# FISCAL YEAR 1982 Budget Revisions

# Additional Details on Budget Savings

**APRIL 1981** 

Presidential Message	3
Introduction	5
Table of Contents	11
Budget Savings by Agency and Department	16
Savings Affecting Many Agencies	387
Appendices	401
Indices	415

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#### TO THE CONGRESS OF THE UNITED STATES

On March 10, 1981, I forwarded to the Congress a fully revised 1982 Budget with specific proposals for fiscal year 1981 and 1982 and clearly stated targets for 1983 through 1986. I have already submitted to the Congress the supplemental budget requests, rescissions and deferrals for 1981 and budget amendments for 1982 necessary for the Congress to act upon my proposals.

My Budget Reform plan, first presented February 18th and submitted in detail on March 10th, was one of four parts of my comprehensive program for the Nation's economic recovery. The Budget plan called for substantial budget savings and a redirection of Federal Government activities. It included more than 200 proposals for spending reductions, user charges and off-budget savings that are necessary to put the Federal Government on a path toward fiscal responsibility.

We have already provided extensive information on the proposed budget savings. However, I want to be sure that the Congress and the American people fully understand the reasons for the planned budget savings. Accordingly, I have directed the Office of Management and Budget to compile a document to make available additional details on the specific savings proposals.

I hope that this information will be useful to the various committees and subcommittees of the Congress as they consider my proposals.

Ronald Reagan

April 7, 1981 The White House

#### Introduction

The 1982 Budget Revisions submitted to the Congress by President Reagan on March 10, 1981, reaffirmed the Budget Reform Plan which he announced on February 18th as one of four parts of his program for the Nation's economic recovery. On February 18th, the President also announced his proposals for relief from excessive tax and regulatory burdens and a stable monetary policy. 1/

#### **Budget Targets**

The 1982 Budget revisions placed before the Congress specific recommendations for actions needed now to reduce sharply the rate of government spending and to reduce and redirect the role of the federal government. The President's budget targets call for:

		Actual		Estimates				
		<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	1984	<u> 1985</u>	1986
•	Budget Totals							
	Receipts (with tax cuts)	520.0	600.3	650.3	709.1	770.7	849.9	940.2
	Target Outlays ceiling	579.6	655.2	695.3	732.0	770.2	844.0	912.0
	Target surplus or deficit (-)	-59.6	-54.9	-45.0	-22.9	0.5	5.9	28.2
•	Percent of GNP					-		
	Receipts	20.3	21.1	20.4	19.7	19.3	19.3	19.5
	Target Outlays	22.6	23.0	21.8	20.3	19.3	19.2	19.0

#### Summary of Budget Savings

Achieving these targets requires substantial budget savings. The 1982 Budget Revisions provided details on budget savings for 83 major policy and program changes that had been announced on February 18th and savings from over 200 additional budget reductions affecting nearly every department and agency of the Federal Government.

<sup>1/</sup>See following publications: Fiscal Year 1982 Budget Revisions, March, 1981, Office of Management and Budget; and Americas' New Beginning, A Program for Economic Recovery, February 18, 1981, The White House

The table below summarizes the savings proposed in the 1982 Budget revisions:

	Estimates (fiscal year ) inbillions					
<ul> <li>Outlays</li> </ul>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<ul> <li>Savings listed on</li> <li>February 18th a/</li> </ul>	4.8	34.8	50.1	61.4	70.2	77.3
<ul> <li>Additional savings planned</li> <li>on Feb. 18 for March revision</li> <li>(but not specified) b/</li> </ul>	==	<u>6.7</u>	_8.4	_12.4	_16.4	18.5
Subtotal	4.8	41.4	58.5	73.7	86.6	95.8
- Further savings now proposed	<u>1.6</u>	<u>7.1</u>	_8.8	<u>7.5</u>	6.2	6.9
Total Outlays Savings c/	6.4	48.6	67.2	81.2	92.8	102.7
• Receipts						
<ul> <li>Proposed user charges and other proposals c/</li> </ul>	0.3	2.6	2.9	3.3	3.6	4.0
Total Budget Savings	6.6	51.2	70.2	84.5	96.4	106.8
• Off-Budget						
- Reductions now listed	<u>0.6</u>	4.7	6.9	_8.4	9.8	<u>11.6</u>
Total Savings	7.2	55.9	77.0	92.9	106.2	118.4

a/Measured from the current policy base.

c'Includes savings also proposed in the Carter January Budget and, for that reason, not listed on the reductions table. These savings are:

	1981	1982	1983 ·	1984	1985	1986
Budget Outlays	0.3	8.2	9.1	9.7	11.1	11.5
Budget Receipts	0.2	1.8	2.0	2.2	2.4	2.6

The combined reductions announced on February 18th and March 10 will slow the rate of growth in Federal spending in 1982 from 11.6% to 6.1%

#### Budget and Program Priorities and Criteria.

The President decided that achievement of his budget targets will require an end to the proliferation of new Federal programs and a reversal of the trend toward greater Federal roles in planning and controlling economic and social decisions.

He directed that all Federal programs be subjected to thorough scrutiny. However, in doing so he decided that:

- A margin of safety must be created by rebuilding the Nation's defense capabilities.
- The Social Safety Net of income security measures erected in the 1930's to protect the elderly (including cost of living protection for the elderly), unemployed, and poor, as well as veterans, must be maintained.

Eight basic criteria were used in evaluating and making decisions on programs

- Entitlement Programs must be revised to eliminate unwarranted beneficiaries and payments.
- 2 Subsidies and benefits for middle and upper income levels must be reduced.
- Allocable costs of government programs must be recovered from those benefiting from the services provided, such as airports and airways, inland waterways and Coast Guard services to yacht and boat owners.

b/Measured from the January Carter Budget.

- Sound economic criteria must be applied to economic subsidy programs such as synthetic fuels, Export-Import Bank loans, and subsidized loans.
- 5 Capital investments in public sector programs—such as highways, waste treatment plants and water resource projects—must be stretched out and retargeted.
- Fiscal restraint must be imposed on programs that are in the national interest but are lower in priority than the national defense and safety net programs. Examples include NASA, National Science Foundation, and the National Institutes of Health, which would be allowed to grow at lower rates than planned.
- Large numbers of categorical grants must be consolidated into block grants permitting less Federal administrative overhead, greater flexibility for State and local governments, greater efficiency in management and reduced overall costs. The principal examples are elementary and secondary education, and health and social services.
- 8 Federal personnel and overhead costs, and program waste and inefficiency must be reduced.

### Budget Outlays by Agency (in billions of dollars)

	Actual		ed Budget stimates
<u>Agency</u>	1980	<u> 1981</u>	<u>1982</u>
Legislative Branch	1.2	1.5	1.4
The Judiciary	0.6	. <b>0.7</b>	0.7
Executive Office of the President	0.1	0.1	0.1
Funds appropriated to the President	7.5	6.1	6.1
Agriculture	24.6	20.7 -	23.7
Commerce	3.8	2.9	2.5
Defense—Military	132.8	158.6	184.8
Defense—Civil	3.2	3.3	3.2
Education	13.1	14.3	12.4
Energy	6.5	10.5	11.1
Health and Human Services	194.7	227.6	250.7
Housing and Urban Development	12.6	13.5	14.3
Interior	4.4	4.4	3.3
Justice	2.6	2.6	2.5
Labor	29.7	35.5	26.7
State	1.9	2.2	2.4
Transportation	19.0	22.0	18.3
Treasury	76.7	87.7	92.6
Environmental Protection Agency	5.6	5.5	5.2
National Aeronautics and Space			
Administration	4.8	5.3	5.9
Veterans Administration	21.1	22.3	23.6
Office of Personnel Management	15.1	17.9	19.9
Other agencies	20.0	19.4	14.1
Allowances			1.8
Undistributed offsetting receipts	-21.9	-29.3	-32.0
Total revised budget outlays	579.6	655.2	695.3

### Budget Authority by Agency (in billions of dollars)

Davised Dudget

		Revised Budget		
	<u>Actual</u>		timates	
<u>Agency</u>	<u> 1980 </u>	<u> 1981</u>	<u> 1982</u>	
Legislative Branch	1.3	1.3	1.5	
The Judiciary	0.6	0.7	0.7	
Executive Office of the President	0.1	0.1	0.1	
Funds appropriated to the President	12.5	14.0	9.8	
Agriculture	24.9	26.3	25.9	
Commerce	3.1	2.4	2.1	
Defense—Military	142.6	177.1	221.8	
Defense—Civil	3.3	3.1	3.1	
Education	13.8	13.5	12.3	
Energy	10.0	10.5	11.9	
Health and Human Services	195.9	226.2	255.3	
Housing and Urban Development	35.7	32.8	29.0	
Interior	4.6	3.9	3.4	
Justice	2.5	2.3	2.3	
Labor	28.8	32.2	27.9	
State	2.1	2.3	2.8	
Transportation	18.2	23.4	19.2	
Treasury	90.6	86.2	92.9	
Environmental Protection Agency	4.7	3.0	1.4	
National Aeronautics and Space				
Administration	5.2	5.5	6.1	
Veterans Administration	21.2	22.9	24.2	
Office of Personnel Management	24.9	28.5	30.4	
Other agencies	34.3	21.1	17.9	
Allowances			2.3	
Undistributed offsetting receipts	-21.9	-29.3	-32.0	
Total budget authority	658.8	710.1	772.4	

#### Additional Details Now being Presented

When the budget was reviewed, a large amount of information about existing programs was assembled and used in making decisions on proposed revisions. To aid in understanding the savings proposals, principal details about the programs have been summarized in the pages that follow for more than 200 planned changes. Briefly, each description shows:

- Funding changes, compared to the Budget submitted to the Congress on January 15, 1981, by former President Carter. The funding information has been broken down to show changes due to reestimates and adjustments (e.g., for changes in economic assumptions or availability of later estimates) and to policy or program changes. (When savings proposals are included in both the Carter January Budget and the Reagan Budget, this is identified by a footnote.)
- Description of the program being changed.
- The proposed change.
- The rationale for the change.
- Key facts about the program.

Most information is organized by department and agency. A detailed table of contents begins on page 11. Policy changes to achieve budget savings that affect many agencies begin on Page 387. A "key word" index begins on page 417. An index by budget reform criteria begins on page 425. And an index by functional code begins on page 433.

#### Additional Summary Information

Appendices are also included which show:

- Rescissions proposed and deferrals reported by President Reagan.
- Programs being recommended for termination over 1981–1986.

# Additional Details on Budget Savings TABLE OF CONTENTS

#### **Budget Savings by Agency and Department**

Department of Agriculture	Page
Child Nutrition, Summer Food Service	21
Commodity Credit Corporation (CCC)	
- Interest Rates and Interest Waiver Changes	23
— Storage Facility Loan	
Conservation Cost Sharing	. 27
Farmers Home Administration	
- Business and Industry Loan Program	29
— Direct Lending————————————————————————————————	31 34
— Water and Sewer Loan Levels and Interest Rates	36
Food Stamps	
Forest Service Reductions	
Nutrition Assistance for Puerto Rico	
Rural Electrification Administration (REA)	71
— Community Antenna Television (CATV) Loans Elimination	43
— Direct Lending Reductions (including elimination of FFB direct lending)	44
— Telephone Bank Capital Stock Purchase Elimination	. 46
Special Milk Program	. 48
Special Supplemental Food Program for Women, Infants and Children	49
User Charges for Grain Inspection and Cotton and Tobacco	. 50
Department of Commerce	
Economic Development and Title V Regional Commissions Programs	. 55 . 57
	. 3/
National Oceanic and Atmospheric Administration (NOAA)  Land Remote Satellite Sensing (LANDSAT)	. 59
National Oceanic and Atmospheric Administration (NOAA) Ocean Programs	. J
— Coastal Energy Impact Program (CEIP)	. 6]
— Coastal Zone Management (CZM)	. 61
Fisheries Management and Development  National Ocean Satellite System (NOSS)	. 61
— National Ocean Satellite System (NOSS)	61
— Sea Grant Program  Public Telecommunications Facilities Program	. 61
Commerce: Summary of Small Items	. 65
— Office of Productivity, Technology and Innovation (OPTI)	. 66
- Minority Development Assistance	. 66
— National Oceanic and Atmospheric Administration (NOAA) Weather/Research	. 66
Department of Defense — Military	
Defense Savings	. 7
Water Resources Programs	
Water Projects Unfunded	7:
Water Resource Development Construction	
Water Research and Technology	. 77
Water Resources Council/Office of Water Policy	. 78
Waterway and Port User Fees	
,	

Denoutment of Education	Page
Department of Education	
College Housing Loans	
Elementary and Secondary Education Block Grants	86
Higher and Continuing Education	
Impact Aid	
Institute of Museum Services	
Library Programs	
National Institute of Education	
Special Population Programs	
Student Assistance	
Vocational Education	
Youth Initiative (see Labor)	248
Department of Energy	
Alcohol Fuels/Biomass/Urban Waste	109
Department of Energy Administration/Overhead	
Energy Conservation Programs	
Energy Information Activities	
Energy Regulation	. 117
Energy Sciences	. 119
Fossil	. 120
General Science	. 122
Magnetic Fusion	. 123
Other Supply	. 125
Solar	. 128
Synthetic Fuels	. 131
Uranium Enrichment	. 134
Department of Health and Human Services	
Aid to Families with Dependent Children (AFDC)	120
and Child Support Enforcement (CSE)	
Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)	
Block Grants 146,14	
Cuban/Haitian, Domestic Assistance	
Health Maintenance Organizations Health Planning	
Health Professions Education	
Indian Health Service	
Medicaid, Cost-Effectiveness Increase	
National Center for Health Care Technology	
National Health Service Corps	
National Institutes of Health	
Office on Smoking and Health	
Professional Standards Review Organizations (PSROs)	
Public Health Service (Merchant Seamen) Hospitals and Clinics	
Public Health Service (PHS) Commissioned Corps Physician Bonuses	
Refugee Assistance, Domestic	
Social Security	. 1/0
— Adult Student Payments	. 172
— Disability Insurance	. 174
— Minimum Payment Amount	. 176
— Payments on a Worker's Death	
Supplemental Security Income	178

Department of Housing and Urban Development	Page
Administrative Expenses	181
Community Development Block Grants (CDBG)/ Urban Development Action Grants (UDAG)	
Federal Housing Administration (FHA)/Government National Mortgage Association (GNMA) Mortgage-Backed Securities	184
Government National Mortgage Association (GNMA) Tandem Mortagage Assistance	
Housing Counseling Assistance	
Planning Assistance	
Public Housing, Operating Subsidies	192
Rehabilitation Loan Fund	
Research and Technology	
Solar Energy and Energy Conservation Bank	
Subsidized Housing	
— Summary — Program Level	198
- Tenant Rent Contribution.	201
— Rental Assistance Payments	203
— Indian Housing	204
— Public Housing Moderanization	206
Department of the Interior	
Bureau of Indian Affairs, Operating and Construction Programs	209
Fish and Wildlife Service	210
Improved Targeting of Recreation and Conservation Expenditures	212
Mineral Leasing Acceleration	214
Payment in Lieu of Taxes	
Surface Mining Regulation and Reclamation	
Youth Conservation Corps (YCC)	219
Department of Justice	
Department Employment	
Juvenile Justice and Delinquency Prevention Program Termination	225
Department of Labor	
Black Lung Disability Trust Fund	229
— Employment and Training Grant Consolidation	231
— Public Service Jobs	235
Employment Service	
Federal Employee Injury Compensation Program	
Trade Adjustment Assistance	
Unemployment Compensation for Ex-Servicemembers	242
Unemployment Insurance	
— Extended Benefits	243
— Regular Benefits Work Test	
Young Adult Conservation Corps (YACC)	. 240 249

D CG	Page
Department of State	
Conduct of Foreign Affairs	251
Department of Transportation	
Airport Construction Grant Program	255
Airport and Airway Trust Fund	
AMTRAK Fare Subsidy Reduction	
Boat and Yacht User Fees (Coast Guard)	
CONRAIL	
Cooperative Automotive Research Program	266
Great River Road, Federal Highway Administration	
Highway Construction Program, Federal Highway Administration	
Highway Safety Grants (402)	
Highway Safety Program (Research and Development, Regulations)	
Northeast Corridor Improvement Project	
Railroad Branchlines	
Railroad Restructuring Assistance	278
Urban Mass Transit	200
— Capital Assistance	
— Operating Assistance	. 202
Department of the Treasury	
Treasury Law Enforcement and Tax Administration Staffing	287
Environmental Protection Agency	
Clean Lakes, Great Lakes, Chesapeake Bay Program Reductions	201
Energy Research and Development	
Regulatory Program Reductions (Agencywide)	
Superfund	
7.050	. 201
National Aeronautics and Space Administration	
Reductions in Research and Development	. 301
Veterans Administration	
Beneficiary Travel	. 307
Construction Projects	
Dental Treatment, Outpatient	
G.I. Bill	
— No Extension	. 310
— Flight Training and Correspondence Training	. 311
Insurance Loans	. 312
Physicians' and Dentists', Bonuses	. 314
Veterans Medical Program	
— Medical Care	. 316
Medical Staffing	
Veterans Readjustment Counseling Centers	. 319
Foreign Assistance	
Foreign Development Assistance	. 323
— Multilateral Development Banks	. 325
— International Organizations	328
— Agency for International Development	. 329
— P.L. 480 — Food Aid	330
— Peace Corps	
— Common Fund for Commodities	332

Other Agencies	Page
ACTION (Domestic Programs)	335
Appalachian Regional Commission (ARC)	
Architectural and Transportation Barriers Compliance Board (ATBCB)	
	340
Community Services Administration (CSA)	
Consumer Product Safety Commission	
Corporation for Public Broadcasting	
Council on Wage and Price Stability: Wage and Price Standards Program	
District of Columbia  — Borrowing from the U.S. Treasury	
Executive Office of the President: Resources	
Export-Import Bank	
Federal Emergency Management Agency  — Flood Insurance Program	
Federal Trade Commission	
— General Staff Reductions	352
General Services Administration	
— Building Construction	354
— Historic Publication and Records Commission Grants	
— Sales of Excess Materials from the National Defense Stockpile	357
- Federal Protective Service	
International Communication Agency	
Legal Services Corporation	
National Consumer Cooperative Bank	
National Endowments for the Arts and Humanities	
National Science Foundation	369
Office of Personnel Management  — Annual Indexation of Civil Service Retirement Annuities.  — Intergovernmental Personnel Act Grant Program	371
· · · · · · · · · · · · · · · · · · ·	
Postal Service	
Railroad Retirement Board	3/0
Small Business Administration  — Business Credit Assistance	270
— Disaster Loan Assistance	
— Summary of Small Items	382
Small Business Development Center	382
Women's Business	382
"8a" Minority Procurement Program: Business Development Expenses	
Savings Affecting Many Agencies	
Savings Due to Reduction in Regulations	389
Reductions of Federal Civilian Employment	
Revision of Federal Pay Comparability Standard and Related Savings	
Davis-Bacon and Service Contract Acts	
Appendices	
I. Rescissions and Deferrals	
II. Programs Being Recommended for Termination over 1981-1986	
Indices	
I. Key Word Index by Program	417
II. Budget Reform Criterion Index	425
III Functional Index	433

**Budget Savings by Agency and Department** 

**Department of Agriculture** 

#### Child Nutrition Programs<sup>17</sup>

Agency: Department of Agriculture		ctional e: 605			Budget Re Criterion:	
Funding			(\$ in	millions)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET: <sup>1/</sup>						
Budget Authority	3737	4661	5169	5609	6049	6484
Outlays	372 <b>7</b>	4324	4810	5225	5642	6053
REESTIMATES & ADJUSTMENTS:2/						
Budget Authority		-155	-344	-450	-565	689
Outlays		85	-545	667	-801	-939
PROGRAM CHANGES:3/						
Budget Authority	-35	-1768	-1911	-2053	-2173	-2291
Outlays		-1651	-1806	-1939	-2051	-2161
REAGAN BUDGET:						
Budget Authority	3702	2738	2914	3106	3311	3504
Outlays	3727	2588	2459	2619	2790	2953
1/ Includes funds transferred and available from	n the Section 3	2 permanent	appropriation	•		
2/ Includes savings associated with nutrition co						
3/ The Carter budget already included savings	•			ara ac fallaw	r•	
Budget Authority	-35	2,221	2,381	2,535	2,682	2,811
Outlays		2,080	2,251	2,395	2,533	2,653

#### **Program Description**

The Child Nutrition appropriation finances a variety of programs: school lunches and breakfasts, child care meals, summer meals, snacks, nutrition education, equipment assistance, and State administrative expenses. The lunch, breakfast, and child care programs subsidize all meals served, but the subsidy amounts vary in three tiers by household income level. The summer program is fully subsidized for all recipients. In recent years, large supplemental requests — \$100 to \$300 million — have been commonplace to finance costs of subsidized meals claimed by States.

#### Proposed Change

At present, the Federal Government provides subsidies in three different categories (cash, commodities, and special cash assistance) to school districts that agree to provide free meals to the lowest-income students (those below 125% of the poverty line), and reduced-priced meals to those with slightly higher incomes (between 125% and 195% of the poverty line). The basic cash and commodity subsidies are distributed to schools based on the total number of children participating in the meal program, regardless of income level. The result is a subsidy, equal to about 50% of the purchase price of meals served to middle- and upper-income students— many of whom come from families with very high incomes. Given the need to focus Federal benefits on those truly in need, the Administration will propose legislation to focus subsidies on the lower-income groups.

The summer feeding program, which has been riddled with abuse and fraudulent claims will be proposed for termination. Other nonessential activities funded under this account will also be terminated, including funds to purchase new school food service equipment, nutrition education and training grants to States, subsidized snacks, and all subsidies to schools with high tuitions. The base and special subsidies for both free and reduced price meals will be annually indexed in future years from 1982 levels for price changes in the currently authorized indices. Finally, schools will begin to verify the income eligibility of students claiming full or partial meal subsidies.

#### Rationale

By focusing Federal meal subsidies on children from families in need, Federal costs will be reduced by over 35% next year, or by more than \$9 billion by 1986. At the same time, continued full and partial Federal subsidies for lower income students will help to ensure that these students have access to adequate nutrition at school. Administratively, these changes will reduce the existing complexity of over 20 subsidy rates that vary by income level, type of meal, and type of institution claiming the subsidy. Elimination of activities collateral to funding nutrition subsidies for the needy moves away from inappropriate Federal involvement in State and local school administration.

#### Key Facts About the Program

- Full subsidies will continue for over 10 million needy participating children under the Administration's proposal; Federal subsidies will end for 14.5 million middle and upper income students whose familes' income exceed \$15,630 per year.
- Grand jury indictments were handed down in March 1981 for fraud in New York City's summer feeding program, evidence of the continued abuse of that program.
- Federal funding has grown dramatically on a portion of school meal financing.

#### **CCC Interest Rates and Interest Waiver Changes**

Agency: Department of Agriculture Functional Budget Reform Code: 351 Criterion: 4

Outlays

Funding		(\$ in millions)						
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	618	912	582	655	684	714		
PROGRAM CHANGES:	-84	-212	-229	-254	-284	-316		
REAGAN BUDGET: *Budget Authority is excluded bed	534	700 s no roloti	353	401	400	398		

#### Program Description

A generally understood price support policy is that the interest rate charged on all Commodity Credit Corporation (CCC) loans will be equal to the Treasury interest rate charged to CCC. (Also known as CCC's cost of borrowing.) In practice, however, farmers have been charged interest rates below the CCC cost of borrowing in recent years.

For three-year grain reserve loans, the Congress mandated in a 1980 amendment that all interest be waived. Before that, USDA/CCC used discretionary authority to waive interest for the second and third years of the reserve and charged interest for the first year.

#### Proposed Change

Interest which is due on all CCC loans will be charged at the CCC cost of borrowing rate.

Legislation is being submitted to eliminate the mandate that interest be waived on the first year of 1981 crop grain reserve loans only.

- This action does not affect the 1980 crop.
- Interest will still be waived for the second and third years of the loan.
- Reserve loans would still receive higher-than-usual loan rates and extra payments for storage costs.
- The reserve program for the 1982 and beyond crops will be part of the Administration's comprehensive farm program.

#### Rationale

The CCC cost of borrowing is well below commercial interest rates. Charging farmers interest at CCC cost of borrowing will still provide farmers credit with terms much better than can be found in the private market, while reducing Federal costs.

