive with most foreign official export credit programs. Interest rates are at the minimum rates permitted under international agreements but above its cost of funds in the majority of cases.
- The Bank's programs are now better targeted with resources focused on meeting foreign financing and supplementing private capital.

URBAN DEVELOPMENT ACTION GRANTS

AGENCY: Department of Housing and Urban Development Functional Code: 451

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	440	468	497	526	556	588
Program Level	--	566	748	533	562	592	624
Outlays	--	488	516	536	523	519	574
REAGAN BUDGET							
Budget Authority	474*	440	196	440	440	440	440
Program Level	337	566	476	476	476	476	476
Outlays	388	488	512	479	439	414	440
PROPOSED SAVINGS							
Budget Authority	--	--	272	57	86	116	148
Program Level	--	--	272	57	86	116	148
Outlays	--	--	4	57	84	105	134

* **The 1982 budget authority figure includes a $39 million reappropriation.**

PROGRAM DESCRIPTION

The Urban Development Action Grant (UDAG) program provides discretionary, competitive grants to units of local government for use in conjunction with private funds to promote locally determined and project-specific economic development. By law, at least 25% of these funds are earmarked for small cities.

PROPOSED CHANGE

For 1984, the Administration is proposing budget authority of $196 million. This funding, coupled with deferred funding from FY 1983 of $244 million, will maintain the level of UDAG funding announcements at $440 million. In addition, an estimated $36 million in recaptured deobligations will be available.

RATIONALE

In 1982 and 1983, the Congress provided direct appropriations of budgetary resources to maintain a $440 million program level, excluding deobligations. By the end of 1982, a substantial amount of previously appropriated resources remained unobligated. To avoid a wasteful and inefficient surge in 1983 program activity, the Administration has deferred $244 million of the unobligated resources carried over from 1982 to 1983. These resources will be used to fund 1984 activity.

EFFECTS OF PROPOSED CHANGE

The UDAG program will continue to assist communities in partnership with private businesses in undertaking economic development projects in order to generate new jobs, increase tax bases, and promote economic revitalization in distressed areas.

The action grants projects approved during 1982 are expected to create 54,000 jobs and raise $35 million in new tax revenues for the local governments involved. 1982 obligations will leverage $2.0 billion in private investment.

RENTAL REHABILITATION GRANTS

AGENCY: Department of Housing and Urban Development Functional Code: 451

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Sec. 8 Mod. Rehab.							
Budget Authority	--	1,080	1,134	1,190	1,250	1,325	1,378
Outlays	--	107	195	272	336	403	472
Rehabilitation Loan Fund							
Budget Authority	--	--	--	--	--	--	--
Outlays	--	1	43	-2	-2	-2	-2
REAGAN BUDGET							
Rental Rehabilitation Grants							
Budget Authority	--	--	150	150	150	150	150
Outlays	--	--	--	75	150	150	150
Sec. 8 Mod. Rehab.							
Budget Authority	435	--	--	--	--	--	--
Outlays	44	107	178	217	222	226	230
Rehabilitation Loan Fund							
Budget Authority	--	--	--	--	--	--	--
Outlays	-23	1	--	--	--	--	--
PROPOSED CHANGES							
Budget Authority	--	-1,080	-984	-1,040	-1,100	-1,175	-1,228
Outlays	--	--	-60	+ 22	+ 38	-25	-90

PROGRAM DESCRIPTION

At present, two programs of the Federal Government subsidize the rehabilitation of rental properties: the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund. In addition, localities may use Community Development Block Grant funds to rehabilitate rental properties.

PROPOSED CHANGE

The Administration proposes to terminate the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund and substitute a new grant program for subsidizing the rehabilitation of rental units. This program -- Rental Rehabilitation Grants -- would be linked with the Modified Section 8 Housing Payment Certificate program. When a unit is rehabilitated under this program, it will be made available to low-income tenants with housing payment certificates. The program will provide grants to States and units of local government for up to half the cost of rehabilitating rental properties. The Administration is proposing an authorization of $150 million for fiscal year 1984.

RATIONALE

The Administration proposes the replacement of the Section 8 Moderate Rehabilitation program and the Rehabilitation Loan Fund with the new Rehabilitation Grant program because:

- Up-front grants are more efficient subsidies than the present program.

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- Coupling Rehabilitation Grants with the Modified Section 8 Housing Payment Certificates will assure that Federal rehabilitation efforts will primarily benefit low-income tenants.

EFFECTS OF THE PROPOSED CHANGE

At an anticipated average grant of $5,000 per unit, the new program would assist in the rehabilitation of an estimated 30,000 rental units annually.

FEDERAL SUBSIDY FOR SAINT ELIZABETHS HOSPITAL

AGENCY: Department of Health and Human Services — Functional Code: 550

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	95	77	63	55	48	41	35
Outlays	69	98	75	65	53	44	36
REAGAN BUDGET							
Budget Authority	95	77	63	55	48	41	35
Outlays	69	98	75	65	53	44	36

PROGRAM DESCRIPTION

In 1855, Congress established a government hospital for the insane on the "Saint Elizabeths tract" in southeast Washington to provide mental health services to residents of the District of Columbia and certain Federal beneficiaries. Like the recently-repealed 1798 entitlement to free care for merchant seamen, Saint Elizabeths Hospital (SEH) entitlements to federally subsidized care for District residents are based on needs of an earlier era and on a Federal role established before District of Columbia home rule.

SEH offers a full range of services to approximately 1,760 inpatients (about 90% are District residents) and 1,800 outpatients. Programs are financed largely by Federal appropriations and by modest reimbursements for services rendered to patient groups--primarily residents of the District of Columbia.

The availability of beds at SEH and the willngness of the Federal Government to subsidize the cost of care there have been incentives to inappropriate institutionalization of large numbers of District residents. The U.S. District Court in the District of Columbia recognized this in 1975 and ordered the Federal and District governments to provide mental health care in less restrictive settings for several classes of SEH patients. Despite community outplacement of several hundred SEH patients since that date, surveys of patient care needs indicate that up to 740 of the inpatients currently at SEH should be in less restrictive community settings.

PROPOSED CHANGE

The FY 1984 budget proposes a continuation of the policy that the District of Columbia assume an increasing share of the cost for the care of patients who are District residents.

RATIONALE

Approximately 90% of the patients at SEH are District residents. Contributions made by the District, however, amounted to only 18% of the Hospital's operations in FY 1982 and 19% in FY 1983. In FY 1984, the District will be expected to make a larger contibution toward the operating costs of the Hospital, with the 10 year goal of phasing over to the District the costs of care for its residents in order to accomplish the following objectives:

- accelerate implementation of the Dixon court order requirements;
- transfer many District patients to more appropriate, less restrictive, and less expensive environments;

- reduce direct Federal subsidies and direct Federal services delivery for District residents consistent with the more limited Federal support that residents of other States receive; and
- increase District responsibility for and control over mental health services delivered to District residents, consistent with home rule and federalism.

EFFECTS OF THE PROPOSED CHANGE

The SEH operating budget for FY 1984 will be funded by:

- a direct Federal subsidy for District of Columbia patients of $63 million;
- an estimated $40 million payment from the District of Columbia for SEH care provided District residents;
- an estimated $28 million reimbursement from Medicaid for care of Medicaid-eligible patients at SEH; and
- an estimated $12 million for reimbursements from Federal agencies whose beneficiaries receive care; other third party reimbursements; and reimbursements from the National Institute of Mental Health (NIMH) for services provided to the NIMH research facility on the Saint Elizabeths grounds.

1982 AND 1983 CHANGES

The Joint Commission on Accreditation of Hospitals awarded the Hospital a two-year accreditation status through calendar year 1983.

An expanded Medicare certification was obtained from the Health Care Financing Administration and the Hospital has received Medicaid certification from the District of Columbia Government. Medicare and Medicaid certification permits the Hospital to obtain all reimbursements for services delivered to its Medicare and Medicaid eligible patients.

The Hospital continues to implement the Dixon Plan. During FY 1983, an additional 300 inpatients are to be outplaced and 1,100 outpatients are to be transferred to community-based mental health services, contingent upon the availability of adequate services and termination of the current court ordered moratorium on outpatient transfers. Increased admissions, offset by additional outplacement, reduces the census to 1,760 at the end of FY 1983. The outpatient census is reduced from 1,850 in 1982 to 1,800 in 1983.

TERMINATION OF DISTRICT OF COLUMBIA GOVERNMENT REPAYABLE ADVANCES AND CAPITAL BORROWING FROM THE U.S. TREASURY

AGENCY: Department of the Treasury — Functional Code: 850

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Short-term (Borrowing Cost)	12	10	10	10	10	10	10
Capital Borrowing	145	145	145	145	145	145	145
REAGAN BUDGET							
Short-term (Borrowing Cost)	12	10	--	--	--	--	--
Capital Borrowing	145	145	115	--	--	--	--
PROPOSED SAVINGS							
Short-term (Borrowing Cost)	--	--	10	10	10	10	10
Capital Borrowing	--	--	30	145	145	145	145

PROGRAM DESCRIPTION

Traditionally, the District of Columbia Government has met short-term cash flow needs by obtaining repayable interest-free advances from the U.S. Treasury. Generally, the City repays these short-term, interest-free loans in the same year. The 1982 amount for short-term, interest-free advances was $140 million.

The District of Columbia has financed all of its capital improvement projects by borrowing from the U.S. Treasury at the prevailing Treasury rate. The payback period for each loan is 30 years in equal annual payments. The loans outstanding as of September 30, 1982, totalled $1.7 billion. Because of congressional concern about the District's financial position, the Congress has several times extended this authority to continue borrowing from the Treasury for capital projects until it can enter the bond market.

PROPOSED CHANGE

Beginning in 1984, the Administration will no longer make interest-free repayable advances to the District for its cash flow needs. Under existing authority in the Home Rule Act, the District may issue revenue anticipation notes to meet its operating cash needs. In exercising this authority, the District will be meeting its cash needs in a manner similar to other municipalities.

Also beginning in 1984, the Administration proposes to provide authority for one year transitional borrowing for capital projects in the amount of $115 million. This authority is intended to supplement the District's capital projects needs in that year as the City seeks to enter the tax exempt bond market to finance capital projects.

RATIONALE

The Administration supports the efforts of the District of Columbia Government to enter the private market. This would enhance the financial independence of the District, and would reduce the cost of borrowing for the District Government. This action would be consistent with the policies of the Administration to eliminate the Federal Government as an unnecessary financial intermediary and to reduce Federal involvement in the affairs of local government.

EFFECTS OF THE PROPOSED CHANGE

- The termination of interest-free repayable advances eliminates the implicit subsidy to the District. The U.S. Treasury will no longer incur interest expenses as it borrows funds to make interest-free loans to D.C.
- It is more costly for the District to borrow from the U.S. Treasury than to finance capital projects in the municipal bond market. If the District were in the tax exempt bond market, it would save the City millions of dollars each year.

SUBSIDIES FOR NON-PROFIT MAILERS

AGENCY: U.S. Postal Service Functional Code: 372

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	707	789	760	964	985	1,046	909
Outlays	707	789	760	964	985	1,046	909
REAGAN BUDGET							
Budget Authority	707	789	400	400	400	400	400
Outlays	707	789	400	400	400	400	400
PROPOSED SAVINGS							
Budget Authority	--	--	360	564	585	646	509
Outlays	--	--	360	564	585	646	509

PROGRAM DESCRIPTION

The Postal Service provides mail service at reduced rates for certain classes of mail. These include rural newspapers, non-profit organizations, classroom publications, and non-profit organizations. This appropriation reimburses the Postal Service for revenue that it uses as a result of these lower rates. Although these funds are appropriated to the Postal Service, they really represent a subsidy to these nonprofit mailers. The subsidy enables these organizations to mail at rates that are lower than their true cost to the Postal Service.

PROPOSED CHANGE

The Administration will submit legislation to reduce the subsidy by changing the method by which the subsidy is allocated. This will result in lower cost to the Federal government.

RATIONALE

- The Administration believes that clearly assignable costs--such as these mailing costs--should be borne by those who incur them. This would argue for complete elimination of the subsidy. Moreover, the subsidies have little programmatic merit. The Federal Government already provides substantial subsidies to churches and charitable institutions through the existing tax structure.
- However, the Administration recognized the substantial role played by these organizations in contributing to the volunteer fund-raising effort in this country. Therefore, it has been decided to maintain the subsidy at the $400 million level.

EFFECTS OF THE PROPOSED CHANGE

- Subsidized mailers will receive an added incentive to trim mailing lists. Mailers frequently send more than one copy of a mailing to the same individual because it is cheaper to mail duplicates than to canvass mailing lists for duplicate names.
- Third-class, non-profit mailers represent approximately 70% of the total subsidized mail volume. Currently, approximately one-half the total mailing costs of these mailers are paid by the government. This proposal would reduce this to approximately one-fifth of these costs.

PUBLIC BROADCASTING FUNDS

AGENCIES: Corporation for Public Broadcasting — Functional Code: 503
National Telecommunications and Information Administration (NTIA)

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	152	142	148	155	161	168
Outlays	--	161	154	154	156	161	168
REAGAN BUDGET							
Budget Authority	190	152	130	85	75	65	55
Outlays	184	161	153	96	77	65	55
PROPOSED SAVINGS							
Budget Authority	--	--	12	63	80	96	113
Outlays	--	--	1	59	79	96	113

PROGRAM DESCRIPTION

The Corporation for Public Broadcasting provides funds for production and programming to the 230 radio and 170 television stations which comprise the public broadcasting network. NTIA, through its Public Telecommunications Facilities Program (PTFP), provides grants for public broadcasting facilities construction and the purchase of telecommunications equipment in areas of the country not currently served by the public broadcasting industry.

PROPOSED CHANGE

The Administration proposes to terminate the PTFP in 1984. The CPB is funded two years in advance and the Administration is proposing to rescind $45 million for 1985 (bringing the total CPB appropriations to $85 million). Further reductions in funding are sought for 1986.

RATIONALE

There are several reasons why the Administration is seeking the proposed reductions in public broadcasting funding.

- The Administration has sought to induce private and user support of public services whenever feasible and equitable. Public broadcasting is enjoyed by a sector of the population which can provide significant financial support. As data gathered from independent surveys indicate, 41% of the public television audience has family incomes greater than $20,000. If each of these higher income viewers were to contribute just six or seven dollars to public broadcasting, the need for Federal support of the CPB and PTFP would be unnecessary. Similar support from public radio audiences would further assure public broadcasting's independence from Federal support.

- The Administration cannot now suppport extensive funding for programs which may be desirable, but which are discretionary in nature. In an effort to lower the Federal deficit and assist the American economic recovery in the most equitable way possible, many similar programs have also been cut dramatically.

- There are additional funds for public broadcasting targeted through other programs and agencies. The Department of Education, as well as the National Endowment for the Arts and the National Endowment for the Humanities, also provide funds for programming and production. These funds are more specifically designed to further the missions commonly ascribed to public broadcasting, such as education.

- Other factors also have affected the Administration's position on this issue. Potential changes in FCC rules and regulations would further allow the public broadcasting industry to be independent of Federal support without compromising their requirement to serve the public. For example, the FCC could issue rules allowing FM broadcasters (including public radio) to more fully utilize a portion of their assigned spectrum, which frequently goes unused. The telecommunications industry is also experiencing rapid technological advances that should encourage the development of television services similar to those currently supported by the CPB. Producers of public radio programming are developing plans to become independent of all CPB support. These developments further support the Administration's position on reduced CPB and PTFP funds.

EFFECTS OF PROPOSED CHANGE

This 14% reduction in public broadcasting funds over the next 3 years will require the public broadcasting industry to more aggressively seek funding from other sources--from individuals, corporations, and other non-Federal organizations. The beneficiaries of public broadcasting funds--viewers and listeners--should not experience any loss in services.

1982 AND 1983 CHANGES

Much has been done to slow the growth of Federal funding for public broadcasting for 1982 and 1983. The PTFP program has been reduced from $18 million in l982 to $15 million in 1983. However, now that over 95% of the United States receives public broadcasting services, Federal expenditures to expand public broadcasting coverage are unnecessary.

CPB appropriations have similarly been reduced in the last 2 years from $137 million for 1983 and $130 million for 1984. The potential for private support of CPB has been largely untapped (only about 10% of public broadcasting funding is provided through individual donations). More aggressive fundraising from both individuals and corporations, as well as other financing mechanisms such as limited advertising, are real and feasible alternatives to Federal financing at the current levels.

NUCLEAR WASTE FUND

AGENCY: Department of Energy Functional Code: 270

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
PROGRAM LEVEL							
Budget Authority/Obligations	179	217	307	325	379	450	468
Outlays	189	214	277	323	370	437	466
OFFSETTING RECEIPTS	--	98	448	482	531	591	640
PERCENT RECOVERED (BA)	--	45	146	148	140	131	137

*** Fees exceed obligations in early years because major construction and operating costs for the geologic repository are not incurred until the 1990's.**

PROGRAM DESCRIPTION

In his policy statement (October 8, 1981) on nuclear power, the President said that the Government had failed to meet its responsibility for nuclear waste disposal. He therefore directed that the Federal Government work closely with industry and State governments to deploy swiftly the means for storing and disposing of commercial nuclear waste.

On January 7, 1983, the President signed the Nuclear Waste Policy Act of 1982, Public Law 97-425. The most significant provision of the new legislation is that the Government must start to take title to and dispose of nuclear waste by January 1998.

The Act establishes the Nuclear Waste Fund to pay for activities undertaken by the Federal Government related to the development, construction, and operation of a repository for high-level radioactive waste from commercial nuclear power plants. The Fund is financed by fees paid by nuclear utilities.

The nuclear waste program is now focusing on three media and four locales as primary candidates for a respository: basalt flows underlying the Hanford Site in Washington, tuffs underlying Yucca Mountain at the Nevada Test Site, salt domes in the Gulf Coast States and bedded salt formations in Texas and Utah. In addition, the program will continue a nationwide screening of sites in other geologic media, such as the granitic rocks of the Lake Superior and the Appalachian region.

Beginning in 1983, exploratory shafts will be sunk in basalt, tuff, and one of the salt sites. Acceptable sites will then be examined further so that an application to license the waste repository can be submitted to the Nuclear Regulatory Commission in 1988.

The President's recommendation of a repository site for a license application can be disapproved by the host state. This disapproval can be overridden only by a joint resolution of Congress.

PROPOSED CHANGE

Fees from utilities will be deposited in a special fund in Treasury. These fees will be used to offset appropriations made to support the waste disposal activities authorized by the Act. Unobligated balances will remain in the fund until they are needed to pay for the major repository construction that will begin in the 1990's.

For 1983, the Congress provided funds for the waste program, as in past years, from general revenues. In accordance with the Nuclear Waste Policy Act, the budget for 1984 provides a single account for Nuclear Waste activities in which appropriations are offset by fees collected from utilities.

RATIONALE

It is appropriate to have those parties who benefit from the program -- nuclear utilities and their customers -- pay for the program.

With a steady source of funding and a means for resolving potential problems between state governments and the Federal Government, it is now possible to assure that the Federal Government will be able to provide for nuclear waste disposal by 1998.

EFFECTS OF THE PROPOSED CHANGE

Enactment of comprehensive waste management legislation has removed one of the major uncertainties inhibiting the future development of nuclear power. The lack of waste disposal capability will no longer be an issue in licensing new reactors.

The cost of nuclear-generated electricity will be increased by about two percent. The full cost of waste disposal will no longer be subsidized by the taxpayer.

With a firm commitment on *permanent* capability from the Federal Government, utilities can plan and finance their *interim* storage needs accordingly.

SCIENCE AND TECHNOLOGY

FEDERAL R&D PROGRAMS AND SUPPORT FOR BASIC RESEARCH*

AGENCY: Government-wide Functional Code: 250 and others

Funding

	($ in millions)		
	1982	1983	1984
FEDERAL R&D PROGRAMS (including facilities)			
Department of Defense (DOD)	20,866	23,502	30,320
Non-DOD	16,722	16,607	16,671
Total Obligations	37,588	40,109	46,991
SUPPORT FOR CONDUCT OF BASIC RESEARCH (included above)			
Agencies primarily supporting physical and engineering sciences (e.g. DOD, DOE, NASA, NSF)	3,017	3,347	3,864
Agencies primarily supporting life and other sciences (e.g., NIH, USDA)	2,422	2,678	2,755
Total Obligations	5,439	6,025	6,619

PROGRAM DESCRIPTION

The Federal Government funds about half of the Nation's R&D effort, including about 70 percent of all basic research. Six Federal departments and agencies (DOD, DOE, HHS, NASA, NSF, and Agriculture) provide over 95 percent of the total Federal funds for R&D and for basic research.

About 65 percent or $30 billion, out of a total of $47 billion in Federal funds for R&D, is for DOD programs. Within the overall total, Federal support of basic research is estimated to be $6.6 billion in 1984.

In addition to direct funding of R&D, the Administration encourages private investments in R&D through tax incentives, patent policy, antitrust policy, and regulatory relief.

PROPOSED CHANGE

The 1984 Budget provides for major increases in Defense R&D and in Government-wide support of basic research. Total Federal obligations for R&D programs, including R&D facilities, are expected to be $47 billion in 1984, an increase of $7 billion or 17 percent above 1983. Within this overall increase:

- R&D programs of the Department of Defense would increase by 29 percent to cover a range of programs from enhanced basic research to development of new and improved weapons systems.
- Federal support of basic research would increase by 10 percent, from $6.0 billion in 1983 to $6.6 billion in 1984. Within this increase, an emphasis is placed on basic research in the physical sciences and engineering. Funding in agencies primarily supporting such research (e.g. DOD, DOE, NASA, and NSF) would increase by 15 percent.

* **Further details on these programs are provided in Special Analysis K: Research and Development included in the Special Analyses volume of the 1984 Budget.**

- Largely within the support for basic research, a.most $400 million would be available in 1984 for upgrading research instrumentation at universities under the proposed budgets for NSF, the Departments of Energy and Defense, and other agencies.

- Several major new initiatives are proposed in 1984, particularly in the general science programs of the Department of Energy and in NASA. These include a new center for materials research at the Lawrence Berkeley Laboratory, expansion of the National Synchrotron Light Source at Brookhaven National Laboratory, a new colliding beam facility at the Stanford Linear Accelerator Center, and a numerical aerodynamic simulation capability at the NASA Ames Research Center.

- Nearer term civilian technology development and demonstration programs (e.g., energy technologies) will continue to be reduced with greater reliance placed on private sector investments.

RATIONALE

The overall increase in R&D funding proposed for 1984 stems from recognition of the importance of strengthening investments to meet key Federal responsibilities while avoiding unwarranted subsidization of the private sector. In 1984:

- Increases in Defense R&D are needed to strengthen the long-term research base relevant to defense needs and provide for the development of new weapons to ensure a strong national defense.

- The significant increase in support of basic research, largely at academic institutions and particularly in the physical and engineering sciences, reflects the Administration's view that such support is vital to long-term economic growth, particularly in the high technology industries. Basic research at academic institutions helps advance scientific knowledge and contributes to the training of scientists and engineers--thus providing the foundation for technological advancement of the Nation. The Federal Government supports basic research not only to meet agency mission needs but also in the broad national interest because the private sector does not have sufficient economic incentives to make adequate investments.

- Support for upgrading research instrumentation at universities is important because researchers need access to modern scientific instrumentation to advance the state of scientific knowledge. Such support will help to increase the research productivity of the Nation's scientific enterprise. In addition, it will also ensure that future scientists and engineers are trained in the use of modern instruments and techniques.

- The funding of major new initiatives in the current Department of Energy and NASA will enhance the research productivity of the Nation's scientific community by providing it with new and powerful tools for basic research and by encouraging greater and more creative interaction among university, Government, and industry scientists.

- Continued reductions in support of nearer term R&D and demonstration programs are justified because the private sector, *not the Federal Government*, has the expertise and capability to select and fund the advancement of technologies that can be successfully brought into the marketplace. Tax incentives, reductions in the burden of regulations, and other economic measures of the Administration are designed to encourage increased private investment in R&D.

EFFECTS OF PROPOSED CHANGE

- Federal investments in R&D will assure a stronger national defense.

- Government-wide support of basic research would grow, in real terms, by over 4 percent in 1984 and would further strengthen the foundation for long-term technological advancement and economic growth.

1982 AND 1983 CHANGES

In 1982 and 1983 Congress has sustained most of the reductions in nearer term R&D and demonstration programs proposed by the Administration. This has allowed a refocusing of Federal investments on long-term, high-payoff basic research and technology development programs that are appropriate Federal responsibilities.

In addition, Congress has also enacted the Administration's proposals for several tax incentives to encourage greater private investments in R&D. In 1983 such private investments are expected to increase by over 10 percent.

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NATIONAL SCIENCE FOUNDATION

AGENCY: National Science Foundation Functional Code: 250

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	1006	1099	1154	1208	1262	1317	1373
Outlays	1100	1065	1159	1194	1238	1290	1339
REAGAN BUDGET							
Budget Authority	1006	1099	1297	1297	1297	1297	1297
Outlays	1100	1065	1231	1320	1339	1348	1301
PROPOSED CHANGES							
Budget Authority	--	--	+ 143	+ 89	+ 35	-20	-76
Outlays	--	--	+ 72	+ 126	+ 101	+ 58	-38

PROGRAM DESCRIPTION

The National Science Foundation (NSF) primarily supports basic research in all fields of science and engineering through research project grants, mostly to researchers in academic institutions. NSF also suports major basic research centers and facilities, especially in ground-based astronomy and in the atmospheric and ocean sciences. In addition, NSF supports programs in science and engineering education.

PROPOSED CHANGE

The 1984 Budget proposes an increase of 18 percent over 1983 for NSF programs, from $1.1 billion to $1.3 billion. The 1984 program includes:

- An 18 percent increase in support for the conduct of basic research, with special emphasis on physical sciences and engineering disciplines such as materials science; physics; mathematics; and electrical, computer and chemical engineering. Included within this increase is an initiative to encourage young scientists and engineers to undertake academic careers and to provide them initial research support.
- A 61 percent increase for upgrading research instrumentation at universities, to a total of $180 million, included within increased support for the conduct of basic research.
- A 23 percent increase, from $83 million in 1983 to $102 million in 1984, for the U S. Antarctic program to improve logistics support for the research sponsored by NSF in the Antarctic.
- Efforts begun in 1983 ($15 million) and enhanced in 1984 ($20 million) to improve the teaching of science and mathematics in the Nation's secondary schools through teacher training and Presidential awards to the best science and mathematics teachers in the Nation. These programs, along with the science and mathematics education efforts of the Department of Education, are further discussed under the heading "Science and Mathematics Education" in the Education, Training and Employment Services section of this volume.

RATIONALE

The major increase in NSF's budget, almost entirely for the support of basic research, reflects the Administration's view that such support is vital to long-term economic growth, particularly in the high-technology industries. NSF support of basic research, representing about 18 percent of the total Federal support of basic research, is important to assist in balancing overall Federal support across all scientific disciplines, particularly in the physical sciences and engineering.

In addition:

- The significant increase for research instrumentation recognizes that researchers need access to the latest scientific equipment to best ensure the continued advancement of scientific knowledge. NSF's proposed 1984 funding for upgrading obsolete research instrumentation at academic institutions, along with similar, though smaller, efforts by other agencies, would help increase the productivity of the Nation's research enterprise.
- The increase proposed for the Antarctic program, primarily for necessary aircraft overhauls and the replacement of a repair facility for vehicles, is necessary for the safe and effective conduct of scientific research and for the protection of U.S. interests in that region.
- Although the primary responsibility for pre-college education rests with State and local governments, the Federal Government can play an important catalytic role in assisting them through a few well designed and leveraged efforts. The efforts to improve pre-college science and mathematics teaching are important to help provide the Nation's future workforce with the technical training needed for economic growth in an increasingly technological society.