Restoring the ability to charge first year interest on 1981 crop reserve loans will help reduce CCC operating costs without adversely affecting grain reserve participation.

- Grain reserve loans provide higher loan rates than regular loans.
- The Federal Government pays storage costs for reserve loans but not for regular loans.
- Interest will still be waived for the second and third years of the reserve.
- When interest was charged in the first year, the reserve still received tremendous participation.
- Now, even with all interest waived, virtually no feed grains remain in reserve. Generally, participation is not a function of interest charged, but of commodity market conditions.

#### Key Facts About the Program

For the regular loan programs, CCC was lending funds to farmers at 11.5% interest at the same time it was paying 15% interest to the Treasury for these funds.

When Congress waived all reserve loan interest, many farmers used the reserve for short-term interest-free credit during a year when there was a high probability that the reserve would be called. This created the opportunity for CCC borrowers to place interest-free Federal loans into Money Market or other short-term investments. This was truly an abuse of the reserve system, warping the original purpose of a grain reserve.

The following table provides the outlay savings for each action:

	Net Interest Costs (\$ in millions)					
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	618	912	582	655	684	714
Program Changes:  Interest on regular loans	-4	-45	-49	-54	-59	-66
Reserve loan interest waiver	<u>-80</u> -84	<u>-167</u> -212	<u>-180</u>	<u>-200</u>	<u>-225</u>	<u>-250</u>
Subtotal, changes REAGAN BUDGET:	<u>-84</u> 534	$\frac{-212}{700}$	<u>-180</u> <u>-229</u> 353	<u>-200</u> <u>-254</u> 401	<u>-225</u> - <u>284</u> 400	<u>-250</u> <u>-316</u> 398

#### **CCC Storage Facility Loans**

Agency: Department of Agriculture

Functional Code: 351

Budget Reform Criterion: 4

#### Outlays

Funding			(\$ in millions)	)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	210	150	150	150	150	150
PROGRAM CHANGES:	-25	-100	-110	-120	-130	-150
REAGAN BUDGET:	185	50	40	30	20	

<sup>\*</sup>Budget Authority is excluded because it bears no relation to individual programs.

#### Program Description

USDA (Commodity Credit Corporation) provides loans to farmers of up to \$100,000 each to cover at least 75% of the cost of building or renovating storage and drying facilities, usually for grain, rice, or soybeans. These provisions, enacted in 1977, expire at the end of 1981, at which time a permanent mandate for grain (only) storage facilities will exist.

#### Proposed Change

1981 and 1982 outlay reductions will be achieved administratively —

- maximum loan coverage will be reduced from Carter policy of 85% to statutory minimum of 75%; and
- repayment terms will be reduced from Carter policy of 8 years to 5 years.

Outyear reductions above \$100 million are contingent upon elimination of permanent statutory mandate. The Administration's farm bill will change the mandate to discretionary authority, allowing a phased termination over several years.

#### Rationale

Excess crop storage has existed for three years and is expected to continue —

- in 1979, a year of abundant supply, excess storage existed;
- in 1980, a year of low supply, excess storage doubled; and
- the recent drought and projected high grain demand indicate increased excess storage.

By proposing elimination of the permanent statutorily mandated program, the Administration will be able to conduct a discretionary program, with terms equivalent to commercial credit, at reduced costs and with a phased elimination over five years, to be completely eliminated in FY 1986. The Administration will continue a smaller-scaled program in order to alleviate specific localized problems in those few States where adequate storage capacity may still be lacking.

#### Key Facts About the Program

USDA analysis of storage availability as of October 1, 1980 showed a national surplus capacity of 3.8 billion bushels. Only 2 States showed minor deficits which in fact may not exist at all since the assumption was made that all late harvested (after October 1) crops (corn, soybeans, and sorghum) were in storage as of October 1, 1980.

The following table presents an overview of the situation:

### Storage Availability (in billions of bushels)

	1979 (Good Production Year)	1980 (Bad Production Year)
Supply of Stocks for Storage	15.6	14.7
Storage Capacity:		
Off-farm	7.2	7.3
On-farm	<u>10.6</u>	11.2
Total	$\overline{17.8}$	<u>11.2</u> 18.5
Excess Storage Capacity	2.2	3.8
States Still Experiencing Major		
Deficits in Capacity:		
Indiana	067	+.005
Kentucky	068	+.044
Michigan	+.003	038
Montana	018	+.143
Ohio	105	109

#### **Conservation Cost-Sharing**

Agency: Department of Agriculture	Func Code	tional : 302			Budget Re Criterion:			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	212	215	234	254	272	290		
Outlays	228	200	251	244	260	280		
REESTIMATES & ADJUSTMENTS:*								
Budget Authority			-19	-39	-57	-74		
Outlays			-10	-25	-42	-58		
PROGRÁM CHANGES								
Budget Authority		-55	-55	-55	-55	-55		
Outlays		-15	~31	-38	-46	- 54		
REAGAN BUDGET:								
Budget Authority	212	160	160	160	160	160		
Outlays	228	185	210	181	172	167		

<sup>\*</sup>Effect of eliminating allowance for inflation from discretionary programs.

#### **Program Description**

Three cost-sharing programs administered by the Agricultural Stabilization and Conservation Service (ASCS) are included.

- The Agricultural Conservation Program (ACP) provides cost-shares to farmers and ranchers to establish conservation practices on agricultural land for erosion control, water conservation, point and nonpoint pollution control, rural water quality improvements, forestry and wildlife enchancement and energy conservation.
- The Water Bank Program (WBP) provides cost-shares to landowners for maintaining, improving and increasing water-fowl habitat in migratory water-fowl nesting and breeding areas of the United States and land for leasing rent to protect wetlands.
- The Forestry Incentives Program (FIP) provides cost-share and technical assistance for tree planting and timber stand improvement (TSI) to increase supplies of timber products.

#### Proposed Change

- ACP (-\$40 million). The reduction leaves \$150 million for annual and long-term agreements for cost-sharing for conservation and pollution abatement measures on 8.9 million acres.
- WBP (-\$10 million). The reduction eliminates funding for the program.
- FIP (-\$5 million). The remaining \$10 million would support planting 120,000 acres and TSI on 85,000 acres.

#### Rationale

The imposition of fiscal restraint on other programs of national interest is a necessary part of the Administration's overall effort to reduce Federal expenditures. Many programs that are in the national interest but which cannot be accorded an urgent priority must be reduced. Cost—sharing for soil and water conservation and forestry development programs on private lands are among these kinds of programs.

#### Key Facts About the Program

In the case of ACP there is evidence that the targeting of the public cost-sharing investment to intensively eroding areas could conserve more soil at less cost. About 84% of all excess sheet and rill erosion on agricultural land is concentrated on that 4% of the acreage that is eroding at rates of over 14 tons per acre annually. The ACP evaluation found that in the 171 sample counties for the nine erosion control practices studied, land suffering sheet and rill erosion at rates in excess of 14 tons per acre annually received only 21% of the sample practices. More than 52% of the sample practices were

installed on lands eroding at rates of less than 5 tons per acre annually. Practice installation costs per ton of erosion reduction decline rapidly as the pre-assistance rate of erosion increases.

In the case of WBP, the public's investment in leasing of wetlands for water-fowl habitat protection and development provides only temporary protection at increasing costs. Technical assistance to private landowners interested in investing in wildlife development is available. Landowners were assisted on 2.6 million acres in FY 1980. In addition the Migratory Bird Conservation Fund in the Department of the Interior (DOI) will spend \$16 million in FY 1982 for acquisition of wetlands for bird and waterfowl production areas. This will add to the almost 30 million acres currently included in the National Waterfowl Refuge System. An additional 1.6 million acres of wetlands are protected under the wetlands acquisition or easement program administered by the Fish and Wildlife Service of the DOI and about 5.1 million acres of wetlands provide local benefits under State control.

In the case of FIP, it has not been demonstrated that the market is unable to allocate resources for timber production efficiently. Indeed, it is questionable that work accomplished through this program is additional to that which would be accomplished in the absence of Federal assistance. What is clear is that some costs of private investment are shifted to the public.

#### Farmers Home Administration Business and Industry Loan Program

Agency: Department of Agriculture Functional Budget Reform Code: 351 Criterion: 4

#### Loan Guarantee Commitments

Funding			(\$ in millions)			
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	741	500	500	500	500	500
PROGRAM CHANGES:		-500	-500	-500	-500	-500
REAGAN BUDGET:	741	0	0	0	0	0

#### Program Description

The Business and Industry (B&I) loan program provides guaranteed loans to individuals, public and private organizations and Indian tribes to finance projects to improve the economy of rural areas. The Carter budget proposed, for 1982 and beyond, a program level of \$500 million, \$241 million lower than the 1981 level. Legislation restricts this program to communities of 50,000 or less with primary emphasis on serving communities of 25,000 or less. (From 1974–1980, 53.8 percent of the B&I projects were located in communities of 5,000–10,000 people).

As currently administered, FmHA may guarantee up to 90 percent of the principal on privately originated loans. There is no statutory limit on the size of individual loans (the average loan size was \$820,000 in 1979). The interest rate on the loan is negotiated between the borrower and the lender, with the lender paying a 1 percent fee which may be passed on to the borrower. Repayment terms vary as follows: 1) 30 years for land, buildings and permanent fixtures, 2) 15 years for machinery and equipment, and 3) 7 years for working capital.

#### Proposed Change

The Administration proposes to terminate guaranteed B&I lending in 1982.

#### Rationale

The proposal to terminate the B&I loan program is consistent with the premise that it is more appropriate for private capital to finance these types of rural development projects rather than affect the resource allocation and interest charges through Federal guarantees.

Since B&I loans are made to many credit-worthy applicants, it has not been demonstrated that private lenders would not finance such projects without Federal guarantees. Accoundingly, there is no evidence that rural development will be significantly affected by the elimination of this program. (Local banks that sold the guarantees in the secondary market were the program's primary beneficiaries.) Termination of this program is also consistent with the Administration's plan to return FmHA to its original role of lender of last resort in the areas of farm credit, housing and certain community projects.

#### Key Facts About the Program

Defenders of the B&I program argue that since the loans are guaranteed, the Government does not incur any expenses unless a loan defaults. Defenders also point to the low default rate (traditionally, less than 3 percent of the funds lent in any one year have defaulted). Further, only \$41M in actual losses have been paid out through December 31, 1980. However, lately, FmHA has purchased a number of loans from banks which are over 60 days delinquent in payment and are treated as defaults by banks. In such cases, the bank believes that the loan cannot be brought current, and the holder is directed to FmHA. Consequently, FmHA executes the guarantee and buys back the loan, for servicing as a direct FmHA loan.

The chart below illustrates the trend in secondary market purchases of B&I loans by FmHA.

#### (\$ in millions)

<u> 1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	1981 (est.)	1982 (est.)
4.7	2.2	34.9	70.5	100.0	102.0

A significant amount of staff time is devoted to making and servicing these highly complex loan projects. Termination of the program will enable FmHA to concentrate more of its staff resources on servicing its existing portfolio of loans, and in serving in its traditional role of lender of last resort for agricultural credit, low income housing, and selected community facilities loans.

# Farmers Home Administration Direct Lending

Agency: Department of Agriculture		ctional e: 351,371,	453		Budget Re Criterion:		
Funding	(\$ in millions)						
J	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority*	1,056	3,644	3,049	3,454	3,764	3,870	
Outlays	-1,205	2,557	2,952	3,232	3,490	3,652	
Direct Loan Obligations:	12,990	10,237	10,237	10,237	10,237	10,237	
PROGRAM CHANGES							
Budget Authority*			-30	-105	-179	-255	
Outlays	-30	-110	-179	-255	-331	-407	
Direct Loan Obligations:	-565	-2,354	-2,354	-2,354	-2,354	-2,354	
REAGAN BUDGET:							
Budget Authority*	1,056	3,644	3,019	3,349	3,585	3,615	
Outlays	-1,235	2,447	2,773	2,977	3,159	3,245	
Direct Loan Obligations:	12,425	7,883	7,883	7,883	7,883	7,883	

<sup>\*</sup> Budget authority funds the operations of three revolving funds which finance these programs and has no direct relationship to direct loan obligation levels.

#### Program Description

The FmHA administers a broad range of rural credit programs for agriculture, housing, and community facilities. In the January Budget, direct loan commitments for all of these purposes totaled \$12,990 million in 1981 and \$10,237 million in 1982. For 1982, agricultural credit accounts for approximately \$5 billion, housing \$4.4 billion, and community facilities \$835 million in 1982.

#### Proposed Change

The Administration proposes to reduce 1981 direct loan obligations by \$565 million. The chart below describes the programs affected by this reduction:

	<b>\$M</b>		<b>\$M</b>				
	1981 Budget	Number of Loans	1981 Proposed	Number of Loans			
Farm ownership	870	10,563	790	9,592			
Moderate income homeownership	825	22,400	509	13,820			
Water and sewer	750	1,777	590	1,398			
Other agricultural credit							
loans	110	2,276	101	2,053			

The proposed change will include the following direct loan programs in FY 1982:

	Loan Level (\$M)	Number of Loans
Farm ownership	700	7,650
Farm operating	1,325	39,200
Emergency disaster	1,600	30,890
Soil and Water Conservation	44	1,690

	Loan Level (\$M)	Number of Loans
Resource Conservation and		
Development		
Low income housing	2,300	67,000
Moderate income housing	500	19,500
Rural rental housing	870	1,210
Very low income housing		
repair	24	6,960
Water and waste	300	646
Community facilities	130	306

#### **OTHER CHANGES:**

Legislation is being proposed to eliminate interest subsidies for the following programs: farm ownership, emergency disaster and moderate income housing loans. Legislation is also being proposed to increase the interest rate for water, sewer and community facility loans to the municipal borrowing rate. Finally, legislation is being proposed to eliminate emergency (disaster) loans to applicants who can obtain credit elsewhere.

#### Rationale

FmHA was created to be a lender of last resort. Individual farmers and rural residents were the primary clientele. Interest rates originally approximated the prevailing market, even though some were subject to a statutory ceiling.

Recently, FmHA's role has changed. Through a variety of programs including the economic emergency, disaster loan, and the business and industry loan programs, the agency has offered loans without applying the credit elsewhere test. Further, substantial increases in prevailing market rates of interest have widened the gap between the rates charged by private lenders, the rates charged by Treasury and those offered by FmHA. This proposal is part of a government-wide effort to reduce Federal involvement in credit markets and channel those able to obtain credit toward private lenders.

#### Key Facts About the Program

The major programs affected by the budget revisions are discussed below:

#### AGRICULTURAL CREDIT:

#### Farmownership loans

- Subsidized interest rates, low down payments (FmHA currently requires no down payment), and long repayment periods (FmHA currently offers 40 years) provide an incentive to pay higher prices for farm land. Eliminating interest subsidies and reducing the size of the Farm Ownership program should reduce somewhat inflationary pressures on land prices.
- Recent changes in the statutory authorities of the Farm Credit Administration (FCA) will increase its role in serving young and beginning farmers. (FCA is a Federally-chartered agency that obtains all of its financing from the private market.)
- FmHA has not been a major source of farm real estate debt. As of January 1, 1981, FmHA held only 9.4 percent or \$9 billion of all farm real estate debt outstanding. The major suppliers of such credit are the Federal Land Banks (a part of the Farm Credit System) which hold 38 percent or \$36.6 billion of this type of debt.

#### Farm Operating Loans

- A level of \$1,325 million will be proposed for FY 1982 which compares to only \$850 million available for FY 1981. The increased funding is intended in part to provide credit to farmers who may have received financing under the Economic Emergency Loan program which is expiring at the end of 1981.
- Action will be taken administratively to increase the interest rate on operating loans to limited resource farmers from 7 percent to the Cost of Treasury borrowing.
- FmHA holds 15.4% or \$13 billion of farm nonreal estate debt outstanding as of January 1, 1981. Commercial banks and the Farm Credit System held the major share of nonreal estate debt (37 percent and 25 percent respectively).

#### Emergency Disaster Loans

- Legislation will be proposed to eliminate from eligibility for Emergency (Disaster) loans those borrowers who *can* obtain credit elsewhere. Traditionally, this FmHA program has been limited to those who *cannot* obtain credit elsewhere. However, eligibility was expanded through legislation enacted last year. Returning to a program open only to those who *cannot* obtain credit elsewhere will provide for a reduction in the 1982 loan level from \$2 Billion to \$1.6 Billion. Limiting eligibility to only borrowers who *cannot* obtain credit elsewhere returns the Farmers Home Administration to its original role as a lender of last resort.
- Legislation will also be proposed to increase the interest rate on actual loss loans to noncredit worthy borrowers from 5 percent to the Cost of Treasury borrowing.
- Subsidized disaster loans have led farmers to borrow more heavily than might otherwise be the case.
- These legislative proposals would be implemented together with administrative procedures to reduce obligations under the Emergency (Disaster) program. For example, applicants for loss loans would be required to purchase crop insurance to cover that portion of the yield used as collateral on the loss loan (this action is expected to reduce substantially the demand for emergency loans in the future).

#### **RURAL HOUSING:**

#### Low Income Homeownership Loans

• In 1982, the amount of homeownership loans to low income families (incomes below \$11,200) will be maintained at the 1981 level.

#### Moderate Income Homeownership Loans

- In 1982, the amount of homeownership loans for moderate income families (incomes from \$11,201-\$15,600) will be reduced from \$802 million to \$500 million. This proposed level is just slightly below the loan level actually used in 1980 (\$585 million).
- The proposed reduction will not significantly change the way in which the homeownership program has been operated. Rather, it reflects the repeal of a recently enacted statutory change that would have reduced the interest rate on loans to moderate income families from about 13 percent (currently) to as low as 3 percent. Implementation of the legislation would have resulted in a substantial increase in demand for loans.

#### **RURAL DEVELOPMENT:**

- In 1982, the Water and Waste Disposal Loan program will be reduced from \$575 million to \$300 million. This loan level will result in a loan-to-grant ratio of 3:1 which is more appropriate than the 6:1 ratio contained in the Carter budget. Generally, the wealthier communities that would qualify for loans without grants would be affected by the proposed reduction in loan level.
- The Administration will support legislation which has already been submitted to the Congress to increase the interest rate on community facility and water and waste disposal loans. The proposal would repeal the 5 percent interest rate ceiling and replace it with a rate based on the municipal bond market. Funding of the loan and grant programs for water and waste disposal are contingent upon enactment of on the proposed legislation.

## Farmers Home Administration Grant and Home Ownership Assistance

Agency: Department of Agriculture		etional e: 371			Budget Re Criterion:			
Funding	(\$ in millions)							
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	11	108	109	109	110	110		
Outlays	12	13	14	15	18	20		
PROGRÁM CHANGES								
Budget Authority	-5	-108	-109	-109	-110	-110		
Outlays	-4	-11	-14	-15	-18	-20		
REAGAN BUDGET:								
Budget Authority	6							
Outlays	8	2						

#### Program Description

Includes home ownership assistance grants (\$100 Million), rural development planning grants (\$6 Million), and rural housing supervisory assistance grants (\$2 Million).

#### Proposed Change

Funding for the programs is to be terminated effective April 1, 1981.

#### Rationale

Congress did not appropriate funds for the Home Ownership Assistance Program (HOAP) in either 1980 and 1981. The \$100 Million Carter budget request for 1982 only would fund an experimental program involving less than 900 units. The annual cost of subsidizing units under HOAP would be slightly less than under the rural rental assistance program. However, the major disadvantage to HOAP, is that assistance would be provided to individual owner occupants while rental assistance payments finance a unit which may be occupied by several different tenants over the life of the contract. Further, HOAP would be limited, by law, to areas where it is not feasible to construct rental housing for low income families.

Elimination of funding for the other relatively small grant programs (e.g., rural planning, and supervisory housing assistance) would have little, if any, effect on rural communities in general. Few communities receive any of the limited funding currently available.

#### Key Facts About the Program

#### Summary of FmHA Grant Programs

	1981		1982		
	January Budget	Reagan Revisions	January Budget	Reagan Revisions	
Home Ownership Assistance Grants (HOAP) Rural Development Planning			100	0	
Grants	5	3	6	0	
Rural Housing Supervisory Assistance Grants Other	2 4	1 2	2	0	
TOTAL	11	6	108	0	

- HOAP provides a supplemental grant to very low income families who could not afford the mortgage payments of a 1 percent FmHA home ownership loan. Congress authorized this program three years ago but did not appropriate funds.
- Although the Administration is not proposing HOAP, very low income rural families may be assisted through the following four existing FmHA programs:

	(\$ in millions)		
	1981	1982	
Rental Housing	918	870	
Rental Assistance	403	398	
Home Ownership Repair Loans	24	24	
Home Ownership Repair Grants	25	25	

- The Rural Supervisory Assistance Grant Program finances organizations that counsel low income rural households on Federal eligibility requirements filing applications for assistance, etc. Since the FmHA loan level is proposed to be reduced significantly, agency staff will have more time to counsel applicants and borrowers.
- The rural planning grant program finances planning and technical assistance projects which are not considered priority activities.

### Farmers Home Administration Water and Sewer Loan Levels and Interest Rates

Agency: Department of Agriculture	Functional Code: 352				Budget Reform Criterion: 6,4		
Funding	(\$ in millions)						
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Direct loan obligations	750	575	575	575	575	575	
Outlays	9	14	16	17	20	25	
PROGRÁM CHANGES							
Direct loan obligations	-160	-275	-275	-275	-275	-275	
Outlays	-2	-4	-5	-6	-7	9	
REAGAN BUDGET:							
Direct loan obligations	590	300	300	300	300	300	
Outlays	7	10	11	11	13	16	

<sup>\*</sup>Outlays represent the cost of interest subsidies calculated as the difference between Treasury borrowing costs and the rate charged to borrowers.

#### Program Description

The water and sewer loan program finances projects in communities of 10,000 people or less. The Carter budget proposed a loan level of \$575 million which would support approximately 1,238 loans.

#### Proposed Change

The Reagan budget assumes the following two changes in the water and sewer loan program:

- a reduced 1982 program level of \$300 million which would support 646 loans. This loan level, retained in the outyears, results in a 3 to 1 ratio of loans to grants;
- support for a proposal in the Carter budget to raise the 5 percent interest rate to the average muncipal bond rate charged on similar types of projects.

#### Rationale

The proposed program level reduction preserves the 3 to 1 ratio of loans to grants and directs assistance to those communities that are too poor to afford water or waste systems without a grant. This focus on the poorest communities is consistent with the Agency's original role as lender of last resort.

The increase in the interest rate on water and waste loans will reduce Federal outlays and the demand for these loans from those communities that can participate in the municipal bond market. This proposal will not prevent those communities unable to obtain credit from constructing necessary water and waste facilities; it will, however, pass on to such communities the cost of these facilities. The Administration believes that this proposal will result in sounder public investment decisions and more equitable and undistorted resource allocation.

#### Key Facts About the Program

The 5 percent rate for water and sewer loans was established in 1968 when the cost of borrowing was only 6.25 percent. There is no analytical basis for retaining this subsidized rate when FmHA currently is paying 13.82 percent to borrow from the Federal Financing Bank.

# **Food Stamps**

Agency: Department of Agriculture		ctional e: 605	Budget Re Criterion:				
Funding			(\$ in	millions)			
•	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	11084	12882	14289	15278	16008	16706	
Outlays	10950	12722	14181	15164	15889	16582	
REESTIMATES & ADJUSTMENTS:1/							
Budget Authority		-1409	-2280	-2880	-3261	-3806	
Outlays		-1394	-2266	-2861	-3239	-3781	
PROGRAM CHANGES:2/							
Budget Authority	-150	-1717	-1927	-2369	-2533	-2660	
Outlays	-149	-1700	-1917	-2357	-2520	-2647	
REAGAN BUDGET:							
Budget Authority	10934	9756	10082	10029	10214	10240	
Outlays	10801	9628	9998	9946	10130	10154	
1/ Includes savings due to consolidation of food	d stamps with o	ther nutrition	n programs for	r Puerto Rico	) <b>.</b>		
2/ The Carter Budget already included savings							
	1981	1982	1983	1984	1985	1986	
Budget Authority	-150	-2,204	-2,646	-2,943	-2,938	-2,992	
Outlays	-149	-2,182	-2,632	-2,928	-2,923	-2,977	

### **Program Description**

Food stamps subsidize the food purchases of low income households. Each household meeting eligibility requirements — a net income test, a disposable assets test, and a work requirement for able bodied persons — receives stamps redeemable for food. Monthly stamp allotments may be household size and net income level. Allotments are annually indexed to changes in USDA's Thrifty Food Plan.

## **Proposed Change**

In accordance with the Administration's efforts to target assistance to the most needy families, and to restrain the uncontrolled growth of entitlement spending, major changes will be proposed in the food stamp program.

For a family of four, eligibility will be limited to those whose gross income is less than \$11,000 per year — about \$900 per month. Under current law, similar families with income in excess of \$14,000 annually are eligible for food stamps. Overlapping school meal and food stamp subsidies will be eliminated. Benefit calculations will be based on actual recent earnings or payments rather than projected earnings or payments. A recipient's initial allotment will be prorated to ensure that the benefits provided are more equivalent to the number of days in the month for which assistance is needed. Liberalized allotment levels and income deductions scheduled to take effect in the next fiscal year will be repealed. Tightened administration and program monitoring will yield additional savings through reduced overhead costs, and through the elimination of payment errors and food stamp fraud.

#### Rationale

These changes will help to refocus the food stamp program on its original purpose — to ensure adequate nutrition for America's needy families. The combined effect of food stamp's current prospective income test and high deductions from income has been to divert the food stamp program away from this original purpose toward a generalized income transfer program, regardless of nutritional need. By restructuring food stamps to complement other nutrition programs and targeting funds on those whose low income prevent them from maintaining an adequate diet, significant savings can be achieved while ensuring that needy families have the resources to meet their nutritional needs.

These changes are also designed to eliminate anomalies found in the present program, where families with high annual income are nevertheless eligible for food stamps during short, temporary periods of unemployment. The present program also permits those with relatively high incomes to take higher deductions for shelter and child care expenses than lower-income families. The Administration's program would remove 400,000 such households from the rolls. At the same time, a family of four with income below \$10,985 would receive the full nutritional benefit — only modified to account for duplicated nutrition subsidies.

- Food stamp costs have doubled in the past three years and one out of ten Americans (22 million people) now participates in the program. The value of food stamp benefits grew from \$5.2 billion in 1979 to more than \$10.3 billion in 1981 and over 6 million people were added to food stamp rolls over that period.
- In 1977, Congress established annual "caps" on Food Stamp appropriations, based on the best available economic and program projections. For three of the four years that the "cap" has been authorized, program growth has forced Congress to increase this statutory appropriations "cap." Increases enacted for FY 1980 and 1981 exceeded the "caps" established for those years by more than 55% for each year. In addition, a second increase of \$1.2 billion above the "cap" for FY 1981 is currently pending.
- Contrary to some popular suggestions, the growth in Food Stamp paraticipation is not largely related to rising unemployment. Between February 1978 and February 1979, for example, Food Stamp participation increased by one million while the number of unemployed civilian workers remained constant. In the succeeding 12 months, Food Stamp participation increased by over three million while the number of unemployed increased by only 500,000. In 1975, at the peak of the recession, there were 7.8 million unemployed and 17.1 million Food Stamp participants. At the 1980 peak of 7.5 million unemployed, the program grew to in excess of 22 million participants.

#### **Forest Service Reductions**

Agency: Department of Agriculture		ctional e: 302			Budget Reform Criterion: 4,6,8		
Funding			(\$ in	millions)			
9	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	2,166	2,310	2,443	2,543	2,655	2,766	
Outlays	2,157	2,429	2,496	2,597	2,722	2,824	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-95	-165	-246	-327	
Outlays		-100	-150	-220	-313	-386	
PROGRÁM CHANGES:							
Budget Authority	-11	-74	-74	-74	-74	-74	
Outlays	-11	-64	-74	-74	-74	-74	
REAGAN BUDGET:							
Budget Authority	2,155	2,236	2,274	2,304	2,335	2,365	
Outlays	2,146	2,265	2,272	2,303	2,335	2,364	

## Program Description

Forest Services activities include:

- a comprehensive *research* program in the management, protection, and utilization of products from forest lands.
- cooperative forestry programs which provide modest amounts of technical and financial assistance to States and private owners of forest land.
- management and protection of the 190 million acres *National Forest System* for multi-purposes including timber, recreation, water, fish and wildlife, forage, wilderness, and mineral and energy resource extraction.

## Proposed Change

The only reduction proposed in FY 1981 is \$11 million in savings from the employment freeze and other administrative reductions.

A \$74 million reduction is proposed for FY 1982 including \$14 million in administrative savings. The 1982 budget will still exceed funds available in FY 1981 by \$81 million. Reductions by major activity are:

- Research (-\$9 million). This would result in a \$134 million progam including \$1 million in administrative savings.
- Cooperative Forestry (-\$3 million). This deletes a \$3 million grant for investment on non-Federal forest lands in northern Minnesota.
- National Forest System (-\$62 million). This represents about a 3 percent reduction of the approximately \$1.8 Billion January Budget. About \$13 million of this reduction is associated with the employment freeze and other administrative savings.

#### Rationale

The proposed changes will reduce overhead and personnel costs of the Federal Government, reduce economic subsidies, and impose fiscal restraint on programs of national interest:

- Research. The lowest priority projects would be deleted or deferred.
- Cooperative Forestry. Deletion of grant to non-Federal public and private land owners in northern Minnesota reduces economic subsidies.
- National Forest System. The remaining \$49 million represents relatively minor reductions in road and facility construction and maintenance and for nontimber resource management. This is expected to improve the efficiency of the transportation system and may delete or defer the lowest priority projects.

## Key Facts About the Program

Specific program reductions are presented below. In most cases the FY 1982 Reagan Budget will equal or exceed the FY 1981 budget.

(\$ in millions - BA)

	1981 Base	1982 January Budget	1982 Reduction
Research	129	143	-8
Cooperative Forestry	74	73	-3
National Forest System			
Cooperative law enforcement	5	7	-1
Forest road maintenance	78	86	-5
Forest trail maintenance	15	15	-2
Recreation use	118	125	<b>-</b> 7
Wildlife and fish management	42	48	-3
Range management	36	40	<b>-2</b>
Soil and water management	39	42	-1
Construction of facilities	23	26	-3
Road construction	215	221	-15
Purchaser road construction	<u>210</u>	<u>255</u>	<u>-10</u>
	984	1,081	-60

The research program will still be increased by \$5 million over FY 1981 after the reduction.

Although \$3 million for cooperative forestry programs has been deleted, substantial investments have been made in FY 1980 and 1981 (\$19 million) to offset economic impacts of the Boundary Waters Canoe Area Act of 1978. An additional \$8 million will still be available in FY 1982 for investment on National forests and to provide financial and technical assistance to resort owners and local communities.

A number of *National Forest System* activities are reduced but in almost every case the revised budget is equal to or greater than FY 1981 appropriation action. The revised budget provides for balanced multiple-use management in a time of severe fiscal pressure. It does require that costs be reduced and that some lower priority activities be deleted or deferred.

## **Nutrition Assistance for Puerto Rico**

Agency: Department of Agriculture		ctional e: 605			form 7			
Funding		(\$ in millions)						
J	1981	1982	1983	1984	1985	1986		
CARTER BUDGET: <sup>1/</sup>								
Budget Authority	1,095	1,229	1,303	1,359	1,402	1,427		
Outlays	1,404	1,151	1,281	1,336	1,377	1,402		
REESTIMATES & ADJUSTMENTS:		•				,		
Budget Authority								
Outlays				<b></b>				
PROGRÁM CHANGES:								
Budget Authority		-308	-381	-437	-480	-505		
Outlays		-280	-359	-414	-455	-480		
REAGAN BUDGET:								
Budget Authority	1,095	922	922	922	922	922		
Outlays	1,040	871	922	922	922	922		
1/ Represents estimate of Puerto Rico's shar	re of USDA categ	orical food as	sistance prog	rams.				

### Program Description

Puerto Rico receives nutrition assistance under several USDA categorical programs including food stamps, summer feeding, school lunch, school breakfast, equipment assistance, commodity assistance, state administrative expenses, nutrition education & training, special milk, and the Women, Infants and Children (WIC) Supplemental feeding program.

### Proposed Change

A consolidation of funds amounting to \$0.9 billion is proposed in the form of a nutrition consolidated grant. The proposed amount is about 75% of the expected 1982 level of USDA nutrition assistance for Puerto Rico prior to proposed reductions in the catgorical feeding program. This consolidated grant would eliminate the detailed nutrition prescriptions, financial reporting and accounting currently required by Federal feeding programs, and would give the Commonwealth government the flexibility to target nutrition assistance in accordance with its priorities.

#### Rationale

- Puerto Rico has rapidly become heavily reliant on Federal payments as a source of income. From about \$1.3 billion in 1974, Federal outlays to Puerto Rico leaped to \$2.8 billion in 1976. In FY 78, Federal payments were at a rate of \$3.4 billion, more than one-third of Puerto Rico's \$8.9 billion gross product and more than \$1,000 for each of the 3.2 million island residents.
- The Food Stamp program has become a disincentive for self-sufficiency and work. 58% or about 1.86 million of the island's 3.2 million residents receive food stamps.
- Federal transfer payments increased from 7% of Puerto Rico's personal income in 1970 to 20% in 1977. By 1978, one of every eight Federal "food-stamp" dollars went to Puerto Rico.

#### With a nutrition consolidated grant:

- Puerto Rico could focus on areas of greatest need. The availability of Federal funds or services that are restricted in use distorts local priorities and induces dependency on continued Federal payments. Under the Administration's proposal, nutrition funds will be available with few conditions to treat problems and priorities identified by the commonwealth. Duplication of nutritional aid could be eliminated.
- Nutritional assistance could be made more responsive to the socio-economic characteristics
  of Puerto Rico and supportive of the Commonwealth's culture and economy. More discretion
  over use of funds could enable the Puerto Rican economy to grow faster. By involving
  citizens and private sector groups in the planning and execution of food assistance, the
  Commonwealth could become more self-reliant and stimulate local agricultrual production.

# Key Facts About the Program

- With less than 1.5% of the U.S. population, Puerto Rico absorbs more than 10% of the food stamp budget.
- Dependence on transfer payments and other Federal assistance has impeded Puerto Rico's economic growth. Private sector growth has been blunted by excessive expansion of public sector employment and benefits.

42

# REA (Rural) Community Antenna Television (CATV) Loans Elimination

Agency: Department of Agriculture	Func Code	tional : 452		Budget R Criterion		
Funding			(\$ in n	nillions)		
9	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority*	32	2	3	4	4	3
Outlays	19	12	12	9	2	1
Loan guarantees	3					
Direct loans PROGRAM CHANGES	(31)	(34)	(34)	(34)	(34)	(34)
Budget Authority*	-16				- <b>-</b>	
Outlays	-7	-10			- +	
Loan guarantees						
Direct loans	(-16)	(-34)	(-34)	(-34)	(-34)	(-34)
REAGAN BUDGET:						
Budget Authority*	16	1	1	`1	1	1
Outlays	12	2	7	6	1	1
Loan guarantees	3					
Direct loans	15					

### **Program Description**

On February 14, 1979, President Carter announced a series of White House initiatives to "overcome isolation in rural areas through modern communications technology." The initiatives included a provision to finance facilities for television as well as other telecommunications services for rural residents.

In 1981, insured loans bearing an intest rate of 5 percent are available to nonprofit cooperatives, and insured loans at market rates and loan guarantees are available for profit—making CATV ventures. All of these loans have a maturity of 35 years.

During Fiscal Year 1980, the first full year of the program, REA committed \$34 million, its total lending authority for cable television service. Insured loans of \$10 million were made to four rural cooperative systems in four States to serve a total of 11,500 rural families. Also, 18 loan guarantee commitments totaling \$24 million were approved for cable service for a total of 55,000 customers in 11 States.

## **Proposed Change**

Terminate program effective April 1, 1981.

#### Rationale

The proposal to terminate this program has resulted from the application of sound criteria to economic subsidy programs.

The President's Budget Reform Plan proposes to significantly reduce Federal activities that are neither justified by cost-effective use of tax resources nor by the President's commitment to market-directed policy.

#### Key Facts About the Program

We do not believe that Federal assistance is necessary for the provision of this service. Available data indicates that some 4300 systems (serving 11,000 communities and some 17.5 million subscribers) have been installed with less than 1% receiving Federal funds.

# REA Direct Lending Reductions (Including Elimination of FFB Direct Lending)

Agency: Department of Agriculture		ctional e: 271			Budget Reform Criterion: 4			
Funding			<b>(\$</b> in	millions)				
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	6,245	6,245	6,745	7,280	7,870	8,500		
Outlays	4,774	5,752	7,387	7,571	7,520	7,800		
PROGRAM CHANGES:								
Budget Authority	-187	-5,545	-6,045	-6,580	-7,170	-7,800		
Outlays	-38	-1,152	-2,360	-3,670	-5,091	-6,630		
REAGAN BUDGET:								
Budget Authority	6,058	700	700	700	700	700		
Outlays	4,736	4,600	5.027	3,901	2,429	1,170		

### **Program Description**

The Rural Electrification Administration (REA) of USDA makes direct and guaranteed loans for construction and operation of electric and telephone utilities in rural areas. By statute, direct loans are made by REA at very low interest rates — 2% or 5% — depending upon the project and the financial condition of the borrower.

Loan guarantees are made to attract private capital to rural electric and telephone projects, particulary in those cases where utilities do not have the equity structure or cash flow necessary to attract privately—originated loans without Federal assistance. Since the Federal Financing Bank was established, the REA has relied almost entirely upon it as the originator of these guaranteed loans.

The Carter budget provided a minimum of \$1,100 million and a maximum of \$1,325 million in direct loans for this program (\$250 to \$1,100 million for electric and \$250 to \$325 million for telephone respectively). Also available in the Carter budget for loan guarantees in this program is a minimum of \$5,145 million and a maximum of \$6,655 million.

## Proposed Change

The following changes are proposed:

- Discontinue FFB origination of REA-guaranteed loans; rely on private originations effective October 1, 1981.
- Eliminate 2% loans, substituting an equivalent amount (\$150 million) of 5% loans. (Legislation is being submitted to authorize this change, effective upon enactment.)
- Eliminate direct 5% loans for generation and transmission facilities; substitute privately originated loans with an REA guarantee. (A \$62 million reduction in 1981 and a \$100 million reduction in 1982.)
- Reduce remaining direct 5% lending of \$1 billion by \$125 million in 1981 and by \$300 million in 1982.
- Substitute specific loan level limitations for existing limitation ranges.

Taking these actions will result in a dramatic reduction in direct Federal lending — \$5.5 billion in 1982, and over \$33 billion between 1982 and 1986. In addition, Federal interest subsidy costs would be reduced by about \$29 million in 1982 and by about \$270 million over 1982-86.

#### Rationale

This proposal is an integral component of the Administration's overall effort to apply sound criteria to economic programs.

## Key Facts About the Program

The availability of these subsidies reduces the necessity for recipients to improve their financial positions in order to attract private capital.

Within some individual states, rural electric systems may charge more than other utilities which have access to public power projects and therefore provide electricity at relatively low cost. However, nationally customers of REA-financed electric utilities receive service at rates on the average which are less than average rates charged by non-REA-financed utilities. A 1977 study of the REA electric program by USDA and OMB found that REA-financed electric utilities charged rates on the average which were 8 to 12% less than average rates nationally charged by non-REA-financed electric utilities. The most recent available data (Jan. 1, 1980) shows that non-REA-financed electric utilities charged on the average 9.9% more than REA-financed utilities for service provided to customers in the 2,500 KWH class per month.

When the REA electric program was established in 1935, only 11% of the Nation's farms had electricity. Now more than 99% of the farms have electric service, and many of the are served by electric co-ops.

# **REA Rural Telephone Bank (Capital Stock Purchase Elimination)**

Agency: Department of Agriculture	Functional Code: 452				Budget Reform Criterion: 4			
Funding		(\$ in millions)						
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	22	22	22	22	22			
Authority to Borrow	130	149	96	130	126	136		
Outlays	171	165	180	194	144	152		
PROGRAM CHANGES:	Ì							
Budget Authority		-22	-22	-22	-22			
Authority to Borrow								
Outlays								
REAGAN BUDGET:								
Budget Authority	22							
Authority to Borrow	130	172	118	152	149	136		
Outlays	171	165	180	194	144	152		

## **Program Description**

The Act which established the Rural Telephone Bank in 1971, authorized the U.S. Government through annual appropriation, (not to exceed \$30 million annually) to furnish capital to purchase class A stock in the Bank until the total of such capital reaches \$300 million. That objective will be achieved by the end of FY 1981.

The Act requires that the funds provided by the Treaury for the purchases of such capital stock shall bear interest at the rate of 2 percent per annum, and that retirement of the stock shall begin as soon as practicable after FY 1985, so long as such retirement does not impair the operations of the Bank. It is the intention of the Act that the Bank shall become self sufficient and independent of the Federal Government at the time all class A capital stock purchased by the Government has been retired.

The 2% funds are mixed with funds which the Bank receives from other sources at higher interest rates (e.g., 10% dividends on class B stock, 7% dividends on class C stock and 12 5/8% on current cost of other borrowing) in order to provide funding to eligible borrowers (telephone companies and cooperatives) at interest rates less than normal market rates.

The Carter Budget proposed that the authority to purchase class A capital stock be extended through fiscal year 1985, but be limited to \$22.5 million annually until the total of such purchases reaches \$390 million. Legislation would be submitted to the 97th Congress.

## Proposed Change

Do not propose legislation authorizing purchase of additional capital stock beyond FY 1981.

#### Rationale

Termination of this program will reduce Federal subsidies.

The President's Budget Reform plan proposes to significantly reduce Federal activities that fail to assure cost-effective use of tax resources or that don't contribute to the President's commitment to a market-directed policy.

Telephone companies (even in rural areas) should be encouraged, as are other private enterprise undertakings to depend more heavily on private money markets for capital and less on the Federal Government. The continued availability of Telephone Bank lending assures assistance to those telephone companies and cooperatives which serve isolated areas where subscriber density is so low that it may be uneconomic to attempt to provide telephone service at rates which subscribers could afford.

- The \$300 million in capital stocks authorized by the act to get the program started has has already been subscribed by the Federal Government.
- The infusion of additional Federal funds at 2% interest tends to exacerbate and perpetuate the problem of hidden subsidies.
- Even without Government subscription to capital stock, the telephone bank will still have the opportunity to borrow from the Treasury at the Treasury borrowing cost, a more favorable interest rate than is available in the private market.

# Special Milk Program

Agency: Department of Agriculture		tional : 605			Budget Reform Criterion: 1,6			
Funding	•		(\$ in r	nillions)				
<b>G</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	119	125	129	136	146	155		
Outlays	115	117	122	128	137	145		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority		95	98	102	108	113		
Outlays		90	92	96	101	107		
REAGAN BUDGET:								
Budget Authority	119	30	31	34	38	42		
Outlays	115	27	30	32	36	38		

# Program Description

The Special Milk program subsidzes half-pints of milk served in schools. The subsidy covers the full cost of milk for needy children and part of the cost for others.

## Proposed Change

Eliminate special milk subsidies in schools that participate in other federally subsidized meal programs. Milk is also susidized as part of the school lunch and breakfast programs.

#### Rationale

- Special milk subsidies duplicate those funded by USDA subsidized meal programs. Needy children will continue to receive fully subsidized milk through those programs.
- Many schools have already dropped the separate milk program because it duplicates the milk served as part of the school breakfast and lunch programs. Special Milk adds administrative burdens in tracking and claiming milk subsidies separately from meal subsidies. In the context of fiscal restraint, the Special Milk program is a low priority — a position taken by many school food service directors.

- Under administration proposals in 1982, milk subsidies in school meal and milk programs will exceed \$450 million.
- Eighty million dollars is spent on milk in the regular meal programs and an additional \$115 million in the Special Milk program.
- This program has been slated for reduction or outright elimination by every President since John F. Kennedy.

# Special Supplemental Food Program for Women, Infants, and Children

Agency: Department of Agriculture		ctional e: 605		Budget Reform Criterion: 6		
Funding			(\$ in	millions)		
9	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	927	1,068	1,068	1,068	1,068	1,068
Outlays	903	994	994	994	994	994
REESTIMATES & ADJUSTMENTS:1/						
Budget Authority		-17	-17	-17	-17	-17
Outlays	50	-17	-17	-17	-17	-17
PROGRÁM CHANGES:						
Budget Authority		-326	-327	-327	-327	-327
Outlays		-270	-253	-253	-253	-253
REAGAN BUDGET:						
Budget Authority	927	725	724	724	724	724
Outlays	953	707	724	724	724	724
1/ Represents savings associated with nutrition	consolidated g	rant for Puer	to Rico	`		

## Program Description

The Women, Infants and Children (WIC) program funds food supplements (milk, cheese, eggs, cereals, juices, formula) for pregnant or nursing women, and infants, and children up to age 5. WIC has grown rapidly in recent years with monthly average caseloads increasing from 300,000 in FY75 to 2.2 million in FY81 and with costs rising from about \$100 million to nearly \$1 billion. Many WIC recipients also receive other Federal nutrition benefits, primarily food stamps.

## Proposed Change

Reduce FY82 WIC appropriations request to \$742 million — a 20% reduction from the FY81 level. Alone this would reduce average monthly caseloads by about one-third. Caseloads would average 1.5 million in FY82 rather than 2.2 million proposed in the prior administration's budget. Under existing priorities, WIC clinics ought to serve pregnant or breast feeding women and high risk infants first. Lower priority would be given to postpartum, non-breastfeeding women and older children ages 1-5 with bad diets but no measurable nutritional deficiencies. Under the Reagan proposed funding level, the highest priority recipients could continue to be served.

#### Rationale

- WIC expanded explosively over the past six years increasing in participation by over 700% and in spending by nearly 1,000%. This expansion paralleled rapid growth under the Food Stamp Act of 1977, and in the school meal and child care feeding programs.
- WIC benefits are available to families with incomes over 195% of the poverty level, or over \$17,000 per year for a family of four. Most WIC clinics do not verify recipients' income data and WIC benefits are not exclusively available to the poor.
- Some medical evidence indicates that WIC food supplements help increase infant-birthweight and reduce infant mortality. Yet 52% of WIC current recipients are not pregnant women nor infants, but older children up to age 5. Many of these children have no measurable nutritional deficiencies but are eligible on the basis of bad diets. There is little evidence that WIC food supplements help children who have no demonstrated nutrition problem and studies by the Center for Disease Control suggest that WIC may contribute to obesity in some children. At the recommended funding level, WIC resources will be targeted on those most likely to benefit from WIC food supplements, low-income pregnant women, nursing mothers, and their infants with identified nutritional deficiencies.

- USDA Inspector General audits in 1980 in 10 states with largest WIC programs showed significant abuse by WIC food vendors, including sales of ineligile foods, overcharges for food sold, and redemption of food vouchers in excess of food actually sold.
- 20% of WIC funds are used for overhead costs (salaries, etc.) rather than direct benefits.

# **User Charges for Grain Inspection and Cotton and Tobacco**

Agency: Department of Agriculture	Func Code	tional : 352			form 3			
Funding	•	(\$ in millions)						
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	49	32	34	36	37	39		
Outlays	52	33	34	36	37	39		
REESTIMATES & ADJUSTMENTS:								
Budget Authority		-1	-3	-5	-6	-8		
Outlays		-1	-3	-5	-6	-8		
PROGRAM CHANGES <sup>1/</sup> :								
Budget Authority		-24	-24	-24	-24	-24		
Outlays		-24	-24	-24	-24	-24		
REAGAN BUDGET:								
Budget Authority	49	7	7	7	7	7		
Outlays	52	8	7	7	7	7		
1/ The Carter budget already included	savings for the cotton ar	nd tobacco po	ortion in the fo	ollowing amou	ınts:			
• •	1981	1982	1983	1984	1985	1986		
Budget Authority		24	24	24	24	24		
Outlays	*** ***	24	24	24	24	24		

### Program Description

The Federal Grain Inspection Service (FGIS) of USDA was established in 1976 to assure that grain exports and domestic shipments are accurately graded and weighed. FGIS uses Federal employees to grade and weigh grain, and also authorizes this work to be conducted by certain State and private agencies.