EFFECTS OF PROPOSED CHANGE

- The sharp increase in the overall NSF budget would result in substantial growth in support of research in relatively high priority fields, such as mathematical and physical sciences (22 percent over 1983), and engineering (22 percent over 1983).
- The initiatives in science and engineering education help to focus national attention on the need to alleviate the decline in the quality of pre-college education in science and mathematics.

CHANGES IN 1982 AND 1983

The Congress approved deletion of many fragmented and ineffective science education programs previously supported by NSF. The programs begun with additional funds appropriated by Congress in 1983 ($15 million), provided the basis for a more focused and effective response to assist in meeting an important national problem.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

AGENCY: National Aeronautics and Space Administration Functional Code: 250, 402

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	6,044	6,831	6,987	6,714	6,053	6,059	5,322
Outlays	6,026	6,713	6,929	6,867	6,228	6,073	5,485
REAGAN BUDGET							
Budget Authority	6,044	6,831	7,098	6,967	6,335	6,273	5,443
Outlays	6,026	6,713	6,973	6,957	6,444	6,263	5,654
PROPOSED INCREASES							
Budget Authority	--	--	111	253	282	214	121
Outlays	--	--	44	90	216	190	169

PROGRAM DESCRIPTION

Programs of the National Aeronautics and Space Administration (NASA) consist primarily of space transportation activities and R&D in space science and applications and in aeronautics.

Other NASA programs support satellite tracking and data acquisiton; NASA civil service and administrative costs; construction of R&D facilities and maintenance of the NASA's physical plant; and R&D on fundamental technology problems and opportunities common to a broad spectrum of space programs.

PROPOSED CHANGE

The 1984 Budget for NASA provides for an overall increase of $267 million over the 1983 budget.

- For Space Transportation, the budget provides increases for additional spare Shuttle structural components. The budget also continues development of a new Centaur upper stage booster for use with the Shuttle and initiates a tethered satellite program jointly with the Government of Italy.
- For Space Science, increases are proposed to initiate the Venus Radar Mapper project to explore the Earth's sister planet, Venus; and a small new satellite to permit additional investigations in ultra-violet astronomy. Continuing programs include the Space Telescope and the Gamma Ray Observatory Mission, leading to launches in 1985 and 1988 respectively; and the Galileo project to Jupiter to be launched in 1986.
- For Space and Terrestrial Applications, the budget proposes a joint industry/Government cost-shared development of an Advanced Communications Technology Satellite. Continuing activities include completion of the last experimental LANDSAT satellite, completion and launch of the Earth Radiation Budget Experiment, and continued development of new instruments for future use in upper atmospheric research.
- For Aeronautics Research and Technology, a vigorous NASA program is proposed with significant increases for fundamental research in the aeronautical sciences and several areas of aeronautical technology development. Examples of increased R&D activities include advanced composite materials for large aircraft structures, a large computer-based aerodynamic simulation capability, and advanced rotocraft technology.

- For agency-wide supporting activities, increased funding is provided for Tracking and Data Relay Satellite System lease payments and for facilities construction, primarily in support of the space transportation and aeronautics programs and the general rehabilitation of the agency's physical plant.

The following table summarizes the proposed 1984 Budget for NASA:

	Budget Authority ($ in Millions)		
	1982	1983	1984
Space Transportation	3,056	3,598	3,498
Space and Science	572	683	779
Space and Terrestrial Applications	332	360	293
Aeronautics R&T	265	280	300
Agency-wide supporting activities	1,819	1,910	2,228
Total NASA	6,044	6,831	7,098

RATIONALE

- ***For Space Transportation***, the budget provides the funds needed to assure timely transition to a fully operational, robust and cost-effective Shuttle system to meet planned user needs and reduce the lead time for any future additional orbiter procurements. The Centaur upper stage development will provide increased capability to launch future planetary and DOD missions.
- ***For Space Science***, the new Venus Radar Mapper and Extreme Ultraviolet Explorer projects are being initiated to continue the preeminence of the United States in planetary exploration and space-based astronomy.
- ***For Space and Terrestrial Applications***, the Budget will emphasize fundamental research and development related to better understanding of the Earth, its dynamics, its resources, and its environment. The advanced Communications Technology Satellite development project will permit continued U.S. leadership in satellite communications technology, with Federal funding limited to the longer-term, high-risk technology elements. The overall reduced funding for space applications in 1984 reflects the completion of two ongoing projects, LANDSAT and the ERBE, while the Advanced Communications Technology Satellite project is still in the early, relatively lower cost phase of development.
- ***For Aeronautics R&T***, research would be increased significantly to help sustain the knowledge base which underlies the long-term strength of the Nation in aviation technology. Highest priority technology development efforts that are important for national security and civil aviation but unlikely to be financed by industry would also be supported.
- ***For Agency-wide Supporting Activities,*** generic space research and technology would be increased at a significant rate to assure a timely and growing flow of new knowledge and technology to future space programs. Funding will increase for construction of new R&D facilities and continued rehabilitation and maintenance of aging facilities. Personnel, tracking and data acquisition functions and administrative costs are proposed at levels necessary to support proposed and operational R&D programs.

EFFECTS OF THE PROPOSED CHANGE

- The NASA budget for 1984 provides an increase of $267 million in budget authority over 1983, an increase of about 4 percent.
- Within the moderate overall increase in funding proposed, significant program increases are permitted in selected areas (noted above). This is made possible by the completion of several major ongoing space science and applications programs and the transition of the Space Shuttle program from the development and orbiter production phase to revenue generating operations. Space Shuttle revenues, including prepayments for future flights, are estimated to rise from $154 million in 1983 to about $265 million in 1984.
- The overall effect of the proposed 1984 program for NASA is to sustain U.S. leadership in aeronautics and space.

1982 and 1983 CHANGES

The 1984 Budget continues both the Centaur upper stage program and the Advanced Communications Technology Satellite (ACTS) program added by Congress in 1982 and 1983, but with the provision for significant cost sharing by industry in the ACTS program. The proposed 1984 program for aeronautics R&T builds on Congressional funding add-ons in 1983 and the results of an Administration study supporting the importance of aeronautics R&T to meet future national needs.

NATIONAL INSTITUTES OF HEALTH

AGENCY: Department of Health and Human Services Functional Code: 552/3

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	3,642	4,002	4,186	4,377	4,569	4,762	4,964
Outlays	3,665	3,959	4,186	4,377	4,569	4,762	4,964
REAGAN BUDGET							
Budget Authority	3,642	4,002	4,077	4,059	4,059	4,059	4,059
Outlays	3,665	3,959	4,032	4,059	4,059	4,059	4,059
PROPOSED SAVINGS							
Budget Authority	--	--	109	318	510	703	905
Outlays	--	--	154	318	510	703	905

PROGRAM DESCRIPTION

Over the past 10 years, the taxpayer has spent over $26 billion through the National Institutes of Health (NIH) for biomedical research and training programs. These funds have supported biomedical and behavioral research at universities here and abroad, financed research in Federal laboratories, and subsidized the training of researchers.

PROPOSED CHANGE

The 1984 request includes an increase of $75 million, or 2%, over 1983 and $435 million, or 12%, over 1982. New and competing research awards are the highest priority and NIH will support the maximum number of such grants within the $4.1 billion requested in 1984. To accomplish this, NIH will achieve economies in lower priority areas, including research in its own Federal laboratories.

RATIONALE

NIH has grown by 330% over the past twelve years. This rate of growth is not sustainable indefinitely by the Federal Government. Within the increases in 1984, however, research project grants-funded at over $2 billion-will continue to receive the highest priority because they are the primary means by which fundamental discoveries emerge. Thus, they are the key mechanism in Federal support of biomedical research.

EFFECTS OF THE PROPOSED CHANGE

In 1984, the increase of $75 million will enable NIH to continue funding of $2 billion for highest priority new and competing research project grants. This extensive level of support will remain the principal source of funds for biomedical research conducted by individuals and institutions.

ENERGY RESEARCH AND DEVELOPMENT: REDUCTIONS IN NON-NUCLEAR PROGRAMS

AGENCY: Department of Energy Functional Code: 270

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	799	623	774	809	845	879	916
Outlays	1,439	1,168	961	832	838	863	897
REAGAN BUDGET							
Budget Authority	799	623	293	348	358	366	379
Outlays	1,439	1,168	697	448	379	370	377
PROPOSED SAVINGS							
Budget Authority	--	--	481	461	487	513	537
Outlays	--	--	264	384	459	493	520

PROGRAM DESCRIPTION

The non-nuclear energy R&D programs (in the existing Department of Energy) support applied research and development related to energy conservation technologies and to new energy production technologies using fossil fuels and solar and other renewable energy resources.

PROPOSED CHANGE

The following table summarizes proposed funding for non-nuclear energy R&D by major program category:

	Budget Authority ($ in Millions)			Program Level in
	1982	**1983**	**1984**	**1984***
Fossil Fuels	416	218	94	138
Solar and Other Renewables	258	252	101	101
Conservation	125	153	98	98
Total Non-Nuclear Energy R&D	799	623	293	337

* The program level includes new budget authority plus budget authority not used in prior years and available in 1984. It is a better indicator of program size than new budget authority alone

The 1984 budget reduction for these programs is based on the following policy:

- Budget subsidies should be eliminated for development and demonstration of technologies that private industry is already investing in or has the capability to invest in. Examples of such activities include optimization of phosphoric acid fuel cells technology, continuation of testing at coal gasification and liquefaction pilot plants, large scale demonstration of photovoltaics technology, and development of large wind machines.
- Federal support should continue and be increased for a balanced program of long-term research focused on areas where the private sector has little incentive to invest because the risks and payoffs are either too long range or uncertain or the benefits cannot be captured by private investors -- for example, research on coal chemistry and materials development.

- To ease the transition to reductions under this policy, Federal support would continue for selected projects nearing completion (such as the geothermal demonstration underway in Heber, California) and for completion of test programs at selected existing facilities (such as the solar thermal pilot plant at Barstow, California).

RATIONALE

- The development of non-nuclear energy technologies can generally best be financed and undertaken by private industry. The private sector has the resources and incentives to do it well.
  - Private industry has a proven track record of pursuing R&D effectively and aggressively-- on computers and pharmaceuticals, for example-- when market forces are allowed to work and there is a reasonable prospect that the R&D investment will pay off. The same is true for energy R&D.
  - In the past, Federal controls on oil markets inhibited energy-related investment, including investment in energy R&D. As long as controls were in place, some government subsidy in this area may have been justified. But with controls eliminated, the original justification for these subsidies disappears.
  - Private sector investment in non-nuclear energy R&D is substantial. Business Week, for example, reports that major energy companies spent $2 billion in 1981 for R&D.
- The government can be most effective in this area if it concentrates its efforts on improving the climate for industry investment and limits its financial support to activities that the private sector is unlikely to invest in adequately because the risks and payoffs are either too long term or uncertain or the benefits of the investment cannot be realized by any one firm.
  - This policy avoids squandering Federal resources on activities that the private sector can undertake.
  - It avoids pursuing energy investments because they are politically popular -- even though they may have little prospects for competing successfully in the market.
  - It permits the government to increase its investment in basic and other long-term research.

EFFECTS OF THE PROPOSED CHANGE

- Adopting these proposed changes in Federal support for non-nuclear technology development would save the taxpayer over $260 million in 1984 and over $2 billion through 1988 compared to current services estimates.
- Federal activity in this area will be more appropriate, focused and cost effective.
- The overall reduction in funding for non-nuclear energy R&D masks the fact that support for long-term research is being increased. For example:
  - Outlays for basic research in support of non-nuclear energy technologies (funded in the DOE Basic Energy Sciences Program) increase by 10 percent in 1984.
  - Outlays for basic and applied research in the solar energy program will increase by 21 percent in 1984. Outlays for basic and applied research in fossil energy in 1984 will be 66 percent higher than in 1982.

- This policy is unlikely to affect adversely the development of promising new technologies to produce and use energy more efficiently. In fact, the proposed policy is likely to increase productive change in the economy.
  - For technologies that are particularly promising, private sector R&D spending has been, and will likely remain, strong. For example, in solar photovoltaics, private R&D spending has increased at an average of 35 percent per year between 1979-1982, and a recent NSF survey indicated that it should continue to rise.
  - For technologies that are less promising there is likely to be a winnowing out process by industry -- but this is an inevitable and useful development, preserving capital and other resources for other more productive uses elsewhere in the economy.

1982 and 1983 CHANGES

In the 1982 and 1983 budgets, the Administration and Congress have generally agreed not to initiate new large-scale demonstration projects that are inappropriate for government support and have large funding requirements.

As a result of revised policy in this area, budget savings of $2.8 billion have resulted in 1981-1983 from the levels projected by the previous administration.

ONGOING FUNCTIONS OF GOVERNMENT

FEDERAL BUILDINGS FUND (SLUC)

AGENCY: General Services Administration Functional Code: 804

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CONGRESSIONAL FREEZE							
SLUC Income	1,796	1,762	1,762	1,762	1,762	1,762	1,762
REAGAN BUDGET							
SLUC Income	1,796	1,762	2,170	2,421	2,592	2,764	2,887
ADDITIONAL INCOME INTO FUND							
SLUC Income	--	--	408	659	830	1,002	1,125

PROGRAM DESCRIPTION

The Federal Buildings Fund (FBF) was established in 1972.

The law authorizes and directs the Administrator of General Services to assess user charges for space and associated services against Federal agencies occupying GSA controlled buildings. These charges, called Standard Level User Charges (SLUC), approximate commercial charges for comparable space and services found in the private sector.

The income derived from SLUC is deposited in the FBF and provides the source of funding for all direct Public Buildings Service programs including the operation, maintenance, protection and repair of GSA operated buildings; rental payments for leased buildings; purchase contract payments; and the acquisition or construction of new buildings.

PROPOSED CHANGE

For fiscal year 1983, the Congress imposed a freeze on the rates that could be charged agencies under the SLUC system. Specifically, rates could not exceed those charged in 1982.

The 1984 Reagan Budget reflects a return to the intent of the original Act by proposing increases in square foot charges commensurate with commercial charges for comparable space and services.

RATIONALE

This change is necessary to ensure that agencies recognize that space charges are a true cost of operation -- space is not a free good. Just as the process was beginning to take hold and agencies started to recognize that space costs were a controllable item in the budget, the impetus for improvement was eliminated through the congressionally imposed freeze which kept rates at unrealistically low levels.

EFFECTS OF THE PROPOSED CHANGE

In addition to encouraging performance budgeting by providing dollar incentives for improved space utilization, the SLUC/FBF process establishes a businesslike landlord/tenant relationship between GSA and occupant agencies, enhances oversight of space-related activities, and improves building operation services. If the existing freeze on SLUC charges were continued for any length of time, the loss of SLUC income would not only jeopardize funding for new Federal construction and major repairs, but also endanger the ability to pay landlords for leased space or carry out essential maintenance and repairs on existing buildings.

Should the congressional freeze level be maintained in 1984, there would be no new construction program ($133 million), no repair and alteration program ($200 million) -- work required to prevent deterioration and damage to buildings -- and lower than required funding (of approximately $53 million) for other mandatory obligations such as rental payments to landlords.

PROPERTY SALES

AGENCY: Department of Agriculture
Department of the Interior
General Services Administration

Functional Code: 954

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
Gross Sales Revenues							
Agriculture	--	--	200	200	200	200	200
Interior	--	--	300	300	300	300	300
General Services Administration	105	643	887	480	440	240	240

PROGRAM DESCRIPTION

The Property Review Board was established in 1982 to oversee implementation of the Administration's property sales initiative.

Goals of the initiative are:

- To place unneeded Federal real property holdings in private ownership promoting higher and better economic use and increasing the tax base.
- To have GSA assist agencies in identifying and disposing of improved properties excess to their needs.
- Interior and Agriculture properties not meeting retention criteria will be sold to reduce management costs, to contribute to reducing the national debt, and to stimulate local economic development.
- No wilderness, wilderness study areas, wildlife refuge system, national park system, nationally significant environmental areas or other congressionally designated special areas are to be sold.
- Sales of public lands needed for community expansion will continue under existing laws.
- Under existing laws, approximately 2.7 million acres have been previously identified as suitable for sale by the Bureau of Land Management. Completion of local land use plans are expected to identify an additional 1.8 million acres for disposal.

PROPOSED CHANGE

- In Interior during FY 1984, the Bureau of Land Management will offer under existing laws properties with an estimated fair market value of $300,000,000.
- For Agriculture, legislation will be proposed for a limited sales authority which would allow sales of isolated Federal tracts, boundary modifications, etc. for properties managed by the Forest Service. Properties with an estimated fair market value of $200,000,000 are expected to be sold in FY 84.
- GSA program of identifying and disposing of improved properties excess to agencies' needs will continue.

RATIONALE

There are several categories of real property holdings which should be disposed of from the Federal inventory. These include:

- Acquired properties excess to agency operational needs;
- Lands which meet the criteria for disposal by the BLM as established in the Federal Land Management and Policy Act of 1976;
- Forest Service lands which are isolated, interspersed with private land holdings and are consequently inefficient and uneconomic to manage; and
- Forest Service lands which are no longer needed for the purpose acquired.

EFFECTS OF THE PROPOSED CHANGE

- The proceeds of such sales will be deposited in a special account in the Treasury and used to retire national debt, thus benefiting all Americans.
- Disposal of unneeded and uneconomic tracts will improve the Federal government's ability to manage the remaining lands effectively and efficiently, thereby benefiting local governments, adjacent landowners and the general public who own the Federal lands.

RECREATION USER FEES

AGENCY: Agriculture/Army/Interior — Functional Code: 300

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES RECEIPTS							
Agriculture (Forest Svc)	11.2	10.8	11.7	12.5	13.3	14.2	16.1
Army (Corps of Engineers)	8.0	9.0	10.0	11.0	12.0	13.0	14.0
Interior	18.3	19.2	20.0	21.0	22.0	23.0	24.0
Offsetting Receipts	37.5	39.0	41.7	44.5	47.3	50.2	54.1
REAGAN BUDGET RECEIPTS							
Agriculture	11.2	10.8	36.7	37.5	38.3	39.2	41.1
Army	8.0	9.0	26.0	27.0	28.0	29.0	30.0
Interior	18.3	19.2	52.0	54.0	55.0	56.0	57.0
Offsetting Receipts	37.5	39.0	114.7	118.5	121.3	124.2	128.1
PROPOSED SAVINGS (Increased Receipts)							
Offsetting Receipts	--	--	73.0	74.0	74.0	74.0	74.0

PROGRAM DESCRIPTION

The Federal Government provides recreational facilities for the public, including picnic areas, trails, campsites, visitor centers, exhibits, roads, boat ramps, lake and river access areas, swimming facilities, marinas, concession operations, skiing sites, and wilderness areas.

At present, the law imposes major restrictions on the collection of recreation user fees, such as:

- freezing National Park Service entrance fees at 1979 levels and sharply limiting the number of units where fees can be charged (these fees have not been raised since early 1970's);
- prohibiting any fees at about 80 percent of the recreation areas managed by the Army's Corps of Engineers, which provide more than 400 million visitor-days of recreation annually; and
- prohibiting entrance fees to National Forests and collection of user fees at about 40 percent of the Forest Service's campsites.

PROPOSED CHANGE

The Administration proposes to:

- increase existing recreation use fees at Federal recreation areas;
- expand the number of areas where fees are charged;
- remove the prohibition on fees at most Corps of Engineers and National Forest facilities; and
- provide that the fees collected will be used for operation and maintenance of the areas.

RATIONALE

The Administration believes that specific identifiable beneficiaries of Federal services should pay more of the costs of the services. Many recreation fees have not been increased since the 1960's and the fees now cover only about 4 percent of the costs of providing the recreation. As a result, the general taxpayer is picking up an ever increasing portion of the costs of recreation, including the variable costs associated with increased use (as opposed to the fixed costs of having the park or wilderness set aside and maintained for the good of all). In addition, the low fees for camping and other services often compete unfairly with services provided by private enterprise in the vicinity of Federally-owned lands.

EFFECTS OF THE PROPOSED CHANGE

- The proposed increase in fees would more than double revenues from Federal recreation areas, lessening the subsidy from the general taxpayer to the user of public recreation sites.
- Increased fees will be set so that citizens will not be prevented access to public recreation sites or use of public facilities.

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FEDERAL RECREATION LAND ACQUISITION

AGENCY: Department of the Interior
Department of Agriculture

Functional Code: 303

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	172	182	189	196	202	210	216
Outlays	136	193	191	149	145	169	175
REAGAN BUDGET							
Budget Authority	172	152	65	68	70	73	76
Outlays	136	193	125	71	70	73	76
PROPOSED SAVINGS							
Budget Authority	--	30	124	128	132	137	140
Outlays	--	--	66	78	75	96	99

PROGRAM DESCRIPTION

Using Land and Water Conservation Fund receipts, Interior's National Park Service, Fish and Wildlife Service, and Bureau of Land Management, and Agriculture's Forest Service acquire land to create or expand recreation areas (national parks, refuges, forests).

PROPOSED CHANGE

Federal recreation land acquisition would be limited to property subject to awards under condemnation proceedings begun in prior administrations, emergency purchases to protect endangered resources, and very high-priority conservation areas.

RATIONALE

- Purchase of recreational land is postponable in times of budget stringency, without adverse effect on jobs, the national economy or critical national needs.
- The Federal Government already owns more than 760 million acres of land, more than one-third of the U.S. State and local governments hold 6 percent of total land in the U.S.
- The large backlog of authorized Federal land acquisition (over $4 billion) includes many parcels that have no unique, nationally significant features. Acquisition of such tracts spreads Federal operational resources thin; dilutes the quality of the national park, refuge, and forest systems; and reduces local decision-making over recreation resources that are primarily local in use and service.
- In 1982 the Administration announced a new land protection policy emphasizing (1) alternatives to Federal cash purchases of fee simple title, such as easements, cooperative agreements, and zoning controls, and (2) cooperation with landowners, State and local governments, other Federal agencies, and the private sector to manage land for public use or protect it for resource conservation. This policy is expected to reduce the need for 1984 and out-year acquisition funding.

EFFECTS OF THE PROPOSED CHANGE

The request will fully fund those court awards anticipated in 1984 from pending condemnation cases, except for the Redwoods National Park in California. If a final determination of value is made on Redwoods, supplemental appropriations will be requested.

1982 and 1983 CHANGES

1982 and 1983 appropriations, while exceeding Administration requests and funding some discretionary acquisitions which are postponable or unnecessary, are less than half the level of the 1977-1979 average of about $400 million annually.

LAW ENFORCEMENT CROSSCUT

AGENCY: Department of Justice
Department of Treasury

Functional Code: 751 and 803

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	2,504	2,875	2,955	2,998	3,054	3,101	3,189
Outlays	2,399	2,837	2,892	2,913	2,960	3,004	3,090
REAGAN BUDGET							
Budget Authority	2,504	2,875	3,183	3,105	3,091	3,147	3,231
Outlays	2,399	2,837	3,109	3,081	3,058	3,101	3,177
PROPOSED INCREASE							
Budget Authority	--	--	228	107	37	46	42
Outlays	--	--	217	168	98	97	87

PROGRAM DESCRIPTION

Principal law enforcement agencies in the Departments of Justice and Treasury include the Federal Bureau of Investigation, the Drug Enforcement Administration, the Immigration and Naturalization Service, the U.S. Customs Service, the Secret Service, the Bureau of Alocohol, Tobacco, and Firearms, and the criminal investigative arm of the Internal Revenue Service. These agencies' direct resources are further augmented by reimbursement for their work performed in support of the organized crime drug enforcement initiative.

Besides carrying out traditional law enforcement activities, these agencies perform other tasks such as providing information to the executive branch relating to national security, maintaining a national repository for fingerprint identification, controlling the manufacture of controlled substances, processing naturalization and citizenship applications, controlling, regulating and facilitating the movement of carriers, persons and commodities between the United States and other nations, and ensuring that alcoholic beverages are properly produced and accurately described.

PROPOSED CHANGE

Increased law enforcement staff and equipment such as airplanes and radios would be provided for the following purposes: (1) combating drug trafficking; (2) enhancing top priority investigations in such areas as terrorism and foreign counterintelligence; (3) improving protective services for the President; (4) expanding export control efforts; and (5) providing adequate law enforcement for the 1984 Olympics in Los Angeles. Also, major increases for ADP and telecommunications resources are being requested for the Federal Bureau of Investigation and the Immigration and Naturalization Service to improve management, investigative, and fingerprint processing capabilities.

RATIONALE

- Reducing crime is a top Administrtion priority. Our domestic defense is as important as our national defense. While crime control is primarily a state and local responsibility, the Federal Government has an obvious role to play, especially in those areas that are best handled on a national basis because of their multi-jurisdictional or unique nature.

- After a two-year review of Federal resources available to fight crime, it became clear that more efficient, effective Federal law enforcement is needed if the nation is to make a dent in major criminal activities such as illegal drug trafficking and illegal exportation of high technology.

EFFECTS OF THE PROPOSED CHANGE

Increased resources, including personnel, will result in major improvements in Federal law enforcement efforts. Some positive effects are as follows:

- The major initiative to combat drug trafficking by organized criminal enterprises will continue.
- The Federal Bureau of Investigation will purchase special radio equipment so that agents will be able to communicate without being overheard by others. Increased resources will allow the Bureau to fully automate management and investigative efforts in the northeastern region.
- The U.S. Customs Service will have better technology at its disposal to prevent illegal exports.
- The Secret Service will have more agents to protect the President.

ORGANIZED CRIME DRUG ENFORCEMENT

AGENCY: Department of Justice
Department of Treasury

Functional Code: 751 and 803

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	128	132	113	115	117	119
Outlays	--	104	1,431	117	113	113	115
FTE	--	805	1,566	1,566	1,566	1,566	1,566
REAGAN BUDGET							
Budget Authority	--	128	139	115	115	117	119
Outlays	-	104	136	121	113	113	115
FTE	--	805	1,585	1,585	1,585	1,566	1,566
PROPOSED INCREASES							
Budget Authority	--	--	7	2	--	--	--
Outlays	--	--	5	4	--	--	--
FTE	--	--	19	19	19	--	--

PROGRAM DESCRIPTION

In order to attack the problem of drug trafficking controlled by various organized criminal enterprises, the Administration has established a new program initiative, which creates 12 regional task forces involving not only the Federal Bureau of Investigation, the Drug Enforcement Administration, and the U.S. Attorneys, but also the Internal Revenue Service, the U.S. Customs Service, and the Bureau of Alcohol, Tobacco, and Firearms. These task forces, under the direct control of the Attorney General, are designed to engage in long-term investigative cases targeted at disrupting the operations and leadership of organized criminal enterprises engaged in drug trafficking.

Other aspects of the organized crime drug enforcement initiative include funds to: (1) increase the availability of local jail space to house Federal pretrial detainees; (2) increase Federal prison space to accommodate the increasing prison population; and (3) purchase various equipment such as radios and computers to enhance the efficiency of Federal law enforcement.

This program began in mid-year 1983. During this first year of operations, the Justice Department reimbursed other agencies, such as the Internal Revenue Service, for their participation in the task forces.