The current law authorizes FGIS to assess a user charge for the costs of grain grading and weighing activities, but does not allow recovery of the costs of supervising these activities.

The Agricultural Marketing Service (AMS) of USDA establishes product standards and provides classing, inspection and grading services for cotton, tobacco and naval stores. These standards and services aid in the conduct of commerce between buyers and sellers of these products. AMS also inspects warehouses in order to determine their financial and product storage conditions.

#### Proposed Change

Legislation is being proposed to allow USDA to recover the costs of supervising grain grading and weighing operations, in addition to the current authorization to recover the cost of nonsupervisory operations.

Legislation is also being proposed to allow USDA to recover all of the costs associated with cotton classing, tobacco and naval stores grading, and warehouse examinations and inspecting, and licensing.

#### Rationale

As a matter of equity, costs which can clearly be identified as benefiting a limited group should be repaid by the beneficiaries.

The legislation would include recovery of headquarters costs relating to grading and weighing operations since these costs are an integral part of the service being rendered. However, the costs of standardization, (establishing uniform standards, and developing new grading technology) and compliance (assuring compliance with laws and delegation of activities to the States) would still be funded by appropriations.

Because cotton classing, tobacco grading, naval stores inspections and warehouse examinations have become an integral part of the marketing activity, it is also appropriate to recover these costs. The legislation would include all costs associated with these programs.

# Key Facts About the Program

Over 90% of the voluntary grading and inspection program costs for meat, poultry, dairy products, and fresh and processed fruits and vegetables are funded through industry assessments.

These proposals are expected to have minimal impact on the firms in the industry. After deducting the value of the sample, cotton classing could cost about one dollar per bale and tobacco grading could cost one-half cent per pound. For grain, the additional cost is expected to be about .0042 cents per bushel of grain inspected at terminals.

The 1976 amendments to the Grain Standards Act authorized recovery of both supervisory and nonsupervisory costs. This legislation was amended in the 1977 Farm Bill to exclude the recovery of the costs of supervision.

**Department of Commerce** 

# **Economic Development and Title V Regional Commissions Programs**

Agency: Department of Commerce		etional e: 452			form 4	
Funding			<b>(\$ in 1</b>	nillions)		
<b>U</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	711	674	736	798	861	924
Outlays	605	698	748	782	849	885
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays						
PROGRAM CHANGES:1/						
Budget Authority	-366	-624	-694	-759	-823	-889
Outlays	-19	-381	-536	-622	-755	-844
REAGAN BUDGET:						
Budget Authority	345	50	44	39	38	35
Outlays	586	317	212	160	94	41
1/ The Carter Budget already included saving:	s for this proposa	ıl. Total savi	ngs expected	are as follows	:	
Budget Authority	-366	-668	-742	-811	-879	-949
Outlays	-19	-409	-565	-660	-799	-902

## Program Description

The Department of Commerce's Economic Development Administration (EDA) provides grants, loans, and loan guarantees to assist economically distressed areas and to deal with problems of economic adjustment. The 1982 Carter Budget requested approximately \$670 million in budget authority for both 1981 and 1982 for EDA programs.

The Title V Regional Commissions provide some of the same types of assistance to eight regions encompassing most of the country. The 1982 Carter Budget proposed that funding for the Commissions be eliminated in 1982.

## Proposed Change

The specific changes will involve: (1) rescinding remaining 1981 appropriations for EDA (-\$342 million) and the Title V Regional Commissions (-\$21 million) and (2) eliminating funding for both programs in 1982. (EDA's trade adjustment assistance program is not included in the reductions and will be transferred to the Department's International Trade Administration (ITA) in 1982.) These changes will save about \$4 billion in budget authority and more than \$3 billion in outlays over the next 5 to 6 years.

Except where pending project applications meet certain specified criteria (e.g., in the case of public works—projects which have written permission to start construction) no new grants, loans, or loan guarantees will be made starting this year. Funds are left for the orderly closing down of the programs.

#### Rationale

- These major program terminations are part of the effort to move away from misdirected subsidy programs and to rely on the President's comprehensive economic plan to address the real problems associated with deteriorating economic performance.
- 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. By 1986, the program is expected to create 9 million new jobs. Improvement in overall economic conditions offers more hope to distressed areas than do the programs to be terminated.
- Aid to urban areas and small cities will be provided from a restructured and more flexible development program that will combine the Community Development Block Grant and Urban Development Action Grant programs. The Farmers Home Administration will continue to provide specialized development assistance to the neediest rural areas.

- There is little evidence that the economic development expenditures of these programs have fulfilled their primary purpose of inducing development in distressed areas that would not have occurred either there or elsewhere without this investment.
- There is no evidence that the programs being terminated have created new national jobs. Rather such programs appear primarily to influence the allocation of productive resources leading to a subtraction in potential growth in some areas to enhance growth in others. The government does not create net new jobs in the economy by moving productive resources from the private sector to the public sector.
- The programs being terminated often lock people and resources into firms and areas that have lost their economic viability. The nation pays for this subsidization of inefficiency through direct budgetary costs and hidden costs of decreased productivity and economic growth. Our economic system generates prosperity and high living standards through a process of continual economic change.
- These economic development programs often substitute Federal resources for expenditures that would have been made by the private sector or local public sector.
- The funding of Regional Commissions is an inappropriate Federal role. These Commissions often duplicate activities that would normally be undertaken by States without Federal support.

- Economic development programs are not targetted to those most in need. Over 80% of the country is eligible for EDA assistance. Regional Commissions cover 35 states. Areas no longer in distress continue to be eligible for assistance.
- States can expect to receive substantially more benefits from personal and corporate tax reductions (\$54 billion in 1982) under the President's program than they have received from EDA and Regional Commission funding.

# Maritime Assistance: Construction and Operating Subsides

Agency: Department of Commerce		etional e: 403			form 5	
Funding	(\$ in millions)					
<b>g</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	488	522	601	665	733	805
Outlays	609	623	638	636	688	737
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-23	-31	-44	-54
Outlays	-24	-21	-57	-23	-34	-44
PROGRAM CHANGES <sup>1/</sup> :						
Budget Authority		-107	-29	-55	-86	-124
Outlays	-21	-40	-53	-44	-54	-59
REAGAN BUDGET:						
Budget Authority	488	415	549	579	603	627
Outlays	564	562	528	569	600	634
1/The Carter Budget already included savings for th	nis proposal.	Fotal savings	expected are	as follows:		
	1981	1982	1983	1984	1985	1986
Total Savings:						
Budget Authority		-170	-141	-166	-221	-279
Outlays	-45	-68	-149	-127	-164	-183

### Program Description

- The Department of Commerce's Maritime Administration provides two types of direct subsidies to the maritime industry; 1) ship construction differential subsidies (CDS) of up to 50% of the price of building new privately owned merchant ships in U.S. shipyards; and 2) operating differential subsidies (ODS) to offset the higher costs (primarily wages) of operating U.S.-flag vessels in the oceanborne foreign commerce. The 1981 appropriation provided CDS to construct five new dry bulk carriers and meet existing 20-year contract obligations for ODS. The Carter 1982 budget proposed funds to construct three additional dry bulk carriers and also to meet existing 20-year contract obligations for ODS.
- The Maritime Administration (Marad) also guarantees construction loans and mortgages on U.S.-flag vessels built in the United States. These guarantees enable eligible parties to obtain long-term financing at interest rates comparable to those available to AAA-rated corporations.

## Proposed Change

For the construction differential subsidy (CDS) program, the Administration proposes:

- an annual program level averaging \$100 million in 1982 through 1986;.
- two new ships in 1981 (already funded); two new ships in 1982; the quantity and type of ships to be subsidized in 1983–1986 to be specified later.

For the operating differential subsidy (ODS) program, the Administration proposal is to:

• meet the Government's obligation on existing contracts; no additional ODS commitments are included in the budget.

For the loan guarantee program:

• the level of new loan guarantee commitments would be reduced by \$300 million in 1981 to \$900 million and by \$350 million in 1982 to \$1,050 million.

#### Rationale

This proposal is an integral component of the Administration's overall effort to stretch out and retarget public sector capital investment programs. The Administration plans to conduct a full review of maritime policies including the need for subsidies, the importance of shipbuilding capability and the merchant marine to national defense, the impact of planned increases in naval shipbuilding, ways to increase commercial participation in military support functions, and the effect that new tax policies and possible trade agreements may have on improving the competitiveness of the U.S. merchant marine.

- While the proposal assumes that two ships will be subsidized in 1982, it leaves for later specification the types of ships to be constructed, as well as the appropriateness of other assistance to the maritime industry. These decisions would flow from the maritime policy developed.
- The reduction in new loan guarantee commitments is consistent with the Administration's efforts to reduce and control Government intervention into private credit markets.

## Key Facts About The Program

The proponents of Marad construction and operating differential subsidies usually cite as justifications for continuation of the progam:

- Maintenance of-a shipbuilding/ship repair mobilization "base" in the event of war or a national emergency;
- Maintenance of a competitive U.S.-flag fleet in the ocean foreign commerce;
- Usefulness of merchant vessels as military support in a war or national emergency.

Facts on the CDS program's contribution to maintenance of a shipbuilding/ship repair mobilization base:

- Total employment in the active shipbuilding/ship repair "base" has increased from 67,000 in 1961 to 73,000 in 1971 to 123,000 in December, 1980 while the percentage of new merchant vessels contracted to be built with CDS has decreased from 70% in 1961 to 41% in 1971 to 20% in 1979.
- CDS contracts currently account for only 3,871 (3%) of the 123,000 employed in the active shipbuilding base (as of 12/80).
- 4 of the 27 major yards in the active shipbuilding base currently have contracts through Marad:
  - Sun Shipbuilding and Drydock in Chester, Pennsylvania, which has already announced its intention to go out of the new construction business as it is no longer competitive;
  - Norfolk Shipbuilding and Drydock (Virginia), which has recently announced a positive backlog of orders;
  - Avondale Shipyards in New Orleans, Louisiana which has backorders in the millions of dollars and jobs they are unable to fill;
  - Levingston Shipyard in Orange, Texas, which is in the same positive position as is Avondale.
- The expanded naval shipbuilding program will provide stimulus for competitive yards requiring new orders.

Facts on subsidy as a requirement to keep the U.S.-flag fleet competitive in the world commerce:

• The U.S.-flag fleet share of U.S. oceanborne foreign commerce is approximately 4%.

Facts on subsidy as a requirement to maintain a viable fleet for military support in the event of war or a national emergency:

- Less expensive, foreign-built ships can be purchased for U.S. military purposes; the Department of Defense has recently purchased 8 foreign-built ships for chartering by the Military Sealift Command.
- Twenty-two (22) or less than 15% of the merchant-type ships (165 total) in the National Defense Reserve Fleet (NDRF) were built with subsidy.

#### other facts:

- Operating differential subsidies (ODS) lock the Government into 20-year contracts with no control over increasing costs and most existing contracts do not expire until the 1990's.
- There are 156 ships receiving ODS subsidy-and they are owned by 20 companies—7 liner companies and 13 bulk and tanker operators.

# NOAA Land Remote Satellite Sensing (LANDSAT)

Agency: Department of Commerce		tional e: 306			Budget Re Criterion:				
Funding	(\$ in millions)								
5	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	1	124	174	165	149	131			
Outlays	1	120	169	167	149	131			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays					<b></b>				
PROGRAM CHANGES:									
Budget Authority		-122	-138	-129	-113	-95			
Outlays		-118	-133	~131	-113	- 95			
REAGAN BUDGET:									
Budget Authority	1	2	36	36	36	36			
Outlays	1	2	36	36	36	36			

#### Program Description

Under current policy, in 1983, the Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) is scheduled to take over operation of the United States civil land remote sensing satellite program (LANDSAT) from the National Aeronautics and Space Administration (NASA).

A LANDSAT satellite covers almost any given spot on the earth about every 16 days, and through its sensors, provides data on renewable and nonrenewable earth resources.

The LANDSAT earth resources program will move into a semi-operational phase in the fourth quarter of 1982 following the launch and checkout of the new satellite series, LANDSAT D, by NASA. NASA has the funds in its budget to finish building and to launch two new "D" series LANDSAT satellites (D and  $D^1$ ). The satellite remote sensing data will be used by several Federal agencies (e.g., USDA and DOI), State and local governments, foreign governments, and the private sector for such applications as agriculture forecasting, mineral resource exploration, water resource planning, and land use classification.

The 1982 Carter Budget projections reflected a 1979 Administration commitment to provide data continuity (i.e., LANDSAT type data) through the procurement of two additional satellites ( $D^{11}$ ) and  $D^{111}$ ) extending satellite coverage into the early 1990's.

#### Proposed Changes

The Administration proposes to terminate the commitment to earth sensing satellite data continuity through the 1980's by cancelling plans to: (1) upgrade the LANDSAT ground system, and (2) purchase additional satellite hardware needed for backup and extended satellite coverage through the end of the decade.

Under the revised plan, NOAA would continue to use the Department of Interior's EROS Data Center for processing, distributing, and archiving LANDSAT data. Additional funding (\$700,000) is included so that the EROS Data Center can adjust the satellite reference system to the new LANDSAT D orbit.

Additional satellites, beyond the two new NASA-budgeted satellites, and ground system improvements would depend on the private sector's willingness to invest in and operate an earth resources satellite system.

#### Rationale

It is the Administration's judgment that the present NASA investment in LANDSAT satellites is sufficient to permit evaluations of operational uses of LANDSAT data and, if these uses are cost effective, to attract a private sector owner/operator.

NASA's program to develop, launch, and test two additional satellites (LANDSAT D and  $D^l$ ) will continue as previously planned. Expansion and extension of the U.S. civil land remote sensing program, beyond that already funded by NASA, is inconsistent with the need for across-the-board fiscal restraints. The NOAA operation of LANDSAT D and  $D^l$  should provide satellite data continuity through the mid 1980's, by which time the private sector could develop a system if a sufficient market exists.

## Key Facts About the Program

Longer term research on advanced satellite earth sensors (i.e., beyond LANDSAT capability) would be continued by NASA, as previously planned, so that the United States will have the capability of launching even more advanced and cost-effective satellite systems later in the decade. This advanced sensor capability may be needed to maintain United States leadership in earth remote sensing in the face of strong competition from the French and Japanese.

The outyear projections include funds for NOAA to operate the LANDSAT system. A cost-recovery-from-users policy will be worked out over the next few months.

### Funding Analysis:

The following table summarizes by activity the LANDSAT funding in the Carter and Reagan budgets in NOAA, NASA, and the Department of Interior.

	1980	(BA in Millions of Dollars) 1981 1982						,		
	Actual	Carter <u>Budget</u>	Change	Reagan Budget	Carter <u>Budget</u>	Change	Reagan	Carter	983-1986	Reagan
DOC/NOAA: Spacecrafts & Launching (D <sup>11</sup> or D <sup>111</sup> or Refurb.	ACIVAL	Dodger	CHAIRE	Duuget	Didget	Change	<u>Budget</u>	<u>Budget</u>	<u>Change</u>	Budget
of D) Ground System (Godard Data					104 14	-104 -13	1	459	-459 	
Center (Other) Planning &	()	() ()	()	()	(11) (3)	(-11) (-2)	(- <i>-</i> ) (1)	() ()	() ()	() ()
Operations Total, NOAA	$\frac{1}{1}$	$\frac{1}{1}$		$-\frac{1}{1}$	<u>6</u> 124	<u>-5</u> -122	$-\frac{1}{2}$	<u>161</u> 620	<u>-17</u> 476	144 144
NASA: LANDSAT D										
& D <sup>1</sup> Operations Advanced	104 2	89 3		89 3	84 3		84 3	82 3		82 3
Sensors Planning Total, NASA	106	 92	<del></del>	92	- 8 - 2 97		8 2 97	34  121	<del></del>	34 2 121
DOI: EROS DATA Center Total, LANDSAT	<u>12</u> 119	13 106		<u>13</u>	<u>13</u> 	<u></u> -122	<u>13</u> 112	<u>50</u> 791	<del></del> - <del>476</del>	<u>50</u> 315

# **NOAA Ocean Programs**

Agency: Department of Commerce	Functional Code: 300, 452, 376			Budget Reform Criterion: 6				
Funding	(\$ in millions)							
· ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	156	124	168	209	226	210		
Outlays	167	177	194	224	224	208		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:1/								
Budget Authority	-51	-111	-161	-202	-219	-203		
Outlays	-12	-82	-156	-201	-217	-201		
REAGAN BUDGET:								
Budget Authority	105	13	7	7	7	7		
Outlays	155	95	38	23	7	7		
1/ The Carter Budget already included savings t	or this proposa	ıl. Total savi	ngs expected a	re as follows	:			
g.	1981	1982	1983	1984	1985	1986		
Budget Authority	-183	-233	-262	-303	-318	-311		
Outlays	-194	-221	-255	-306	-317	-292		

## Program Description

The Department of Commerce's National Oceanic and Atmospheric Administration (NOAA) supports a national weather service <sup>2/</sup>, ocean/atmospheric research, coastal/ocean mapping and charting, coastal zone management and energy impact assistance, environmental remote satellite sensing <sup>3/</sup> and fisheries research, management and development.

A short description of the NOAA ocean programs proposed for change follows:

• The Coastal Energy Impact Program(CEIP) provides Federal assistance (loans and grants) to States and localities to plan for and mitigate the impact of coastal energy development activities. The Carter 1982 Budget requested \$1 million in budget authority for 1982 but included gradually increasing funding for loans in the outyear projections. The Carter budget projected that any significant coastal energy impacts, which exceeded localities' capabilities, would not occur until the mid-1980's.

- The Coastal Zone Management (CZM): State grant program provides Federal grant assistance (80% Federal matching share) to 25 States to administer and implement CZM programs that protect and develop in a "rational" manner their coastal zone. The Carter 1982 Budget requested \$39 million to maintain current funding of the State programs and proposed a gradual phasedown of Federal funding starting in 1983.
- The Sea Grant program was designed to develop marine research capabilities across the country in 16 participating Sea Grant Colleges and other academic institutions. The Carter 1982 Budget requested \$39 million to maintain the 1980 funding level.
- The proposed National Ocean Satellite System (NOSS) would be used to obtain oceanographic data for civil and military weather prediction and to assess the role of the ocean in determining the world's climate. In addition to NOAA (\$16 million in 1982), DOD and NASA would share in the \$900 million total cost of NOSS, which is in the early stages of development.
- The Fisheries Management and Development programs include collecting marine fisheries stock data for management plans, State grants for commercial development and anadromous species, aquaculture and undersea research, a vessel-buy back program for the State of Washington, and cooperative grants to the commercial fisheries industry to improve existing operations and to expand into new fisheries. The Carter 1982 Budget proposed that \$25 million of 1981 appropriations for fisheries activities (Washington State vessel-buy back at -\$10 million and various management/regulatory activities at -\$15 million) be rescinded.

National Weather Service reductions are discussed in a separate paper summarizing smaller Department of Commerce reduction items.

<sup>&</sup>lt;sup>3</sup>/ See NOAA land remote satellite sensing (LANDSAT) paper.

### **Proposed Changes**

The Administration proposes the following changes:

- The Coastal Energy Impact Program (CEIP): The remaining 1981 loan funds (\$40 million) will be rescinded and CEIP will be terminated for a savings of \$158 million from the Carter Budget through 1986. The remaining balance for the energy impact formula grants will be utilized in 1981 (\$27 million).
- The Coastal Zone Management (CZM): Federal funding will be terminated for the program starting in 1982. The 25 States will need to assume responsibility for supporting their CZM programs to the extent they believe appropriate. This will save the general taxpayers \$179 million through 1986 from the Carter Budget proposal.
- Sea Grant program: Federal funding to Sea Grant Colleges and institutions will be eliminated starting with 1982 for a total savings of \$222 million through 1986. States, localities, and the private sector are expected to pick up support for some portion of the ongoing activities.
- Fisheries Management and Development: Overall funding will be curtailed through reaffirmation of the Carter proposed rescission and additional reduction actions, which include: (1) termination of State fisheries grants and industry subsidies, and (2) reduction in research activities. This will result in savings totaling \$127 million from 1981 to 1986.
- National Ocean Satellite System (NOSS): The NOSS project will be cancelled. The project is in early stages so there will be little lost in investment made to date. This action will result in a total NOAA savings of \$364 million; when DOD's and NASA's share of the costs are included, the total savings will be close to \$1 billion.

#### Rationale

These programs generally are in the national interest but cannot be accorded a high priority in time of fiscal restraint. In times such as these, State and local support must assume responsibility for programs that primarily benefit local jurisdictions. Some promising investments in science and technology must be restrained and new undertakings postponed. NOAA will continue to have adequate funding to maintain its priority ocean related research and services activities aimed at conserving marine fisheries resources, understanding the long-term effects of pollutants on the ocean environment, and the protection of life/property in the coastal areas. The programs that are being reduced or terminated are primarily those programs that support State/local and industry programs which should be supported by the users.

The specific rationale for such program reductions is as follows:

#### CEIP

The Administration proposes to terminate the CEIP program because:

- This change is consistent with the original intent of the CEIP program to provide Federal assistance only if essential.
- The local impacts from oil and gas development have proven to be far less than originally anticipated and well within the capability of States and localities to handle.
- CEIP has fostered "institution building." The States have now developed planning capacity for addressing coastal energy development.
- This change is consistent with the original intent of the CEIP program to provide Federal assistance only if essential.

#### **CZM State Grants**

The Federal support of the State CZM programs has largely achieved its purpose:

- States covering 78% of the coastline already have received 7 years of Federal coastal zone management program assistance. Continuation of the States' CZM programs and any additional improvements should be financed by the States.
- This change is consistent with the original intent of the CZM program to provide Federal seed money.

Congress has acknowledged ultimate phase out of the Federal assistance for States' CZM programs.

#### Sea Grant

The Administration proposes to terminate Federal funding for the Sea Grant program because:

- The Sea Grant program has largely met its original intent of creating nationwide marine research and advisory network.
- The Sea Grant College programs are primarily directed to satisfy local, State or regional needs.
- Sea Grant research has provided useful results, but Sea Grant College research and information services can be conducted without NOAA funding.
- In general, Sea Grant funding is not a major source of revenue for these institutions.

#### Fisheries Management and Development

These reductions will have minimal impact on marine fisheries:

- The State grant program on the average represents a small part of the marine fisheries program. The original intent of the program to build States' capabilities has been achieved.
- If economic incentive exists, the fishing industry will expand into new fisheries without Federal subsidies. Many projects do not address national needs.
- The aquaculture and other research will be maintained at adequate levels. Aquaculture research has focused on commercially attractive species for many years and private industry should be willing to take over at this point.

#### NOSS

— The cost of NOSS is too high at this time. Oceanographic data needs can be met through other means and data requirements for global weather models are not urgent. Improvement of weather forecasting will not be an immediate result from NOSS. The program is considered low priority in comparison to other defense-related programs.

### Key Facts About the Program

With the revised budget, NOAA will still be able to conduct the following essential ocean programs

- The NOAA fisheries research and management program will be maintained at \$109 million in 1982.
- NOAA programs designed to understand better the marine environment and research the
  effects of man-made and natural pollution discharges into the ocean will be maintained at
  \$18 million in 1982.
- NOAA will continue its current level of effort for developing and updating coastal/ocean charts and issuing severe weather warnings for marine transportation and recreational safety.

#### **CEIP**

- Current projections of associated population increase resulting from coastal energy development are minor about 8,000 annually nationwide.
- Louisiana, the largest recipient of CEIP funds, also received approximately \$500 million in 1979 severance taxes from oil and gas — funds which could be used to address local population increases.
- Thirty-one coastal States and U.S. territories have received financial assistance through the CEIP.

#### **CZM**

- Prior to receiving CZM administration grants funding, 35 States received 3-4 years of developmental funding.
- Eighteen of the twenty-five approved State CZM programs would have received their fourth year of administration grants in 1982.

— The average annual grant is \$1.4 million. The range is from \$0.5 to \$4.0 million.

#### Sea Grant Program

- The Sea Grant Program has provided financial assistance to support research, education and extension courses at 46 institutions including 16 Sea Grant Colleges.
- Fourteen State legislatures already appropriate funds as an explicit item in their State budgets.

#### Fisheries Management and Development

- In 1980, 50 States and 6 U.S. territories received \$5 million in fisheries state grants to carry out research and development of commercial fishery resources. The amounts of these grants range from \$3,000 to \$25,000.
- In 1980, 19 States received \$2 million in anadromous grants to conserve, develop, and enhance the nation's sea lamprey anadromous fisheries resources. The amounts of these grants range from \$1,000 to \$421,000. Alaska, California, Oregon, and Washington receive 71 percent of the funds.
- Funding for aquaculture and undersea research programs will be at \$6 million in 1982. Priority aquaculture research and two undersea research programs will be continued.
- The fisheries development program emphasizes the promotion of American fishery products, the development of under-utilized species, and technological innovation.

#### NOSS

— Funding was included in three Federal agencies under the Carter Budget as follows:

	(BA \$ in millions)							
	<u>1981</u>	<u> 1982</u>	<u> 1983</u>	<u> 1984</u>	1985			
Commerce (NOAA)	6	16	43	71	71			
NASA	6	35	53	47	30			
Defense	12	<u>45</u>	88	<u>116</u>	<u>106</u>			
TOTAL	$\overline{24}$	<del>96</del>	$1\overline{84}$	234	<del>208</del>			

# **Public Telecommunications Facilities Program**

Agency: Department of Commerce	Func Code	tional : 503			Budget Ref Criterion:	
Funding	_•		(\$ in r	nillions)		
<b>o</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	22	22	22	22	22	22
Outlays	22	22	22	22	22	22
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays						
PROGRAM CHANGES:						
Budget Authority	-22	-22	-22	-22	-22	-22
Outlays	-3	-9	-8	-6	0	0
REAGAN BUDGET:						
Budget Authority						
Outlays	19	13	14	16		

## Program Description

• This program was started in 1961 to provide "seed money" to local interests desiring to initiate or improve public (and educational) television and radio stations' operational capabilities. It provides funding for planning, equipment, and facilities. Over the past two decades, the program has spent over \$193 million which has been used for the start-up, expansion and improvement of 1,187 public T.V. and radio facilities.

## **Proposed Changes**

• The Administration is proposing to terminate funding for new grants for this program in 1981. In 1981 a rescission has been proposed, and no additional funding is being sought in 1982 and beyond.

#### Rationale

- In imposing fiscal restraint on programs of a national interest, we believe this program has accomplished its purpose and it is, therefore, of a low priority given the overall economic objectives of the President.
- The program has achieved its fundamental objectives of establishing, extending, and strengthening the availability of public programming. Public programming, (either T.V. or radio) via terrestrial, cable or satellite transmission currently reaches over 90% of the U.S. population.
- The Federal Government has achieved its primary objective in providing funds to establish public programming for most of the country. Local interests themselves should ultimately be responsible for further capital expenditures.
- The private sector, through the expansion of cable T.V., the development of low power T.V. stations, the expanded use of satellite communications, and other technological developments, is substantially expanding the communications alternatives for the public.

- The further development of the cable industry should serve to expand the reach of public broadcasting through private initiative. Recent estimates show that all of the nation's approximately 4,100 private cable systems carry at least one public T.V. signal; many carry multiple signals.
- More than 7 million Americans, or over 2.5 million households not within reach of an over-the-air public T.V. signal, currently receive public T.V. via cable.
- The continued expansion of satellite and the advance of low-power T.V. will increasingly offer new alternatives for providing more options to the public.

# **Summary of Smaller Department of Commerce Items**

Agency: Department of Commerce	Functional Code: 370, 300			Budget Reform Criterion: 6					
Funding	(\$ in millions)								
<b>o</b>	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	306.9	347.1	357.0	369.1	371.1	424.1			
Outlays	303.1	343.7	352.5	362.9	366.6	420.3			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRAM CHANGES:1/									
Budget Authority	-6.0	-33.5	-36.7	-42.0	-46.3	-50.4			
Outlays	-7.6	-27.5	-34.8	-36.2	-41.7	-46.6			
REAGAN BUDGET:									
Budget Authority	300.9	313.6	320.3	327.1	324.8	373.7			
Outlays	295.5	316.2	317.7	326.7	324.9	<b>373.7</b>			

<sup>1/</sup> The Carter Budget already included savings for this proposal. Total savings in 1981 are expected to be \$8.5 million in budget authority and \$10,1 million in outlays.

## Program Description

A number of smaller reductions are proposed in the following Department of Commerce programs:

- Office of Productivity, Technology, and Innovation (OPTI) and related technology transfer programs, initiated during the Carter Administration, were intended to foster the adoption of existing technologies by industry and assist in the creation of new technologies. The Carter Budget included the establishment of three "generic technology centers" in 1981 and one additional center in 1982, as part of a joint program of technology development with industry. The Carter Budget also included funding for: a technology transfer program to increase the utilization of Federal and foreign technology; the centralized licensing of patented Government inventions; and Federalization of the functions of the Science Information Exchange, Inc., to disseminate abstracts of Federal research in progress.
- Minority Business Development Agency (MBDA) provides for the delivery of management and technical assistance to minority businesses through private consulting firms. The Carter Budget requested \$39 million for this function in 1982, which constituted a \$5 million increase over the 1981 level.
- The National Oceanic and Atmospheric Administration (NOAA) is responsible for weather services, and its National Weather Service operates over 300 weather stations across the country. These stations disseminate information on local weather conditions, including approaching severe storms. NOAA also conducts a climate research program. The Carter Budget proposed that in 1981 funds be rescinded for new local weather radars and that in 1982 funds for the development of advanced radars and automated surface operations be increased significantly.

# **Proposed Changes**

- The Reagan Budget reduces the Commerce technology programs by \$5.8 million in 1981 and \$16.2 million in 1982 by: eliminating the Office of Productivity, Technology, and Innovation and the Government Inventions program; phasing out direct appropriations for the technology transfer programs; and maintaining the Science Information Exchange (SIE), as a private contractor rather than having the Federal Government assume the function.
- MBDA management and technical contractual assistance will be reduced by 10% in both 1981 and 1982.
- In 1981, funds for the installation of local weather warning radars in selected areas will be rescinded, and the development of advanced radars (NEXRAD) and automated surface observation equipment will be slowed down in 1982. In addition, low priority part-time weather stations will be closed. Climate research and information dissemination activities will also be reduced in scope. This results in a savings of \$9.3 million and 125 full-time permanent positions in 1982.

#### Rationale and Key Facts

#### OPTI:

- The Reagan Administration is aware of no convincing evidence that direct Federal spending programs or specific Federal interventions in the private sector contribute to increased productivity; indeed, they are likely to do the opposite. Federal intervention and regulation deter the natural private sector impetus to research and invest in new technologies that result in increased productivity. Increased productivity and economic growth will be stimulated by the general tax, expenditure control, and regulatory measures outlined in the President's Economic Recovery Program.
- The Government Inventions program is not needed since the patent licensing function can be carried out by the agency sponsoring the research.
- In keeping with the policy to recover allocable costs by means of user fees, direct appropriation support for the technology transfer program and SIE will be phased out.

#### MBDA:

- The proposed changes in MBDA and NOAA are an integral part of President Reagan's comprehensive plan to impose fiscal restraint on programs of national interest.
- Although MBDA's management assistance funding will be reduced, MBDA will be able to
  offer management assistance in 1982 in the 100 metropolitan areas with the highest
  concentration of minority businesses, as proposed in the Carter Budget.
- MBDA's plan to reduce the number of clients receiving technical assistance will result in more in-depth service per client.
- The 1982 reduction in funding from the Carter Budget still constitutes an increase over 1980 and 1981 program levels for technical assistance.
- SBA also provides management and technical assistance to minority business. Moreover, SBA provides significant financial assistance.

#### NOAA:

- The areas where weather stations are to be closed and local radar warning systems terminated will still be adequately covered by other weather stations and network radars. NEXRAD and automated surface observation development is not urgent, and the testing can be spread out over a longer time.
- The proposed reductions to the National Weather Service budget have been selected with the objective of reducing labor-intensive operations.
- Thirty-eight part-time Weather Service Offices (WSO's) will be closed and the forecast and warning responsibility will be reassigned to adjacent offices. Eight Weather Service Forecast Offices (WSFO's) will be converted to Weather Service Office (WSO) status. Their aviation, marine, and agricultural forecast program responsibilities will be reassigned to an adjacent full-service WSFO. State and regional public forecast guidance will continue to be prepared at these eight stations.
- Climate program activities will continue at an adequate level of funding.

Department of Defense — Military

# **Department of Defense Savings**

Agency: Department of Defense		ctional e: 051			Budget Re Criterion:				
Savings	(\$ in millions)								
	1981	1982	1983	1984	1985	1986			
BUDGET AUTHORITY:									
$Pay^{1}$	68	2005	3330	3714	3900	4045			
Operations	270	290	550	920	1370	1920			
Acquisition	269	<u>1565</u>	1216	1698	<u> 1959</u>	2139			
TÖTAL	<u>269</u> 607	3860	<u>1216</u> 5096	<u>1698</u> 6332	7229	2139 8104			
OUTLAYS:									
$Pay^{1}$	68	2005	3330	3714	3900	4045			
Operaitons	240	280	500	800	1200	1600			
Acquisition	40	632		<u>1338</u>	1669				
TÖTAL	40 348	<u>632</u> 2917	<u>956</u> 4786	<del>5852</del>	6769	<u>1899</u> 7544			
1/ These pay savings are from the current services	base. Pay	savings from t	the Carter Bu	dget are as fo	llows:				
	1981	1982	1983	1984	1985	1986			
Budget Authority	31	363	1831	2688	3533	4443			
Outlays	31	386	1831	2688	3533	4443			

## Program Description

Savings for the Department of Defense are categorized into three major areas:

Pay — salaries for civilians, retired pay cost-of-living adjustments, and deferral of military retired pay reform

Operations —for the military establishment which covers everything from the day-to-day operations and maintenance of the military installations to paying for consultants and travel.

Aquisition —including acquisition management and the procurement of supplies and equipment.

## Proposed Change

Pay adjustments — The Administration will propose major legislative changes in the way that Federal Civilian Pay is adjusted each year to maintain "comparability" with the private sector. Also annual cost of living adjustments for military retired pay will be proposed as well as withdrawal of military retired pay reform proposals made by the Carter Administration.

Operations —Savings in Defense Operations incude those from: operating efficiencies in travel, consultants, and civilian manpower utilization; consolidations of functions and reductions in overhead and joint use of facilities; and contracting out of functions which private enterprise can handle more efficiently, and modification in administrative practices under the Davis-Bacon and Service Contract Acts

Aquisition Reform —Savings in this category include improved acquisition management, elimination-of marginal systems, productivity savings, and multiyear procurement. The most substantial savings will result from acquisition management improvements.

#### Rationale

Pay adjustments — The Administration will propose changes in the way Federal civilian pay is adjusted each year to maintain "comparability" with the private sector. These changes include: expanding the comparability principle to include benefits as well as pay; expanding the wage surveys to include state and local government wages as well as private sector data; paying white-collar salaries on a locality basis; and paying ony 94% of comparability to offset the Federal advantage in job security, promotion opportunity, pension portability and other non-pay conditions of of employment.

The current system of adjusting retired pay twice a year by the increase in the Consumer Price Index has resulted in a situation wherein a significant majority of military retirees are receiving annuities larger than those who retire today. The disparity had been growing larger each year. The proposed change to an annual adjustment of military retired pay will slow down the growth in this disparity.

The previous Administration proposed a change in the uniformed serivices retirement system that is significantly more costly than the current system for the next 20 years, but would produce savings after that time. The near term cost increases occur because the reform permits the "early withdrawal" of part of each member's future retirement benefit. This proposal will not be endorsed by this Administration. This will enable us to review current retirement policy and determine if any further changes are needed.

Operations — In addition to a review of the facilities and installations in order to achieve reductions in overhead, a major effort will focus on contracting for commercial and industrial services. Government policy, as specified by OMB Circulr No. A-76, is for maximum feasible reliance on the private sector for goods and services. This policy is a matter both of free enterprise philosophy and of efficiency. Savings are also expected from the Administration's review of administrative praactices under the Davis-Bacon and Service Contract Acts. (See separate section on savings affecting many agencies.)

Acquistion Management — Reduce or terminate marginal programs. The Defense Department has identifed programs which can be cut back or terminated amounting to \$.1 billion in 1981 and \$1.0 billion in 1982.

There is room for additional improvement and cost savings in Defense acquisiton management. Among the problems most commonly cited are the condition of Defense industry and Federal regulations and policies and practices that influence it. These include over-capacity in some sectors (e.g., major airframe contractors) which drive up overhead costs, and under-capacity in other sector (e.g., nuclear ships) which limit competition and lead to production bottlenecks. The industry is also under capitalized because of poor incentives for private investment, and there is limited capability to respond to mobilization and surge requirements. Also, many Federal practices make the situation worse; i.e., too many regulations and too much paperwork.

One near term effort which can help to reduce acquisiton costs is to increase the amount of price competition. Competition in procurement is generally acknowledged to help in improving the quality of any given product or service and in reducing its price. Numerous studies have shown that competition in weapon systems and spares acquisition usually reduces prices by 10-40 percent. Despite regulations and management actions by DOD in support of competitive procurement, there has been a steady decline in competitive procurement in Defense business because of the uncertainty of weapons system production levels and design.

Multiyear procurement also offers potential economies. Current procurement contracting practices require full funding of contracts on an annual basis. Procurement quantities are normally influenced more by the amount of funds which can be allocated to the program that year than by consideration of economical procurement quantities. As a result, defense contractors are inclined to plan on an annual basis. Economies resulting from procurement of larger quantities of material from subcontractors are lost and leadtimes are longer than necessary because firm planning for future year production cannot be accomplished.

Productivity investments. Additional emphasis will be given to productivity enhancing investments with high potential savings both in the Defense industrial base and in Government-operated facilities. The revisions to the Defense budget include an increase of \$90 million for these investments.

- The Defense Department employs 1,025 thousand civilian and 2,120 thousand military personnel costing \$60.5 B in 1982.
- Current Administration practices by the Department of Labor under the Davis Bacon and Service Contract Act in making prevailing wage determinations for workers employed by the Federal Government and service contracts result in costs to the Federal Government of approximately 6-7% of total contract costs.
- The Defense Department has 3,970 installations in the United States covering 24.5 million acres
- Approximately \$103 B will be spent for the development and acquisition of Defense systems in 1982.

**Water Resources Programs** 

# Water Projects Unfunded

Agency: Department of Defense—Civil	Functional Code: 301				Budget Reform Criterion: 5		
Funding	-		(\$ in 1	millions)			
<b>-</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	118	154	215	195	327	253	
Outlays	118	154	215	195	327	253	
REESTIMATES & ADJUSTMENTS:							
Budget Authority		-2	-15	-76	-103	<b>-47</b>	
Outlays		-2	-15	-76	-103	-47	
PROGRAM CHANGES:							
Budget Authority	-10	-115	-200	-119	-224	-206	
Outlays	-10	-115	-200	-119	-224	-206	
REAGAN BUDGET:							
Budget Authority	108	37	0	0	0	0	
Outlays	108	37	0	0	0	0	

# Program Description

January Budget funded Yatesville Lake, KY; Red River Waterway, LA; and Big South Fork National River and Recreation Area, KY & TN at a level to insure project completion on an optimal schedule.

# Proposed Change

The three projects are unfunded in FY 83-86 and remaining funds in FY 81-82 are to cover ongoing contracts and round out existing facilities at the project sites.

#### Rationale

The fiscal retrenchment required by the President's economic plan requires a stretchout and retargeting of public sector capital improvement programs. The three unfunded projects are examples of public works expenditures with low economic return which can be deferred indefinitely as part of the fiscal restraints required to meet the current economic situation.

- All three projects are less than 20% complete
- Remaining benefit/remaining cost ratios at 7 3/8% are
  - Yatesville Lake 0.76
  - Red River Waterway 0.64
  - Big South Fork has no B/C Ratio
- Yatesville Lake and Big South Fork have recreation as a primary benefit. Unfunding these projects is consistent with Administration moratorium on the purchase of recreation lands
- Red River Waterway has a large portion (35%) of less critical benefits recreation, bank stabilization, and area redevelopment
- Red River Waterway has substantial environmental problems, and would raise water tables causing flooding as far as 20 miles from the project
- Red River Waterway costs are likely to increase substantially for non-inflationary reasons since only 60% of project design work is complete

# **Extend Water Resource Development Construction**

Agency: Department of Agriculture Department of Defense-Civil Department of the Interior	vil Code: 301		Budget Refo Criterion: 5				
Funding			<b>(\$ in</b> r	nillions)			
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	2415	2660	3167	3359	3252	2930	
Outlays	2520	2675	3163	3355	3249	2930	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	<b>−</b> 0	-0	<del>-4</del> 3	<del></del> 97	-139	-158	
Outlays	-0	-0	-43	<del>9</del> 7	-139	-158	
PROGRAM CHANGES:							
Budget Authority	-0	-95	-340	-545	-515	-215	
Outlays	<b>-</b> 0	<del>9</del> 0	-337	-544	-514	-217	
REAGAN BUDGET:							
Budget Authority	2415	2565	2784	2717	2598	2557	
Outlays	2520	2585	2783	2714	2596	2555	

# Program Description

The construction program of these agencies develop the water resources of the nation for such purposes as hydroelectric power, navigation, water supply, and recreation. These programs were budgeted in January for optimal construction completion in FY83-86.

# Proposed Change

The Administration proposes an 11% reduction in the planned construction program of the Corps of Engineers-Civil, Water and Power Resources Service, and Soil Conservation Service.

This reduction will not delay the realization of hydroelectric, municipal water supply, navigation, or urban flood control features; it will however, defer some less critical parts of projects such as the development of recreation areas and some rural flood control and irrigation deliveries. It should be noted that expenditures for water resource construction will continue to increase through FY 83, and will still be higher in FY 86 than in FY 81.

#### Rationale

The fiscal retrenchment required by the President's economic plan requires a stretch-out and retargeting of public sector capital improvement programs. Only 75 of the more than 300 projects underway will incure delays in bringing non-critical features on-line. These delays will average about two years and will reduce Federal expenditures by \$1.6 billion over the next five years.

- Only less critical features are posponed
- Savings are maximized (\$1.6 Billion) with minimal delay in bringing benefits on-line
- Expenditures for water resource projects during FY82-86 will remain high \$13.2 billion.

# Water Research and Technology

Agency: Department of the Interior	Functional Code: 301				Budget Reform Criterion: 5	
Funding			(\$ in	millions)		
· ·	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	30.5	32.0	36.6	37.6	40.9	41.7
Outlays	28.7	29.2	32.8	35.7	38.4	40.4
REESTIMATES & ADJUSTMENTS:						
Budget Authority	0	0	0	0	0	0
Outlays	Ō	0	0	0	0	0
PROGRAM CHANGES:						
Budget Authority	-34.7	-32.0	-36.6	-37.6	-40.9	-41.7
Outlays	-7.0	-26.0	-42.8	-39.7	-40.1	-40.4
REAGAN BUDGET:						
Budget Authority	18.7	0	0	0	0	0
Outlays	22.9	9.2	0	0	0	0

## **Program Description**

The Office of Water Research and Technology's 1982 budget provided funds to support and carry out research and development leading to solutions for state, local, regional, and national water problems and to perform research and development for uses of saline or impaired waters. In addition, the FY 1982 budget contained a supplemental request for 1981 in the amount of \$22.9 million for the construction of the two saline demonstration plants — one at Virginia Beach, Virginia, and Alamogordo, New Mexico.

# Proposed Change

This Administration has deleted funding for the Office of Water Research and Technology for 1982. It has also withdrawn the request for funding the construction of two saline demonstration plants.

#### Rationale

The proposal of this Administration to eliminate the OWRT is part of an overall effort to return to private industry those programs that are more appropriately undertaken by that sector. The results achieved by OWRT research efforts are applied directly to the resolution of state and local water problems. Although these research and development efforts of the OWRT have produced some worthwhile research results, the Administration believes that those results could have been achieved equally well by the private sector.

Because of the concern expressed by the National Academy of Science in its recent report on Water Resources Research Priorities concerning the financing of desalting technology by private industry, we have deleted funding for the construction of the two proposed desalting plants.

## Key Facts About the Program

The program provides grants to academic institutions and other research oriented entities or individuals for research efforts to solve local, state, and national water problems. Such grants are funded up to 100%

Regarding the construction of demonstration plants, desalting technologies are far enough along that they can be applied without federal assistance.

# Water Resources Council/Office of Water Policy

Agency: Water Resources Council					Budget Re Criterion:		
Funding	(\$ in millions)						
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	24.8	39.4	42.3	43.4	44.0	44.7	
Outlays	22.6	36.8	42.9	43.4	45.0	46.7	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority	-5.0	-36.9	-40.3	-41.4	-42.0	-42.7	
Outlays		-31.2	-40.8	-41.3	-42.8	-44.4	
REAGAN BUDGET:							
Budget Authority	19.8	2.51/	2.0	2.0	2.0	2.0	
Outlays	22.6	5.61/	2.1	2,1	2.2	2.3	

<sup>1/ 1982</sup> Budget includes zero budget authority (\$3.2M outlays) for the Water Resources Council; it also includes \$2.5M budget authority (\$1.8M outlays) for the new Office of Water Policy

## Program Description

The Water Resources Council was established in 1965 to foster improved State and regional water planning, and coordinate Federal water activities. Eight departments with water resource programs have been represented on the policy-making Council, which has been chaired by the Secretary of the Interior.

# Proposed Change

The Water Resources Council is being zero-funded, including a \$5 million rescission in 1981 to reduce carryover of activities into 1982.

A small Office of Water Policy will be established in the Department of the Interior.

#### Rationale

The existing organization has not been an effective means of implementing Federal policies. Because decisions are by consensus, the WRC has been unable to deal with tough issues or resolve interagency disagreements.

River basin commissions funded through the WRC have been unsuccessful at resolving inter-state conflicts and have failed to produce a demonstrated improvement in regional planning.

WRC's State grant program has not resulted in improvements in States' water management capabilities.

The new Office of Water Policy will advise the Secretary of the Interior on water policies. The new Office will also oversee the timely completion of the Upper Mississippi Master Plan, due to the Congress in January 1982.

The Administration will continue to examine water planning and development programs for additional improvements.

#### Key Facts About the Program

Water Resources Council State Grants:

- 50/50 matched grants for water management and planning
- \$5 million rescission in FY 1981
- To be eliminated because they have not produced an expansion of State planning capabilities

#### River Basin Commissions:

- Funding for all 6 Federal/State commissions to be eliminated (New England; Ohio River; Great Lakes; Upper Mississippi; Missouri River; Pacific-Northwest)
- Not closely linked with other State planning and development activities
- The required consensus decision-making has proven to be ineffective

#### Office of Water Policy (Interior):

- Will provide advice to the Secretary of the Interior on water policies
- Will partially fill vacuum created by zero-funding of the Water Resources Council
- Will provide for completion in January, 1982, of the Upper Mississipi Master Plan
- Will have personnel ceiling of 25

#### Other:

"Principles and Standards" (P&S) will continue to guide Federal water project planning

# User Fees for Recovery of Costs for Construction and Operation of Inland Waterways and Deep Draft Ports

Agency: Department of Defense-Civil				Budget Re Criterion:		
Funding			(\$ in 1	millions)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	-30	-58	<del>6</del> 7	-82	<del>9</del> 0	-110
Outlays		-58	<del></del> 67	-82	<del>-9</del> 0	-110
PROGRAM CHANGES:						
Budget Authority		-248	-483	-515	-550	-585
Outlays		-248	-483	-515	-550	-585
REAGAN BUDGET:						
Budget Authority		-306	-550	-597	-640	<del>-6</del> 95
Outlays		-306	-550	-597	-640	-695

## Program Description

The Department of Army (Corps of Engineers) has constructed, operated, and maintained the inland waterway system with (beginning in 1981) only a nominal charge to users. It has also constructed and maintained the deep draft harbors and channels at no charge to users.

## Proposed Change

For the waterways the Administration is proposing, in addition to the current fuel tax:

- A system of user fees consisting of, but not limited to, license fees, ton-mile fees, lockage fees, and congestion fees.
- The fee system will recover;
  - all operation and maintenance expenditures of the existing waterway system;
  - amortized costs of replacing and rehabilitating the system;
  - costs of new waterways on a phased basis, in recognition that it may take many years to develop sufficient traffic on them to bear the full cost of repayment.
- The fee system will extend to all waterways used in commercial transportation except those privately constructed and maintained.