PROPOSED CHANGE

In 1984, increased funds will be available for personnel and related resources for the task forces themselves and for more local jail improvement. Obligation of funds for one-time equipment purchases and for Federal prison renovation will be accomplished by the end of 1984. A 3-year Presidential Commission on Organized Crime is to be established to assess the nature and scope of organized crime as it exists today. Agencies in the Treasury Department will receive their own direct resources totaling $33 million for this program in 1984.

RATIONALE

Crime has become increasingly organized and sophisticated, especially in the area of trafficking in illicit drugs. Because organized crime drug trafficking threatens our entire society, its demise has become a top Administration priority. It is the Federal Government's role to enforce such laws as those against drug trafficking because the problem not only crosses state boundaries, but also involves foreign countries. Furthermore, fighting drug trafficking by organized criminal enterprises involves investigative and prosecutorial efforts that are, generally, unique in nature. The regional task forces will focus on prosecuting individuals who organize and finance illegal narcotics trafficking. The objectives include seizure and forfeiture of assets of these individuals as well as their long-term imprisonment.

EFFECTS OF THE PROPOSED CHANGE

The task forces will be fully operational throughout the country in 1984. The increase in resources for local jail improvements will guarantee Federal Government needed bedspace in local jails. The Presidential Commission will conduct nationwide and region-by-region assessments of the power and influence of organized crime.

CRIMINAL JUSTICE ASSISTANCE

Agencies: Department of Justice — Functional Code: 751

FUNDING:

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	--	--	--	--	--	--	--
Outlays	--	--	--	--	--	--	--
REAGAN BUDGET							
Budget Authority	--	--	92	92	2	2	1
Outlays	--	--	36	92	58	2	1
PROPOSED INCREASES							
Budget Authority	--	--	92	92	2	2	1
Outlays	--	--	36	92	58	2	1

PROGRAM DESCRIPTION

A new $92 million criminal justice assistance program is proposed. Of this amount, $72 million will be in the form of formula grants to States to support programs of proven effectiveness such as career criminal projects to apprehend and prosecute repeat offenders or community crime prevention programs such as neighborhood watch projects. These formula grant funds will also be used to fund innovative State and local projects. Formula grants will be awarded to States with each receiving a base of $250,000 and the remainder allocated according to relative population. Federal monies will be matched dollar-for-dollar. The remaining $18 million will fund discretionary grants for four purposes: (1) training; (2) technical assistance; (3) national or multi-jurisdictional projects; and (4) demonstration programs. Another $2 million is provided to cover administrative costs of the program.

PROPOSED CHANGE

This program will differ from that of the former Law Enforcement Assistance Administration in that resources will be targeted to assure that only successful, tried programs will be funded. Furthermore, the 50-50 matched Federal and State or local funding will ensure State and local commitment and maximize the impact of Federal assistance.

RATIONALE

The crime rate is a serious national issue. While recognizing that crime control is primarily a local responsibility in our Federalist system, the Administration also recognizes that the Federal Government must play a leadership role, not only in terms of Federal investigations and prosecutions, but also in terms of direct assistance to State and local governments.

During the last 2 years, this Administration has closely examined the intergovernmental roles in the criminal justice area. A result of this review has been a realization that reductions in this area were too severe in previous years. It is as important to Americans as national defense that they feel safe in their homes and on the streets. A targeted assistance program that helps fund proven, successful programs will provide a positive role for the Federal Government, yet leave the implementation and ultimate success of these programs were they belong--with State and local governments.

EFFECTS OF THE PROPOSED CHANGE

Establishing a new criminal justice program in which the Federal Government shares the cost, for a limited time period, of successful, tested programs, will have a positive impact on local criminal justice systems. Over the long-term, improvements in law enforcement, the judicial process, and the correctional system should result.

PRISON CONSTRUCTION

AGENCY: Department of Justice — Functional Code: 753

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	7	7	7	8	8	9
Outlays	--	30	30	23	15	8	8
REAGAN BUDGET							
Budget Authority	56	7	97	80	34	39	40
Outlays	15	30	45	56	83	63	33
PROPOSED INCREASES							
Budget Authority	--	--	90	73	26	31	31
Outlays	--	--	15	33	68	55	25

PROGRAM DESCRIPTION

The Federal Prison System (FPS) facilities development program plans, designs and constructs correctional facilities that provide a safe, secure and humane environment for those persons charged with or convicted of violating Federal law.

PROPOSED CHANGE

A increase is proposed in 1984 to fund several new construction projects.

RATIONALE

As increased investigative and prosecutorial efforts commence, additional physical capacity is required to address both current FPS overcrowding (currently 21% over rated capacity with a population of approximately 29,000 inmates) and the increased prisoner population to be generated by the Organized Crime Drug Enforcement initiative. The FPS estimates that its population will be at least 30,000 by the end of 1984 and that it will reach 31,300 by the end of 1987. FPS must project its prison population several years forward since any new Federal facilities requested in this budget will not become operational until 1987 at the earliest.

EFFECTS OF THE PROPOSED CHANGE

The $90 million increase proposed will fund the following projects: (1) construction of one 500-bed prison in the northeastern United States; (2) planning and site acquisition funds for a second 500-bed prison in the northeast; (3) construction of a 500-bed jail for pretrial detainees in Los Angeles; (4) continued renovation of the Leavenworth penitentiary; and (5) various modernization and rehabilitation projects.

Also, as part of the Organized Crime Drug Enforcement initiative, $6 million will be provided for an additional 340 bedspaces at existing Federal facilities (780 bedspaces were funded in 1983). These funds are not reflected in the above numbers since they are included in the Organized Crime Drug Enforcement initiative.

TAX ADMINISTRATION

AGENCY: Department of the Treasury
Internal Revenue Service

Functional Code: 803

Funding

	($ in billions)						
	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	2.7	3.0	3.2	3.3	3.3	3.4	3.4
FTE	83,756	91,239	91,239	91,239	91,239	91,239	91,239
Receipts	--	2.1	2.4	2.4	1.3	.6	--
REAGAN BUDGET							
Budget Authority	2.7	3.0	3.3	3.4	3.5	3.6	3.6
FTE	83,756	91,239	92,548	92,548	92,548	92,548	92,548
Receipts	--	4.5	11.1	10.5	11.2	11.5	11.8
PROPOSED INCREASES							
Budget Authority	--	--	.1	.1	.2	.2	.2
FTE	--	--	1,309	1,309	1,309	1,309	1,309
Receipts	--	2.4	8.7	8.1	9.9	10.9	11.8

PROGRAM DESCRIPTION

The Internal Revenue Service (IRS) is a tax processing and enforcement agency, the primary mission of which is enhancement of compliance with the tax laws.

PROPOSED CHANGE

The 1984 budget for IRS reflects an increase of $133 million and 1,309 full-time equivalent employees over current services estimates. This increase is the net of increases for implementation of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and for projects to automate and modernize antiquated operations, and a decrease related to a change of thrust in the taxpayer service program.

RATIONALE

In TEFRA, the Congress has provided the IRS with significant new compliance tools including: withholding of tax on interest and dividend income, reporting on the sale of commodities and tip income, and penalities for submitting or preparing false returns. In addition, provisions relating to the statutory interest rate on underpayments and overpayments have been changed to better conform to economic realities by requiring biannual adjustment and daily compounding and to limit interest on overpayments claimed on late returns. Moreover, substantial workload has been imposed by the comprehensive amendments to corporate and Keogh pension plans.

A second major thrust for the IRS is continuation of efforts to modernize tax processing and operational systems. Over half the requested increases in this area are related to projects begun in 1983: replacement of antiquated tax processing systems, automation of procedures for collection of delinquent accounts and audit of tax returns, and implementation of optical character recognition for some documents. New projects focus on the development of innovative systems, including: testing of laser optical technology for storage of returns, automation of support functions and major redesign of the tax processing system.

The 1984 budget also reflects a change in delivery mechanisms for taxpayer service to better meet taxpayer needs in a more cost-effective, less labor intensive manner.

EFFECTS OF THE PROPOSED CHANGE

- The new administrative provisions of TEFRA should greatly aid the IRS in the accomplishment of its mission. The improved voluntary compliance as a result of TEFRA is estimated to generate almost $9 billion in additional receipts in 1984 and over $50 billion through 1988. The provisions for withholding tax on dividend and interest income contribute a substantial portion of this increase, $6 billion in 1984 and $26 billion through 1988.

- The modernization efforts will permit the IRS to greatly streamline its operations by utilizing updated data input, processing and operational technologies. The major benefits in outlays, personnel and interest savings will not accrue for several years, however, due to system design and acquisition costs and the fact that new and old systems will have to be run in parallel for awhile.

- The new thrust for taxpayer service will focus direct assistance efforts on those who need help most -- the elderly, handicapped, low-income and non-English speaking--through neighborhood outreach programs, walk-in service and taxpayer education. The new approach will ensure help for those who must depend on the IRS while eliminating duplication of service available from the private sector.

1982 AND 1983 CHANGES

A key initiative in the 1983 Budget was the dedication of 5,225 full-time equivalent positions and $154 million to improvement of tax enforcement by increasing emphasis on identification and collection of unpaid taxes and by reducing backlogs in the appeals process. In 1984, this effort will be maintained and further expanded. Overall, this increased emphasis on tax enforcement will result, according to IRS estimates, in additional receipts of $2.1 billion in 1983 and $2.4 billion in 1984.

EPA OPERATING PROGRAM

AGENCY: Environmental Protection Agency Functional Code: 304 and 271

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	1,086	1,040	1,080	1,119	1,158	1,198	1,240
Outlays	1,248	1,103	1,092	1,103	1,116	1,165	1,207
REAGAN BUDGET							
Budget Authority	1,086	1,040	949	950	950	950	950
Outlays	1,248	1,103	1,033	979	944	951	950
PROPOSED SAVINGS							
Budget Authority	--	--	131	169	208	248	290
Outlays	--	--	59	124	172	214	257
PERSONNEL	(10,914)	(10,225)	(9,741)	(9,741)	(9,741)	(9,741)	(9,741)

PROGRAM DESCRIPTION

EPA's operating program provides funding for research, regulation development, enforcement and overhead activities; exclusive of Waste Treatment Grants and Superfund for which funding is at or above 1983 levels. Funds pay for salaries, administrative expenses, contracts and grants to states and universities to implement mandated responsibilities under eight major environmental statutes.

PROPOSED CHANGE

Reduces overall operating funds by $90 million (-9%) and 485 (-5%) staff years from 1983 levels. However, EPA enforcement activities are increased by 13% to reflect the shift in the agency's mission from regulatory development to compliance monitoring.

RATIONALE

State grant program reforms. EPA's significant administrative, oversight and procedural reforms instituted last year will be continued and emphasized in 1984 for programs that have been effectively operated by States for several years. Newer State programs are retained essentially at 1983 levels. The major reduction from 1983 (-$30 million) occurs in the water pollution control program to eliminate the obvious overlap between three separate grant programs now funding state activities under the Clean Water Act. Even with the reduction, State water pollution control agencies will receive $140 million, more than double the grant level for other state environmental agencies. Other state funding reductions reflect reduced Federal oversight requirements, reduced Federal payments for State overhead activities and the increased availability and use of permit fees by States.

Reduced Federal subsidies of pollution control technology development. Development of pollution abatement technologies is not an appropriate Federal role given the incentives for private industry to develop and sell new, more efficient or less costly control technologies. For example, since 1977 EPA has funded research on new treatment processes for municipal wastetreatment plants despite incentives and protections built into the law for firms willing to incur the risks of developing new techniques. These and similar projects will be phased out in the '84 Budget.

Reductions in programs that have achieved their regulatory objectives. By 1984 EPA's responsibilities for developing and promulgating regulations under several environmental statutes will be nearly completed, including the issuance of the final round of industrial wastewater discharge limitations and the completion of all significant regulations for the disposal of hazardous wastes. Accordingly, these regulatory efforts and the research activities that supported them are being reduced while enforcement and implementation activities increase.

EFFECTS OF PROPOSED CHANGE

The reductions in staffing and funding will not affect any of the substantive pollution control efforts at the State or Federal levels. All statutory or court ordered requirements will be met, and all high priority non-regulatory activities such as research on groundwater, ocean disposal and acid rain will be carried out at or above 1983 levels.

STRATEGIC PETROLEUM RESERVE

AGENCY: Department of Energy — Functional Code: 270

Funding ($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	3,875	2,316	3,015	1,655	3,486	3,040	2,732
Outlays	3,878	2,139	3,250	3,006	1,878	3,868	2,293
REAGAN BUDGET							
Budget Authority	3,875	2,316	742	1,565	1,610	1,673	1,739
Outlays	3,878	2,055	2,094	1,567	1,560	1,644	1,705
PROPOSED SAVINGS							
Budget Authority	--	--	2,273	90	1,876	1,367	993
Outlays	--	84	1,156	1,439	318	2,224	588

PROGRAM DESCRIPTION

The Strategic Petroleum Reserve (SPR) is the oil stockpile which the Federal Government is accumulating to help deal with disruptions in world oil markets.

- The SPR is one important part of an overall strategy designed to protect U.S. energy security. The nation's first line of defense for dealing with an import interruption is to rely on market forces to allocate available oil--from domestic production, remaining imports and private inventories. The SPR provides an additional source of supply to augment market forces and reduce the economic impact of the interruption.
- The SPR now contains some 300 million barrels of oil--the equivalent of over 70 days worth of U.S. oil imports and 170 days of imports from OPEC countries.
- The SPR is currently growing at an average rate of 220,000 barrels per day (B/D) toward its long-term goal of 750 million barrels (MB).

PROPOSED CHANGE

The Current Services budget assumes that the SPR will be filled at a rate of 220,000 B/D until 500 MB are stored and, thereafter, at a rate sufficient to fill available permanent storage facilities as they are developed. The 750 MB Reserve would be completed in 1989.

The 1984 budget proposes a fill rate of 145,000 B/D in 1984, with a budget planning assumption of 100,000 B/D thereafter.

The 1984 budget continues to provide for the 750 MB reserve. The revised schedule calls for completing 600 MB of storage facilities, plus land acquisition, design and initial construction of the remaining 150 MB, with the final development schedule to be determined within the next year.

RATIONALE

- Key aspects of the world oil market have changed dramatically for the better since the SPR was first established.

— In 1977, the initial plan for a 500 MB SPR was based on projected 1985 import levels of 7.3 to 10.4 M B/D, with some DOE forecasts as high as 11 M B/D. In 1982, actual net imports were only 4 M B/D, and DOE currently projects 1985 imports at only approximately 6 M B/D, a reduction of as much as 45 percent from the earlier forecasts.

— When world oil markets were disrupted in 1973 and again in 1979, there was very little spare production capacity in major oil producing countries. The most recent CIA data show that oil producing countries in the free world have at least 10 million B/D of excess current capacity. This greatly reduces the prospect of a shortage from a disruption involving one or two producers.

— The OPEC share of U.S. oil imports has declined over the past decade, from a peak of 70 percent to 43 percent today. The share of Arab OPEC imports has declined from 37 percent to only 18 percent.

— The decline in the volume of Arab OPEC imports has been even more startling: from a 1978-79 peak of 3 million B/D to about 900,000 B/D during 1982.

- The United States and its allies are better prepared today to deal effectively with disruptions in oil supplies. The progress is significant and permanent.

  — Current SPR stocks are nearly three times as large as they were two years ago, providing 70 days of 1982 net oil imports; almost 5 months worth of protection should half of U.S. imports be interrupted; and the equivalent of 11 months of U.S. oil imports from Arab OPEC sources. In addition, the private sector has safety stocks which are available for use during a supply distribution.

  — Counterproductive controls on U.S. oil markets have been abolished. These controls amplified past supply disruptions in the U.S. As the experience of other countries clearly demonstrates, elimination of controls should make any subsequent disruption less difficult for the American people to deal with.

  — Through the International Energy Program (IEP), our allies now have significant energy emergency preparedness capablities. For example, oil stockpiles worldwide are over 4 billion barrels. Of this amount, our allies currently have over 1.5 billion barrels, including about 120 million barrels of government-owned stocks.

- The policy pursued by the Administration and proposed in the budget compares favorably with an alternative presented in the Energy Emergency Preparedness Act (EEPA). At the same time, the 1984 budget policy on SPR fill allows significant budget savings.

The EEPA calls for an SPR fill rate of 300,000 B/D, unless the President finds that this is not in the national interest, in which case the rate is 220,000 B/D or the highest practicable fill rate achievable subject to the availability of funds. The actual fill rate is to be determined each year based on the funding provided in the annual appropriation act.

	FY 1983	FY 1984	FY 1985	FY 1986
Fill rate (B/D)				
EEPA (220,000)	220,000	220,000	168,000	124,000
Budget	220,000	145,000	100,000	100,000
Difference	---	75,000	68,000	24,000
Cumulative fill (MMB)				
EEPA (220,000)	358	438	500	545
Budget	358	411	448	484
Difference	---	27	52	61

— The difference in cumulative fill for the two policies in 1984 will be only 27 MB or 7 percent.

- Measured in terms of the 6 MB/D of imports now projected for 1985 by DOE, the 220,000 B/D fill rate provides 83 days of coverage. The fill rate proposed in the budget provides 75 days of coverage -- a difference of only 8 days.
- As recently as 1980, DOE was projecting 1985 imports of 8.3 MB/D. The 220,000 B/D fill rate would have provided only 60 days of protection by 1985 based on that import level. But, even with the lower fill rate provided in the budget, we now expect 75 days of coverage--25 percent more protection than we expected to have in 1980.
- The EEPA was based on the assumption that DOE should buy more oil now because oil prices were projected to increase by 7 percent per year. Yet many analysts now expect oil prices to stay flat or fall in the next few years--indicating that there is no financial advantage to buying SPR oil early. For example, buying additional oil today at $33 per barrel with borrowed money costs the Treasury the same amount of money as buying a barrel in 1985 for $39.
- Buying oil at or above the 220,000 B/D rate requires the use of temporary storage which would cost an additional $1 to $5 per barrel per year, create added administrative complexity, and pose greater security risks.
- The proposed SPR policy reduces Federal outlays by an average of $1.3 billion per year in 1984 and 1985. Though most of these outlays are off-budget, they affect Federal borrowing and economic activity the same as on-budget spending.

EFFECTS OF THE PROPOSED CHANGE

- The SPR will continue to be developed at a reasonable rate.
- U.S. energy security will remain above the levels expected when the SPR originally got underway and as recently as two years ago.
- Federal outlays and borrowing requirements will be reduced by $2.6 billion over the next two years.

1982 AND 1983 CHANGES

The Administration has taken major steps to accelerate the SPR and improve our emergency preparedness.

- The SPR fill rate for 1981-1983 will average 242,000 B/D --three times higher than the 77,000 B/D average over the four years of the previous Administration.
- The SPR will have tripled in size, from just over 100 MB at the start of 1981 to 358 MB at the end of 1983.
- Nearly $10 billion will have been spent on this program during a period of tight restraint on the budget--$3.8 billion in 1981, $3.9 billion in 1982, and $2.1 billion in 1983.

OUTER CONTINENTAL SHELF OIL AND GAS LEASING

AGENCY: Department of the Interior — Functional Code: 950

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
1983 BUDGET							
Receipts	7,861	18,000	18,000	18,000	19,500	21,000	N/A
CURRENT SERVICES AND 1984 BUDGET							
Receipts	6,250	11,793	11,895	12,200	13,400	14,400	15,100
CHANGE							
Receipts	-1,611	-6,207	-6,105	-5,800	-6,100	-6,600	NA

PROGRAM DESCRIPTION

The budget proposed implementation of the final 5-year OCS oil and gas program approved by Secretary Watt on July 21, 1982.

This schedule assumes sales as follows:

	1983	1984	1985	1986	Thru June 1987
Number of sales	10	7	9	8	6

PROPOSED 1983 AND 1984 CHANGES

The Department will consider entire planning areas for potential lease offering. Under the 5-year program nearly the entire OCS will be considered for leasing. During this consideration, environmental, coastal zone, oil and gas reserve, and other values will be carefully balanced. Only a small portion of the considered areas is expected to be leased. Receipt estimates are based on estimates of potentially recoverable oil and gas in the lease areas, value to extracting companies, and royalties on oil extracted.

RATIONALE

The program changes in the 5-year OCS oil and gas program are designed to achieve early exploration of OCS areas with oil and gas promise while protecting OCS values other than oil and gas resources.

The changes in budget receipts estimates compared with those in the 1983 budget are a result of events occurring since the publication of that budget, including further increases in offshore development costs; softening of world oil prices; and delays in litigation about the distribution of receipts held in escrow pursuant to section 8(g) of the OCS Lands Act pending determination of amounts, if any, owed to adjacent states.

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NATIONAL SECURITY

CHAPTER 4

NATIONAL SECURITY

One of the most important tasks of the Federal government – perhaps the most important – is to protect national interests and security. This is an expensive task; however, the failure to do so would be even more expensive and wholly unacceptable. It is often forgotten that our military strength prevents war and avoids the horrendous cost of human lives and resources associated with war. There is no greater objective than to assure our nation's security and to preserve peace. The ability of the United States to grow and prosper depends on the foundation of a strong defense to protect national interests. In turn, a healthy economy will support the defense expenditures that are required to maintain the nation's security. These objectives are mutually supportive.

Since the 1970's the United States has allowed its military power to decline relative to its expanding national interests and the growth in military power of the Soviet Union. From 1970 to 1981 U.S. defense spending declined nearly 20% in real terms, whereas non-defense expenditures almost doubled in real terms. During this same period Soviet spending estimated in U.S. dollars increased 35% in real terms, to a level in 1981 45% higher than U.S. spending. As a consequence, the United States has been living off the defense investment of the 1950's and early 1960's when defense expenditures averaged about 9% of the GNP. By 1978 defense spending had declined to 5% of the GNP.

President Reagan's defense program will reverse this unfavorable trend. It will prevent further erosion in military power relative to that of the Soviet Union. The 1984-1988 program will continue improvements needed to deter or, if necessary, respond to conventional and nuclear war. Such improvements will ensure the best prospect of deterring any challenge to national interests which could lead to military conflict.

NATIONAL SECURITY OBJECTIVES

The highest-priority national security objectives of the United States are:

- To deter military attack by the USSR and its allies against the United States, its allies, and other friendly countries, and to deter or counter use of Soviet military power to coerce or intimidate our friends and allies.
- To maintain access to critical resources and protect U.S. economic interests and U.S. citizens abroad.
- In the event of an attack, to deny the enemy his objectives and bring a rapid end to the conflict on terms favorable to our interests.
- To inhibit further expansion of Soviet control and military presence, and to induce the Soviet Union to withdraw from those countries where it has imposed and maintains its presence and control by force of arms.
- To promote meaningful and verifiable mutual reductions in nuclear and conventional forces through negotiations and to discourage further proliferation of nuclear weapons throughout the world.

Our aim is to secure the strength needed to deter or, if necessary, defend against, nuclear and conventional attack, as well as to discourage coercive use of Soviet military power. A sustained commitment to redress any significant imbalance will not only strengthen our deterrent capabilities but also will improve prospects for agreements on arms control and reductions.

THREATS TO U.S. SECURITY OBJECTIVES

Our defense posture, particularly over the last decade, has taken insufficient account of the increases in Soviet military capability and their willingness to use force or the threat of force to further their foreign policy goals. Soviet increases included strategic nuclear, non-strategic nuclear, and general purpose forces.

- The shifting military balance against the Free World has allowed the Soviet Union to threaten to outflank our traditional alliances. Soviet military capability is augmented by their Warsaw Pact allies and client-states around the world, including Cuba, Libya, Vietnam and North Korea.
- The cumulative effect of the Soviet buildup has permitted them to shift from a defensive orientation to one capable of projecting power in remote areas and mounting roughly concurrent offensives in multiple theaters.
- Despite the scope and nature of these threats, U.S. military capability was allowed to decline relative to that of the Soviet Union.
- Defense investment and Force comparisons illustrate the need to continue our revitalization efforts:
  - **Defense Spending**
    - During the decade of the seventies, Soviet defense spending averaged over 13% of GNP compared to less than 6% for the U.S.
  - **Defense Investment**
    - In 1981, U.S defense investment (procurement, R&D, military construction) was about $75 billion (in 1984 dollars) compared to a dollar estimate of Soviet defense investment of over $120 billion or over 50% greater. Most notably, the Soviets have invested three times more than we did in strategic nuclear forces.
    - Total defense investment for NATO and Japan was about $115 billion as compared to over $130 billion in 1984 dollars for the Warsaw Pact--about 90% of which was direct Soviet contributions and, hence, under direct Soviet control.
    - During the last decade (1972-1981), the dollar value of Soviet defense investment exceeded U.S. investment by almost a half trillion dollars (in 1984 dollars). Over the last decade Warsaw Pact defense investments were over $185 billion more than NATO and Japan.
  - **Weapon Systems Production**
    - Since 1974, production of major weapon systems by the U.S. has lagged that of the Soviet Union; overall NATO production has also lagged that of the Warsaw Pact, except with respect to general purpose naval forces.

PRODUCTION OF SELECTED WEAPONS (1974-1982)

	US	USSR	USSR to US Ratio	NATO	Warsaw Pact	Warsaw Pact to NATO Ratio
ICBMs	346	2,035	5.9:1	346	2,035	5.9:1
Tanks	6,400	17,350	2.7:1	9,000	20,800	2.3:1
Tactical Combat Aircraft	3,050	6,100	2:1	5,700	6,900	1.2:1
General Purpose Warships	99	146	1.5:1	211	156	.7:1

— **Existing Force Balance**

- The Soviets now have a significant advantage in numbers of deployed strategic weapons systems.

	Strategic Forces (1 January 1983)	
	US	USSR
Delivery Vehicles	1921	2598
Missiles	1593	2348
ICBMs	(1049)	(1398)
SLBMs	(544)	(950)
Bombers	328	250

- The Soviets enjoy a current monopoly in deployed longer range intermediate range nuclear forces (LRINF).

	Longer Range Intermediate Range Nuclear Forces (LRINF)	
	US	USSR
LRINF Warheads	0	More than 1200

- The Soviets continue to maintain their very large advantage in conventional forces.

	Selected Conventional Forces (Deployed)
Tanks	3 to 1 Warsaw Pact Advantage
Interceptor/Aircraft	2.5 to 1 Warsaw Pact Advantage
Submarines	1.3 to 1Warsaw Pact Advantage

THREATS TO FRIENDLY COUNTRIES

The massive Soviet military buildup of the past decade has lead to growing adventurism world-wide by the Soviet Union and its client states. Most menacing is the Soviet invasion of Afghanistan in 1979, marking the first time that regular Soviet forces were engaged in combat outside the communist bloc since World War II. More commonly, the Soviet Union has employed third world clients to threaten United States allies and other friendly nations. The list of such threats has grown long:

- Thailand is confronted with Vietnamese forces which have invaded Kampuchea and reached the Thai border.
- In Africa, neighboring countries to Libya face a continuing threat from that country, as demonstrated by that country's recent abortive incursion in Chad.
- The peaceful states of southern Africa confront the presence of Cuban troops in Angola.
- The countries of the Caribbean Basin are faced with subversion from Cuba.
- Among the longer standing threats are those of Syria in the Middle East and of North Korea to South Korea.

U.S DEFENSE STRATEGY

U.S. strategy is guided by three primary principles:

- Its objective is to deter war
- It is defensive
- If deterrence fails, we seek to restore peace on favorable terms after a conventional attack.