For deep draft harbors the Administration is proposing that:

- The nation's port authorities (or other appropriate public bodies) agree to reimburse the government for its expenditures for operations, maintenance and construction of navigation channels and other improvements
- Payment for new construction be amortized over 50 years with interest based on the yield of government securities during construction, or
- Port authorities and public bodies may find their own financing and reimburse the federal costs during construction, in which case planning and construction could begin without further Congressional authorization.
- The port authorities and other public bodies will be able to pass on the cost of the federal user charge by the same means they now cover landside and other port costs, subject only to potential federal guidelines, where needed, to prevent inequities and abuses.

#### Rationale

These proposals are part of the administration's efforts to require payment for services rendered by the Government when the users are clearly identifiable and the costs allocable. For inland waterways and deep draft ports, the conditions are met. In addition the proposals will remedy long-standing imbalances in the transportation system caused by continued subsidies to two segments of the transportation industry. The subsidies are no longer needed as the industries are profitable and growing.

# Key Facts About the Program

#### WATERWAYS:

- Built by Government at a cost of over \$6 billion.
- No charge to users until 1981 when 4 cents per gallon tax instituted.
- Carry over one sixth of nation's intercity tonnage.
- Average increase in fees will increase costs less than 0.4 cents per ton mile.

#### HARBORS:

- Federal costs for harbor channel dredging exclusive of Navy and other non-commercial governmental costs are currently about \$225 million per year.
- Non-Federal costs for landside port facilities, berth dredging, and dredge spoil disposal are much larger than Federal channel dredging costs.
- Federal dredging costs are small compared to the value of cargo moved in international trade (about \$400 billion annually).
- Federal port user charges would be small in porportion to the operating costs of vessels engaged in trade (about 0.5 to 2 percent, depending on type).

**Department of Education** 

# **College Housing Loans**

Agency: Department of Education	Functional Code: 502				Budget Reform Criterion: 6		
Funding			(\$ in r	nillions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	15	13	12	12	12	12	
Outlays	32	3	3	3	3	3	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays	-18						
PROGRAM CHANGES:							
Budget Authority	-15	-13	-12	-12	-12	-12	
Outlays		-4	-30	-75	-86	-85	
REAGAN BUDGET:		•	• •	,•		•	
Budget Authority	<del>-</del> -						
Outlays	14	-1	-27	-72	-83	-82	

## **Program Description**

The Department of Education provides three percent loans, from a revolving account which consists of funds borrowed from the Treasury, to colleges for the construction and rehabilitation of student housing. Collections from past loans replenish the loan fund and new budget authority is used to meet the difference between interest earned on the loans and the cost of Treasury borrowing. The 1982 Carter Budget proposed to make \$95 million available for new lending activity.

## Proposed Change

Under the Adminstration's proposal:

- No new College Housing Loans would be made
- Collections would be used to meet interest insufficiencies with any remainder going to the Treasury to retire outstanding debt.

#### Rationale

This proposal is a component of the Administration's effort to impose fiscal constraint. With the college age population projected to decline in the next few years there is no national need to expand the capacity of colleges. If loan projects are cost-effective then it is simply unnecessary for the Federal Government to provide subsidized capital as there is already an incentive for the use of private capital. This proposal is consistant with the Administration's objective to reduce and control Government intervention in the Nation's private credit markets by reducing the borrowing requirements of the Treasury by returning \$265 million to it between 1982 and 1986.

- Prior to the Administration's proposal an appropriation for the payment of participation sales insufficiencies has needed to be requested. The insufficiency results from the difference between the 5 to 6 percent rate of interest paid on the participation certificate and the 3 percent rate of income received on an equal amount of loans. The Administration's proposal would pay insufficiencies from repayments to the account.
- No new loan commitments for college housing will be made. The nation is no longer facing rapidly expanding postsecondary enrollments and the need for college housing has largely been met. There is no longer a clear Federal role in this area.
- The capital for this program came from the Federal Financing Bank (FFB), and the termination of new loan awards will allow the program to begin reducing its debt to the FFB. The return of this capital to the FFB will reduce the Treasury's future borrowing requirements in the private market.

# Elementary and Secondary Education Block Grants

Agency: Department of Education		Functional Code: 501				Budget Reform Criterion: 7		
Funding			(\$ in	millions)				
<del>-</del>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority**	5,400	5,837	6,386	6,853	7,293	7,757		
Outlays	4,655	5,214	5,573	6,016	6,478	6,897		
REESTIMATES & ADJUSTMENTS:								
Budget Authority			-210	-166	-111	-108		
Outlays			-42	-156	-159	-113		
PROGRÁM CHANGES:								
Budget Authority	-1,398	-1,527	-1,597	-1,878	-2,133	-2,347		
Outlays	-113	1,122	1,684	1,568	1,623	1,805		
REAGAN BUDGET:								
Budget Authority	4,060	4,356	4,579	4,809	5,049	5,302		
Outlays	4,483	305*	3,366*	4,292*	4,696*	4,979		
*These outlay figures reflect spend	out of block grant	only, not pric	or programs.					
**Represents a composite of existing		•						

## **Program Description**

For over a decade and a half, Federal involvement in elementary and secondary education has taken the form of a series of categorical programs. In areas thought to be of national interest, the Federal. Government devised separate programs, each with specific objectives, priorities, and recipients. Implementation of these programs has resulted in individual appropriations, regulations, and paperwork requirements and has stimulated the establishment and continued growth of separate administrative structures for each categorical program at the Federal, State, and local levels.

# Proposed Change

The Administration proposes to consolidate about 45 separate Federal elementary and secondary education programs into two "block grant" programs.

#### Rationale

While there is little doubt that these Federal categorical programs were intended to address real problems, some of which persist, and that at least some of these programs have demonstrated a measure of success, observers of the American educational enterprise have become increasingly aware of the weaknesses inherent in the current approach. Federal program requirements have become complex and confusing. Compliance has imposed heavy and growing burdens on State and local agencies and is frequently, from an educational point of view, counterproductive. Meeting Federal mandates has drawn increasing sums away from services into administration and other overhead costs.

The current categorical approach has also distorted the division of responsibility originally built into the Federal system. Control of educational policy has gravitated toward the national government rather than remaining at State and local levels. Many Federal programs sprang from the realization that, for various reasons, particularly a lack of funds, State and local agencies were unable to meet certain national needs. Federal efforts have continued without regard to widespread and significant changes within State and local educational agencies. Current Federal programs ignore State and local projects designed to serve the same populations and meet the same needs. An adversarial relationship between the Federal Government and State and local educational agencies has persisted far too long, however.

At the school and classroom levels, similar problems have emerged. Children in need of special services have failed to receive the required attention because they did not fit neatly into a Federal category; some children have lost out because they rightly belong in more than one category. Schools have adopted educational methods and strategies with an eye toward Federal fiscal controls and

regulatory restrictions rather than pedagogical values or local conditions. Rules and instructions intended for all the Nation's 16,000 school districts often have seemingly suited none. School administration has become, in some areas, as fragmented as Federal policies.

The 1982 Budget, therefore, proposes block grants as the key vehicle for supplying financial resources to States and local educational agencies for elementary and secondary educational services.

- The Block Grants are intended to reform and redirect Federal involvement in elementary and secondary education. They will provide financial resources to States and local school districts so that they can serve various populations in need of special educational services. They will entail minimal regulatory and administrative burdens and allow maximum flexibility to design programs suited to special populations and with regard for State and local needs and circumstances. The 1982 Budget requests funding for school year 1982–83 of \$4.4 billion.
- Funding

	Budget	t Authority by Acti		
	1980 Actual	Estimate	1981 Revised Estimate	1982 Estimate
State and local education block grants				\$4,356,924,000
Program evaluation 1/	(\$6,020,000)	(\$5,200,000)	(\$4,780,000)	5,200,000
Grants for disadvantaged: Basic grants to local educational agencies	2,630,022,000	2,824,880,000	2,118,660,000	
State agency migrant grants <sup>2</sup> /	98,325,000	142,142,000	106,606,000	
Emergency school aid: Basic grants to local education agencies	107,800,000	107,800,000	80,850,000	
Special programs and projects <sup>3</sup> /	84,419,000	75,083,000	56,312,000	
Magent schools, pairing, and neutral site schools	36,302,000	30,000,000	22,500,000	
Education for the Handicapp State grant program Preschool incentive	874,500,000	922,000,000	691,500,000	
grants	25,000,000	25,000,000	18,750,000	
Adult education: Grants to states	100,000,000	120,000,000	9,000,000	
Basic skills improvement <sup>4/</sup>	18,625,000	18,125,000	12,625,000	
Handicapped	145,000,000	165,000,000	123,750,000	
Neglected and delinquent	32,291,655	37,750,000	28,312,000	
State administration	48,318,628	47,000,000	5,450,000	
Evaluation (technical assistance centers)	13,475,000	8,000,000	5,450,000	
Improving local educational practice	146,400,000	91,400,000	50,000,000	~-
Strengthening State educational agency management	51,000,000	51,000,000	38,250,000	

Emergency school aid: Special programs and projects (SEA incentive grants, multicultural arts, and assistance to Territories).	\$7,600,000	\$8,500,000	\$6,375,000	
Grants to nonprofit organization	5,000,000	7,500,000	5,625,000	
Educational television and radio	6,450,000	6,450,000	34,256,000	
Training and advisory services	45,675,000	45,675,000	34,256,000	
Women's educational equity	10,000,000	10,000,000	7,500,000	
School libraries and instructional resources	171,000,000	171,000,000	128,250,000	
Education for the handicapped: Severely handicapped	5,919,991	5,000,000	3,750,000	
Early childhood education (demonstration, outreach, State implementation, and technical assistance)	18,739,927	18,800,000	13,800, <b>000</b>	
Regional vocational, adult, and postsecondary and adult demonstration projects)	594,726	2,200,000	1,20 <b>0,000</b>	
Innovation and development (demonstration projects and technical assistance)	8,085,000	7,750,000	2,750,000	
Regional resource centers	9,760,688	9,750,000	7,312,000	
Special education personnel development	55,375,000	58,000,000	43,500,000	
Career education incentive (State grants and model projects)	14,825,000	14,775,000	9,850 <b>,000</b>	
Community schools	3,138,000	10,000,000	3,138,000	
Consumers' education	3,617,000	3,617,000	2,713,00	
Law-related education	1,000,000	1,000,00	750,000	
Basic skills improvement (Part A—technical assistance, parental involvement, and involvement of educational agencies; and Part B— State leadership)	13,375,000	13,375,000	11,425,000	
Follow through (LEA service projects and sponsors)	39,144,000	35,250,000	28,187,000	
Gifted and talented (State- administered grants, Statewide activities, and model projects)	5,400,000	5,400,000	3,830,000	
Alcohol and drug abuse education	3,000,000	3,000,000	2,250,000	

Arts in education	\$3,500,000	\$3,500,000	\$2,625,000	~-
Metric education (Allactivities except evaluation)	1,840,000	1,715,000	1,255,000	
Ethnic heritage studies	3,000,000	3,000,000	2,250,000	
Cities in schools	3,050,000	3,050,000	2,287,000	
PUSH for excellence	1,000,000	1,000,000	750,000	
Teacher corps (All activities except evaluation)	30,000,000	29,000,000	21,500,000	
Pre-college science teacher training Total, budget authority	2,500,000 \$5,142,167,615	2,500,000 \$5,446,987,000	1,875,000 \$4,048,274,000	\$4,356,924,000

<sup>1/</sup> The figures for the program evaluation represent a share of funds available for evaluation within programs with purposes generally comparable to State and Local Education Block Grants. These programs include Grants for Disadvantaged, emergency School Aid, Education for the Handicapped, Career Education, Metric Education and Teacher Corps.

<sup>2/</sup> Does not include funds set aside for Evaluation and State Administration.

Includes only funds for out-of-cycle grants, severe unmet needs, local educational agency planning grants, pre-implementation assistance, special discretionary assistance, and capability-building contracts.

<sup>4/</sup> Includes only funds for instruction in basic skills, agreements with State educational agencies, inexpensive book distribution, and special mathematics program.

# **Higher and Continuing Education**

Agency: Department of Education		tional : 502			Budget Re Criterion:	
Funding			(\$ in r	nillions)		
• •	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	380	429	437	485	514	544
Outlays	385	371	417	446	476	506
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-27	-56	-85	-109
Outlays				-24	-46	-75
PROGRÁM CHANGES:						
Budget Authority	-8	-49	-46	-50	-50	-57
Outlays	-3	-15	43	-47	-53	-54
REAGAN BUDGET:						
Budget Authority	372	380	380	379	379	378
Outlays	382	356	374	375	377	377

## Program Description

This account is composed of 16 programs that encourage institutions the Department of Education funds to meet the needs of special populations, support institutional change and support study in fields of national concern.

## Proposed Change

- Under the Administration's proposal:
- Funding for the Veteran's Cost of Instruction Program, Educational Outreach Programs, and Law School Clinical Experience would be eliminated.
- Funding for International Education, Fellowships for graduate and professional study and Law-Related Education would be reduced.

#### Rationale

This proposal is a component of the Administration's effort to impose fiscal restraint on other programs of national interest. These programs are not targeted on the truly needy. The programs proposed for no further funding have outlived their usefulness in helping during the post-Vietnam transition or demonstrating the viability of university/community cooperation, State postsecondary planning, and certain teaching methods. The programs reduced have no clear relevancy to a national need or do not merit expansion in an era of budget reductions.

#### Key Facts About the Program

The Administration's proposal would effect eight programs:

1. Veterans's Cost of Instruction Program (VCIP)

The Administration's proposal will:

- Rescind \$12,039,000 appropriated for VCIP in 1981. Approximately 1,025 awards would not be supported.
- Request no funds in 1982.

#### This program:

- Provides specialized services to potentially enrolled and enrolled veterans. Grants are made
  to institutions of higher education and are used to maintain a full-time Office of Veterans'
  Affairs and provide outreach, recruitment, special educational services and counseling.
- Makes grants on the basis of the number of verterans enrolled and receiving veterans' educational or vocational rehabilitative services. Additionally bonus payments are made for veterans who are educationally disadvantaged or disabled.

Was created in 1972 to respond to the special adjustment needs of the Vietnam era veterans. The peak year of veteran enrollment in postsecondary education was 1976 when there were approximately 910,000 enrolled veterans who were eligible for services under VCIP. Projections indicate that eligible enrollment is likely to fall below 276,000 in 1981. Institutions should now be able to absorb this smaller number of veterans into their traditional counseling and service programs.

#### 2) International Education - Domestic Program

The Administration's proposal will:

- Rescind \$4.8 million of the \$21.8 million appropriated in 1981, which would result in a reduction in the size of the grants to 80 International Study Centers, though the average grant still represents an increase of \$7,000 over the 1980 level. In addition, 73 fewer academic fellowships, 56 fewer international understanding projects would be supported than at the Continuing Resolution level.
- Hold the program to the 1980 level in 1982.
- 3) International Education Overseas Program

The Administration's proposal will:

- Rescind \$3.2 million of the \$6.6 million appropriated in 1981, which would reduce total funding for these programs to \$3,000,000, the same as the 1980 level. From the Continuing Resolution level, the rescission would reduce the number of group projects abroad supported by 14, faculty research abroad projects by 36, doctoral dissertation research abroad projects by 57, curriculum consultants by six, and special bilateral projects by seven.
- Hold the program to the 1980 level in 1981.
- 4) Educational Outreach Programs

The Administration's proposal will:

- Rescind \$12.8 million of the \$15 million appropriated for the Educational Outreach programs. Fifty-seven States and Outlying Areas will not receive Federal funding to increase access to continuing education programs for adults whose educational needs have been inadequately served.
- Request no funds for these programs in 1982, as potential recipients of grants under this program are already taking steps to increase access to postsecondary continuing education for the underserved adult population without Federal funds being used as an incentive. This is particularly true in the case of institutions of higher education and others, which face a decline in the enrollment of traditional-age students, have an economic incentive to engage in continuing education activities and to reach out previously unserved individuals.
- 5) Fellowships for Graduate and Professional Study

The Administration's proposal will:

- Rescind the 1981 appropriations for Public Servic Fellowships and Mining and Mineral Conservation Fellowships and requests no funds for these programs in 1982.
  - Rescissions of \$2,000,000 for Public Service Fellowships and \$1,150,000 for Mining and Mineral Conservation Fellowships are requested of the \$14,150,000 appropriated for Fellowships for Graduate and Professional Study. Approximately 375 fellowships would not be awarded. The remaining \$11,000,000 would be used to support individuals from traditionally underrepresented groups undertaking graduate or professional study.
  - The market place appears to be sufficient incentive to encourage students to enter mining-related fields of study. For example, the average starting salary of graduates with bachelor's degrees in petroleum engineering is reported to be higher than any other field. Because of these attractive financial rewards, enrollments at mining schools have skyrocketed. In a time of generally declining enrollments, mining institutions are experiencing an annual 20 percent increase in applications.

- Many institutions currently offer high level, high quality graduate programs in the public service field, and there already exists at this time a substantial supply of qualified persons to fill public service jobs. In addition, governments at all levels are hiring significantly more persons with degrees in specific academic disciplines such as law, economics, and engineering rather than persons with broad public administration degrees. Federal government-wide hiring restrictions will depress the need for new graduates even more.
- Reduce the 1982 Carter request for Graduate/Professional Education opportunities to the 1981 level.

#### 6) Architectural Barrier Removal

The Administration's proposal will:

- Rescind \$10 million appropriated in 1980 and deferred to 1981.
  - The only appropriation this program has received occurred in 1980. Subsequent to this appropriation, analysis of two federally sponsored studies determined that total higher education renovation costs for compliance with Section 504 of the Rehabilitation Act of 1973 were far less than originally assumed. Moreover, these studies indicated that the cost burden for the overwhelming number of colleges and universities was relatively small.
  - Of the original \$25,000,000 1980 appropriation, \$15,000,000 was rescinded in the Supplemental Appropriation and Rescission Act 1981. This appropriation would provide less than \$150,000 to two-thirds of the States and Outlying Areas. This amount would then be allocated among eligible institutions within a State. The administrative burden at both the State and institution level would be considerable.

#### 7) Law School Clinical Experience

The Administration's proposal will:

- Rescind the \$3 million appropriated in 1981. Approximately 60 demonstration projects in clinical legal education, some of which would be at schools which have already received awards in previous years, would not be supported.
- Request no funds for the program in 1982.
  - When initially funded in 1978, this program was to have supported one time only demonstrations to stimulate accredited law schools to establish or expand clinical training programs for law students in the actual practice of law. The Federal objective to demonstrate the value of clinical experience in the education and training of law students has been met and additional funding is not required.
  - Since 1978, 168 demonstration projects have been supported. Furthermore, private groups continue to demonstrate the importance of clinical legal experience. For example, the Ford Foundation-sponsored Council on Legal Education for Professional Responsibility; Inc. (CLEPR) has spent approximately \$7,000,000 over the past ten years to support the demonstration and development of approximately 100 clinical legal education programs. Now that the concept of clinical legal training has been demonstrated, it should be the individual institution's responsibility to support the operation of these programs.

#### 8) Law Related Education

The Administration's proposal will:

- Rescind \$250 thousand of the 1981 appropriation for this program.
- Request no funding for the program in 1982.
  - This program provides funds for curriculum development that should be supported by local funds.

# School Assistance in Federally Affected Areas (Impact Aid)

Agency: Department of Education	Funct Code:			Budget Reform Criterion: 6		
Funding			(\$ in	millions)		
3	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	642	401	436	471	504	535
Outlays	799	443	426	455	488	520
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-35	-70	-103	-134
Outlays			-25	-55	-88	-119
PROGRAM CHANGES:1/						
Budget Authority	81					
Outlays	74	-7				
REAGAN BUDGET:						
Budget Authority	723	401	401	401	401	401
Outlays	873	450	401	400	400	401
1/The Carter budget also included savings for services would be:	this program	from current	services	estimates.	Total savings	from current
	1981	1982	1983	1984	1985	1986
Budget Authority	-67	-474	-552	-631	-706	-77 <b>7</b>
Outlays	-59	-438	-567	-647	-727	-795

## Program Description

The Impact Aid program compensates school districts whose local revenues are adversely affected by Federal activities. Payments are made directly to local school districts and used for operating expenses and in some cases, for construction. Payments are currently made on behalf of children who reside and/or whose parents work on Federal property. Payments are being made in 1981 to approximately 3900 school districts.

# **Proposed Change**

For 1981, the Administration proposes to:

- Reduce the funds currently available for the maintenance and operations portion of the Impact Aid program by \$67 million.
- Make payments to all eligible school districts at 90% of their entitlement under the Continuing Resolution.
- Make payments on behalf of all children currently eligible for the program, those who live on Federal property and/or whose parents work on Federal property.

For 1982, the Administration proposes to:

- Pay school disticts only for those children who live on Federal property and whose parents work on Federal property ("A" children).
- Make payments only to those school districts most heavily burdened by the presence of these
  children. The Impact Aid law defines such "Super A" districts as districts in which children
  who live and whose parents work on Federal property comprise 20% or more of the district's
  total enrollment.
- "Super A" districts will receive payments at the rate of 90% of their entitlement for their "A" children and at 20% of entitlement for the "A" children who live in low-rent housing.

#### Rationale

The 1981 rescission represents a first step toward the major restructuring of the Impact Aid program proposed in 1982. It recognizes that while the current school year is more than half completed, many districts receiving aid under this program are being overcompensated for the effects of the Federal burden. The 1982 proposal recognizes that, in a time of budgetary restraint, it is no longer possible to justify Federal assistance to school districts for children whose parents pay local property taxes but who happen to work on Federal property. Payments will be made to the 330 districts most burdened

by Federal activities, while State and local agencies would resume full responsibility for more than 3,500 districts that currently receive assistance.

## Key Facts About the Program

School Districts in the Impact Aid Program:

- 3900 school districts are receiving payments in 1981.
- 2200 school districts receive payments only for "B" children, those whose parents work for the Federal government.
- 330 districts qualify as "Super A" districts.

#### Children for Whom Payments Are Made:

- Over 2.2 million children either live on Federal property and/or have parents who work on Federal property.
- Only 340,000 children (15% of the total) live on Federal property and have parents who work on Federal property. Most of these "A" children are children of military personnel or are Indian children living on Indian lands.
- Most "B" children either live in low-rent housing or live on private property and have a parent who works on Federal property.

## **Institute of Museum Services**

Agency: Department of Education	Functional Code: 503				Budget Reform Criterion: 6		
Funding	_•		<b>(\$</b> in 1	millions)			
<b>J</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	12.9	16.9	18.3	19.7	20.9	22.3	
Outlays	13.0	15.0	16.2	17.4	18.5	19.7	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-1.4	-2.8	-4.0	-5.4	
Outlays			-0.3	-1.7	-3.1	-4.1	
PROGRAM CHANGES:							
Budget Authority	-12.4	-16.7	-16.9	-16.9	-16.9	-16.9	
Outlays	-0.1	-8.4	-12.7	-15.7	-15.4	-15.6	
REAGAN BUDGET:							
Budget Authority	0.5	0.2					
Outlays	12.8	6.1	3.2				

## Program Description

The Institute of Museum Services provides grants to museums principally for general operating support.

## Proposed Change

The Administration proposes to terminate the Institute of Museum Services.

- Funds for grants to museums will be rescinded in 1981 and eliminated in 1982;
- Minimal amounts for program administration are provided in 1981 and 1982 in order to effect the orderly phase down of the Institute's activities.

#### Rationale

This proposal is part of an overall Administration effort to rethink Federal support of cultural activities. While museums and other repositories of cultural artifacts are important in our society, they have traditionally been the beneficiaries of private philanthropy, for both construction and operating funds.

While in recent years inflation has impaired the ability of museums to operate, the Administration proposes to attack these problems directly, through its overall economic program. A healthy economy will provide more resources for cultural activities without the need for Federal support.

- The Institute provides grants to museums, principally for general operating support. Federal support for operating expenses of museums is not an appropriate Federal function.
- Many of the activities of the Institute overlap with the museum programs and the challenge grant programs, of the Arts and Humanities Endowments.