The following policies underlie U.S. strategy:

- We are part of, and contribute to, a collective defense posture that incorporates the strengths of our allies.
- We maintain forward deployments that, combined with the forces of our allies, provide the first line of conventional defense in Western Europe, Japan, and Korea. Rapid deployment forces will augment those forward deployed in event of crisis or war, as well as to respond to threats in other areas.
- We seek a *flexible force structure* that builds upon our alliance commitments and forward deployments and provides us a variety of response options.
- The defensive orientation of our strategy imposes several requirements on our military posture: our forces must be maintained in a high state of readiness, our tactical warning and command, control and communications capabilities must be flexible and enduring; and our reserve forces must have the capability to mobilize rapidly.
- For deterrence to be effective:
  - our forces must show that they could survive a first strike;
  - our threatened response to an attack must be credible; and
  - the boundary between peace and aggression must be clearly defined.
- To restore the peace, should deterrence fail, we seek to limit:
  - the scope of the conflict to the theater in which the attack occurred;
  - the duration of the conflict; and
  - the intensity of the conflict.

NATIONAL SECURITY RESPONSES

- Because of our defensive orientation we must keep our forces in a high state of readiness, maintain the ability to detect warning of attack and improve our ability both to respond appropriately to ambiguous indications and to mobilize reserve forces rapidly.
- Programs to improve our conventional force combat capabilities emphasize readiness first, then sustainability, modernization and force expansion.
- Should a conventional attack occur, we would try to limit the scope of conflict by defeating the attack in the theater in which it occurred. Given the Soviets' ability to conduct campaigns on several fronts, however, our planning must recognize that war could spread to other regions. We would seek to deny the enemy his political and military goals and to counterattack with sufficient strength to terminate hostilities at the lowest possible level of damage to the United States and its allies. We should not allow the Soviets to perceive that a conflict could be won simply by outlasting us.
- Countries of the third world which are prepared to resist direct and indirect Soviet aggression must receive financial support from the United States to cushion the effect on their economies of necessary increases in their military spending. These countries, among the hardest hit by the current world economic disruption, must also be provided with economic assistance which is immediately helpful to them as well as aid for their longer term development activities.

- At the same time, because of a major campaign by the Soviet Union to spread lies and half truths about United States policy and our democratic free enterprise system, these third world countries and our industrialized allies must be given a better understanding of the principles for which the United States stands and of the benefits to us and to them of our way of life.

- Security assistance is provided to friends and allies to enhance their ability to defend themselves and to increase the effectiveness of the mutual U.S. and allied military response.

- Current forces to carry out these objectives include:
  - 29 Army and Marine Corps Divisions (19 active and 10 reserve), supplemented by separate non-divisional brigades and regiments;
  - A deployable battle force of some 506 ships, including 34 ballistic missile submarines and 13 aircraft carriers; and
  - 38 wings of Air Force tactical aircraft, 15 Navy wings, and 4 Marine Corps wings.

STATUS AND ACCOMPLISHMENTS TO DATE

The Reagan Administration has dramatically increased force readiness and sustainability.

- Personnel readiness
  - 100% of manpower recruiting goals are now being met.
  - 86% of enlistees are now high school graduates, up from 68% two years ago.
  - Career re-enlistment is at 82%, an increase of 15% over two years ago.
- Conventional force readiness
  - The average flight training of Air Force crews has been increased by more than 50% from 1978 to an average of about 20 hours per month.
  - The combat readiness of our naval ships increased 79% since 1981 on the average, based on number of ships now " fully" or "substantially" combat ready,
  - The readiness of naval tactical air forces has increased 330% since 1981.
  - Programs funded to date will provide a 25% increase in available war reserves for combat sustainability over the 1981 level.

The Administration has placed a high priority on modernizing our strategic nuclear forces to reduce existing imbalances.

- A commitment has been made to procure 100 B-1B bombers, with ten aircraft funded in the FY 1984 request.
- Pursuit of research and development for an Advanced Technology (Stealth) bomber is continuing.
- A program to re-engine over 300 KC-135 strategic tanker aircraft to improve the range and efficiency of our tanker force is well underway
- Deployment of air launched cruise missiles on our B-52 force is continuing
- Development of the Peacekeeper land-based intercontential ballistic missile is continuing with an initial operational capability planned for late 1986.
- Commitment to develop the TRIDENT II submarine-launched ballistic missile has been made.

- Construction and deployment of our new OHIO class TRIDENT submarines is continuing with the first boat deployed in October 1981 and the eleventh funded in the FY 1984 budget request.

Substantial resource have been committed to improving our mobility forces.

- A commitment to an enhanced airlift program consisting of 50 C-5B Starlifter aircraft for "outsize" equipment and 44 KC-10 cargo-tanker aircraft for "oversize" equipment has been made.
- Our airlift capability will be doubled by the early 1990s.
- For sealift, 17 maritime prepositioning ships have now been deployed with 13 more ships to be added for rapid deployment and prepositioning.
- Our overall capability to deploy forces will be increased through our airlift, sealift, and prepositioning initiatives by about 70% by the end of the decade.

Conventional forces procurement has been increased to modernize and sustain current force levels.

- Tactical aircraft procurement for the past two years has averaged 320 aircraft, roughly 400 are needed to sustain current force levels at an average age of 10 years.
- Overdue modernization of land forces has been accelerated with procurement of 1,575 tanks and 1,958 combat vehicles over the past two years.

Finally, within available resources the Administration is striving to expand force structure to reduce the imbalance between existing forces and those required to carry-out national security objectives

- The Army will activate two additional Special forces battalions and an additional group headquarters in 1984.
- By the end of 1983 our naval force level should exceed 500 ships compared to 479 at the end of 1980 and on the way to 600 ships by 1990.
- Our tactical air forces will expand over the period of the President's FY 1984 Five-Year Defense Plan from 26 to 28 active Air Force Wings and from 12 to 14 Naval Carrier Air Wings

Budget Authority for security assistance programs will increase to a requested $4.7 billion in 1984 up from $3.5 billion in 1980. Guaranteed loans will grow to $4.4 billion during the same period an increase of 7.5% from 1980.

DEFENSE SAVINGS

- The Administration's FY 1984 budget for the Department of Defense is $273.4 billion in Budget Authority, a reduction of $11.3 billion from the level planned last year for 1984 and a reduction of $15.5 billion from the original plan of March 1981.
- Since last year the President's planned defense program has now been reduced by over $74 billion.
  - $19.1 billion with Congressional actions for FY 1983.
  - $55 billion with the President's revised 1984-88 program.
- Actual defense spending (outlays) for 1984 of $238.6 billion is $8.4 billion less than the spending level planned a year ago, and $11.2 billion less than the original March plan.
- The originally planned increase in defense spending over the last Carter five-year defense plan for 1982-1986 has now been reduced by more than one-half, from $116 billion to $50 billion.

- For the period FY 1981-1988, the Department of Defense projects savings of about $30 billion from acquisition efficiencies and other management improvements.
- These savings would come from initiatives such as multi-year procurement of weapon systems or system components to allow economic quantity buys, and reductions in administrative travel, consulting, management support and other areas.

STRATEGIC FORCES

AGENCY: Department of Defense Functional Code: 051

Funding	($ in billions)				
	1982	**1983**	**1984**	**1985**	**1986**[1/]
REAGAN BUDGET					
Budget Authority	19.9	26.5	37.4	45.3	45.3

1/ Includes research, development, procurement, and operations costs.

PROGRAM DESCRIPTION

Strategic forces are deployed to deter a nuclear attack against the United States or its allies, and to prevent coercion by the Soviet Union. U.S. offensive forces, known collectively as the TRIAD, include land-based intercontinental ballistic missiles (ICBMs), submarine-launched ballistic missiles (SLBMs) and bombers. Air- and sea- launched cruise missiles are being added to these forces. Defensive forces include warning, surveillance, and communications systems, and interceptor aircraft.

PROPOSED POLICY

The 1984 budget continues the President's strategic modernization program which consists of the following elements:

- Acquisition of the new B-1B bomber ($6.9 billion) to replace the aging B-52 and research and development for an advanced technology (Stealth) bomber.
- Development and production of new, larger and more accurate Peacekeeper (MX) missiles ($6.6 billion), for deployment in a survivable basing mode.
- Deployment of the new Trident submarine and the Trident I missile and the development of a new submarine-launched ballistic missile (Trident II) with improved range, accuracy and payload. ($3.9 billion).
- Deployment of air-launched cruise missiles (ALCM) on B-52 aircraft, and sea-launched cruise missiles (SLCM) on attack submarines.
- Improvements in strategic defenses, including air defense interceptors, development of an anti-satellite system, and an aggressive research program for ballistic missile defenses.
- Improvements to command, control and communications systems, including upgrades to radars and satellites that warn of nuclear attacks.
- In support of the strategic modernization programs, the FY 1984 budget includes $6.8 billion in the Department of Energy for nuclear weapons R&D, testing, and production, special nuclear material production, and other defense-related activities. The budget also includes increased funding, to a level of $254 million, for a more effective civil defense program. This program is funded by the Federal Emergency Management Agency as a part of a national integrated emergency management system.

RATIONALE

Existing strategic weapons systems were, for the most part, introduced over 20 years ago and no longer incorporate current technology. Modernization of these forces would be necessary even if the threat had remained unchanged. The threat, however, has grown significantly.

The Soviet Union now has more ICBMs (1,398 vs. 1,052) and SLBMs (950 vs. 544) than the U.S. and our lead in warheads is narrowing. The Soviets are also expected to begin deployment of a new bomber.

Soviet deployment of more effective forces threatens to weaken our retaliatory capabilities by increasing the vulnerability of our ICBM's, decreasing the penetration capability of our bombers, and reducing the reliability of our command, control and warning systems.

Past Administrations have allowed civil defense programs to decline. This Administration's program will speed up efforts to provide for protection of the population.

EFFECTS OF THE PROPOSED POLICY

The Administration's strategic program will continue the reversal of the unfavorable trends in the strategic balance favoring the Soviet Union, and will counter recent Soviet advances in missiles, submarines and bombers.

Maintaining the strategic balance through the Administration's modernization program is necessary to ensure that other nations realize that the cost of nuclear attacks on the United States or its Allies far outweighs any conceivable gain.

Strategic modernization also provides an indispensable foundation for progress in Strategic Arms Reduction Talks (START) and other arms control efforts by ensuring that the U.S. can negotiate from a position of strength, and by increasing incentives for the Soviets to negotiate in good faith.

1982 and 1983 CHANGES

In support of the President's strategic program, the Congress has approved 1983 funding increases of over $6.6 billion. Working with the Congress, the President has appointed a bipartisan Commission on Strategic Forces to review our strategic modernization program with particular reference to intercontinental ballistic missile basing alternatives.

CONVENTIONAL FORCES

AGENCY: Department of Defense — Functional Code: 051

Funding

	($ in billions)			
	1982	**1983**	**1984**	**1985**
REAGAN BUDGET				
Budget Authority	99.0	112.2	123.7	149.4

PROGRAM DESCRIPTION

This aggregation includes all active general purpose combat units and mobility (airlift and sealift) forces. The costs include operations and maintenance, military pay, procurement of equipment and supplies, military construction, and development of tactical systems.

The Reagan Administration is strengthening the United States military posture in order to offset the growing strength of Soviet forces. Programs to improve our conventional force combat capabilities emphasize readiness first, then sustainability,modernization and force expansion.

PROPOSED CHANGE

- An increase of $11.5 billion over the 1983 level is proposed.
- Readiness and Sustainability
  - Air Force fighter pilot flying hours will increase by about 5% per pilot and Navy ship steaming hours will increase by 4%.
  - Backlogs of equipment and real property needing maintenance will be reduced.
  - Spare parts and munitions procurements for training and war reserves will be increased by 27%.
  - Active duty military strengths will be increased.
- Modernization and Force Structure
  - $12.7 billion is provided for ship construction, including 17 new ships.
  - $2.7 billion is included for airlift enhancements such as the C-5 and KC-10 aircraft and the Civil Reserve Air Fleet.
  - $9.2 billion is included for tactical aircraft procurement (310 aircraft).
  - $2.8 billion is provided for armored vehicles production (1609 vehicles), including M-1 tanks, infantry fighting vehicles, and light armored vehicles.
  - $11.6 billion is provided for conventional munitions.

RATIONALE

- Increases in operating funds and military personnel are required for improved force manning and for increased training in support of new weapon systems.
  - Forward deployments must be maintained.
  - An active training program must be continued.
  - Total number of ships being operated is growing.

- Additional equipment and supplies are needed for wartime support of our forces. Previous Administrations have failed to provide enough spare parts and munitions to assure an adequate capability to sustain combat.
- U.S. maritime capability must be significantly enhanced to assure control of the seas. A Navy battle force of 600 ships is required. Mobility forces must be improved to permit the rapid deployment of combat forces to any area necessary to protect U.S. interests.
- The Soviet Union has been producing large numbers of weapons. Proposed 1984 procurements narrow, but do not close the gap between U.S. and Soviet weapons production.

EFFECTS OF PROPOSED CHANGE

The proposed program will continue the rebuilding of our defense posture that was begun in 1982.

- With regard to readiness and sustainability:
  - Maintenance backlogs should decline.
  - Combat units will be better trained.
  - Logistics support for rapidly deployable forces will be increased to ease the difficulty of operating in theaters such as Southwest Asia.
  - War reserve stocks will increase.
- With regard to force structure and modernization:
  - The Navy will grow to 600 deployable battle force ships by the end of the decade.
    - Carrier battle group levels will increase from 13 to 15 and four battleships will join the force.
    - Amphibious lift will be increased.
    - Selected submarines and surface ships will be equipped with cruise missiles.
  - Our programmed increases in airlift, sealift and prepositioning of equipment and supplies over the five-year period will give us approximately a 70% improvement in deployment capability by the end of the decade.
  - Tactical aircraft and land combat forces will continue to be modernized at accelerated rates.

1982 and 1983 CHANGES

- Readiness
  - 40% increase in active units rated either "fully" or "substantially" combat-ready.
  - 50% decline in number of units rated "not ready."
- Sustainability
  - 1983 program will provide a 25% improvement in war reserves over the 1981 level.
- Modernization and Force Stucture
  - Mobility Forces are becoming more capable.
    - We have proceeded with procurement of an updated version of the C-5 cargo aircraft and additional KC-10 tanker/cargo aircraft.

- Sealift is being improved by upgrading SL-7 fast logistics ships to provide roll-on/roll-off capabilities and by the leasing of new ships for holding prepositioned combat equipment and supplies.

— The rebuilding of the Navy was started.

- The battleship U.S.S. New Jersey was reactivated.
- Refurbishment of a second battleship, U.S.S. Iowa, is underway.
- Two additional aircraft carriers are being constructed.

— Tactical aircraft and land combat weapons production rates were increased to more efficient levels which are also more consistent with requirements to sustain force levels.

SELECTED NATO RELATED PROGRAMS

AGENCY: Department of Defense — Functional Code: 051

Funding

	($ in millions)		
	1982	**1983**	**1984**
REAGAN BUDGET			
Budget Authority	1,055	946	1,521

PROGRAM DESCRIPTION

In addition to planned improvements in the readiness, sustainability, and modernization of our conventional forces -- much of which supports NATO defense -- the Administration is also pursuing the following initiatives:

Host Nation Support Host countries will provide an increased share of logistic support for U.S. forward deployed forces.

Prepositioning of Equipment Increases are planned in forward deployed equipment (including tanks) to support troops that would be sent to NATO during mobilization.

Strengthening non-strategic nuclear forces The Administration plans to deploy new intermediate range nuclear systems to balance large, recent Soviet deployments of similar systems.

PROPOSED CHANGE

- The 1984 budget continues Host Nation Support agreements with Germany, Belgium, the Netherlands, Luxembourg, and the United Kingdom to provide additional wartime support for U.S. forces. Germany has also agreed to organize new units with about 93,000 reservists dedicated to providing logistics support to U.S. combat units.
- Funding of $264 million has been requested in order to support two additional divisions with prepositioned equipment.
- Continued procurement of Ground Launched Cruise Missiles (GLCM), including the next increment of 120 missiles in 1984 ($801 million). Initial deployment to Europe is scheduled for December 1983.
- Continued procurement of Pershing II ($456 million) missiles to support initial European deployments also scheduled for December 1983. Supplemental funding for 1983 will be requested following successful missile flight testing.

RATIONALE

The Soviet conventional buildup over the last decade requires improvements in NATO forces to maintain a credible deterrent.

- Host Nation Support agreements and prepositioning programs are cost-effective ways to enhance our ability to reinforce units stationed in NATO without costly investments in airlift and sealift forces.
- In response to growing Soviet missile forces targeted on Europe, NATO decided in 1979 to modernize its theater based missile systems, while at the same time pursuing arms control .negotiations. The 1984 budget includes funds to implement this decision. Even after the proposed deployments of GLCM and Pershing II, the number of NATO warheads (572) will be less than the number of Soviet warheads already deployed (1200).

EFFECTS OF PROPOSED CHANGE

Selected improvements to NATO forces, especially improvements to the theater missile forces, will reverse the unfavorable trends in the NATO-Warsaw Pact balance.

Modernization efforts provide a necessary foundation for progress in arms control efforts by ensuring that the U.S. can negotiate from a position of strength, and by increasing incentives for the Soviets to negotiate in good faith.

GUARD AND RESERVE FORCES

AGENCY: Department of Defense Functional Code: 051

Funding

	1982	1983	1984	1985	1986
REAGAN BUDGET					
Budget Authority ($ in billions)	10.4	11.4	11.6	13.2	14.5
Selected Reserve					
End Strength (in thousands)	964	1,002	1,030	1,068	1,098

PROGRAM DESCRIPTION

Guard and Reserve Forces are required to augment the Active Duty Force during mobilization as part of the total force. Some Guardsmen and Reservists also perform peacetime missions. The primary element of the reserve forces is the Selected Reserve--the part of our reserves that is organized and trains as units. Other reserve members serve in the Individual Ready Reserve (IRR) which is made up of individuals with prior military training who would be used to bring Active Force and Selected Reserve units to full strength and to replace casualties suffered in the first few months of combat.

PROPOSED CHANGE

The budget provides for continued improvements in manning, training and equipping Guard and Reserve Forces. Particular emphasis is placed on increasing full-time active duty support strength levels. A comprehensive legislative package to improve IRR manning will be resubmitted to the Congress. It includes extension of the Military Service Obligation (MSO) from six to a maximum of eight years, which will begin to solve the shortfall problem in FY 1990, and enlistment and reenlistment incentives for joining or reenlisting in the IRR. These latter incentives are designed to improve pretrained manpower strength until the strength increases from the proposed longer-service obligation are realized.

RATIONALE

These actions are being taken to:

- Raise Reserve Force strength to a level closer to wartime requirements;
- Improve their mobilization and deployment times;
- Expand their inventory of modern weapons and equipment; and,
- Improve the state of operational training in Reserve units.

EFFECTS OF THE PROPOSED CHANGE

These initiatives will raise Selected Reserve strength by 14% by the end of the planning period, reduce the shortfall in pretrained individual manpower and significantly increase mobilization readiness.

MILITARY PERSONNEL

AGENCY: Department of Defense — Functional Code: 051

	(in thousands)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
End Strength	2,109	2,127	2,165	2,213	2,254	2,276	2,308

PROGRAM DESCRIPTION

Military personnel provide the manpower for the active duty components of the Army, Navy, Marine Corps and Air Force. In order to properly carry out their missions, the military services need an appropriate mix of aptitudes,skill levels, and experience.

Efforts by this Administration to revitalize the all-volunteer force after serious manning difficulties during the late 1970's, have been remarkably successful. In FY 1981 and FY 1982 all services met or exceeded their manning objectives, with successful recruitment and retention of high quality personnel.

These achievements are attributed in part to substantial increases in military pay levels, special pay and bonus programs and extended educational benefits implemented in 1981 and 1982.

PROPOSED CHANGE

The President proposes to increase military strength by 38,000 in 1984.

RATIONALE

Manpower levels have been increased each year in response to additional force requirements and to improve combat readiness. The higher force levels are a continuation of the Administration's efforts to render our armed forces more capable of meeting national security commitments.

EFFECTS OF THE PROPOSED CHANGE

- Additional military strength is required to properly man existing combat units, new ships, aircraft and other weapon systems that will become a part of the military inventory in 1984 and beyond. The increased manpower also permits needed improvements in military training, logistics and intelligence activities.
- The military services are expected to achieve these higher manning levels despite the decision to provide no military pay raise in 1984. Even with the pay freeze, the number of experienced careerists is expected to grow 5% to 10% between 1982 and 1984. Recruit quality should meet or exceed the standards mandated by the Congress. If additional measures are necessary to fill critical manning needs, the budget includes a contingency fund beyond 1984 for increased pay and benefits.

1982 and 1983 CHANGES

An average 14.3% military pay raise, along with substantial increases in other pay and benefits was provided in FY 1982. These increases were substantially higher than average private sector pay raises and led to significant improvements in recruiting and retention performance. The FY 1983 pay raise was limited to 4% as part of a government-wide action jointly supported by the Administration and Congress to reduce the Federal budget deficit and restore long term economic growth.

MILITARY RETIREMENT

AGENCY: Department of Defense Functional Code: 051

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	14,986	16,155	17,088	18,080	19,306	20,440	21,601
Outlays	14,938	16,130	17,052	18,044	19,267	20,400	21,560
REAGAN BUDGET							
Budget Authority	14,986	16,155	16,806	17,413	18,476	19,314	20,160
Outlays	14,938	16,130	16,770	17,377	18,437	19,274	20,119
PROPOSED SAVINGS							
Budget Authority	--	--	282	667	830	1,126	1,441
Outlays	--	--	282	667	830	1,126	1,441

PROGRAM DESCRIPTION

Military Retirement funding provides for the pay of all personnel on the military retired lists for the Department of Defense. Included are payments to retired officers and enlisted personnel of the Army, Navy, Marine Corps and Air Force, retainer pay of enlisted personnel of the Fleet Reserve of the Navy and Marine Corps, and survivors' benefits.

PROPOSED CHANGE

No cost-of-living adjustment (COLA) is provided in 1984. Cost-of- living adjustments for 1983 and 1985 will be as specified in current law, including providing one-half of specified COLA percentage increases to non-disability retirees under age 62. Proposed FY 84 legislation would make permanent the current law provisions which allow one-half the full COLA for non-disability retirees. The proposal would also round all benefit amounts to the next lower dollar.

RATIONALE

- These changes will help bring military annuities more in line with inflation protection provided to non-Federal retirees.
- The limitations are consistent with those proposed for other Federal retirement programs.

EFFECTS OF THE PROPOSED CHANGE

- There would be a modest impact on recruitment and re-enlistment.
- The proposal would potentially increase lengths of service for senior personnel.
- About 1.4 million military retirees would receive an average of $34 per month less by the end of fiscal year 1984.

1982 and 1983 CHANGES

The Omnibus Budget Reconciliation Act of 1982 limited cost-of-living increases for non-disability retirees under age 62 to one-half of assumed Consumer Price Index increases for 1983, 1984, and 1985.

INTERNATIONAL SECURITY ASSISTANCE

AGENCY: Funds Appropriated to the President   Functional Code: 152

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	3,919	4,047	4,313	4,541	4,758	4,974	5,199
Guarantees	3,083	3,638	3,831	4,020	4,209	4,398	4,595
Total BA & Guarantees	7,002	7,685	8,144	8.561	8,967	9,372	9,794
Outlays	3,107	3,835	4,381	4,640	4,838	4,995	5,216
REAGAN BUDGET							
Budget Authority	3,919	4,509	4,692	4,702	4,701	4,699	4,947
Guarantees	3,083	4,163	4,436	4.436	4,436	4,436	4,436
Total BA & Guarantees	7,002	8,672	9,128	9,138	9,137	9,135	9,383
Outlays	3,107	4,019	4,598	4,793	4,884	4,899	4,924
PROPOSED CHANGE							
Budget Authority	--	+462	+379	+161	-57	-275	-252
Gurantees	--	+525	+605	+416	+227	+38	-159
Total BA & Guarantees	--	+987	+984	+577	+170	-237	-411
Outlays	--	+184	+217	+153	+46	-96	-292

PROGRAM DESCRIPTION

Through International Security Assistance programs, the United States helps other governments in acquiring, training for, and using modern military equipment for their defense and provides aid to support their economic stability.

PROPOSED CHANGE

- Military financing programs contain an increased level of grant aid to meet the needs of developing countries for concessional financing.
- Contingency funds are provided to enable a rapid response to unforeseen situations requiring economic aid.
- The world-wide economic recession requires that the United States continue providing economic assistance to help alleviate the severe problems facing many foreign countries.

RATIONALE

- These programs are vital instruments of U.S. national security and foreign policy.
- Since 1981, real program increases have been required:
  - to further the peace process in the Middle East, 50 percent of the total security assistance,
  - to secure base rights and facilities access agreements, 17 percent of total,
  - to support with military aid countries endangered by subversives sponsored by the Soviets, Libyans, Cubans, and Vietnamese,
  - to provide economic aid to countries experiencing severe economic dislocation.
- Security assistance is essential for the United States to actively support friends and allies world-wide in the pursuit of mutual interests.

EFFECTS OF THE PROPOSED CHANGE

- Grant aid will enable developing countries to meet national security requirements and ease debt service repayments.
- Economic support will provide needed external financing to help contain the economic dislocation in developing countries.
- Additional military aid will enhance the ability of friendly nations to defend their sovereignty and thwart subversive activity.

1982 and 1983 CHANGES

- Increased funding has been provided to secure base rights and facilities access.
- Major programs in Central America and the Caribbean, Turkey, Pakistan, Tunisia, Morocco, Sudan, Somalia and Kenya contribute to U.S. efforts to support key allies and ensure success of vital foreign policy interests.

FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE

AGENCY: Funds Appropriated to the President — Functional Code: 151

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	4,552	4.513	4,641	4,715	4,835	4,958	5,124
Outlays	3,856	4,321	4,444	4,366	4,263	4,432	4,678
REAGAN BUDGET							
Budget Authority	4,552	4,755	4,868	4,451	4,335	4,258	4,257
Outlays	3,856	4,335	4,487	4,377	4,248	4,351	4,445
PROPOSED CHANGES							
Budget Authority	--	+242	+227	-264	-500	-700	-867
Outlays	--	+14	+43	+11	-15	-81	-233

PROGRAM DESCRIPTION

Foreign economic and financial assistance includes:

- Contributions to support development lending by multilateral development banks.
- Voluntary contributions to U.N. and other international development programs.
- Development loans and grants administered by the Agency for International Development (AID).
- Food aid under the Public Law 480 program.
- The provision of volunteers to promote development and mutual understanding through the Peace Corps.
- Refugee assistance, which provides humanitarian aid to refugees in foreign countries and finances transportation and initial placement of refugees coming to the United States.
- Other development assistance provided through the Inter-American Foundation, the Trade and Development Program, and the narcotics control program of the Department of State.

PROPOSED CHANGE

For 1984, the Administration is proposing budget authority of $4.9 billion, an increase of $113 million, or 2.4%, above the amount requested for 1983 and $227 million, or 4.9%, above the 1984 current services estimate.

- Increases are requested for AID bilateral programs, which contribute importantly to both U.S. foreign policy and development goals, and for multilateral development banks, primarily to complete the U.S. commitment to fund the Sixth Replenishment of the International Development Association (IDA) by 1984.
- Reductions from prior year levels will be sought for refugee assistance programs, since aid and resettlement requirements are estimated to decline in 1984, and for international organizations, which are judged of lower priority than other programs that address the same goals.

- P.L. 480, Peace Corps, and other programs in this category will be financed in 1984 at or near the 1983 levels.