	(\$ in thousands)						
Funding	1981	1981	1982	1982			
	Jan. Budget	Revised	Jan. Budget	Revised			
Institute for Museum Services Grants to Museums Program Administration	- 12,267	50	16,267				
	520	401	616	220			
Museum Services Board	70	49	54				

Type of Grant	1980	1981 Jan. Budget	1981 Revised	1982
General Operating Support				
\$	9,500,000	11,300,000		
Number of grants	365	450		
Average Award (\$)	26,027	25,111		

• General operating support grants provide general operating support for unrestricted museum activities. IMS awards one-year grants on a competitive basis to eligible museums.

Special Projects	1980 Ja	1981 an. Budget	1981 Revised	1982 Revised
Model Projects				
\$	899,000	700,000	50,000	
Number of grants	43	35	2	
Average Award (\$)	20,906	20,000	25,000	

- Emergency grants provide a maximum grant of \$25,000 to museums that have been damaged by a natural disaster.
- Special project grants are one-year innovative and exemplary projects.

#### Accreditation and Assessment Grants

\$	 267,000		
Number of Awards	 417		
Average Award (\$)	 640	<del></del>	

- Accreditation grants provide eligible museums with a one-time grant of \$800 to help defray the costs of accreditation by an appropriate national association.
- Museum assessment grants provide a one-time grant of \$600 to aid museums in paying the costs associated with assessing the quality and effectiveness of their operations.

# Library Programs

Agency: Department of Education	Functional Code: 503			Budget Reform Criterion: 6				
Funding	(\$ in millions)							
5	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	68	78	80	87	95	97		
Outlays	67	73	71	87	92	100		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority		-31	-33	-40	-48	-50 -52		
Outlays		-3	-10	~33	-43	-52		
REAGAN BUDGET:								
Budget Authority	68	47	47	47	47	47		
Outlays	67	70	61	54	49	48		

## **Program Description**

College library grants are awarded to institutions of higher education for the acquisition of library materials and for networking activities. Public library funds are provided to establish, expand and improve public library services and are targeted on the unserved, disadvantaged, institutionalized, handicapped, limited english speaking and older persons. A portion of the funds are reserved for major urban resource libraries.

## Proposed Change

The Administration proposes to:

- Terminate the college library program in 1982.
- Reduce the public library program by 25% in 1982.
- Continue funding the interlibrary cooperation program at the current services level. This program provides funds to facilitate cooperative efforts among libraries.

#### Rationale

The college library program provides equal grants to virtually all institutions of higher education in the Nation, thereby reducing the awards to an insignificant level. The Federal government provides only 5% of all funds expended for public libraries in the Nation. Local agencies spend 82% while State governments spend 13%. Public libraries are a State and local responsibility and State support for public libraries should increase. Fostering cooperative library projects is clearly a more appropriate Federal role.

- Funds for the public library services program are distributed to States through a formula based on total residence population, but with a \$200,000 minimum for the 50 states, D.C., and Puerto Rico, and a \$40,000 minimum for the other outlying areas. The State and local matching requirement ranges from 33 percent to 66 percent (except for the Trust Territory which is 100 percent federally funded), with States providing matching funds in proportion to their per capita income.
- The legislation of the public library services program authorizes additional funds for major urban resource libraries through an appropriation trigger provision. When the appropriation for this program exceeds \$60,000,000, cities with over 100,000 population share 50 percent of the excess over \$60,000,000 with the remainder to be used at the discretion of the States within the program purposes.
- In 1981 public library grants ranged from \$7 million and \$5 million to California and New York, respectively, to \$303 thousand to North Dakota.

- The interlibrary cooperation program provides funds to States according to a formula based on total resident population, but with a minimum of \$40,000 for the 50 States, D.C., and Puerto Rico, and a \$10,000 minimum for the other Outlying Areas. No State matching is required.
- Between 20 and 30 percent of the funds awarded as subgrants by the States go to urban library systems.

## • Funding:

		Carter		Reagan
Public Libraries:	1981	1982	1981	1982
Budget Authority (\$ in millions)	63	63	`63	47
Persons Serviced (in millions)				
Disadvantaged	30	30	30	23
Physically Handicapped	l	1	1	1
Institutionalized	1	1	1	1
Older readers	8	8	8	2
Interlibrary Cooperation				
Budget Authority (\$ in millions	) 12	15	12	12
No. of cooperative library				
projects	310	325	310	275
Percent of nation's				
libraries involved	35	40	35	30
College Libraries				
Budget Authority (\$ in millions)	) 5	5	5	
No. of awards	2,600	2,600	2,600	
Average award \$	2,000	\$ 2,000	\$ 2,000	

## **National Institute of Education**

Agency: Department of Education	Functional Code: 503		Budget Reform Criterion: 6				
Funding	(\$ in millions)						
•	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	79	84	92	99	106	113	
Outlays	82	81	86	91	96	102	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-9	-15	-20	-25	
Outlays				-7	-12	-18	
PROGRAM CHANGES:							
Budget Authority	-5	-23	-22	-23	-25	-27 -22	
Outlays	-3	-22	-20	-20	-21	-22	
REAGAN BUDGET:							
Budget Authority	74	61	61	61	61	61	
Outlays	79	59	66	64	63	62	

# Program Description

NIE funds research and demonstration activities in three areas: basic educational research, educational organization and administration, and dissemination of the results of research and demonstrations to practitioners in the field.

## Proposed Change

The \$5 million supplemental proposed by the Carter Administration for 1981 will be withdrawn and funding in 1982 and succeeding years will be reduced by 25%.

	<u>Ca</u>	<u>Reagan</u>		
	<u>1981</u>	<u> 1982</u>	<u> 1981</u>	<u> 1982</u>
No. of awards	596	671	561	260
No. of labs & centers funded	17	17	17	17

#### Rationale

The activities of the Institute, white occasionally making valuable contributions to the theory and practice of education, are of relatively low priority given present budgetary conditions. This proposal provides the Secretary of Education with considerable flexibility to reallocate remaining funds toward those efforts that will result in continued improvements in education.

- NIE has devoted an increasing amount of program funds into fundamental research 20% in 1979 increasing to 30% by 1985.
- Teaching and Learning Program Data

Activity Description Students and schools using instructional materials developed by:	FY 1980	FY 1981 (Projection)	FY 1982 (Projection)
<ul> <li>Southwest Regional Laboratory for Educational Development</li> </ul>			
Students Schools	1,050,000 6,375	1,200,000 6,500	1,300,000 6,500
- CEMREL Comprehensive School Math	Program		
Students Schools Teachers	50,350 316 1,665	57,850 380 1,915	65,300 440 2,165

# • Educational Policy and Organization — Program Data

Activity Description  Local education agencies, universities and other organizations using information developed through NIE-funded projects on desegregation:	FY 1980	FY 1981 (Projection)	FY 1982 (Projection)
<ul> <li>Special publications on desegregation trends, judicial decisions, research methods, and minority students</li> </ul>	25,000	30,000	28,000
<ul> <li>Dissemination and Improvement of Practice</li> </ul>	— Program	Data	
Activity Description  Educational Resources Information Center (ERIC) giving practitioners and researchers easy access to report and journal literature covering a wide range of educational issues	FY 1980	FY 1981 (Projection)	FY 1982 (Projection)
<ul> <li>Libraries subscribing to entire collection of ERIC microfiche</li> </ul>	680	695	715
<ul> <li>Total number of documents and journal articles cited in ERIC files</li> </ul>	370,000	410,00	443,00
<ul> <li>Number of computer searches of ERIC</li> </ul>	150,000	175,000	210,000
Enrollment of urban districts served through the activities of an urban superintendents' dissemination network:			
<ul> <li>Districts Served</li> </ul>	19	19	22
<ul> <li>Student Enrollment</li> </ul>	4,726,600	4,726,600	5,103,400

# **Special Population Programs**

Agency: Department of Education	Functional Code: 501, 502				Budget Reform Criterion: 6		
Funding			<b>(\$</b> in 1	millions)			
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	551	631	695	743	799	855	
Outlays	453	531	619	678	736	791	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-64	-112	-168	-224	
Outlays			-16	-52	-106	-160	
PROGRAM CHANGES:							
Budget Authority	-54	-117	-117	-117	-117	-117	
Outlays	-4	-79	-116	-117	-117	-117	
REAGAÑ BUDGET:							
Budget Authority	497	514	514	514	514	514	
Outlays	449	452	487	509	513	514	

# Program Description

The *Indian Education* program supports educational services for Indian students through three programs. Part A provides formula and competitive grants to school districts with Indian children to improve their academic performance, reduce dropout rates and expand culturally relevant educational materials. Part B supports discretionary grants to individuals, Indian tribal governments and organizations to promote Indian participation in programs which involve them and in society in general. Part C supports discretionary grants to Indian tribes, organizations and institutions to improve educational opportunities for Indian adults who have not completed high school.

The *Bilingual Education* program supports the development of bilingual education programs in local schools to help children of limited English proficiency learn English while they develop subject matter skills. The Bilingual Vocational Training program supports vocational training, vocational instructor training, and development of bilingual instructional materials, methods and techniques.

The Strengthening Institutions program provides funds to eligible two and four year colleges for the improvement of their fiscal management, administration and academic programs. Grants of from 1 to 5 years are made and a comprehensive development plan is required. Current law requires that 24 to 30% of the funds go to two year colleges and holds harmless the traditionally Black colleges to a funding level not less than 50% of what they received in 1979. In 1979, Black colleges received approximately \$65 million out of a \$120 million appropriation.

Special Programs for the Disadvantaged awards several types of discretionary grants to encourage and assist disadvantaged youths to enter, continue or resume postsecondary education. Upward Bound and Talent Search provide grants for tutorial and counseling services to high school or other youth with college potential. Special Services grants are made to increase tutorial and counseling support of disadvantaged college students. Education Opportunity Centers provide information on colleges and available financial aid.

#### Proposed Change

- Reduce the average cost per student under Part A of the *Indian Education* program to \$161 rather than permitting an increase to \$213. Reduce the number of service projects under Part B to 19, the 1981 level, reduce the numbers of participants in educational personnel development projects and eliminate a new State level coordination project. Reduce the numbers of Indian adults participating in literacy programs from 9,000 to 8,456.
- Reduce the Bilingual Education program and the Bilingual Vocational Education programs to 75% of the 1981 Continuing Resolution level in 1981 and 80% of the 1981 Continuing Resolution level in 1982. In order to implement these changes, the Administration will withdraw the Carter budget request for a \$9 million supplemental, propose rescissions totaling \$45 million in 1981 and reduce the 1982 request by \$65 million.

- Reduce the Carter budget proposed increase for *Strengthening Institutions* from \$33 million to \$9 million. The \$9 million would be used to initiate the new challenge grants program.
- Eliminate the Carter proposed increase of \$7 million for Special Programs for the Disadvantaged. These programs have expanded rapidly in the last several years from a funding level of \$70 million in 1975 to \$148 million in 1980.

#### Rationale

This proposal is a component of the Administration's effort to impose fiscal restraint on other programs of national interest. Reductions in the Bilingual Education program are necessary in order to reduce Federal spending in low priority programs. While the Indian Education program serves a disadvantaged population, it has grown significantly in recent years in the absence of evidence of positive benefits to participants. Even with this reduction, the program will be funded at the 1981 level. The reduction in funds to Strengthening Institutions will maintain the program above the 1981 level and fulfill the President's commitment to the support of Black Colleges. The Special Programs for the Disadvantaged funding will be continued at the 1981 level.

y Lucis About the Liogium		<u>Carter</u>		Reagan
Bilingual Education	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>Reagan</u> 1982
Budget Authority (\$ in millions)	190	209	135	144
No. of demonstration and capacity-bldg. projects	624	641	426	431
No. of students participating	334,124	362,528	222,968	234,760
No. of fellowships	560	560	500	560
No. of training institutes	43	43	38	29
Indian Education				
Budget Authority (\$ in millions)	82	102	82	81
No. of Part A awards	1,175	1,180	1,175	1,180
No. of students participating	325,000	326,000	325,000	326,000
Average student expenditure	\$165	\$213	\$165	\$161
No. of fellowships	213	205	213	205
Strengthening Institutions				
Budget Authority (\$ in millions)	120	153	120	130
No. of strengthening institutions awards		207		203
No. of special needs awards		231		213
No. of challenge grants TOTAL AWARDS	373	<u>25</u> 463	$\frac{15}{373}$	431
Special Programs for the Disadvantage	ed			
Budget Authority (\$ in millions)	160	167	160	160
No. of Upward Bound awards	450	450	450	450
No. of Special Services awards	617	617	617	617
No. of Talent Search awards	173	173	173	173
No. of Educational Opportunity Centers awards	32	32	32	32
No. of Training program awards	2	20	2	20

#### **Student Assistance**

Agency: Department of Education	Functional Budget Ref Code: 502 Criterion: 2					
Funding	. (\$ in millions)					
•	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	4,984	5,065	4,526	4,517	4,400	4,224
Outlays	4,519	5,044	3,320	4,704	4,717	4,530
REESTIMATES & ADJUSTMENTS:						
Budget Authority		<del>-</del> -	-26	-99	-124	-131
Outlays			1,325	-258	-447	-408
PROGRÁM CHANGES:						
Budget Authority	-510	-740	-585	-536	~580	-376
Outlays	-521	-669	-628	-556	-528	-410
REAGAN BUDGET:						
Budget Authority	4,474	4,325	3,915	3,882	3,696	3,717
Outlays	3,998	4,375	4,017	3,890	3,742	3,712
1/ The Carter Budget already included savings	for this propose	ıl. Total savi	ings expected	are as follows	s:	
	1981	1982	1983	1984	1985	1986
Budget Authority	-510	-1,016	-1,659	-1,857	-2,074	-2,287
Outlays	-521	-803	-1,499	-1308	-2,019	-2,233

## Program Description

The two major student financial aid programs are Pell Grants (formerly called Basic Educational Opportunity Grants, BEOGs), which provide awards to undergraduate students who can demonstrate need, and Guaranteed Student Loans (GSL) which provide subsidized loans to any postsecondary student, regardless of need.

## Proposed Change

Under the Administration's proposal, benefits to the highest income students will be eliminated. In the Pell Grant program this will be accomplished by increasing the amount of discretionary income that families must contribute to the support of a student, except where there is extreme financial need. In the GSL program student loan amounts will be limited to "remaining need" (educational costs minus other aid and family contribution), ending the in-school interest subsidy on loans to students, and eliminating the Federal special allowance to lenders on loans to parents.

#### Rationale

Without these reforms, the GSL program would be recklessly expanded in a few years. Under the GSL program, students can borrow regardless of their educational need, with the Federal Government paying all interest on the loan until the student is out of school. The result is that the Federal Government pays high rates of interest, on *free* money that students spend as they see fit. While the principal amount of the loan must eventually be repaid proceeds of these loans can be invested allowing students and their families to *earn* 14–15% yields on money for which the Federal Government is paying 14–15%. Without rational limitations, such as the Administration is proposing, the Department of Education could soon become the creditor of the first resort for every American family that has a family member enrolled in postsecondary education.

#### Key Facts About the Program

• To ensure continued access to higher education by financially needy students, funds are requested to support the *Pell Grant program* at a level based on a maximum grant of \$1,800 in 1982–83. This will maintain assistance to low and moderate income students. The request of \$2,486,000,000 will provide grants averaging \$920 to 2,700,000 students.

#### (\$ in thousands)

Program impact data	<u>1980</u>	<u>1981</u>	<u>1982</u>
Recipients (in millions)	2.8	2.8	2.7
Average grant (in whole \$)	\$862	\$915	\$920
Maximum grant (in whole \$)	\$1,750	\$1,75	\$1,800

• The Pell Grant program targets funds to students from families with lower incomes. Until the last few years, over 50 percent of the recipients were from families earning less than \$6,000. As incomes have risen, however, a larger segment of the population in the over \$12,000 income group has qualified and received awards.

		(\$ in thousands)	
Program impact data	<u>1980</u>	<u>1981</u>	· <u>1982</u>
Estimated program costs Sources of funding:	\$2,415,328	\$ 2,562,000	\$2,486,000
Appropriation/budget request	\$1,578,000	\$ 2,159,000	\$2,486,000
Reappropriation	\$579,328		_
Drawdown from next fiscal yr.	\$258,000	\$ 258,000	
Supplemental appropriation	_	\$ 661,000	
Total funds available	\$2,415,328	\$ 2,562,000	\$2,486,000

- The total cost of the Pell Grant program in 1982 is \$76 million less than the requested 1981 level. This reduction is achieved through an increase in the assessment rate levied on family income. In 1981, only 10.5 percent of a family's discretionary income was expected as a contribution to a student's educational cost in the calculation of a Pell award. In 1982, it is proposed that families contribute 20 percent of their discretionary income for such purposes.
- By the end of fiscal year 1982, with the Administration's proposed changes, the Guaranteed Student Loan program will have supported about \$31.4 billion in loans to student and parent borrowers. Of this amount, about \$10 billion will have been directly insured by the Federal Government and over \$21 billion will have been guaranteed by State and private nonprofit agencies and reinsured by the Federal Government.

	1977	1978	1979	1980	Cumulative Total 1965–1980
Loan volume guaranteed (dollars in billions)	1.5	2.0	3.0	4.8	21.3
Recipients (in millions)	1.0	1.1	1.5	2.3	14.8

# **Vocational Education**

Agency: Department of Education	Functional Code: 501				Budget Reform Criterion: 6	
Funding	(\$ in millions)					
ŭ	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	779	779	842	903	961	1,022
Outlays	767	937	841	864	912	968
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-63	-124	-182	-243
Outlays			-49	-101	-153	-208
PROGRAM CHANGES:						
Budget Authority	-195	-156	-156	-156	-156	-156
Outlays	-77	-174	-123	-126	-131	-134
REAGAN BUDGET:						
Budget Authority	584	623	623	623	623	623
Outlays	690	763	669	637	628	626

## **Program Description**

The Vocational Education Act (VEA) provides funds to support secondary, postsecondary and adult vocational programs. Most funds are distributed to States on a formula basis. States use funds to support program maintenance, program improvements, consumer and homemaking programs, special programs for the disadvantaged, planning activities and the work of the State Advisory Council. Funds also support research, curriculum development and some demonstration projects at the national level.

# Proposed Change

For all activities funded under the Vocational Education Act, the Administration proposes:

- a \$195 million reduction (or 25%) in 1981.
- a \$156 million reduction (or 20%) in 1982.

For activities funded under the Vocational Education Act:

- each will be equitably reduced.
- no existing activity will be eliminated.
- Federal expenditures in 1981 will fall by \$11 to \$34 per enrollee and in 1982, by \$9 to \$36 per enrollee.

#### Rationale

Continued high levels of funding for vocational education can no longer be justified on the grounds that Federal funds either stimulate State and local resources to increase the availability of vocational programs, or provide increased access to vocational training for special populations. In 1980, State and local contributions to vocational education overmatched Federal funds by an average of 10 to 1. In the most recent year for which participation data are available, only about 15% of all vocational disadvantaged education enrollees were handicapped or of limited English speaking ability.

# Key Facts About the Program

Program Enrollments:

- About 56% of vocational education participants are in secondary school programs, 15% are in postsecondary programs, and 29% are in adult programs.
- Individual vocational program areas (e.g., agriculture, office occupations) tend to have enrollments dominated by one sex.
- Vocational programs are offered in about 28,000 secondary and postsecondary institutions.

• Only 8% of the secondary vocational institutions are in cities of 500,000 or more; 22% are in communities of 100,000 to 500,000; and 60% are in communities of less than 100,000.

#### Program Funding:

- State and local funds account for \$10 of every \$11 spent on vocational education.
- State and local expenditures for vocational education have risen almost 10 times faster than Federal expenditures since 1972.

#### Program Effectiveness:

- About 3 million persons complete vocational programs each year. Of those who enter the labor force, most find work related to their training.
- Research results are inconclusive as to whether there are long-term or sustained benefits for vocational program graduates.

**Department of Energy** 

# Alcohol Fuels/Biomass/Urban Waste

Agency: Department of Energy	Functional Code: 276				Budget Reform Criterion: 7			
Funding		(\$ in millions)						
_	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	_	_	_	_	_	_		
Budget Authority	0	0	0	_0	0	.0		
Outlays PROGRAM CHANGES	107	28	13	15	15	15		
Budget Authority	-741	0	0	0	0	0		
Outlays	-103	-28	-13	-15	-15	- 15		
REAGAN BUDGET:								
Budget Authority	-741	0	0	0	0	0		
Outlays	4	0	0	0	0	0		
Agency: Department of Agriculture		Functional Budget Code: 271 Criterio						
Funding			(\$ in r	nillions)				
· ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	525							
Outlays	56	104	3	4	3	3		
PROGRÁM CHANGES								
Budget Authority	-505							
Outlays	-46	-94	3	4	3	3		
REAGAN BUDGET:								
Budget Authority	20							
Outlays	10	10				<del> '</del>		

# Program Description

This program provides financial incentives for alcohol fuels, biomass and energy from municipal waste projects through feasibility studies, cooperative agreements, direct loans and loan guarantees. Budget authority of \$1.27 billion was appropriated in 1980 to cover both DOE and USDA programs on a multi-year basis, with \$745 million allocated to DOE and \$525 million allocated to USDA.

## Proposed Changes

Terminate the program. Rescind \$1246 million in budget authority used by DOE (\$741 million) and USDA (\$505 million).

# Rationale

These financial incentive programs would be terminated as a result of applying sound criteria to economic subsidy programs. Additional direct government spending programs are not needed in light of the other incentives for alcohol fuels, biomass and urban waste.

- Gasohol (a mixture of 10% alcohol and 90% unleaded gasoline) currently receives a subsidy as a result of being exempt from the 4 cent per gallon federal excise tax. This subsidy amounts to \$16.80 per barrel of alcohol and reduces the cost of gasohol to the point where it is competitive with gasoline. In addition, approximately 30 states provide tax credits for gasohol ranging from 2 to 10 cents per gallon. The federal excise tax exemption will result in estimated tax expenditure of approximately \$200 million for gasohol production in 1982, and could total over \$2 billion over the next five years.
- Capital investment in alcohol fuels, biomass and urban waste projects are made even more attractive because certain types of plant and equipment are eligible for an investment tax credit of 20%. In 1982, these costs will result in tax expenditures of over \$200 million.

In addition, the President's economic recovery program includes new initiatives which will provide further incentives for alcohol fuels, biomass and municipal waste.

- The removal of price control from domestic crude oil will restore market forces in the energy field and make these alternative energy sources more competitive with petroleum.
- The President's tax proposals, including the income tax reductions and the accelerated depreciation proposal, when coupled with the Federal spending and credit reductions, will result in a significant increase in the amount of capital formation in the private sector for all types of investment projects. This should increase capital availability for alcohol fuels, biomass and urban waste projects without the need for government intervention through loan guarantees and other financial incentives. Also, unlike other forms of alternative fuels, alcohol fuels, biomass and urban waste projects are a less risky investment because the technology is proven and the economic feasibility can be estimated relatively accurately.

These incentives will ensure that alcohol fuels, biomass and energy from municipal waste will be able to compete effectively with conventional energy alternatives without the need for additional government sudsidies through loan guarantees, feasibility studies and cooperative agreements.

# Key Facts About the Program

#### TAX EXPENDITURES FOR ALCOHOL FUELS, BIOMASS AND URBAN WASTE

	(\$ in millions)							
	1981	1982	1983	1984	1985	1986		
Excise Tax exemption	121	189	299	478	562	626		
Production Tax Credits	13	35	54	68	80	90		
Investment Tax Credit	<u>158</u>	<u>207</u>	<u>275</u>	<u>354</u>	<u>423</u>	<u>276</u>		
TOTAL	292	431	628	900	1065	992		

#### PLANNED ALCOHOL FUELS PRODUCTION

Results of National Alcohol Fuels Commission (NAFC) Survey

- 340 plants are planned, which would result in production of 4.5 billion gallons of ethanol per year.
- The Commission's forcast estimates 1983 capacity of 850 million gallons per year, slightly lower than the 1982 goal of 920 million gallons in the Energy Security Act.
- The 1985 forecast ranges from 1.4 to 2.1 billion gallons per year, depending on oil prices, corn prices, capital availability and limits on construction and equipment capability.