RATIONALE

The President's 1984 request for foreign economic and financial assistance reflects the importance accorded by the Administration to promoting economic growth in developing countries. At the same time, the Administration continues to emphasize free market solutions to the problems of developing nations and has urged these countries to adopt free trade and other self-help policies which will enable them to become economically self-reliant, and thus less dependent on U.S. economic and financial assistance in the future.

EFFECTS OF THE PROPOSED CHANGE

Program increases proposed for the most important of the economic assistance programs will promote a variety of U.S. foreign policy and development objectives:

- Additional amounts for AID bilateral assistance programs will assist in encouraging the adoption of appropriate economic policies in developing countries, in expanding the role of the private sector in the development processes of these countries, in transferring a greater amount of appropriate U.S. science and technology, and in building local institutions capable of carrying out effective economic growth policies.
- Contributions to multilateral banks in 1984 underscore the important role these institutions play in promoting sound economic policies in recipient countries. The President's request also will provide the amounts needed to comply with previous funding commitments agreed to by the United States.
- The P.L. 480 program, which will grow modestly in 1984, provides U.S. agricultural commodities, especially those which are surplus to domestic requirements, to encourage agricultural development and to satisfy humanitarian goals abroad.

1982 and 1983 CHANGES

The 1984 request for foreign economic and financial assistance is a continuation of policies adopted in 1982 and 1983 to reorient U.S. economic assistance programs toward a more free-market approach to international economic problems.

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FOREIGN INFORMATION AND EXCHANGE ACTIVITIES

AGENCY: Board for International Broadcasting
United States Information Agency

Functional Code: 154

Funding

	1982	1983	1984	1985	1986	1987	1988
	($ in millions)						
CURRENT SERVICES							
Budget Authority	583	652	688	824	756	783	828
Outlays	571	640	688	732	791	828	820
REAGAN BUDGET							
Budget Authority	583	724	832	996	1,009	1,030	1,146
Outlays	571	704	828	889	1,052	1,080	1,051
PROPOSED INCREASES							
Budget Authority	--	72	144	172	253	247	318
Outlays	--	64	140	157	261	252	231

PROGRAM DESCRIPTION

International radio broadcasting, exchanges of persons, print and film media, and personal contacts are used to increase foreign understanding of the American people, official U.S. policies, and the advantages of democratic governments and open societies.

PROPOSED CHANGE

Strengthen foreign information and exchange activitives by providing:

- $65 million for a "Project Democracy" to explain the advantages of democratic values, as the President announced in his June 8, 1982, speech to the British Parliament.
- $48 million to carry forward, a multiyear enhancement of the Voice of America broadcast facilities, which are outdated and under-powered.
- $10 million to support Radio Marti, a private radio organization that will broadcast Cuban and worldwide developments to the Cuban people.

RATIONALE

- An understanding of the United States and its policies by foreign peoples nd governments often affects their actions.
- Strenuous effort are underway abroad to challenge American intentions.
- New efforts are needed to increase the ability of the United States to state and explain its objectives and actions.
- The success and attractiveness of our free political and economic systems provide an ideal context from which effective information efforts can be mounted.

EFFECTS OF THE PROPOSED CHANGE

- International radio broadcasting capabilities will be improved.
- More and better contacts will be developed between American and foreign officials and private citizens and institutions.

1982 AND 1983 CHANGES

- Broadcast programming is being improved and expanded.
- Initial planning for construction of more, high-powered broadcast transmitters is underway.
- Supplemental 1983 budget requests totalling $82 million for these activities have been transmitted to the Congress.
- A new youth exchange effort has begun with private American sponsorship.

CREDIT

CHAPTER 5

CREDIT

During the last decade, the rapid growth of Federal credit assistance has had serious effects on the Nation's financial markets. Federal intervention through direct and guaranteed lending preempts capital that could be used more efficiently by unsubsidized, private borrowers; and since federally assisted borrowers are frequently less productive than private borrowers, Federal credit activity diminishes economic efficiency.

During the second half of the 1970's and the first years of the 1980's, the growth of Federal credit activity has made the Federal Government a primary consumer of capital resources in the domestic credit markets.

- Previous to 1975, Federal and federally assisted borrowing, on average, absorbed less than 20% of available credit resources (this includes borrowing by the Government to finance the budget deficit and off-budget spending, guaranteed borrowing and borrowing by Government-sponsored enterprises).
- Since 1975, large deficits and accelerated growth in credit programs have driven up the absorption rate, reaching levels in the 1980's that have been experienced before only during the recession and recovery period of 1975-1976 and the aftermath of World War II.
- An absorption rate of 49% in 1982 reflects unprecedented demands of Federal and federally assisted borrowing. (Table 1)

The Administration is committed to controlling the growth of Federal credit assistance, and upon assuming office, took immediate steps to reverse previous growth trends. An interagency Cabinet-level group was formed and undertook a comprehensive review of the Government's direct and guaranteed loan programs in order to shape a consistent credit policy. For the first time, the credit budget was used to impose systematic discipline and policy control over Federal credit. Administration proposals for credit budget discipline have served to increase awareness of the serious effects Federal credit activity has on the Nation's economy and credit markets.

THE SUPPLY OF FEDERAL CREDIT

A substantial portion of Federal and federally assisted borrowing results from lending activities that supply credit to select borrowers. On- and off-budget agencies make direct loans, and they also guarantee loans made by the private sector. In addition, Government-sponsored enterprises serve credit markets in a variety of ways. Table 2 shows recent trends in the lending side of Federal credit activity.

DIRECT LOANS

Agency loans to selected borrowers, through such programs as the Farmers Home Administration, the Export-Import Bank, and the foreign military sales credit program, accounted for $23.4 billion in direct loan outlays in 1982. However, of this total, $14.3 billion in direct loan outlays were excluded by law from the budget totals.

Off-budget outlays mostly arise from the use of the Federal Financing Bank (FFB) as a source of financing by other Federal agencies for direct and guaranteed loans. The FFB effectively converts certain on-budget direct loans and guarantees into off-budget direct loans. This activity creates an off-budget deficit that absorbs valuable savings and capital in the same way as the on-budget deficit.

Table 1
BORROWING UNDER FEDERAL AUSPICES: ABSORPTION OF DOMESTIC CREDIT MARKET FUNDS
(fiscal years; in billions of dollars)

	Five-Year Averages							
	1955-1959	1960-1964	1965-1969	1970-1974	1975-1979	1980	1981	1982
Total funds raised in domestic credit markets 1/	35.5	50.8	80.6	148.7	307.8	366.4	427.2	408.7
Federal borrowing	2.1	4.5	6.4	13.0	56.8	70.5	79.3	135.0
Net guaranteed loans	4.0	4.3	5.1	13.9	13.6	31.6	28.0	20.9
Net Government-Sponsored Enterprise borrowing	0.4	0.7	1.0	5.0	12.6	21.4	34.8	43.8
Total funds raised under Federal auspices	6.5	9.5	12.4	31.9	83.0	123.5	142.1	199.7
Federal absorption rates	18%	19%	15%	21%	27%	34%	33%	49%

1/ Funds raised by non-financial sectors, excluding equities.
Source: Federal Reserve Bulletin Flow of Fund accounts, adjusted during 1965-1969 for consistency with budget concepts.

Table 2
NET LENDING UNDER FEDERAL AUSPICES
(fiscal years; in billions of dollars)

	Actual					
	1977	1978	1979	1980	1981	1982
DIRECT LOANS						
On-budget	2.6	8.6	6.0	9.5	5.2	9.1
Off-budget	9.0	11.2	13.6	14.7	20.9	14.3
GUARANTEED LOANS	13.5	13.4	25.2	31.6	28.0	20.9
GOVERNMENT-SPONSORED ENTERPRISES	11.7	25.2	28.1	24.1	32.4	43.4
TOTAL	36.7	58.4	72.9	79.9	86.5	87.6

GUARANTEED LOANS

Guaranteed loans, private loans for which the Government guarantees the repayment of principal and interest, accounted for $20.9 billion in *net* credit market activity in 1982. Major guarantors of privately issued loans are the Federal Housing Administration, the Veterans Administration mortgage insurance, the Export-Import Bank and the Small Business Administration.

Guaranteed loans are not budget outlays, because no Federal funds are used except in case of default. However, many of their effects are nevertheless similar to those of outlays. Guaranteed loans effectively reallocate economic resources from market selected to federally selected uses. Borrowing for guaranteed loans absorbs funds available to credit markets in a manner similar to direct Federal borrowing.

GOVERNMENT-SPONSORED ENTERPRISES

Government-sponsored enterprises made $43.4 billion of net loans in 1982. Three enterprises support housing -- the Federal National Mortgage Association, the Federal Home Loan Banks, and the Federal Home Loan Mortgage Corporation; one supports agriculture -- the Farm Credit System, and the Student Loan Marketing Association supports students and higher education. Most of these enterprises provide liquidity to the markets they serve through secondary market operations.

Because of their private ownership, the Government-sponsored enterprises are not included in the budget totals or controlled through the budget process. Nevertheless, Government sponsorship has provided these enterprises with advantages in the securities markets that completely private institutions do not have. This enables them to borrow at rates slightly higher than those of the Treasury.

STEPS FOR CONTROL: THE CREDIT BUDGET

This Administration has worked closely with the Congress to strengthen the credit budget.

- The credit budget covers all direct and guaranteed loans, making no distinction between on- and off-budget entities. Government-sponsored enterprises are not included because of their quasi-Federal status.
- The credit budget focuses decisions on gross program levels at the point of legal obligations, thereby facilitating control. In this way, the credit budget totals are based on gross levels of credit activity, without offsets for repayments. By excluding repayments, the credit budget measures the current level of new program activity.

— The credit budget is based on direct loan obligations and guaranteed loan commitments. Obligations for direct loans are contracts requiring that the Government disburse a loan immediately or at some future time. Commitments for guaranteed loans are agreements entered into by the Government to guarantee a loan when the borrower or lender fulfills stipulated preconditions. Both obligations and commitments define the point at which the Government becomes legally bound to extend credit.

Table 3
THE CREDIT BUDGET TOTALS 1/
(in billions of dollars)

	Actual		Estimate	
	1981	**1982**	**1983**	**1984**
Direct loan obligations	53.5	47.6	49.1	38.8
Guaranteed loan commitments	76.5	53.7	102.7	98.7
TOTAL	130.0	101.3	151.8	137.6

1/ The credit budget totals differ from totals shown in Table 2 because the credit budget is based on gross obligations and commitments for credit, while Table 2 shows the net change in outstanding credit.

The Administration's 1984 Budget proposes reducing direct and guaranteed loan activity from $151.8 billion in 1983 to $137.6 billion in 1984. Table 3 shows the trends in the credit budget totals between 1981 and 1984. The significant increase between 1982 and 1983 is due to projected improved economic conditions in 1983 that are estimated to result in increases in guaranteed loan activity, particularly in the mortgage guarantee programs. The 9% decrease in credit budget totals between 1983 and 1984 reflects the Administration's proposals to control Federal credit activity through the credit budget framework.

Major programmatic proposals in the credit budget between 1983 and 1984 included in Table 4 are:

Federal Housing Administration. Guaranteed loan activity will decrease by $6.1 billion in 1984. For 1983, FHA received a supplemental appropriation in the Continuing Resolution of $6.1 billion due to the expected surge in housing activity. The proposed decrease in 1984 brings the FHA program back to an annual appropriation limitation of $39.8 billion.

Commodity Credit Corporation. Direct lending for commodity price support programs are estimated to be reduced by $3.8 billion between 1983 and 1984. This decrease is a result of the proposed payment-in-kind program. Guaranteed loan commitments are also estimated to decline between 1983 and 1984 by $1.8 billion. This reduction in 1984 offsets unusually high activity in 1983 due to a special supplemental one time credit offer of $2 billion.

Farmers Home Administration. The $3.5 billion decrease in Farmers Home Administration's direct loan obligations below the 1983 level is due primarily to a reduction in the rural housing insurance fund. This decrease in direct lending activity is part of the proposed rural housing block grant to the States.

Export-Import Bank. The $2.0 billion proposed increase in guaranteed loan activity is the result of an expanding market in exports.

Rural Electrification Administration. For 1984, REA guaranteed loans are proposed to be reduced by $1.5 billion and direct loans are proposed to be reduced by $0.5 billion. These reductions are due to an anticipated increase in supplemental financing from the National Rural Utility Cooperative Finance Corporation and other private sources. In addition, lower demand in the electric market will reduce the need for Federal assistance to REA borrowers.

Veterans Administration. The veterans loan guarantee revolving fund is estimated to increase by $1.2 billion for guaranteed loan commitments due primarily to reduced interest rates that are expected to stimulate activity in the housing market.

Education Programs. Guaranteed loan commitments of the guaranteed student loan program are expected to increase by $0.6 billion between 1983 and 1984 due to increasing tuition costs.

Table 4
MAJOR CHANGES IN CREDIT BUDGET TOTALS 1983-1984
(in billions of dollars)

	Direct Loan Obligations	Guaranteed Loan Commitments
Credit budget totals, 1983	49.1	102.7
CHANGES:		
International security assistance		0.3
CCC price supports and related programs	-3.8	-1.8
Farmers Home Administration	-3.5	
Education programs		0.6
Federal Housing Administration		-6.1
Government National Mortgage Association	-0.5	
Veterans' housing programs		1.2
Export-Import Bank		2.0
Small Business Administration	-0.2	
Rural Electrification Administration	-0.5	-1.5
Other	-1.7	1.3
Total change	-10.2	-4.0
Credit budget totals, 1984	38.8	98.7
MEMORANDUM:		
GNMA mortgage-backed securities (secondary guarantees)		-9.6

FEDERAL HOUSING ADMINISTRATION

AGENCY: Department of Housing and Urban Development   Functional Code: 371

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Commitment Lim.	18,576 1/	45,900	41,897	51,447	59,984	66,708	71,222
Outlays	-236	-329	-1,528	-1,892	-2,243	-2,483	-2,683
REAGAN BUDGET							
Commitment Lim.	18,576 1/	45,900	39,800	39,800	39,800	39,800	39,800
Outlays	-236	-329	-1,546	-1,586	-1,622	-1,563	-1,516
PROPOSED CHANGES							
Commitment Lim.	--	--	2,097	11,647	20,184	26,908	31,422
Outlays	--	--	19	-306	-621	-920	-1,167

1/ **Commitments actually issued.**

PROGRAM DESCRIPTION

The Federal Housing Administration (FHA) operates about 40 programs that provide insurance for home and project mortgages and property-improvement and mobile-home loans. Since its inception in 1934, FHA has insured mortgages and loans covering 17.6 million units with a value of $272 billion. FHA currently insures 5 million home and multifamily mortgages with a value of $161 billion. In fiscal year 1982, FHA insured 163,000 home mortgages with a value of $7.5 billion, 1,000 multifamily mortgages covering 108,000 units with a value of $3.7 billion, and 244,000 property-improvement and mobile- home loans with a value of $1.5 billion.

If the owner of a property with an FHA-insured mortgage defaults on the mortgage, FHA pays the lender the outstanding balance of the defaulted mortgage and in return either acquires title to the property or has the mortgage assigned to FHA. At the end of fiscal year 1982, FHA owned 48,857 units of acquired properties and held mortgages on properties containing an additional 235,312 units.

PROPOSED CHANGE

- The Administration has proposed a limitation on the amount of mortgages and loans that FHA can insure in 1984 of $39.8 billion. This proposal is identical to the limitation that was enacted by the Congress for 1983 after excluding the supplemental limitation of $6.1 billion that was requested by the Administration in order to provide sufficient commitment authority to handle the extraordinary demand for FHA insurance that resulted from the recent rapid decline in mortgage interest rates.
- The Administration will also propose a number of legislative changes, including:
  - Authority to insure mortgages for the construction of shell homes and adjustable rate and shared appreciation mortgages;
  - A more efficient method to settle FHA single-family insurance claims without acquisition of properties or assignment of mortgages;
  - Deregulation of the maximum mortgage interest rate that may be charged on FHA-insured mortgages;

— Changes to the Bankruptcy Code that would permit FHA to acquire defaulted multifamily properties more expeditiously.

RATIONALE

- Proposals to limit the growth in FHA credit are an integral component of the President's plan to control the growth of Federal credit.
- The legislative proposals that expand the types of mortgages that FHA can insure are consistent with targeting of FHA insurance towards those groups not adequately served by the private sector. FHA should provide mortgage insurance for only those segments of the market not adequately served by the private sector. For example, some homebuyers--particularly first time homebuyers who are able to make only very low downpayments--may be unable to obtain private mortgage insurance and thus require FHA mortgage insurance if they are to be able to purchase a home.
- The other proposals are consistent with operating FHA in an efficient, businesslike manner.

EFFECTS OF THE PROPOSED CHANGE

- As a result of maintaining the 1983 commitment limitation (after exluding the one-time supplemental) of $39.8 billion during a period of rapidly expanding housing credit activity, FHA's share of the mortgage insurance market will decline and more homebuyers will use lower cost private mortgage insurance. In 1982, private mortgage insurers insured more mortgages than FHA and VA combined.
- As a result of operating FHA in a more efficient and businesslike manner, net receipts to the FHA are expected to increase from $329 million in 1983 to over $1.5 billion in 1984 and each year thereafter.

1982 AND 1983 CHANGES

- Beginning in 1983, a new method for collecting insurance premiums on insured single-family mortgages is being implemented. Instead of paying monthly premiums for the life of the mortgage, homebuyers with FHA-insured mortgages will either pay a lump sum at the settlement or have the insurance added to the mortgage amount. Implementation of this procedure is expected to increase net receipts by an estimated $289 million in 1983 and by over $1 billion in 1984.
- FHA will also implement in 1983 a program that will allow direct approval of insured single-family mortgages by approved mortgage lenders, thus expediting the insurance process and reducing the FHA staff needed to process applications.
- In 1982, FHA began to use a simplified foreclosure method enacted as part of the Omnibus Budget Reconciliation Act of 1981. The use of this new method has helped shorten the long periods that were required to complete foreclosures under certain State laws, thus ameliorating problems of deterioration of the structures, substantial Federal management and holding expenditures, vandalism, fires, and decline of the neighborhoods in which the properties are located.

SMALL BUSINESS CREDIT ASSISTANCE

AGENCY: Small Business Administration (SBA) Functional Code: 376

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	326	662	436	455	475	499	530
Outlays	700	574	427	366	384	402	427
REAGAN BUDGET							
Budget Authority	326	517**	241	219	185	128	67
Outlays	700	508	176	164	133	81	26
PROPOSED SAVINGS							
Budget Authority	--	145	195	236	290	371	463
Outlays	--	66	251	202	251	321	401
REAGAN CREDIT LEVELS							
New Dir. Loan Approvals	178	73	41	41	41	41	41
New Dir. Loan Oblig*.	505	677	472	442	403	338	272
Guar. Loan Commit	2,249	2,800	2,800	2,450	1,850	1,150	1,150

***This includes amounts for repurchases of defaulted SBA guaranteed loans.**

****Includes $178 million transfer from Department of Commerce programs.**

PROGRAM DESCRIPTION

The Small Business Administration (SBA) provides direct loans and guaranteed loans to small business as follows:

— Direct Loans

SBA provides subsidized (below the normal cost of borrowing from banks) loans to small business to construct, expand, or convert facilities; to purchase equipment or building materials; or to supply working capital. Except for a 3% interest rate on loans to businesses that employ or are owned by handicapped individuals, interest rates on direct loans were increased in 1981 to the Government's cost of borrowing money.

— Guaranteed Loans

SBA supports a guaranteed business loan program which guarantees 90% of a loan and 100% guarantee of pollution control equipment loans to small business.

PROPOSED CHANGE

The Administration proposes to eliminate SBA direct loans beginning in 1984 (except for Minority Enterprise Small Business Investment Companies) and to maintain guaranteed credit assistance at the Administration's proposed 1983 levels. SBA guaranteed credit assistance would be gradually phased down to $1.2 billion in 1987 with an emphasis on minority, handicapped, and first-time borrowers. In addition, administrative actions will be taken to increase the private sector risk and to recover loan servicing costs.

RATIONALE

- The proposed change applies sound economic criteria to economic subsidy programs and limits Federal Government involvement in the credit market.
- As a group, the nation's 14 million small businesses will benefit more from the Administration's efforts to stabilize financial markets, reduce interest rates, eliminate burdensome regulations, and lower inflation than from Federal credit assistance. Less than 1% of small businesses receive any type of financial assistance from SBA.
- Subsidized direct loans are costly to the small business community:
  - They result in increased Federal borrowing and, thereby, reduce available private credit.
  - They create a competitive advantage for some small firms over others that are equally deserving.
- Since the vast majority of small businesses are obtaining financing without Federal assistance, aid should be limited to those businesses for which a valid case can be made that the market overestimates the risk of a project (e.g., first-time borrowers) or underestimates its return in terms of achieving social objectives (e.g., counteracting discrimination or generating greater economic independence for minority communities).
- As interest rates decrease with economic recovery, the lower cost of borrowing should make it easier for individuals to obtain credit assistance without Federal involvement.

EFFECTS OF THE PROPOSED CHANGE

- The elimination of direct loans will have a negligible effect on small business. At the end of 1982, SBA had 38,041 direct loans outstanding in its portfolio. This means that less than 0.3% of the 14 million small businesses identified by IRS received direct financial assistance from SBA.

- Maintenance of the 1983 proposed level of guaranteed business loans will not have a significant adverse effect on small business. In 1982, SBA guaranteed 12,780 business loans and had a total of 109,330 guaranteed loans outstanding in its portfolio. This means that SBA provided guaranteed business loans to less than 1% of the 14 million small businesses identified by IRS.

RURAL TELEPHONE BANK

AGENCY: Department of Agriculture — Functional Code: 452

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Appropriated Capital	30	30	30	30	30	30	30
Borrowings	129	122	120	120	120	120	120
Budget Authority	159	152	150	150	150	150	150
Lending Level	185	185	185	185	185	185	185
REAGAN BUDGET							
Appropriated Capital	30	7	--	--	--	--	--
Borrowings	129	145	150	150	150	150	150
Budget Authority	159	152	150	150	150	150	150
Lending Level	185	185	185	185	185	185	185
PROPOSED CHANGES							
Appropriated Capital	--	-23	-30	-30	-30	-30	-30
Borrowings	--	+23	+30	+30	+30	+30	+30
Budget Authority	--	--	--	--	--	--	--
Lending Level	--	--	--	--	--	--	--

PROGRAM DESCRIPTION

The Rural Telephone Bank provides direct loans to rural telephone companies and cooperatives at subsidized interest rates for the operation and improvement of telephone services in rural areas.

PROPOSED CHANGE

- The unobligated balance of the 1983 Federal capitalization appropriation ($23.4 million of $30 million provided) would be rescinded.
- The $30 million a year capitalization appropriation assumed in 1984 and outyear current services would be eliminated.
- The current lending level would be maintained.

RATIONALE

- The Federal Government has already provided the $300 million in capital called for in the original statute establishing the Bank. These funds only begin to be repaid starting in 1995.
- Federal capitalization funds are provided to the Bank by law at a 2% interest rate. The difference between the Treasury's cost of borrowing and the 2% rate is paid by the Federal taxpayer. This is unjustified because adequate credit is available to the Bank at no cost to the taxpayer through the following mechanisms.
  - — The Bank has the authority to raise funds in private credit markets on the $300 million capital base provided by the Federal Government.
  - — The Bank is authorized to borrow without limitation from the Treasury at the Treasury's cost-of-money interest rate, with 50-year repayment terms.

EFFECTS OF THE PROPOSED CHANGE

This proposal will not affect the Bank's lending levels, nor will it reduce the total budgetary resources available to the Bank.

Even with this proposal, the Bank will continue to be heavily subsidized with taxpayer dollars and rural telephone borrowers will continue to enjoy low-cost money. The Bank will be reducing its 1983 interest rate from 11.5% to 10.5% -- well below the current private market rate of interest.

1982 AND 1983 CHANGES

In the Agriculture and Food Act of 1981, Congress authorized an additional $300 million of capitalization for the Bank at 2% interest. Although it is authorized, the Administration believes the original $300 million of capital plus the Bank's authority to borrow privately and from the Treasury provides sufficient resources for the Bank's operations. Thus, the Administration does not intend to utilize the new authorization of funds.

AGRICULTURAL EXPORT CREDIT

AGENCY: Department of Agriculture — Functional Code: 351

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Direct Loans	--	100	100	100	100	100	100
Loan Guarantees	1,625	2,800	2,800	2,800	2,800	2,800	2,800
Total Assistance	1,625	2,900*	2,900	2,900	2,900	2,900	2,900
REAGAN BUDGET							
Direct Loans	--	100	100	100	100	100	100
Loan Guarantees	1,625	2,800	3,000	3,000	3,000	3,000	3,000
Total Assistance	1,625	2,900*	3,100	3,100	3,100	3,100	3,100
PROPOSED INCREASE							
Direct Loans	--	--	--	--	--	--	--
Loan Guarantees	--	--	200	200	200	200	200
Total Assistance	--	--	200	200	200	200	200

* Does not include special one-time export credit packages totaling $2,250 million that are independent of current services and policy.

PROGRAM DESCRIPTION

The Commodity Credit Corporation (CCC) provides export credit for agricultural products in the form of direct loans and loan guarantees.

PROPOSED CHANGE

Export credit loan guarantees are increased by $200 million over current services.

The budget continues the Administration's 1983 export initiative: "blended" export credits; where interest-free direct loans are "blended" with market-rate loan guarantees as a combination export subsidy package.

EXPORT CREDIT ASSISTANCE IN PRESIDENT'S BUDGET

($ in millions)

	1983	1984	1985	1986	1987	1988
BLENDED CREDITS						
- Direct Loans	100	100	100	100	100	100
- Loan Guarantees	400	400	400	400	400	400
Total	500	500	500	500	500	500
REGULAR LOAN GUARANTEES	2,400	2,600	2,600	2,600	2,600	2,600
Total Assistance	2,900	3,100	3,100	3,100	3,100	3,100
1983 One-time Packages*	+ 2,250					
Revised 1983	5,150					

* $1billion loan guarantees to Mexico and special blended credit package comprising $250 million direct loans and $1billion loan guarantees.

RATIONALE

The 1983 boost in export credit is intended to help the U.S. maintain and expand its agricultural export markets in these times of low farm prices, excess supplies and foreign export subsidies.

Total agricultural exports were valued at $39.1 billion in 1982, while imports were $15.4 billion; resulting in a positive agricultural trade balance of $23.7 billion. Federal export credit currently affects only about 6% of total agricultural exports. Thus, stimulating normal commercial sales rather than providing ever-increasing Federal credit involvement remains the key to long-term increases in U.S. exports.

EFFECTS OF PROPOSED CHANGE

While the total volume of grains exported this year are estimated to be slightly less than last year's record level, export volume is expected to again increase to new record levels over the next few years. This would be in part a result of the current short-term boost in export credit which should in turn help reinvigorate normal commercial trade for long-term export sales.

FEDERALISM

CHAPTER 6

FEDERALISM

One of the most important goals of Ronald Reagan's Presidency is to make government more efficient and more responsive to its citizens by restoring an appropriate balance among Federal, State and local governments. The President seeks to:

- Restrain the unnecessary growth of the Federal Government while returning to State and local governments authority for programs which can be accomplished at those levels.
- Provide greater flexibility and responsibility to elected officials close to the people through consolidation of numerous narrow and restrictive categorical programs into streamlined grants to States and/or local governments.
- Enhance State and local officials' ability to govern efficiently and responsively by reducing the restrictive burden of unnecessary Federal regulations, while also encouraging their increased involvement in Federal decision-making affecting States and localities.

BACKGOUND: AN INTERGOVERNMENTAL IMBALANCE

While State and local governments have a vital constitutional role in providing Government services, the explosive growth of Federal domestic programs over the last two decades stifled State and local creativity, usurped many of their responsibilities, and diverted inordinate attention by State and local governments to activities in Washington.

- Between 1960 and 1981, Federal outlays for grant-in-aid programs increased at an annual rate of 13.0% -- faster than the increase in the Federal budget (9.8%) or public sector expenditures as a whole (10.0%).
- During the same period, the number of narrowly focused categorical grant programs almost tripled. The existence of more than 400 of these special purpose grants created tremendous program and administrative waste and duplication at all levels of government, yet did not ensure that priority State and local needs were addressed effectively.
- These grant programs usually were accompanied by numerous regulations and restrictions on the use of funds -- an average of 300-500 mandates for a typical grant program. Meeting these requirements imposed untold millions of "burden hours" of paperwork each year, consuming personnel and fiscal resources which would have been better directed to meeting program priorities. In addition, the restrictions too often forced Federally conceived solutions to State and local problems upon the very officials who could best decide how to deal with those problems.

ACCOMPLISHMENTS IN RESTORING A BALANCE

In the first two years of his Administration, the President has moved aggressively to fulfill his commitment to Federalism.

BLOCK GRANTS--MORE FLEXIBLE AID TO STATES

Between 1980 and 1982, the number of grant programs has declined by 35 percent, from 428 in 1980 to 280 in 1982. As sought by the President, many categorical programs have been consolidated into block grants to State and local governments:

- The 1981 Omnibus Budget Reconciliation Act established nine block grants by consolidating 57 categorical programs in the areas of Maternal and Child Health Care; Preventive Health and Health Services; Alcohol, Drug Abuse and Mental Health Services; Primary Care; Social Services; Low Income Home Energy Assistance; Community Services; Community Development for Small Cities; and Education. Eight of these block grants became effective in 1982; one is being implemented in 1983.

- The 1982 Job Training Partnership Act, fully effective in October 1983, replaces three Comprehensive Employment and Training Act programs with a block grant to the States to provide job training for disadvantaged youths and adults.

These block grants significantly improve State and local program and administrative flexibility and dramatically reduce Federal red tape. For example:

- Only 20 pages of Federal regulations cover the nine block grants enacted in 1981, eliminating 647 pages previously in effect. Eleven pages of proposed regulations would implement portions of the Job Training Partnership Act, a decrease from 238 pages which governed the predecessor programs.

- Paperwork associated with the 1981 block grants decreased by an estimated 5.4 million hours in 1982. A total decrease of 5.9 million hours or 91 percent is expected through 1983.

One measure of the success of the block grants is their early acceptance by States. October 1981 was the earliest possible date by which States could choose either to assume responsibility for four block grants or let the Federal Government continue to run the programs. By that date, 90 percent of the States and territories had accepted three of the four block grants and 75 percent had accepted the fourth.

In addition, a 1982 General Accounting Office (GAO) report on the implementation of the block grants found positive evidence of States' enthusiasm and competence:

- States were effectively assuming the new programs with no major problems.

- States were moving quickly to establish effective oversight mechanisms such as more involvement by State legislatures and the public in decisionmaking and development of responsible audit plans.

- Examples of efficiencies due to the block grants were cited. One State found a reduction from 22 to 3 days in time needed to prepare applications for two block grants compared to predecessor programs. Another State anticipated a 10 percent reduction in report preparation time for one block grant. A third State estimated reductions in administrative costs of $5.2 million due to streamlined reporting requirements.

Early experience with the block grants underscores the administrative, fiscal and program improvements possible and the significant capacity of States to administer major programs effectively and accountably.

REGULATORY RELIEF

The President's Task Force on Regulatory Relief was established in January 1981 to review regulations identified as burdensome, unnecessary or counterproductive. Of the more than 119 regulatory reviews targeted by the summer of 1982, 35 were related to State and local governments. In addition, more than 15 other major regulatory reviews affecting State and local governments were initiated independently by agencies.

During the past two years, 25 reviews were completed by the agencies or by the Task Force. Benefits to States and localities resulting from the reviews include the following:

- Initial savings of at least $4 to $6 billion to State and local governments, with savings of at least $2 billion on an annual basis.

- Major reductions in paperwork and red tape requirements, such as the elimination of 12 million hours of annual administrative work through simplified Department of Agriculture cost accounting requirements for the national school lunch program.
- Enhanced State flexibility in administering programs, such as through revisions in the Medicaid program and revised rules for State highway repair work supported by the Department of Transportation.

In 1983 and 1984, the Administration will continue to emphasize regulatory relief for States and localities. Over 25 regulatory reviews now are underway.

MANAGEMENT IMPROVEMENTS

Many initiatives to sharpen management of Federal programs have benefited States and localities. Examples include improved information systems providing timely data for States on discretionary and formula grant amounts and distribution, streamlined audit systems and other financial management and procurement enhancements.

Of particular importance in according States and localities an enhanced partnership with the Federal Government is Executive Order 12372, "Intergovernmental Review of Federal Programs." This order replaces a federally prescribed process of State and local review of Federal projects and direct development activities with a simplified, flexible, and more responsive review system. The Executive Order provides the opportunity for State and local elected officials to have a significant impact on Federal program decisions affecting their jurisdictions. The order requires Federal agencies to use a State-developed process for obtaining the views of State and local officials and to accommodate those views when possible. Proposed regulations implementing the Executive Order were published on January 24, 1983, by 27 agencies, a significant first for interagency cooperation.

Ongoing management improvements which will benefit States and localities include the following:

- The Administration is working to simplify selected generally applicable "crosscutting" requirements imposed on State and local governments as a condition of receipt of Federal assistance. Legislation was introduced and management reforms instituted for several of the 60 crosscutting requirements.
- A number of the Reform '88 and other initiatives to upgrade Federal program and agency management also will have a positive effect on State and local governments. For example, as part of one project reviewing the need for and determining the value of central management agency regulations, the Office of Management and Budget is reviewing its 57 circulars, several of which affect States and localities, and will recommend rescinding, revising or consolidating circulars where appropriate. Several Reform 88 and other management initiatives are discussed in Chapter 8.

1984 PROPOSALS

In 1984, the President is proposing several budget initiatives to continue the restoration of an intergovernmental balance, including additional consolidations of categorical programs and a Federalism initiative.

BLOCK GRANTS AND PROGRAM CONSOLIDATIONS

Proposals in the following areas are designed to enhance recipient flexibility and responsiveness through consolidation of narrow-purpose categorical programs:

- An Indian Community Development proposal would create a more flexible means within the existing Community Development Block Grant program to assist Indian tribes in addressing their unique community development and housing needs. Budget authority of $75 million is proposed for 1984 -- a $44 million increase from the 1983 level.

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- An Indian Housing proposal would consolidate programs administered by the Department of Housing and Urban Development, the Bureau of Indian Affairs, and the Indian Health Service that support housing construction on Indian reservations. Budget authority of $76 million is requested for 1984, to support the construction of 1,500 housing units.
- A General Nutrition Assistance proposal would combine school breakfast, child care feeding, and summer feeding programs into one grant to States and give States more flexibility in providing assistance for meals served outside a school lunch setting. Proposed budget authority is $535 million in 1984.
- An Older Americans proposal would consolidate programs authorized by the Older Americans Act into grant programs administered by the Department of Health and Human Services. The consolidation would include activities currently funded through the elderly feeding program of the Department of Agriculture and the Department of Labor's community service employment program. Budget authority proposed for 1984 is $998 million.
- A Rural Housing proposal would consolidate subsidized direct lending programs for homeownership, rental construction, repair, farm labor housing, and site preparations into a block grant to States to provide housing assistance to very low-income households. Budget authority of $850 million is proposed for 1984.
- A Primary Care Services proposal would expand the Primary Care Block Grant, enacted in 1981, to include black lung clinics, migrant health, and family planning programs, and would remove unnecessary restrictions and requirements. Budget authority for the proposal would be $460 million in 1984.

The 1984 budget also includes the following proposals for previously enacted block grants to States and for General Revenue Sharing:

- The four health block grants which were enacted in 1981 would be continued in 1984 with budget authority of $1.4 billion. The major change to these block grants would be the expanded Primary Care Services proposal discussed above.
- The Social Services Block Grant, enacted in 1981, would be continued in 1984 with an increase in budget authority to $2.5 billion. Legislation will be proposed to give States the flexibility to fund community services activities under this block grant and to make Indian tribes eligible for direct funding.
- In 1984, budget authority of $3 million is sought to close out the Community Services Block Grant which was enacted in 1981. As noted above, States would be able to support community services activities within the expanded Social Services Block Grant.
- The 1981 Low Income Home Energy Assistance Block Grant would be funded in 1984 at a reduced level of $1.3 billion in budget authority. Legislation is proposed to revise the program to target funds to States with severe winter climates and large low-income populations.
- In 1984, the State Education Block Grant, enacted in 1981, is proposed to receive budget authority of $451 million, continuing the program at its 1983 funding level.
- The Community Development Block Grant program would be augmented in 1984 with budget authority increased to $3.5 billion. As noted previously, an Indian Community Development program is proposed to be created within this program in 1984. In addition, legislation is proposed to require State administration in 1984 of the small cities portion of this program, enacted as a block grant in 1981.

- In 1984, budget authority of $1.9 billion is proposed for the first year of implementation of the block grant to States portion of the Job Training Partnership Act, which was enacted in 1982. These funds would support more trainees than the predecessor programs.
- Budget authority of $4.6 billion is proposed in 1984 for the General Revenue Sharing program, continuing it at its 1983 funding level.

FEDERALISM INITIATIVE

In his January 1982 State of the Union address, President Reagan announced a $50 billion Federalism initiative intended to reverse the flow of authority to Washington and away from States and localities. The President's 1982 initiative proposed a conceptual framework for Federalism, designed to yield a more rational sorting of responsibilities among levels of government and greater efficiency in public program administration.

Throughout the past year, White House and Federal agency officials have met with representatives from State and local governments to review and improve the original proposal. As a result of this cooperative process, a revised Federalism proposal will be sent to Congress early in 1983. The revised initiative would consolidate some 30 programs into four block grants:

- A State Block Grant consolidating health, social services, education and community development programs;
- A Local Block Grant merging the entitlement portion of the Community Development Block Grant program with General Revenue Sharing;
- A Transportation Block Grant that would consolidate several highway programs; and
- A Rural Housing Block Grant for low-income housing construction and repair (discussed above).

Between 1984 and 1988, States and localities would assume responsibility for activities associated with the programs in the State, Local and Transportation block grants at a pace of their own choosing. In order to provide stable and predictable revenues during the transfer of responsibilities, annual funding for the three block grants would be at the 1984 enacted levels for the consolidated programs.

After the 1984-1988 transition period, block grant programs which could be funded if Federal revenue sources were returned to the States would be discontinued. A Presidentially appointed commission would be established to make recommendations on revenue return issues.

In order to promote their maximum effectiveness, several programs proposed for State assumption in the Federalism Initiative also will be improved through program consolidations and other changes which would be effective during the 1984-1988 period of transition to State control.

FEDERALISM INITIATIVE

AGENCY: DOT, ED, EPA, HHS, HUD, Treasury, USDA — Functional Codes: 300, 370, 400, 450, 500, 550, 600 and 850

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
AUTHORITY LEVELS*	21,600	22,200	21,400	21,400	21,400	21,400	21,400

* **These numbers contain funds for some Federal salaries and expenses, Indian tribes, territories, and activities of national significance which would not be devolved to State and local governments.**

PROGRAM DESCRIPTION

In order to more appropriately align responsibilities among the various levels of government and promote more efficient and effective use of public funds, the Administration submitted a major Federalism proposal to the Congress in February 1983.

Under the proposal, 34 broad-based and categorical grant programs would be consolidated into four block grants.

- State Block Grant. A grant to States combining 22 health, social services, education and community development programs.
- Local Block Grant. A grant to localities combining the General Revenue Sharing program and the entitlement portion of the Community Development Block Grant.
- Transportation Block Grant. A ground transportation grant to States consolidating 6 highway programs.
- Rural Housing Block Grant. A grant to States for low-income housing construction and repair.

The purposes of each block grant would be the purposes of the programs consolidated in the block grant. (A list of programs proposed for inclusion in each is in the Appendix to this paper.)

For the five years from 1984 through 1988, annual funding for the State, Local and Transportation block grants would be set at the sum of the 1984 enacted levels for the programs consolidated in each block grant. Funding for the Rural Housing Block Grant would be set at $850 million a year.

- The State Block Grant would be financed by Federal excise tax revenues on alcohol, tobacco and telephones.
- The Transportation Block Grant would be financed by Federal gas tax revenues.

During this five-year transition period, State and local governments would assume responsibility for activities associated with the programs in the State, Local and Transportation block grant. They would have discretion over the pace at which they assume these responsibilities. Allocations to each State for the block grant programs would be based on formulas and historical allocations. For these three block grants, thus, recipient governments could choose during the transition period to receive funds either under authorities governing the individual programs or under more flexible block grant authorities. The nature of the programs consolidated in the Rural Housing Block Grant would preclude a transition period in which funds could be provided to the States under two authorities. As a result, during the transition period States would be required to make a simple election to receive Rural Housing Block Grant funds or forego participation in the program. This election could be made prior to the beginning of any quarter in 1984 and before the beginning of the fiscal year in 1985 through 1988.

After 1988, the block grant programs that could be funded if commensurate Federal revenue sources were returned to the States would be discontinued. A presidential commission would be appointed to make recommendations on revenue return issues.

RATIONALE

This proposal is the culmination of a year-long effort to develop, in consultation with State and local officials, a major initiative to sort out responsibilities within the intergovernmental system. It would enhance State and local government officials' ability to deal with domestic needs that have traditionally been their responsibility in ways which best meet the concerns of their citizens.

EFFECTS OF THE PROPOSED CHANGE

Stable and predictable funding levels for the programs in each block grant would be provided through fiscal year 1988.

Dislocation would be minimized.

- States and localities would have five years to assume full responsibility for programs in the State, Local and Transportation block grants, allowing sufficient time for them to plan for assumption of this responsibility.
- Funds for programs for which a State or local government decided to take responsibility could be spent only for the purposes of programs in the block grant.
- In the State and Local Block Grants, funds available for each program for which a State or local government decides to take full responsibility would be transferable among program purposes within the same block grant at an increasing rate of 20/40/60/80/100 percent per year. For example, during 1984 if a State or local government took full responsibility for a program, 20 percent of the funds from that program could be spent on any program purpose within the block grant; 80 percent would have to be spent on the purposes of the program from which funds were received.

Protections would be provided for local governments, urban and rural areas, and minorities subject to discrimination.

- A mandatory passthrough requirement to local governments is included in the State Block Grant proposal.
- Rural areas are also protected in the State Block Grant proposal, which has a mandatory passthrough requirement for such areas.
- A mandatory pass through requirement to urban areas is included in the Transportation Block Grant proposal.
- Full civil rights protections against discrimination on the basis of race, color, national origin, sex, handicap and age are included in all of the block grant proposals, modeled on provisions now governing the block grants enacted in 1981.

Drastic reductions in Federal overhead and administrative/regulatory burdens on State and local governments would be realized by the end of the transition period, as the programs consolidated in the four block grants now involve:

- 2.5 million "burden hours" per year;
- 3.0 thousand Federal employees;
- 1.3 thousand pages or regulations; and
- 490 pages of law.

Significant strides would be taken toward remedying the fundamental problem of too many complex grant-in-aid programs.

- Thirty-four programs would be consolidated into four during the transition period.
- After the transition period, the block grants which could be eliminated if revenue sources were returned to the States would be discontinued, further simplifying the grant-in-aid program and allowing States to set their own program priorities.

APPENDIX
PROGRAMS INCLUDED IN THE FEDERALISM INITIATIVE

State Block Grant

Rehabilitation Services
Vocational Education
Adult Education
State Education Block Grant (ECIA, Chapter 2)
WIN
Low-Income Home Energy Assistance
Social Services Block Grant
Community Services Block Grant
ADAMHA Block Grant
MCH Services Block Grant
Rural Water and Waste Disposal Grants (FmHA)
Water and Sewer Facility Loans (FmHA)
Community Facility Loans (FmHA)
CDBG–Non-Entitlement Portion
Grants for the Construction of Municipal Waste
Water Treatment Works (EPA)
Child Welfare Services
Child Welfare Training
Adoption Assistance
Foster Care
Preventive Health and Health Services Block Grant
Child Abuse State Grants
Runaway Youth

Federal-Local Block Grant

General Revenue Sharing
CDBG–Entitlement Portion

Transportation Block Grant

Urban System
Secondary System
Non-Primary Bridges
Highway Safety (FHWA 402 Grants)
Hazard Elimination
Rail-Highway Crossing

Rural Housing Block Grant

Rural Housing Insurance Fund
Very Low-Income Repair Grants
Mutual and Self-Help Grants
Rental Assistance Program

GENERAL REVENUE SHARING

AGENCY: Department of the Treasury — Functional Code: 851

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	4,567	4,809	5,044	5,281	5,519	5,767
Outlays	--	4,567	4,809	5,044	5,281	5,519	5,767
REAGAN BUDGET							
Budget Authority	4,567	4,567	4,567	4,567	4,567	4,567	4,567
Outlays	4,567	4,567	4,567	4,567	4,567	4,567	4,567
PROPOSED SAVINGS							
Budget Authority	--	--	242	477	714	952	1,200
Outlays	--	--	242	477	714	952	1,200

PROGRAM DESCRIPTION

General Revenue Sharing provides general fiscal assistance to approximately 39,000 general purpose local governments. These funds have few restrictions on their use. They are distributed by a formula which takes into account population, income and tax effort.

PROPOSED CHANGE

The authorization for General Revenue Sharing expires in 1983. The Administration proposes reauthorization of the program at the same level as it is presently authorized. General Revenue Sharing funds along with the entitlement portion of Community Development Block Grants would form a local fiscal assistance trust fund in the Federalism initiative.

RATIONALE

General Revenue Sharing has become an important source of Federal assistance for local governments. The continuation of the program within the context of the Federalism initiative permits local governments to decide on the most appropriate uses of Federal dollars.

EFFECT OF THE PROPOSED CHANGE

The reauthorization of the program will continue the program at present levels giving local governments a known stable source of financing, thus permitting these localities to budget resources with greater certainty to meet local needs.

COMMUNITY DEVELOPMENT GRANTS

AGENCY: Department of Housing and Urban Development   Functional Code: 451

Funding	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	--	3,456	3,677	3,902	4,132	4,367	4,616
Outlays	--	3,525	3,529	3,549	3,756	3,983	4,215
REAGAN BUDGET							
Budget Authority	3,456	3,456	3,500	3,500	3,500	3,500	3,500
Outlays	3,792	3,525	3,526	3,474	3,497	3,500	3,500
PROPOSED SAVINGS							
Budget Authority	--	--	177	402	632	867	1,116
Outlays	--	--	3	75	259	483	715

PROGRAM DESCRIPTION

The Community Development Block Grant (CDBG) program provides entitlement grants to all large cities and urban counties and discretionary grants, most often through States, to many small cities and rural counties. The grants give the cities and counties funds for economic and community development, principally to benefit low- and moderate-income people.

In 1982, $2.4 billion went to 732 large cities and urban counties while over $1 billion was distributed under the "small cities" grants programs.

PROPOSED CHANGE

The 1984 budget request proposes to increase the CDBG program by $44 million in order to accommodate a new $75 million program for Indian tribes. In addition, the Administration proposes to allow new housing construction as an eligible activity under the program.

The Administration has also proposed to mandate that all States assume responsibility for the small cities portion of the CDBG program beginning in FY 1984.

RATIONALE

- The Administration is increasing funding to federally recognized Indian tribes under this program in recognition of the unique problems facing Native Americans. (See fact sheet on Indian Housing and Community Development Programs for further details.)

- The Community Development Block Grant program is an Administration priority because it follows the general policy of delegating governmental authority and discretion to the states and local governments. The change allowing for new housing construction fulfills this goal by giving the grant recipients even greater latitude in the use of CDBG funds in the amelioration of local problems.

- By the end of 1983, it is anticipated that all but two to five States will have agreed to administer the small cities program. The Administration proposes to require these remaining States' participation in order to avoid the expense of having the Federal government maintain a separate program with so few recipients. This change will also complete the devolution of decision-making authority consistent with the Administration's philosophy on the role of the Federal government vis-a-vis the States.

EFFECTS OF PROPOSED CHANGE

Generally, the 1984 funding for Community Development assistance to state and local governments will remain at previous years' levels. CDBG funds will continue to assist communities in undertaking important development projects such as infrastructure improvement, rehabilitation and public facility expansion.

PREVIOUS CHANGE

In 1981, the Reagan Administration requested, and Congress adopted, language allowing the States to administer the "small cities" portion of the CDBG program. By the end of 1982, 37 states had opted to take over these functions from the Federal Government.

RURAL HOUSING PROGRAMS FINANCED BY THE FARMERS HOME ADMINISTRATION

AGENCY: Department of Agriculture — Functional Code: 370

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	2003	1628	2105	2030	2487	2330	2583
Outlays	1246	1608	2078	2257	2262	2320	2336
Loan Level	3454	3305	3490	3672	3855	4040	4234
REAGAN BUDGET							
Budget Authority	2003	1628	5976	4083	2992	2690	2508
Outlays	1246	1608	2711	2206	2715	2480	2270
Loan Level	3454	3305	300	300	300	300	300
PROPOSED CHANGES							
Budget Authority	--	--	+3871	+2053	+505	+360	-75
Outlays	--	--	+633	-51	+453	+160	-66
Loan Level	--	--	-3190	-3372	-3555	-3740	-3934

Totals for 1984-1988 reflect an accounting change affecting the treatment of Certificates of Beneficial Ownership (CBO's) in the Rural Housing Insurance Fund. Beginning in 1984, the sale of CBO's sold to the Federal Financing Bank will be treated as a debt transaction, causing on-budget outlays to increase.

PROGRAM DESCRIPTION

The Farmers Home Administration's (FmHA) 6 categorical loan and 5 grant programs are available to any rural community of 10,000 population or less and in communities of 10,000 to 20,000 outside an SMSA. Loans may be subsidized down to a 1% interest rate to the borrower; the average rate to borrowers for all loans made through the fund in 1982 was 3.6%. The Government absorbs the loss between 3.6% and the cost of borrowing to the Treasury.

The Rural Housing Insurance Fund has $25 billion of loans outstanding which finance 1.3 million housing units. The annual interest subsidy in 1983 is estimatd to be $221 million.

PROPOSED CHANGE

- The 1984 budget consolidates FmHA's categorical lending and grant programs into a rural housing block grant with the following features:
  - annual funding level of $850 million;
  - grant funds are allocated to States by a formula based on occupied substandard housing units, rural population and low income households.
  - funds are administered by States for a wide variety of housing uses; and
  - funds are targeted to very low income families (80% of funds earmarked for households with incomes below 50% of State median or national median, whichever is greater).
- Subsidized lending in 1984 is reduced $3 billion below the 1983 level of $3.3 billion. $300 million annually will continue to be available primarily to service the existing housing loan portfolio.

- As part of the block grant proposal, the 1984 budget proposes a financing change that will shift outlays previously recorded in the off-budget Federal Financing Bank account into the on-budget totals of the Rural Housing Insurance Fund. Specifically,
  - the sale of certificates of beneficial ownership (CBO's) to the Federal Financing Bank (FFB) will be treated as a debt transaction (causing on-budget outlays to increase); and
  - repurchases of outstanding CBO's from the FFB will no longer be scored as outlays, but will instead be treated as redemption of debt and be excluded from both on- and off-budget outlays. Of the $22 billion of such scheduled repurchases over time, $3.9 billion come due in FY 1984.

RATIONALE

- The shift from categorical lending programs to block grants:
  - provides States with the flexibility to tailor their rural housing programs to their special needs and circumstances (e.g., emphasize rehabilitation over new construction);
  - eliminates a long-term Federal subsidy commitment by replacing future interest subsidies with a block grant obligated in full in the budget year; and
  - will help very low income families who occupy substandard housing whose income is too low to qualify for the current homeowneship program.
- The decrease in subsidized lending is appropriate because:.
  - low income households will be assisted through the new block grant program; and
  - if there is a shortage of rural mortgage credit for other than low income families it will be addressed by increasing the availability of Federal Housing Administration mortgage insurance (FHA) and VA mortgage guarantees through Farmers Home Administration county offices.
- The financing change is appropriate because it shows a more accurate unified budget total, and because of the shift in funding from primarily a credit revolving fund to a block grant mechanism.

EFFECTS OF THE PROPOSED CHANGE

The program will assist more very low income families than the present program. Between 17,000 and 27,000 units will be assisted depending on unit cost of construction or rehabilitation. To the extent that Federal mortgage assistance is needed for those with higher incomes previously served by the program, FHA and VA mortgage guarantees will be available to qualified applicants.

HEALTH BLOCK GRANTS

AGENCY: Department of Health and Human Services Functional Code: 550

Funding

($ in millions)

	1982	1983	1984	1985	1986	1987	1988
CURRENT SERVICES							
Budget Authority	884	1,196	1,196	1,269	1,344	1,420	1,501
Outlays	663	1,119	1,196	1,269	1,344	1,420	1,501
REAGAN BUDGET							
Budget Authority	884	1,196	1,361	1,361	1,361	1,361	1,361
Outlays	663	1,119	1,303	1,361	1,361	1,361	1,361
PROPOSED CHANGES							
Budget Authority	--	--	+ 165	+ 92	+ 17	-59	-140
Outlays	--	--	+ 107	+ 92	+ 17	-59	-140

PROGRAM DESCRIPTION

The Omnibus Budget Reconciliation Act of 1981 consolidated 21 categorical health programs into four block grants -- maternal and child health; primary care; preventive health and health services; and alcohol, drug abuse and mental health. These block grants allow States more flexibility and the opportunity to be innovative in the use of grant funds to meet specific local needs; give States the opportunity to coordinate and improve the effectiveness of services for their citizens; increase accountability by officials closer to the public; and reduce the need for administrative overhead.

PROPOSED CHANGE

The President's 1984 Budget increases health block grants funding by $165 million. This results from proposed legislation to consolidate narrow categorical programs for black lung clinics, migrant health, and family planning with the primary care health block grant. Legislation will also be proposed to amend existing statutes to remove unnecessary restrictions and requirements, particularly those which might serve as a disincentive for State participation.

RATIONALE

This further consolidation of programs, coupled with administrative managment of the block grants by a single Public Health Service agency (rather than three), and relaxation of requirements imposed on the States, will enhance efforts begun in FY 1982 to allow States more opportunity and flexibility in coordinating and improving the effectiveness of health services for their citizens. Fragmentation of current primary care services programs will be reduced and individuals in need of health care will be able to receive care within a comprehensive assistance system.

EFFECTS OF THE PROPOSED CHANGE

Expanding the primary care block grant to further consolidate health service delivery programs will strengthen States' efforts to streamline program administration by deleting unnecessary Federal regulatory, legal and reporting requirements; it will enhance the ability of States to target funds on specific health problems; and it will permit States to integrate such activities with Medicaid.

1982 AND 1983 CHANGES

The authorization of health block grants by the Omnibus Budget Reconciliation Act (OBRA) of 1981 resulted in a major restructuring of Federal narrow categorical health services delivery programs. As a result, the Federal role will be reduced, the States' role will be strengthened, and the effectiveness of health service delivery will be improved.

SOCIAL AND COMMUNITY SERVICES BLOCK GRANTS

AGENCY: Department of Health and Human Services — Functional Code: 506

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	2,748	2,804	2,877	2,999	3,122	3,146	3,171
Outlays	2,817	2,930	2,882	2,994	3,116	3,140	3,165
REAGAN BUDGET							
Budget Authority	2,748	2,804	2,503	2,600	2,700	2,700	2,700
Outlays	2,817	2,930	2,599	2,600	2,700	2,700	2,700
PROPOSED SAVINGS							
Budget Authority	--	--	374	399	422	446	471
Outlays	--	--	283	394	416	440	465

PROGRAM DESCRIPTION

The Social Services Block Grant (SSBG), authorized by the Omnibus Budget Reconciliation Act of 1981, consolidated the Title XX Social Services, State and Local Training, and Day Care programs. SSBG gives States maximum flexibility to provide social services that reduce dependence on welfare and increase self-sufficiency, minimize the need for institutional care, and protect persons who require institutionalization. The broad array of services funded by the States includes day care, legal services, foster care, child protection, homemaker services, meal preparation and delivery, counselling and transportation.

The Community Services Block Grant (CSBG) replaced programs formerly administered by the Community Services Administration as of October 1, 1981. The purpose of the block grant is to give States flexibility to design programs that prevent or reduce poverty and encourage economic self-sufficiency. In fiscal year 1982, CSBG's first year, States were required to pass through 90% of their block grant funds to grantees who had formerly received funds from the Community Services Administration. This requirement has been extended by the Congress through fiscal year 1983 for most States.

Under the Community Services Block Grant Act, up to 9% of CSBG funds may be reserved by the Secretary of HHS for activities of national significance. These include community development, rural housing and community facilities, assistance to migrants and seasonal farm workers, and recreational activities for low-income youth.

PROPOSED CHANGE

The President's budget for fiscal year 1984 requests $2.5 billion for the Social Services Block Grant, a $50 million increase over 1983 and the full amount authorized under law. The Administration will propose legislation to give States flexibility to fund community services under the Social Services Block Grant. No funding is requested for the Community Services Block Grant, except for $3 million for program closeout.

In addition, the Administration will propose legislation allowing Indian tribes to receive SSBG funds directly from HHS. Previously, tribes were requried to apply to States for SSBG funding.

RATIONALE

- States should be given maximum flexibility to design social and economic programs that encourage self-sufficiency and promote independence from public assistance. Both the Social and Community Services Block Grants are designed to provide individuals with the skills and transitional support services necessary to achieve these goals. Having one centralized source of funds for these purposes will most effectively enable State and local governments to mobilize resources and plan their service delivery, since they have primary responsibility for planning and delivering social services.

- As a separate program, the Community Services Block Grant has been vulnerable to pressure from special interest groups, resulting in the extension of protections that limit States' ability to plan and administer service programs. States have more experience with the Social Services Block Grant, and its predecessor, the Title XX program, and have in place mechanisms for distributing funds among service needs and populations.

- Indian tribes should have maximum control over resources in order to gain economic self-sufficiency. Making tribes eligible for SSBG recognizes the unique government-to-government relationship between Indian tribes and the Federal Government. Indian tribes are already eligible for direct funding under five other block grants.

EFFECTS OF THE PROPOSED CHANGE

- States and Indian tribes will have more control over resources and will be able to design comprehensive programs to promote social and economic independence.

- High-priority national activities will continue to be provided for by the Federal Government. The FY84 budget requests $5.7 million for HHS' Office of the Assistant Secretary for Health (OASH) to administer the National Youth Sports program, the same level as in FY83. OASH currently is responsible for all other HHS programs that promote recreation and fitness.

LOW INCOME HOME ENERGY ASSISTANCE (LIHEA)

AGENCY: Department of Health and Human Services Functional Code: 609

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	1,875	1,986	1,875	1,875	1,875	1,875	1,875
Outlays	1,687	1,963	1,898	1,875	1,875	1,875	1,875
REAGAN BUDGET							
Budget Authority	1,875	1,986	1,300	1,300	1,300	1,300	1,300
Outlays	1,687	1,963	1,398	1,351	1,300	1,300	1,300
PROPOSED SAVINGS							
Budget Authority	--	--	575	575	575	575	575
Outlays	--	--	492	539	575	575	575

PROGRAM DESCRIPTION

States receiving Low Income Home Energy Assistance (LIHEA) block grants make payments to low-income households for high heating costs. States can augment LIHEA by transferring funds from other block grants.

PROPOSED CHANGE

Reestablish the intent of this program to moderate heating costs of low income families by revising the grant formula to target funds to States with the most critical heating needs.

RATIONALE

Targeting of Low Income Home Energy Assistance funds is especially critical with continuing high home heating costs. The current formula is based on 1975-80 data and does not reflect shifts in poverty populations, and rising heating fuel prices (particulary natural gas prices). The new State grant allocation formula would better target funds to States whose low income households have high heating needs by revising fuel cost and poverty data used in the grant formula. Factors such as severe winters and extreme heating fuel cost increases would receive greater consideration. Under the new LIHEA formula, grants levels for States with severe winters and large poverty populations would be the same or higher as in 1983.

EFFECTS OF PROPOSED CHANGE

Most northeast and northcentral states would be "held-harmless" under the proposed formula revision.

The new formula would reflect the latest census data on low income households in cold states.

Limited Federal funds would flow more directly to households which were the originally intended beneficiaries of the LIHEA program – poor families in cold states where fuel prices have increased fastest.

FEDERAL PERSONNEL POLICY

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CHAPTER 7

FEDERAL PERSONNEL POLICY

The Reagan Administration has targeted a number of areas of Federal personnel policy for change, with the goals of introducing or enhancing positive incentives in the workplace and making personnel practices more comparable to those in the private sector. These changes, building on the reform efforts of the Pendleton Act of 1883 and the Civil Service Reform Act of 1978, will begin to control spiralling Federal personnel costs more effectively.

The dramatic growth in Federal personnel expenditures over the past decade has forced the Administration to scrutinize carefully several of the factors that drive up these costs and make managing the Federal workforce difficult. Personnel expenditures are primarily salary, retirement, and health insurance benefits. Other items, such as life insurance benefits, leave, and overtime payments also add to overall personnel costs, but the overwhelming share of funding goes for pay, retirement, and health benefits.

The proposed reforms for 1984 deal directly with controlling costs in each of the three major expenditure areas. The Federal pay freeze in 1984 is a one-time action, while the changes proposed for the Federal retirement and health benefit programs represent substantial, longer-term, structural reforms. It should be noted that pay raise delays and even pay reductions have been widespread in the private sector over the past 12 to 18 months. A freeze in Federal workers' salaries is certainly appropriate to help reduce the budget and move the economy toward recovery.

The most critical Federal personnel policy reform included in the 1984 budget is a restructuring of the civil service retirement system (CSRS). Pension policy experts have long recognized that the benefits of this system are very generous when compared to systems offered by private employers or by State and local governments. In general, the current system is too generous in the following ways:

- It permits Federal employees to retire early (i.e., at age 55) without imposing an actuarial adjustment that reflects the high cost of early retirement;
- It permits cost-of-living adjustments on the whole pension, as opposed to adjustments on a portion of the annuity;
- It derives an increasingly large proportion (now about 80%) of its costs from the taxpayer -- 60% from the Treasury Department general fund and 20% from employing agencies; and
- It does not receive sufficient financing support from other entities participating in the system, such as the Postal Service and the District of Columbia.

In addition, the 1984 budget proposes changes to the Federal health benefit progam that would create incentives for the selection of lower cost health insurance coverage and help reduce the over-utilization of health care services. Finally, the Administration will improve position management and classification practices, as well as implement other reforms making Federal personnel administration more effective and less cumbersome.

RETIREMENT

The cost to the Government of the civil service retirement system has risen from $2.8 billion in 1970 to $21.1 billion in 1983 -- nearly an eight-fold increase. If no further attempts are made to reform the system, we will spend $121 billion for civil service retirement between 1984-88.

- The Federal employee retirement system is one of the most generous pension plans available in the United States. Currently, employee contributions cover only 20% of the cost of the System, the Federal agency as employer pays another 20%, and the remaining 60% is derived from general Treasury funds.

- The current Federal pension system accounts for too large a share of Federal payroll compared to the private sector. The normal cost of the CSRS is about 35% of payroll. Of this 35%, employees now contribute 7%, the employing agency 7%, and the general fund the remaining 21%.

- Office of Personnel Management (OPM) analysis has shown that it would cost the Government approximately 17% of payroll -- including the employer share of Social Security benefits -- to provide Federal workers with benefits comparable to those provided to private sector workers.

To address these problems, the Administration proposes reform of the current CSRS, maintaining its basic benefit structure but reducing individual benefit components. The object of these reductions is to arrive at an overall program cost that can be maintained by equal contributions from the employee and the employing agency -- a concept that has been a feature of civil service retirement from its inception.

The Administration believes that 11% each would be an appropriate and affordable contribution from agencies -- including the Postal Service and District of Columbia Government -- and employees. This would be achieved by increases in contributions as follows:

1984	+ 2%	Raise CSRS retirement contribution to 9%
1985	+ 2%	Raise CSRS retirement contribution to 11%
Total	+ 4%	

The Administration would reduce benefit levels to more closely approximate those found in private sector plans by modifying two of the most costly features -- COLA and early retirement -- as described in the civil service retirement fact sheet that follows.

In addition to these changes, the Administration proposes to return to the practice of basing annuity calculations on the retiree's highest 5 years of salary, as opposed to the current highest 3 years. This is the predominant practice in the private sector. Finally, if necessary to reduce the cost of CSRS to 22% of payroll, the percentage of average salary replaced by retirement benefits would be reduced.

The retirement benefits produced by a program with a 22% total normal cost of payroll would: (1) be reasonably comparable with the average retirement benefit found in the non-Federal sector (normal cost of 22.8% including employee social security contribution); and (2) provide an adequate level of benefits for employees.

PAY

The budget makes clear that 1984 is a year of belt-tightening for all segments of the Federal establishment. Part of this belt-tightening must be directed at the Federal civilian payroll which now exeeds $50 billion annually. It is recognized that foregoing the October 1983 pay increase will be difficult for some Federal employees. However, this is a burden being experienced by many workers throughout the nation whose employers are in similar financial situations to that faced by the Government. Importantly, the Administration has been successful in its efforts to reduce inflation. Accordingly, during the one-year freeze, the purchasing power of employee's salaries will not be eroded to an appreciable degree since longevity, within-grade and promotion increases should help offset relatively small purchasing power losses due to inflation. Further, the budget anticipates that future annual pay increases will exceed increases in cost-of-living, thereby replacing whatever purchasing power is lost due to this freeze.

HEALTH BENEFITS REFORM

As part of the health care reform initiatives, the Administration is proposing a restructuring of the Federal Employees Health Benefits Program (FEHBP). This is an area in which the Federal Government itself has contributed to health care cost increases. The structure of the current program does little to encourage cost control by either participating health insurance plans or program enrollees.

- Government contributions to the program are linked to the average of premiums for six of the largest and most comprehensive plans in the program. This linkage means that premium increases are passed on in large part to the Government. As a result, carriers have insufficient incentives to control premium costs or to work with health care providers to hold down costs.

- The Government contribution toward coverage under any plan may not exceed 75% of the premium for the plan. This means that enrollees who choose the least costly plans are actually penalized for doing so: the Government pays less for their health coverage than it pays for those who choose more costly coverage.

- Existing law limits the number of Government-wide plans participating in the program and specifies certain types and levels of benefits to be provided. This limits the range of benefit packages available to meet enrollee needs.

The Administration proposes restructuring of the program to enhance incentives for cost control.

- The method for determining Government contributions would be changed. Government contributions would be based on average contributions for self only and self and family coverage in 1983, indexed in future years by the GNP deflator. Disproportionate premium increases would no longer automatically result in large increases in Government contributions. Enrollees would be encouraged to shop carefully among plans for desired coverage at the least cost, and carriers would need to control costs in order to remain competitive.

- The current 75% cap on the Government's cost share would be repealed and rebates would be provided to enrollees choosing plans that cost less than the Government contribution. This would encourage, rather than penalize, enrollees choosing less costly plans and would enhance incentives for carriers to control costs in order to remain competitive.

- The only benefit required in all plans would be catastrophic protection to ensure that all enrollees are protected against disastrously high medical expenses. Carriers would be encouraged to provide a wide range of benefit packages tailored to enrollee needs.

In addition, the current FEHBP results in Federal subsidies to the Postal Service and the D.C. Government. The employer share of premiums for annuitants of these entities is paid by the Office of Personnel Management, not by the entities themselves. The Administration proposes eliminating these subsidies and requiring that these organizations pay the employer share of premiums for their annuitants.

MANAGING THE FEDERAL WORKFORCE

The Administration plans to improve position classification in the Federal Government by increasing emphasis on adherence to existing classification standards and the need for improved position management.

- OMP's most recent classification study estimates that approximately 14.3 percent (188,000) of the Government's 1,312,000 full-time permanent General Schedule positions are overgraded and that about 1.5 percent (20,000) are undergraded. OPM estimates that these position classification errors cost the taxpayer about $700 million a year.
- A major cause of overgrading is poor position management within the agencies. Various studies have concluded that agencies are not organizing their workforces in the most efficient manner to accomplish their missions. Relative to private sector organizations, the Federal Government staffs a disproportionate number of people at the higher pay grades.

Potential long-term savings from the correction of misclassification and improved position management are estimated to be as much as one billion dollars per year.

CIVIL SERVICE RETIREMENT

Agencies: Office of Personnel Management Functional Code: 600

FUNDING:

	($ in billions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Budget Authority	31.5	34.6	35.7	37.6	39.6	41.8	44.2
Outlays	19.5	21.1	22.8	24.6	26.8	29.1	31.5
REAGAN BUDGET							
Budget Authority	31.5	34.6	37.2	42.3	43.9	45.9	47.9
Outlays	19.5	21.1	22.4	23.5	25.3	26.9	28.5
PROPOSED CHANGES							
Budget Authority	--	--	+ 1.5	+ 4.7	+ 4.3	+ 4.2	+ 3.8
Outlays	--	--	-.4	-1.1	-1.5	-2.2	- 3.0

PROGRAM DESCRIPTION

Civil service retirement encompasses pensions paid to Federal civilian employees. Unlike plans provided by private sector employers, it functions without social security benefits as a base because, to date, Federal employees have not been covered by the social security system.

Civil service retirement benefits are paid to employees who meet eligibility requirements based on age and years of service. Unreduced benefits are available as early as age 55 with 30 years of service. The benefit calculation is based on the employee's years of service and high-three-year average salary; the annuity benefits, once they become payable, are indexed to the Consumer Price Index (CPI).

At the end of 1982, there were 1.8 million Federal retirees and survivors on the rolls and the average pension for retired employees totaled $12,480 per year. Civil service retirement outlays increased 1,891% between 1960 and 1981, as compared to a 568% increase in *total* Federal budget outlays during the same period. Government contributions have increased 2,351% in the 1960-81 period, as contrasted to a 427% increase in employee contributions.

PROPOSED CHANGE

A comprehensive reform of civil service retirement is proposed:

- Retirement would continue to be permitted as early as age 55, but benefits would be reduced by an actuarial factor of 5 percent for each year that the employee is less than 65. Employees aged 55 or over at enactment would not be affected. The change would be phased in over a period of 10 years to give recognition for past, long-time contributions to the retirement system. For those below age 55 at the date of enactment, a 1/2 of 1 percent adjustment per year would be applied. For example, a employee who is 54 at date of enactment, deciding to retire at 55, would be subject to at total reduction of only 5 percent.
- In order to make the system self-supporting for future benefits earned, employee contributions to the retirement system would be increased from the current level of 7 percent to 9 percent in 1984 and 11 percent in 1985. The matching employer contribution would also increase to 9 percent and then 11 percent.
- Cost-of-living adjustments to civil service retirement benefits would be frozen for 1984, as part of a Government-wide policy on these adjustments. In 1985, the provision of the 1982

Omnibus Reconciliation Act regarding COLA's would apply. In 1986, there would be a permanent change to provide one-half of the actual CPI increase to voluntary retirees under age 62 and the full CPI increase to survivors and disability retirees.

- After 1986, the benefit calculation would be based on the employee's high-five-year instead of high-three-year average salary.
- In addition, if necessary to reduce the cost of the system to 22 percent of payroll, in conjunction with other enacted changes, the percentage of average salary replaced by retirement benefits would be reduced.

Retirement benefits for new employees to be covered by social security:

- In conjunction with the proposal to cover Federal employees hired after January 1, 1984 under the social security system, a new staff retirement plan will be proposed to supplement the benefits provided by social security.
- Its particular provisions, which are under development, would be modeled on typical private sector practice and together with social security would generally be equivalent ito the reformed civil service retirement system.

RATIONALE

- Civil service retirement benefits have grown increasingly expensive, yet the percentage contributions from employees and agencies have remained constant since 1969.
- It would cost the Government approximately 17 percent of payroll to provide Federal employees with benefits comparable to those provided to private sector employees. The Federal Government currently contributes over 28 percent of payroll for new entrants, nearly twice the private sector percentage.
- The proposed reforms would bring costs more into line with those experienced by progressive private sector companies. The Office of Personnel Management has estimated that the total cost of such private sector retirement programs, including social security, would be approximately 22% of payroll. This is the same cost it is estimated will be produced by the proposed reforms in the civil service retirement system.
- In keeping with tradition that retirement benefit costs are shared equally between employee and agency, and in order to eliminate the Treasury subsidy, employee and agency retirement contributions would be increased to 9% in 1984 and 11% in 1985.

EFFECTS OF THE PROPOSED CHANGE

- The net effect of these reforms would be to bring the cost to the Government of retirement benefits for its employees to levels comparable with those of private sector employers. This is accomplished by restoring the practice of employees paying one-half of the cost and by setting benefits at a level consistent with those of other employers.
- The reduction for early retirement before age 65 would encourage more employees with valuable experience and knowledge to extend their Government service. Those who wish to retire early could still do so (as early as age 55), although the employee himself would bear the extra cost of this early retirement. Such reductions are the rule in the staff plans of other employers.
- The return to use of a high-five-year instead of high-three-year average salary would follow the predominant practice in private sector plans.
- Adjusting annuities for voluntary retirees under age 62 by half of the CPI increase makes permanent a three-year provision enacted by the 97th Congress. It would affect only younger retirees, who often take non-Federal jobs after retirement from Federal service, and

would still be more generous than the large majority of private sector plans, where only 3% have any guaranteed CPI adjustment.

- The increased employee contribution would pay half the cost of the future retirement benefits. For purposes of comparison, it should be noted that the employees' share of social security has been subject to comparable increases, rising from 4.8% in 1969 to 7.05% in 1985, a 47% increase.

ALLOWANCE FOR PAY INCREASES

AGENCY: Civilian Employees, Government-wide — Functional Code: 920 and 051

Funding

	($ in billions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT LAW							
Budget Authority	--	--	3.3	7.1	10.9	14.8	18.8
Outlays	--	--	3.3	7.1	10.8	14.7	18.7
REAGAN BUDGET							
Budget Authority	--	--	--	3.3	6.9	10.5	14.3
Outlays	--	--	--	3.2	6.8	10.4	14.2
PROPOSED SAVINGS							
Budget Authority	--	--	3.3	3.8	4.1	4.3	4.5
Outlays	--	--	3.3	3.9	4.1	4.3	4.5

PROGRAM DESCRIPTION

Current law requires that pay for most white-collar Federal employees be adjusted to maintain comparability with private sector pay rates for the same levels of work. However, if economic conditions affecting the general welfare make a comparability adjustment inappropriate, the President is authorized to recommend an alternative plan that becomes effective unless rejected by the Congress.

PROPOSED CHANGE

- The budget anticipates that there will not be an October 1983 pay increase for white-collar Federal employees, but reserves the final decision until after Presidential review of the recommendations of the President's Pay Agent, the Federal Employees Pay Council, and the Advisory Committee on Federal Pay, and after a review of the economic conditions prevailing at that time.
- A parallel limitation is proposed on pay adjustments for blue-collar Federal employees.
- The budget also anticipates that civilian employee pay increases for October 1984 and beyond will match those granted to non-Federal employees during the previous year. In this regard, the President's Pay Agent intends to continue reviewing, in consultation with the Federal Employees Pay Council, methods of determining appropriate rates of pay for white collar Federal employees.

RATIONALE

For a full and lasting economic recovery, budget deficits must be held to a minimum. This proposal was made in the context of similar actions being proposed for other pay raises and cost-of-living adjustments. Many private sector businesses have also found it necessary to scale back and/or defer scheduled pay increases and, in some cases, even to reduce pay to adjust to economic conditions.

EFFECTS OF THE PROPOSED CHANGE

While there would be no increase in rates under the pay systems, employees would still be eligible for any appropriate within-grade increases (which average about 3%), quality step increases, and increases that accompany promotions.

FEDERAL EMPLOYEES HEALTH BENEFITS PROGRAM

AGENCY: Office of Personnel Management | Functional Code: 551

Funding

	($ in millions)						
	1982	**1983**	**1984**	**1985**	**1986**	**1987**	**1988**
CURRENT SERVICES							
Government contribution 1/	--	3,009	3,688	4,477	5,246	5,965	6,648
REAGAN BUDGET							
Government contribution 1/	2,314	3,009	3,082	3,258	3,464	3,639	3,815
PROPOSED SAVINGS							
Government contribution 1/	--	--	606	1,219	1,782	2,326	2,833

1/ Total of agency contributions for active employees and Government contribution for annuitants (excludes Postal Service and District of Columbia contributions).

PROGRAM DESCRIPTION

The Federal Employees Health Benefits Program (FEHBP) is the only nationwide, multiple-choice employer-provided health insurance program in existence. It covers over 10 million Federal, Postal and District of Columbia employees and retirees and their dependents.

Over 130 plans currently participate in the program. Of these, 12 are open to all enrollees and seven employee organization have membership requirements that limit participation. The remainder are comprehensive medical plans (CMPs) serving particular geographic areas. They are open to enrollees who live in the plan's service area. The Office of Personnel Management (OPM) and health insurers annually negotiate plan benefits and premiums.

Employers and employees/retirees share premium costs. Employing agencies pay the employer share for their employees, and OPM pays the employer share for retirees (including Postal Service and D.C. Government retirees). By law, the Government contribution is based on the average of premiums for six of the largest and most comprehensive plans in the program. However, the Government contribution may not exceed 75% of the premium for any plan.

The combined effects of factors such as rapid inflation in health care costs and increases in utilization of health care services have resulted in large increases in Government costs for the program--for example, about 30% from 1982 to 1983.

PROPOSED CHANGE

- Government contributions would no longer be based on plan premiums. Instead, they would be based on average Government contributions in 1983 for self only and self and family coverage and indexed in future years to the GNP deflator. This change will reduce the rate of increase in Government costs.
- The Postal Service and the D.C. Government would be required to pay the employer contribution for their annuitants. Under existing law, they pay the employer share only for their active employees.

- The 75%"cap" on Government contributions to plan premiums would be eliminated. Enrollees selecting plans that cost less than the Government contribution would receive rebates.

- Catastrophic protection would be the minimum benefit required in all participating plans. There would be no further requirements on the types of benefits to be provided, and OPM would not be authorized to negotiate benefit provisions. In addition, restrictions on the number of Government-wide carriers would be removed.

RATIONALE

- The proposed change in the method of determining Government contributions ensures that the Government does not contribute to excessive use of health care services and health care cost inflation. Under existing law, since Government contributions are tied to an average of plan premiums, health insurers, particularly the largest carriers in the program, have insufficient incentives to control costs or encourage health care providers to control costs. Increased costs are simply passed on, in large part, to the Government. Eliminating the link to plan premiums enhances cost control incentives by putting pressure on carriers to control costs and premium increases in order to remain competitive.

- Enrollee choice would be enhanced: carriers would be encouraged to provide a wider range of benefit packages to meet enrollee needs.

- Requiring the Postal Service and the D.C Government to pay the employer share of premiums for their annuitants eliminates unintended Federal subsidies to those entities. When the FEHBP was established in 1959, the Postal Service was a Federal agency. The Postal Service is now a corporation responsible for the pay and benefits of its labor force. Federal subsidies are inappropriate for this compensation-related expense.

- The 75% cap currently limits Government contributions for 52 plans providing self only coverage and for 15 plans providing self and family coverage. These plans include the Blue Cross and Aetna low options, the Government Employees Hospital Association (GEHA) Benefit Plan, two employee organization low option plans, one employee organization high option plan (self only) and numerous CMPs. Enrollment in these plans is about 28% of all self only enrollments and about 17% of all self and family enrollments. These enrollees are actually penalized for choosing less costly plans: they receive a lower Government contribution for their health insurance than do other participants. The proposed changes ensure that enrollees are encouraged to, rather than penalized for, selecting less costly plans.

- Eliminating the 75% "cap" and providing rebates corrects inequities under the current program and encourages enrollees to shop carefully among plans for those that provide desired coverage at the least cost. This also further enhances incentives for carriers to control costs order to remain competitive.

- The catastrophic protection requirement ensures that enrollees would be protected against disastrously high medical expenses. Other types of benefits would not be required and OPM would not negotiate benefit provisions.

EFFECTS OF THE PROPOSED CHANGE

By encouraging enrollees to shop carefully for desired coverage at least cost and by enhancing incentives for carriers to control costs and premium increases, the proposed changes will enhance competition in the program and result in long-term savings for both the Government and program enrollees.

REFORM '88
AND OTHER MANAGEMENT INITIATIVES

CHAPTER 8

REFORM '88 AND OTHER MANAGEMENT INITIATIVES

One of the highest Administration priorities is significant and lasting improvement in the management of the Federal Government. The Administration will maintain its efforts to reduce fraud, waste, and abuse. At the same time, it will initiate or expand several activities to modernize and restructure the management and administrative systems with which the Government operates.

RESTRUCTURING MANAGEMENT AND ADMINISTRATIVE SYSTEMS

A major effort was launched in 1982 to restructure management and administrative systems in the Federal Government. This effort is called "Reform '88", since it is anticipated it will take at least six years to complete. The program is being coordinated by the White House with oversight by the Cabinet Council on Management and Administration.

During the balance of 1983 and in 1984, Reform '88 will concentrate its efforts on:

- Reform of the Federal Government's financial management systems.
  - — Government accounting principles and standards will be upgraded to reflect changing needs and the best private sector practices. Departments and agencies will adopt and implement the new principles and standards.
  - — The Treasury Department's government-wide cash collection and payment systems will be modernized.
  - — Financial operations in the departments and agencies will be analyzed and improved to correct recurring problems, particularly those related to fraud, waste, and abuse.
- Implementation of the management systems improvements recommended by the President's Private Sector Survey on Cost Control.
- Monitoring of efforts to achieve management savings and improvements through the use of an "on-line" communications system between the White House and the departments and agencies.

REDUCING FRAUD, WASTE, AND ABUSE

In recent years, numerous instances of fraud, waste, and abuse of government resources and mismanagement of government programs have been reported. To emphasize Administration leadership and support for a government-wide anti-fraud and waste effort, the President established in March 1981 the President's Council on Integrity and Efficiency. The Council is composed of statutorily established Inspectors General and other key audit and investigative officials. It seeks to enhance interagency efforts to reduce fraud and waste.

Past efforts of the Council and the individual Inspectors General have focused on the *detection* of fraud, waste, and abuse. Future Council efforts will add a new dimension on the *prevention* of fraud, waste, and abuse.

The Council efforts will complement the Administration's continued emphasis on internal controls as a fundamental prevention technique. The Administration strongly supports the objectives of the recently enacted Federal Managers' Financial Integrity Act, and will vigorously implement the Act by having each department and agency:

- Conduct evaluations to assess the vulnerability of their program and administrative operations to fraud, waste, and abuse.

- Take necessary corrective actions to improve internal controls and reduce the risk of fraud, waste, and abuse.
- Submit an annual report to the President and the Congress on how well the controls are working.

OTHER MANAGEMENT INITIATIVES

Other management initiatives undertaken by the Administration will include:

- Reform of the Federal procurement process. Federal procurement is a $160 billion-a-year activity involving approximately one-fifth of the Federal budget, more than 130,000 Federal employees, and over 20 million contracting actions a year. Proposed reforms include:
  - Increased emphasis on the need for a skilled and knowledgeable work force of career professionals to operate and oversee the Government's procurement program.
  - New concepts of competition that will permit the Government to attract the innovation and skills of the marketplace.
  - Simplification of the procurement process by means of a single, government-wide procurement regulation.
- A government-wide program to place limits on Federal imposition of paperwork burdens on the public--an effort that has already produced significant results. This effort will reduce Federal costs in collecting marginally useful information. More importantly, it will relieve State and local governments, individuals, businesses, and other private institutions of the costs of millions of hours devoted to filling out Federal forms.
- Continuation of the Debt Collection Project to recover delinquent debts and improve the administration of Federal credit programs.
- Reduction in the size of the nondefense Federal civilian work force.
- Reduction of the office space occupied by Executive Branch agencies to the minimum necessary to carry out program operations.

REFORM OF FINANCIAL SYSTEMS

PROGRAM DESCRIPTION

Reform '88 will give top priority in 1983 and 1984 to reforming the Federal Government's accounting and financial management systems and their links to budget formulation and execution. The effort will have two basic thrusts; the first will focus on near-term cost reduction and systems upgrading projects. The second will be aimed at longer-term structural changes based on the introduction of proven techniques from the private sector and the use of more technologically advanced data processing and telecommunications equipment.

PROGRAM EMPHASIS

- *Accounting Systems Reform.* The Office of Management and Budget and the Treasury Department will join with the General Accounting Office to define new accounting principles and standards that reflect the changing needs of Federal budgeting and financial operations and the best private sector practices. Major projects will be undertaken to revise the accounting systems of all departments and agencies to conform to these principles and standards. Agency financial management systems and controls will be revised so that they properly control and account for receipts and expenditures, and supply reliable, consistent financial information for budget and accounting reports.

- *Government-wide Cash Collection and Payment Systems Reform*. The Treasury Department maintains systems for the collection of Federal revenues, and for payments by the Government to individuals, State and local governments, and private companies. Each year, transactions are completed having a value in excess of $1.7 trillion. The Treasury Department has instituted a major Reform '88 program to:

  — Improve its collections capabilities through the use of such techniques as direct bank deposits of receipts by agencies, electronic funds transfers, and "same-day" depositing.

  — Improve its payments system through increased use of electronic funds transfers, letters of credit, and other improved payment techniques.

  — Modernize its internal operations by upgrading obsolete computers and replacing check printing equipment with less expensive electronic funds transfer technology.

  — Automate financial reporting from agencies and thereby reduce costs and errors.

- *Financial Operations and Controls in Government Agencies*. The Federal Government carries out its business through hundreds of contracts, block and categorical grants, and loan and credit programs, as well as its own internal operations and administrative support activities. Each of these activities requires its own financial management system and controls. The President's Council on Integrity and Efficiency and the U.S. General Accounting Office have identified in numerous audits and reports the need to undertake financial systems reform to correct a wide range of recurring problems in agency operations. A number of specific agency directed projects are planned for 1984 to identify flaws in operating financial systems and develop controls and other improvements to reduce fraud, waste, and mismanagement.

RATIONALE

The backbone of most government activities are those systems that govern the formulation and execution of the budget, the accounting for all financial transactions, and the management planning and control of the myriad programs that generate those transactions. Each year, transactions valued at close to two trillion dollars must pass through these systems. Involved are

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more than 200,000 Federal employees working in more than 100 departments and agencies of the Government. Reform of the Government's financial management systems can provide significant savings and improvements in service. It also will provide a better linkage to and support for the budget formulation and execution processes and improve the quality of financial data in the Federal Government.

EFFECTS AND PROSPECTS

Completion of the financial systems reform will result in the following significant benefits:

- Improved linkage of financial and budgeting systems.
- A uniform, consistent, compatible, and reliable financial data base.
- A fully automated system that incorporates the latest automatic data processing and telecommunications developments.
- Enhanced productivity, promptness, and cost-effectiveness in the various processing organizations.
- Tightened financial controls and an attendant reduction in fraud, waste, and mismanagement.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY/INSPECTORS GENERAL

PROGRAM DESCRIPTION

Seventeen Offices of Inspector General have been established by statute in major departments and agencies of the Executive Branch. The Inspectors General (IGs) are appointed by the President, and report directly to the head of their respective department. Their objectives are to prevent and detect fraud and abuse, and to promote economy, efficiency, and effectiveness in the programs of their agencies.

To emphasize the Administration's leadership and support for the government-wide anti-fraud and waste effort, President Reagan established the President's Council on Integrity and Efficiency in March 1981. The Council enhances interagency efforts to reduce fraud and waste, encourages coordination among the IGs, and gives the Inspectors General a direct link to the President. Through the Council, the Inspectors General seek to identify opportunities for improving program operations and administration across the Government by preventing waste and inefficiency.

The members of the Council include:

- Statutorily mandated Inspectors General from major departments and agencies (Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Housing and Urban Development, Interior, Labor, State and Transportation as well as AID, EPA, GSA, NASA, SBA, and VA).
- Representatives from the Departments of Justice and Treasury, the Office of Management and Budget, the Office of Personnel Management, and the Federal Bureau of Investigation.

PROPOSED CHANGE

The Administration has proposed a ten percent overall increase in full-time equivalent employment from 1982 to 1984 for the Offices of Inspector General to assure the continued strength of the program. This employment increase would be financed by a budget authority increase of fifteen percent during the same period.

The focus of the Council activities in its third year will be to identify opportunities for expanding prevention techniques such as computer matching and pre-screening of grants and contracts and for developing new initiatives to prevent the wasteful drain of Federal resources. The opportunities identified by the Council for upgrading and improving administrative systems will help to define Reform '88 priorities.

Specifically, the Council will be undertaking such projects as the following:

- ***Computer Matching,*** which will expand the use of computer matching as a fraud and abuse prevention mechanism in Federal and State programs. The project will provide for the exchange and dissemination of information on matching programs and on technical capabilities and developments.
- ***Fraudulent Use of Federal Identity Documents*** ,which will develop standards for the security and use of Federally issued identity documents. This project will ensure that both issuing and benefit agencies are aware of and take action to reduce the improper use of documents such as the Social Security card.
- ***Medical Provider Fraud,*** which will identify cases of fraud by providers of medical care and related services and assure that information is shared among the Government agencies that operate health programs.

- ***Interdepartmental Committee to Combat Bid-rigging Fraud,*** which brings together the Departments of Justice and Transportation to increase Federal and State coordination in bid-rigging investigations. This will be achieved by: devising and disseminating new investigative techniques; targeting States for future investigations; and maximizing State participation.

RATIONALE

The evidence of continued waste and mismanagement of Government programs and operations, as uncovered by the Inspectors General, the General Accounting Office and others, demonstrates the need for coordinated anti-fraud and waste activities through the President's Council on Integrity and Efficiency. While the magnitude of the problem is extremely difficult to pinpoint, the Inspectors General in the last eighteen months have identified, and management has agreed to, almost $17 billion in savings and improved use of funds.

Much of this work, however, has concentrated on after-the-fact detection of problems based on traditional audits and investigations. The prevention of waste and mismanagement, through improved design of program operations and administration and the use of modern technology such as computer matching and pre-screening, offers promise of additional improvements in the management of the Federal Government.

EFFECTS OF THE PROPOSED CHANGE

The changing emphasis to prevention activities in the Inspector General program and the President's Council will provide support for the major administrative reforms undertaken in Reform '88. In addition, the focus on prevention will buttress the Administration's commitment to improving Government by stressing the importance of adequate controls in all program and administrative operations.

INTERNAL CONTROLS

PROGRAM DESCRIPTION

Internal controls are those mechanisms and managerial techniques built into management and administrative systems to safeguard resources, assure the reliability of financial and statistical information, and assure adherence to applicable laws, regulations, and policies.

The Administration has long been committed to the improvement of internal control systems as a fundamental means of reducing fraud, waste, and abuse in Government operations, and strengthening management and administrative systems.

PROPOSED CHANGE

The Administration strongly supports the objectives of the Federal Managers' Financial Integrity Act, which was signed into law by the President in September 1982. Vigorous implementation efforts have begun and will continue in order to improve internal management practices and reduce the risk of fraud, waste, and abuse.

Specifically, the Act requires that all department and agency heads:

- Ensure that their internal accounting and administrative controls are established in accordance with standards prescribed by the Comptroller General.
- Conduct evaluations to assess the vulnerability of their organizations and systems to fraud, waste, and abuse--and take corrective action.
- Submit an annual report to the President and the Congress on how well the controls are working.

The first agency reports to the President and the Congress on the results of internal control reviews are due December 31, 1983. Using guidelines for the evaluation of internal control systems which were issued by OMB in December 1982, each agency will review its systems of internal accounting and administrative control and determine whether they comply with the requirements of the Act, identify the material internal control weaknesses, if any, and provide plans for correcting the weaknesses. OMB will monitor the process in the agencies and provide technical assistance as needed.

Top managers will be rated on their effectiveness in maintaining internal control systems that minimize the prospect for fraud, waste, and abuse in operations.

RATIONALE

Despite long-standing legislation that has required the head of each department and agency to establish and maintain adequate systems of internal control, in recent years numerous instances of fraud, waste, and abuse of government resources and mismanagement of government programs have been reported. Upon analysis, those problems frequently were found to have resulted from weaknesses in the design of internal controls or breakdowns in compliance with the installed systems.

Through vigorous action by agency heads and managers to improve internal control systems, the Federal Government will attack the problem of fraud, waste, and abuse at its source, by prevention, rather than through the less cost-effective means of after-the-fact detection.

EFFECTS OF THE PROPOSED CHANGE

Implementation of the Federal Managers' Financial Integrity Act will:

- Enable the agencies to detect and correct weaknesses in their internal control systems and thereby safeguard funds, property, and other assets.
- Provide the basis for developing internal controls and systems that are consistent with the management and administrative improvements being developed under Reform '88.

FEDERAL PROCUREMENT REFORM

PROGRAM DESCRIPTION

Federal procurement is a $160 billion-a-year business involving approximately one-fifth of the Federal budget, more than 130,000 employees, and over 20 million contracting actions annually. The Administration is committed to fundamental reforms to (1) simplify the procurement process and eliminate unnecessary regulations, (2) increase competition, (3) enhance the overall competence of the Federal procurement work force, and (4) improve agency management of the procurement function. Detailed proposals for making these and other improvements were included in the Administration's proposal for a Uniform Federal Procurement System, submitted to the Congress in February 1982. Those improvements of an administrative nature were encompassed in President Reagan's Executive Order 12352 ("Federal Procurement Reforms") which established the Administration's procurement reform agenda for 1983 and beyond.

PROPOSED CHANGE

The procurement reform program for 1984 will encompass both legislative and administrative changes. Specifically, legislation will be supported to enhance competition by curtailing the number of circumstances authorized for awarding contracts noncompetitively. Legislation also will be proposed to (1) increase the small purchase ceiling for civil agencies to $25,000 and (2) reauthorize the Office of Federal Procurement Policy (OFPP) so it can continue its leadership role in procurement reform. Principal among the administrative reforms to be implemented are (1) adoption and implementation of the single, simplified Federal Acquisition Regulation by all executive agencies, (2) adoption by each agency of a detailed charter delineating the roles and responsibilities of its Procurement Executive, and (3) improvement of the recruitment, selection, training, education, appraisal, and classification of procurement personnel. Further guidance also will be furnished to the agencies on reducing administrative costs and paperwork, simplifying small purchases, establishing clear lines of contracting authority, creating effective career management programs, and establishing procurement system standards and certification processes.

RATIONALE

The procurement process is a key component in the management of Federal programs, but it has failed to reach its full potential for effectively and efficiently supporting agency requirements. Too often, agency users do not receive the products and services they require when they need them and at a reasonable price. Competition is curtailed by regulatory complexity, funding constraints, restrictive specifications, lack of advance planning, and limited knowledge of the marketplace.

The problems of Federal procurement are further exacerbated by an outdated, fragmented statutory base, over 800 sets of agency procurement regulations, a diffusion of responsibility, and too few standards of performance. These factors, in turn, unnecessarily inhibit the work force and erode the nation's industrial base by deterring potential suppliers from competing for Government business, and causing existing suppliers to leave the Government market. An integrated series of reforms -- in law, in regulation, in procedure and in standards -- is essential for correcting these deficiencies.

EFFECTS OF THE PROPOSED CHANGE

The 1984 changes outlined above will have many salutary effects. Implementation of the Federal Acquisition Regulation will eliminate 62% of existing primary procurement regulations (nearly 4,000 pages), with a consequent reduction in the administrative burdens which affect both Federal procurement activities and private contractors. The curtailment of noncompetitive awards will enable the Government to benefit from technical, management, and price competition available in the marketplace, thereby saving millions of dollars. The proposed reforms will help to improve Government/contractor relationships and enhance the overall efficiency and effectiveness of the procurement process. Principal among these is the continuing effort to enhance the procurement work force through such initiatives as developing realistic classification and qualification standards, establishing model career programs in several agencies, establishing contracting officer qualification standards, and developing new sources of training as well as new methods for recruiting and selecting employees.

It is estimated that $2-9 billion will be saved annually once the full program of reforms is implemented, a process expected to take 3 - 5 more years.

PAPERWORK REDUCTION

AGENCY: Government-Wide

	(Hours in millions)		
	1982	**1983**	**1984**
Hours of burden imposed on the public	1,274	1,167	1,129
Net Changes		-108	-38

PROGRAM DESCRIPTION

The Administration's paperwork control program is designed to minimize reporting, recordkeeping, and disclosure requirements imposed upon the public by the Federal Government.

In addition to an ongoing review of the individual paperwork requirements, each year the agencies and the Office of Management and Budget determine paperwork "budget allowances" designed to limit the "burden hours" required of the public for filling out Federal forms and keeping records. Paperwork budget allowance levels are established on a cycle one year later than that of the President's fiscal budget. The difference in timing results from the need to establish program priorities through the budget process and then follow up with paperwork -- information collection -- implementation strategies. Hence, the data in the tabulation shown above are the allowance levels for 1982 and 1983, and the planning level for 1984.

PROPOSED CHANGE

During 1983, Federal agencies will take actions to reduce the paperwork burdens imposed on the public by 127 million hours--a 10 percent reduction from the approximately 1.3 billion hours imposed during 1982. This reduction will be partially offset by increased private use, beyond government control, of some forms such as passport and other application forms, for a projected net reduction of 108 million hours by the end of the fiscal year. The 1983 reductions, combined with those achieved earlier, will result in a 29 percent reduction in the Federal paperwork requirements known to exist in 1980, thus surpassing the 25 percent reduction goal established by the Paperwork Reduction Act of 1980 (PL. 96-511). Total paperwork reductions since the Reagan Administration took office in January 1981 will exceed 300 million hours.

RATIONALE

The paperwork control program, which is a key element of the President's regulatory relief program, is aimed at relieving individuals, businesses, and State and local governments from unnecessary Federal paperwork requirements. With the resulting savings, time previously spent on unnecessary paperwork will now be free for more productive purposes. For example, the over 100 million hour burden reduction in 1983 represents a savings of over 50,000 work-years. Added to these savings in the private and non-Federal sectors are the Federal budget savings associated with the collection of fewer forms that require processing, analysis, and storage.

EFFECTS OF THE PROPOSED CHANGE

Almost all agencies will be reducing their paperwork burdens during 1983. The largest single reduction will be made by the Department of Transportation's elimination of recordkeeping requirements associated with the Highway Safety Program (-68 million hours).

Although the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) will result in significant increases in tax reporting to increase collection of certain taxes that have been widely evaded in the past, the Internal Revenue Service has undertaken an aggressive program to identify and eliminate unnecessary current reporting requirements. As a result of this effort, total IRS reporting requirements will actually decrease in 1983, in spite of the additional reporting under TEFRA.

1981 AND 1982 CHANGES

Major paperwork reductions that have already taken place include:

- Reduction in recordkeeping requirements imposed by the National Credit Union Administration (NCUA) (-67 million hours).
- Reduction in requirements for the Federal Communications Commission's (FCC) Radio Station Log (-40 million hours).
- Reduction in the Internal Revenue Service's Personal Income Tax Reporting (-31 million hours).
- Adoption of a common claim form for use by Medicare, Medicaid, and third-party payors (-10 million hours).
- Reducing the Internal Revenue Service's (IRS) Wage and Tax Statement (-7 million hours).
- Elimination of many of the Department of Health and Human Services's (HHS) categorical grant reporting requirements (-5 million hours).

DEBT COLLECTION

AGENCY: Government-Wide

	($ in millions)					
	1983	**1984**	**1985**	**1986**	**1987**	**1988**
EXPECTED SAVINGS						
Distributed in Agency Accounts						
Agriculture	250	140	140	140	140	140
Commerce	25	61	61	61	61	61
Defense	85	100	100	100	100	100
Education	225	225	225	225	225	225
Energy	63	57	57	57	57	57
HHS	80	200	200	200	200	200
HUD	125	150	150	150	150	150
Labor	20	10	10	10	10	10
DOT	17	9	9	9	9	9
VA	150	77	77	77	77	77
AID	35	39	39	39	39	39
SBA	120	175	175	175	175	175
Tax Receipts*	1,660	2,040	2,315	2,315	2,315	2,315
Total Savings	2,855	3,283	3,558	3,558	3,558	3,558

* These are savings that represent increased recoveries of delinquent taxes owed the Internal Revenue Service.

PROGRAM DESCRIPTION

An estimated $250 billion was owed to the Government on September 30, 1982. Of that amount, approximately $180 billion was owed to 82 programs and activities in 16 agencies monitored by the Administration's Debt Collection Project. Over $38 billion of the $180 billion was delinquent or in default, and almost half of the delinquencies were more than six months past due. Almost $2 billion in bad debts was written off in 1982, and it is estimated that an additional $2.5 billion will be written off over the next 18 months.

The situation has resulted from the failure of agencies to pursue collection aggressively and a general attitude among debtors that they do not have to repay their debts to the Government.

PROPOSED CHANGE

The President has committed the Administration to increase collections of delinquent debts, including delinquent taxes owed the Internal Revenue Service, by $3.3 billion in 1984.

The program to reach this goal will focus on attacking the existing delinquency problems and improving credit management and debt collection practices across the Government. Specifically, the following initiatives will be undertaken:

- Debt portfolio data bases will be automated to improve the reliability and timeliness of receivables information.

- Uniform aging requirements will be applied to ensure the proper management of debt portfolios.
- Uniform standards for writing off uncollectable debts will be established and enforced.
- Agencies will prepare detailed plans that outline the specific steps to be taken to implement the Debt Collection Act of 1982.
- Debt servicing and collection functions will be automated, using the latest computer and telecommunications technology.
- Up-front risk analysis and credit scoring procedures will be used to ensure the integrity of the credit extension process.
- Examples of specific initiatives include the following:
  - The Internal Revenue Service, (IRS) is installing an automated collections system that will select, sequence, schedule and control collections work for about $8 billion in delinquent tax accounts. When implemented nationwide in 1984, the system will increase the productivity of IRS collectors and reduce and prevent future delinquencies. At a minimum. an additional $500 million in delinquent taxes will be collected annually.
  - Under new regulations for the Education Department's National Direct Student Loan (NDSL) program, schools with default rates in excess of 25 percent will not be eligible to receive new NDSL funds. Schools with default rates between 10 and 25 percent will have their new loan funds reduced in proportion to their default rate. The regulations will be a strong incentive for institutions to be more responsible in collecting delinquent loans.

In addition, targets for increasing collections by $2.9 billion in 1983 and $3.3 billion in 1984 have been assigned to 13 agencies. Under a Government-wide reporting system implemented in 1982, the agencies will submit quarterly financial reports which will include information on:

- total debt owed to the programs and activities;
- the age and amount of delinquent debt;
- the amount of interest assessed and collected on delinquent debts; and
- the number and value of debt cases referred to GAO and Justice for collection.

The quarterly data will also be used to monitor the progress toward the collection targets which have been assigned to the agencies.

RATIONALE

Allowing debts owed the Government to remain uncollected increases the cost of Government and is inflationary. The situation contributes significantly to the burden on responsible, honest citizens who pay their taxes and honor their obligations to the Government.

- The interest alone on the $38 billion in delinquent debt is costing taxpayers about $14 million a day.
- The Government incurs substantial operating costs every year in pursuing the collection of delinquent debt.
- During times of fiscal restraint, dollars of debt not repaid either must be replaced by additional tax dollars or the program levels reduced accordingly.
- When delinquent debts are not collected, debtors receive benefits to which they are not entitled. Loan and benefit programs in effect become unauthorized giveaway programs.

- A well-run and effective program provides incentives for debtors not to be delinquent in the future and strengthens the taxpayers' confidence in their Government.

EFFECTS OF THE PROPOSED CHANGE

The President's program is the first concentrated effort to improve Federal credit management and debt collection. The budget impact alone will be significant. The 1984 Budget includes $3.3 billion in increased collections resulting from the measures being taken by the agencies. These collections will generally be achieved using existing agency resources.

REDUCING FEDERAL EMPLOYMENT*

Executive Branch
Total Full-Time Equivalent Employment
(Excluding the Postal Service)
(In Thousands)

	1982 Revised Budget 1/	1982 Actual	1983 Estimate	1984 Estimate	1985 Estimate
TOTAL	2,100.8	2,075.8	2,070.4	2,077.9	2,075.8
Defense	937.7	978.1	968.8	989.9	992.0
Non-Defense	1,163.1	1,097.7	1,101.6	1,088.0	1,083.8

1/ As contained in the 1982 Revised Budget, transmitted to the Congress in March 1981.

PROGRAM DESCRIPTION

The Administration's goal since inauguration has been to reduce the size of the nondefense Federal civilian workforce.

The 1984 Budget establishes full-time equivalent employment ceilings for each agency for fiscal years 1983-85. These ceilings were determined during the budget review process and take into account each agency's programmatic needs as well as opportunities for management efficiencies.

PROPOSED CHANGE

From 1983 to 1984, a net decrease of 13,600 full-time equivalent workyears is planned for the nondefense agencies.

RATIONALE AND EFFECTS

The following is a list of specific major proposed reductions from 1983 to 1984:

- Department of Health and Human Services (-4,100) -- Employment will be reduced by eliminating excessive overhead staff; continuing the community services closeout; decreasing regulatory requirements for health and social services programs; and deregulating categorical grants and consolidating selected grant programs.
- Department of Commerce (-2,280) -- Decreases will result from completion of the Economic and Agricultural Censuses, the termination of the Economic Development Administration, and the phasedown or elimination of the National Oceanic and Atmospheric Administration marine and atmospheric-related services and research activities. A planned increase of about 100 workyears is intended to reduce backlogs in the Patent and Trademark Office.
- Department of Agriculture (-2,050) -- Decreases amounting to nearly 1,900 workyears are planned for the Forest Service for program reductions and expected increases in management productivity. Most of the balance of the decrease occurs in the Soil Conservation Service and Food and Nutrition Service with a partial offset by a small increase for the Farmers Home Administration to meet debt management requirements.
- Department of Defense -- Civil Functions (-1,629) -- Reductions are due to declining program levels resulting in cutbacks in real estate and construction management personnel and the completion of 20-25 projects per year. Private sector dredging capability is increasing, with correspondingly less need for dredges operated by Federal employees.

* For additional details, see Special Analysis I, "Special Analyses, Budget of the United States Government, Fiscal Year 1984."

- Department of the Interior (-1,338) -- Decreases will occur due to Bureau of Indian Affairs school closures and transfers, streamlined research and regulatory processes, improved operational efficiencies, and less labor intensive methods of natural resource management. These reductions are partially offset by increased staffing to operate and maintain the national park system.

- The Department of Housing and Urban Development (-1,247) -- This decrease results from both programmatic and administrative changes. In the housing area, modernization and operating subsidies have been combined with a simplified formula mechanism. Both Section 8 and public housing construction have been largely eliminated. In the community development area, programs have been combined and simplified, with greater devolution of program administration and decisionmaking to States and localities. Federal Housing Administration employment will decrease due to privatization of loan processing. Finally, a greater reliance on ADP operations and contractual services and a streamlining of administrative functions both at headquarters and in the field will reduce administrative employment.

- Tennessee Valley Authority (-1,052) -- A slowdown in the growth of electricity demand has forced TVA to cancel and/or defer construction on some nuclear generating units. This will lead to reductions of on-site construction workers and associated personnel such as engineers and administrative staff.

- Energy Activities (-884) -- Employment will continue to decline for energy overhead, regulatory activities, and near-term research and development activities. This decline is consistent with changes made in recent years to carry out the Administration's emphasis on the importance of private sector initiatives to provide for our energy needs.

- The Department of the Treasury (-737) -- Decreases will occur as a result of streamlining various departmental functions. These will be partially offset by increases in the Internal Revenue Service to administer provisions of the Tax Equity and Fiscal Responsibility Act.

- General Services Administration (-564) -- Decreases will occur agency-wide due to continuing management efficiencies.

- Environmental Protection Agency (-477) -- Reductions reflect increased operating efficiencies, acclerated delegation of environmental programs to States and completed regulatory activities. High priority enforcement and regulatory programs are fully supported.

A portion of the decreases noted is offset by necessary increases in the Justice Department, State Department, Veterans Administration, and the United States Information Agency.

REDUCTIONS ACHIEVED

Between January of 1981 and the end of fiscal year 1982, the actual number of nondefense employees has declined by 91,278.

SPACE MANAGEMENT

PROGRAM DESCRIPTION

The Administration is committed to fundamental management reforms to ensure more efficient use of Federally owned and leased office and work space. These reforms, which will emphasize planning rather than case-by-case management, will reduce costs and allow the redirection of resources to essential Federal activities.

PROPOSED CHANGE

The Administration will propose specific management reforms, including:

- Requiring agencies to develop an annual plan for the utilization of office and other work space. A key element of the plan will be the description of the relationship between office space and personnel levels.
- Improving space inventory systems to ensure that excess or underutilized space is identified and made available for other Federal uses or for disposal, either by non-renewal of leases or by sale of Government-owned property through established excess property programs.

RATIONALE

The Federal Government currently maintains 3.2 billion square feet of work space, of which about 550 million square feet is office space. When valued at $ 10 a square foot/per year, this office space is worth $5.5 billion annually. A substantial amount of Federal work space is underutilized or unnecessary when viewed within the context of individual agency requirements or stringent space planning standards. More efficient use of this space could provide significant savings.

EFFECTS OF THE PROPOSED CHANGE

- Reduction of office and other work space requirements to that essential for known mission requirements.
- Reduced operating expenses.
- Improved space inventory systems.

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