# Department of Energy Administration/Overhead

Agency: Department of Energy		ctional e: 276		Budget Reform Criterion: 7				
Funding	(S in millions)							
J	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	303	402	387	397	409	412		
Outlays	294	370	355	392	404	415		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority	-20	-129	-118	-127	-139	-142		
Outlays	-2	-107	-86	-122	-134	-145		
REAGAN BUDGET:								
Budget Authority	283	273	269	270	270	270		
Outlays	292	263	269	270	270	270		

# Program Description

Most funding for Departmental Administration (indicated in millions of dollars) is for overhead functions (personnel, accounting, etc. totaling \$326) but also included are department-wide crosscutting activities such as policy analysis (\$29); international affairs (\$12); outreach (e.g., intergovernmental, consumer affairs) programs (\$46); facilities planning and in-house energy conservation (\$90) and miscellaneous activities (e.g., inventory changes, reimbursements) including revenues (-\$100).

# Proposed Changes

1982 funding would be decreased by a total of \$129 million (32 percent). Specific decreases (in millions) are: management and support (-\$44); policy analysis (-\$11); international (-\$7); intergovernmental and consumer programs (-\$14); facilities planning and in-house conservation (-\$41) and miscellaneous activities (-\$12).

#### Rationale

Decreases reflect President Reagan's effort to impose fiscal restraint on programs of national interest and, especially, to cut Government overhead costs.

- Overhead function workload is keyed, with some time lag, to direct program workload in the Department and may be reduced in accordance with direct program cuts.
- There is now less need for policy, international and outreach activities since market forces will be playing a larger role in resolving energy issues and guiding energy consumer and producer decisions.
- In-house conservation and miscellaneous activities are decreased to reflect only the highest priority projects and activities.

# Key Facts About the Program

#### GENERAL MANAGEMENT AND SUPPORT

Support services are reduced, and staff decreased by 490 full-time positions.

#### **POLICY ANALYSIS**

A decisive Reagan energy policy based upon a limited Government role permits a 40 percent reduction in funding for energy policy studies.

#### INTERNATIONAL AFFAIRS

The energy planning program for other countries is eliminated since they can obtain consulting expertise without U.S. Government assistance. Staff is substantially reduced to eliminate duplication with State Department and CIA.

#### **OUTREACH PROGRAMS**

Public Affairs is limited to communicating broad, general DOE policy and program information to the media and the public; more specialized education/information activities are reduced or eliminated. Intergovernmental Affairs will focus solely on necessary coordination with other levels of government; most direct financial aid to State and local groups is eliminated. Consumer Affairs is limited to advising the Secretary on the impacts of DOE policies and programs on consumers and ensuring public participation; special education and training programs are eliminated.

# **Energy Conservation Programs**

Agency: Department of Energy		tional e: 272			Budget Re Criterion:					
Funding		(\$ in millions)								
<b>S</b>	1981	1982	1983	1984	1985	1986				
CARTER BUDGET:										
Budget Authority	753	872	813	635	579	576				
Outlays	705	931	959	810	638	576				
REESTIMATES & ADJUSTMENTS:										
Budget Authority										
Outlays										
PROGRAM CHANGES <sup>1/</sup> :										
Budget Authority	-207	-677	-631	-461	-408	-407				
Outlays	-42	-442	-645	-623	-467	-407				
REAGAN BUDGET:										
Budget Authority	546	195	182	174	171	169				
Outlays	663	489	314	187	171	169				
1/ The Carter budget already included some sa	vings for energy c	onservation r	eflected in a p	roposed 1981	rescission wi	th outlay				
impacts in 1981 through 1983. Total savings exp	ected are as follo	ws:								
	1981	1982	1983	1984	1985	1986				
Budget Authority	-254	-677	-631	-461	-408	-407				
Outlays	-60	-460	-657	-623	-467	-407				

# **Program Description**

The Department of Energy conducts energy conservation programs in three areas:

- Technology development, including both near-term, product-specific, as well as long-term, generic research and development.
- Standards, technical assistance and information, including standards for buildings and appliances, mandatory, utility-delivered residential/commercial conservation services, and the Federal Government's own energy management efforts.
- Financial assistance, including grants for low-income weatherization, for schools and hospitals conservation measures and for state energy conservation and emergency planning and management.

# Proposed Change

For technology development, support only long-term, generic and high risk, but potentially high-payoff, research. Withdraw support from projects where commercial viability can be tested by the private sector alone, including energy from urban waste, consumer products, advanced automotive engine design, demonstration of electric and hydbrid vehicles, and industrial processes.

For standards, technical assistance and information, eliminate funding for development and implementation of building and appliance standards and for the residential/commercial conservation services program. Reduce funding for various technical assistance, public service information and Federal energy management programs also.

For financial assistance, eliminate grants for State energy conservation and energy emergency planning and management, but retain grants for schools and hospitals conservation measures. Eliminate funding for DOE's low-income home weatherization assistance program and fold it into the community development support assistance program in the Department of Housing and Urban Development

No change is proposed for the energy conservation tax credit, which is expected to provide at least \$739 million in support of private sector conservation during 1981 and \$799 million during 1982. Reductions in Department of Energy conservation activities thus represent a decrease of less than 26 percent in total Federal support for energy conservation in 1982.

#### Rationale

This proposal is part of the Administration's effort to apply sound economic criteria to subsidy programs. Motivated by rising energy costs and substantial Federal tax credits, individuals, businesses and other institutions are undertaking major conservation efforts. Decontrol of oil prices and continuation of tax credits can be expected to accelerate these efforts. Some Federal conservation programs, therefore, are no longer necessary, while others may impede private initiative by imposing too great a regulatory burden on the public. More specifically:

- Technology development reductions are appropriate because rising energy prices will increase
  demand for energy-efficient products and thus stimulate private sector development of
  near-term, product-specific technologies.
- Standards, technical assistance and information reductions are warranted because, with rising energy prices, -consumers are demanding and manufacturers are producing more energy-efficient products and buildings without mandatory Federal standards. These trends also obviate the need for much Federally supported technical assistance and public service information. Similarly, where conservation is an economic alternative to new generating capacity, utilities are developing their own conservation programs.
- Reductions in financial assistance are called for because State energy conservation planning and management grants do not merit Federal support, given the widespread public awareness of energy conservation benefits and the high level of private investment in energy conservation.

The schools and hospitals grant program, however, yields measurable benefits that would not otherwise occur, because of the difficulty localities have in obtaining front-end financing for new public facilities. Further, these grants have proved their value in financing cost-effective conservation improvements in public facilities not eligible for tax incentives.

Combining the Department of Energy weatherization program with the Housing and Urban Development Department's community development block grant is an example of Administration efforts to shift resources and decisionmaking authority to State and local governments through block grants and program simplification wherever possible. By shifting responsibility for weatherization efforts entirely to the local level, communities will be able to devise approaches most appropriate to their needs and circumstances and achieve greater levels of efficiency and productivity.

# Key Facts About the Program

Evidence is ample that increasing energy prices already are inducing substantial energy conservation:

- In the six years after the Arab oil embargo, total U.S. energy consumption increased only six percent, compared with an increase of 29 percent in the six years prior to the embargo.
- While fossil fuels prices in constant dollars have doubled since 1973, energy consumption per GNP dollar (the best indicator of the Nation's overall energy efficiency) has declined every year since that time, decreasing by a total of nine percent.
- Annual growth in energy demand declined from over five percent in 1976 to less than one percent in 1979 and to minus four percent in 1980.
- Fuel use for home space heating declined at least 15 percent between 1979 and 1980.
- Industrial energy use is almost the same as it was in 1972 despite a 20 percent increase in real industry output.
- Average miles per gallon of fuel consumed by U.S. passenger cars rose from 13.1 mpg in 1973 to 14.29 mpg in 1979.
- Average annual fuel consumption per car declined 12.9 percent from 1973 to 1979.
- An April 1980 national survey by Pat Caddell found that nearly 90 percent of the respondents were concerned about the rising costs of gasoline; nearly 80 percent had received information in the past month from newspapers, television and radio on improving their gasoline mileage; and over 70 percent reported reducing gasoline use.
- The private, nonprofit Advertising Council has sponsored five national energy conservation campaigns since 1975. All advertising agency staff time and media coverage (TV, radio, newspapers and magazines) was donated free of charge. The Council estimates the minimum value of media coverage contributed between 1975 and 1979 at nearly \$200 million.

# **Energy Information Activities**

Agency: Department of Energy	Functional Code: 276				Budget Reform Criterion: 6			
Funding	(\$ in millions)							
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	105	127	135	144	153	161		
Outlays	102	127	135	144	153	161		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority	-14	-47	-61	-67	-73	-78		
Outlays	-12	-49	-61	-67	-73	-78		
REAGAN BUDGET:								
Budget Authority	91	80	74	7 <b>7</b>	80	83		
Outlays	90	78	74	77	80	83		

# Program Description

The Energy Information Administration (EIA) collects and publishes energy statistics; prepares forecasts and analyses; and provides data collection services for other components of the Department of Energy. The budget for EIA has grown significantly from less than \$50 million in 1977 to the Carter proposal of \$127 million in 1982. The result has been new or more detailed data systems and refined analyses of limited value which have created a growing demand for energy consultants and statisticians. Also, extensive and costly reporting burdens have been imposed on the private sector.

# Proposed Change

The Reagan budget reduces Carter EIA funding by 37 percent in 1982 and by even larger amounts in the outyears, approaching 50 percent by 1986. This will reverse the trend toward ever more detailed statistics and assessments. EIA will focus on basic oil, gas, coal, and electric utility data systems, with improvements in these systems as warranted, and on publications of proven value, such as the Monthly Energy Review. Emphasis will be on national level data; State level data, costly to collect, will be cut back. Recently created systems that have produced information readily available elsewhere will be significantly reduced or eliminated. Analytical efforts will be reoriented to provide faster, more relevant analysis and eliminate duplication with other Department of Energy offices. Reduced activity of other Energy Department units will also reduce the need for EIA support.

#### Rationale

In times such as these, requiring fiscal austerity, the benefits of ever more data and statistical precision fall short of the costs, which include significant costs inflicted on the private sector in burdensome reporting requirements. Therefore, EIA will go back to basics and not try to satisfy each and every demand for energy data and analysis. There will be less need for such services as energy consumers' and producers' decisions are guided more by the free play of market prices than by Federal planning and regulation.

## Key Facts About the Program

#### **EXAMPLES OF ACTIVITIES ELIMINATED:**

- Collection and publication each month of State by State consumption data for six fuel types. This imposes a significant burden on the private sector and Government. EIA can focus on national level data, with little loss to decision making necessary for national energy policy.
- Collection of financial data from oil companies which in part is already reported to the Securities and Exchange Commission and is available in company financial reports. Department of Energy reports indicate there are no "scandals" to uncover with this information. Continued collection of these data is a luxury incompatible with the need to reduce the budget.

#### EXAMPLES OF ACTIVITIES CUT BACK OR REORIENTED:

- Forecasting of petroleum prices to the year 2000. The limits of analysis are such that we cannot predict oil prices even for next year with a high degree of confidence.
- General energy modeling, used as a framework within which to address broad issues. Such modeling will be simplified and more focused on specific public policy needs. At present this activity suffers from too much operations research input and too little economic input.

#### WHAT REMAINS?

• For its three principal program responsibilities—collection, analysis, and data services—EIA will focus more on basic data series and systems for oil, gas, coal, and utilities and focus less on discretionary data and systems that try to satisfy every conceivable "need." Validation (quality assurance) efforts will continue within these programs. In addition to the savings of \$47 million in 1982, all these changes will eliminate a need for some 390 Federal employees.

# **Energy Regulation**

Agency: Department of Energy		ctional e: 276	Budget Reform Criterion: 6						
Funding	(\$ in millions)								
9	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	331	270	248	238	238	230			
Outlays	291	300	249	240	234	230			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRÁM CHANGES:									
Budget Authority	-111	-159	-143	-136	-133	-123			
Outlays	-68	-179	-145	-138	-129	-123			
REAGAN BUDGET:									
Budget Authority	220	111	105	102	105	107			
Outlays	223	121	104	102	105	107			

# Program Description

The Carter budget assumed decontrol of crude oil and remaining petroleum products (gasoline, propane) would not take place until September 30, 1981. A wide range of other energy regulations were to continue without major change. This included programs of the Economic Regulatory Administration, the Office of Hearings and Appeals, the Federal Energy Regulatory Commission, and gasoline rationing preimplementation.

# Proposed Change

President Reagan's commitment to ending unnecessary Government regulation will permit a sizable reduction in spending and removal of large numbers of Federal employees from Government payrolls. Department of Energy activities such as the oil price and allocation regulatory functions of the Economic Regulatory Administration, interventions in State public utility proceedings, mandatory fuel-use restrictions, and the cumbersome coupon rationing system will be eliminated. The proposed reductions total \$159 million, or a reduction of 59 percent from 1982 budget authority levels.

#### Rationale

These changes are part of the President's policy to impose fiscal constraint on programs of national interest. The economic impact of energy regulations is enormous. For more than nine years, restrictive price controls held U.S. oil production below its potential and artificially boosted energy consumption. These price controls and the related entitlements program subsidized importation of foreign oil, made us more dependent on OPEC, and aggravated our balance of payments problems. Removal of these controls is a positive step toward allowing our free market to promote prudent conservation and vigorous domestic production. Oil decontrol has also enabled the President to propose elimination of the Department of Energy regulatory activities that were designed to compensate for marketplace imbalances caused by price controls on oil — e.g., energy use restrictions as in the Powerplant and Industrial Fuel Use Act.

# Key Facts About the Program

Sizable direct savings of \$51 million in 1982 budget authority result from oil decontrol since this eliminates administration of complex regulations, reduces compliance work, reduces the hearings and appeals, and reduces program overhead. For example, the Office of Hearings and Appeals has quickly resolved almost two-thirds of the cases pending at the time of the decontrol action.

Indirect savings totaling \$104 million in 1982 budget authority also result from oil decontrol. Other regulatory activities designed to compensate for the market distortions caused by oil price controls can be eliminated, including:

• Repeal of the *coal conversion* program under the Fuel Use Act requiring utilities and others to switch away from oil. Reliance should be on market forces. Only three powerplant units have converted to coal under the program in two years, and they did so voluntarily. (Savings of \$31 million.)

- Termination of assistance for, and Federal interventions in, State utility rate proceedings. These Federal activities aided State utility commissions in complying with the Public Utility Regulatory Policies Act of 1978. This need will have been met by the end of 1981. (Savings of \$21 million.)
- Termination of planning for government petroleum allocation during supply disruptions (as under the Emergency Petroleum Allocation Act) and reliance on market forces. Federal allocation programs have been unsuccessful. Rigidities in the past allocation system gave rise to petroleum shortages in recent years. (Savings of \$17 million.)
- Termination of activities to implement gasoline rationing, authorized by the Energy Policy and Conservation Act, as amended by the Emergency Energy Conservation Act. Rationing would fail because of its complexity, vulnerability to fraud, and extraordinary regulatory burden. The Department of Energy will pursue alternative strategies relying on market forces. (Savings of \$35 million.)

Two other changes saving a total of \$4 million in 1982 budget authority are proposed to curtail the Federal Energy Regulatory Commission hydropower program authorized by the Federal Power Act:

- The first would raise the threshold for hydropower projects that are partially exempt from Commission jurisdiction. As a result, small projects could be placed in operation in much less time.
- The second would eliminate the hydropower resources analysis program that develops river basin use plans. This would provide less Federal interference for planners at the local, regional and State levels.

In addition to the dollars saved, the reductions will eliminate the need for almost 1500 Federal employees from current on-board levels.

# **Energy Sciences**

Agency: Department of Energy		Functional Budget Ref Code: 271 Criterion: 6						
Funding	(\$ in millions)							
<u> </u>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	263	346	373	396	417	437		
Outlays	263	346	373	396	417	437		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	<del>-</del> -							
Outlays	<del>-</del> -		<del>-</del> -					
PROGRÁM CHANGES								
Budget Authority	-2	-54	-60	-64	-68	-71		
Outlays	-1	- 54	-60	-64	-68	- 71		
REAGAN BUDGET:								
Budget Authority	261	292	313	332	349	366		
Outlays	262	292	313	332	349	366		

# Program Description

This DOE program supports basic research in such areas as coal chemistry, materials effects, corrosion, combustion, catalysis, etc. necessary to the effective long-term advancement of new energy technologies. It also includes special programs in University Research and Advanced Technical Assessments.

# Proposed Change

Reductions will generally be taken across the board. Core areas of expertise in all fields will be maintained. The integrity and general thrust of the program is preserved.

#### Rationale

Although these programs are in the national interest and appropriate for federal support, the level of increase proposed in the Carter budget cannot be sustained in a period of fiscal constraint.

- The Administration remains committed to a strong Federal role in long term energy research which the private sector is not able to support sufficiently in the national interest.
- These programs support long-term research which will lead to future improvements in the energy production technologies.
- These activities are conducted as a large number of small research programs conducted, primarily at universities across the country.
- The Basic Energy Science program operates and supports unique materials research facilities with considerable corporate participation and funding.

# **Fossil Energy**

Agency: Department of Energy		etional e: 271	Budget Reform Criterion: 4					
Funding	(\$ in millions)							
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority <sup>17</sup>	929	1008	1253	1230	1344	1376		
Outlays	942	1048	1218	1198	1319	1369		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays2/					- <b>-</b>			
PROGRAM CHANGES								
Budget Authority	-70	-359	-500	-560	-613	-861		
Outlays	-40	-332	-381	-501	-594	-516		
REAGAN BUDGET:								
Budget Authority	859	648	753	670	731	861		
Outlays	902	716	837	697	725	853		

Includes Fossil R&D and non-solar parts of Energy Production, Demonstration and Distribution account including the Naval Petroleum Reserve.

# Program Description

DOE currently supports a wide range of activities aimed at developing and improving technologies for producing and using coal, oil shale and oil and gas and for assisting the adoption of these technologies by private industry. These activities also include funding for the *operation* of major fossil energy demonstration projects and pilot plants.

# Proposed Change

Focus support for fossil energy demonstration projects in the Synthetic Fuels Corporation and terminate on-budget support in the DOE; phase out support for two major coal liquefaction pilot plants; and refocus remaining R&D activities on long-term high risk R&D with potentially high payoffs. Also terminate all commercialization activities.

#### Rationale

Costly near-term activities, such as construction and operation of pilot plants and the operation of demonstration plants using company-specific processes, subsidize individual companies while producing rapid and uncontrollable growth in the Federal budget.

The budget in this area has increased dramatically in the last seven years, increasing over seven-fold primarily because of pressures from private firms to have Federal funding spread among many potential private competitors.

These Government outlays are less needed now because the energy industry has stepped up its research and development investments, having increased its 1979 spending 25% over the previous year's level. Deregulation of energy prices will provide additional incentive to continue this trend, while other Administration policies such as the proposed tax incentive for investment through accelerated capital recovery and removal of excessive regulatory burdens will further enhance the private sector's ability to develop and introduce new technologies.

By relying on private market forces and the assistance of the newly created Synthetic Fuels Corporation, near-term technology development and commercialization activities can proceed without direct Federal funding. Federal research support can be focused on relatively less costly high-risk, longer-term, high-payoff activities that the private sector traditionally has been less willing or able to undertake.

- In the enhanced gas recovery area the Administration's FY 1982 budget calls for an \$18 million reduction under Carter level to \$10.7 million in budget authority. About 25 percent of this is due to cutoff of DOE geologic assessment activity which is being done by the private sector. In addition, with price increases under the Natural Gas Policy Act, drilling has increased from 11,378 wells in 1978 to almost 15,000 last year according to some estimates. Largest drilling increases were in the higher cost gas categories (deep and unconventional gas) and preliminary estimates suggest new gas discoveries in 1980 will exceed withdrawals.
- In oil shale a reduction of \$11 million in budget authority is proposed under Carter budget. Price decontrol, the existence of the Synthetic Fuels Corporation and recent OPEC increases have spurred a new wave of private sector investment in commercial oil shale production. Seventeen of the top 20 oil companies are now involved in oil shale projects. These companies have financial and technical resources to commercialize technology. They do not need direct government R&D subsidies to assist their activities.
- A \$174 million reduction in budget authority is proposed for coal gasification and liquefaction operating costs. Most of this reduction can occur because of termination of major fossil demos in FY 1982. In addition, the budget proposes to phase out Federal support for the Exxon Donor Solvent (EDS) and H-coal coal liquefaction pilot plants. The Federal government has subsidized the construction of these facilities. The companies involved have both the financial and technical resources to continue to operate these facilities if they believe it is beneficial.
- The budget proposes to phase out all magnetohydrodynamics (MHD) activity in FY 1982. MHD is a technology that, although it is long term and high risk, does not have a high payoff relative to other competing electricity technologies. Other technologies, such as fuel cells, promise efficiency nearly as high as MHD, yet they are much closer to market introduction.

# **General Science Program**

Agency: Department of Energy	Func Code	tional :: 271		Budget Reform Criterion: 6					
Funding	(\$ in millions)								
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	504	607	653	708	759	801			
Outlays	510	597	651	708	755	801			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays				<del>-</del> -					
PROGRÁM CHANGES									
Budget Authority		-40	-44	-60	-76	-83			
Outlays		- 24	-43	-60	-72	- 83			
REAGAN BUDGET:									
Budget Authority	504	567	608	647	683	717			
Outlays	510	573	608	647	683	717			

## **Program Description**

The DOE supports basic research in high energy physics, nuclear physics, and nuclear life sciences at National Laboratories (inherited from AEC) and in universities. This research is analogous to the type of basic research supported by the NSF in all disciplines of science.

# Proposed Change

The Administration proposes a reduction of \$40 million in the Department of Energy's general science programs in life sciences and nuclear medicine, high energy physics, and nuclear physics. These cuts are both across—the—board reductions in activity spread across the community and stretchouts or deferrals of existing or newly initiated construction projects.

#### Rationale

Although these basic research programs represent an appropriate Federal commitment and are in the national interest, the level of increase proposed by the Carter Budget was too large to be sustained in a period of fiscal austerity.

- As evidenced by the 12% increase over 1981 the Administration supports a Federal role in long term research in frontier areas such as high energy physics and nuclear physics. Such fundamental programs not only provide clearer understanding of the basic constituents of matter but can also lead to technological spin offs.
- This increase will cover anticipated inflation in recognition of the importance of basic research in these and other fields of the natural sciences as an investment in the Nation's future
- The proposed 12% increase over 1981 will compensate for anticipated cost increases due to inflation.
- The 1982 request will permit continuation of existing construction projects for high energy physics with perhaps some stretch in schedule. The level of experimentation, despite rising dollar levels, will remain esentially constant.
- The construction schedule on the ISABELLE facility (Intersecting Storage Ring Accelerator)
  at the Brookhaven National Laboratory will probably be stretched. This is dictated by
  technical problems associated with magnet design as much as by budget constraints. It is still
  too early to determine whether a change in project scope or total estimated cost is warranted.

# **Magnetic Fusion**

Agency: Department of Energy	Functional Code: 271				Budget Reform Criterion: 6				
Funding	(\$ in millions)								
<b>G</b>	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	394	506	580	680	770	835			
Outlays	443	563	575	630	690	750			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRÁM CHANGES									
Budget Authority	-11	-46	-86	-155	-216	-253			
Outlays	-8	- 84	-65	-105	-136	- 168			
REAGAN BUDGET:									
Budget Authority	383	460	494	525	554	582			
Outlays	435	479	510	525	554	582			

# Program Description

The DOE magnetic fusion program consists of basic plasma physics and engineering development which are being integrated into a technology feasibility program to demonstrate energy production from fusion.

# Proposed Change

This proposed reduction will cancel the Fusion Materials Irradiation Test Facility (FMIT), a materials support device at Hanford, Washington, and will also cancel the ISX long pulse experiment at Oak Ridge. The schedule on construction of the Fusion Engineering Device (FED) has also been slowed. The Center for Fusion Engineering and the commitment to an FED remain as part of the FY 1982 budget.

#### Rationale

The magnetic fusion reduction from the Carter Budget was taken in 1982 as part of a general reduction in Federal expenditures even in programs of national interest. The cancellation or slowdown of facility construction (FMIT, ISX, FED) should not significantly effect nor unduly delay development of the magnetic fusion program.

- These 1982 reductions from the Carter Budget do not represent any basic change in the Administration's strong commitment to the development of this inexhaustible energy supply option.
- The revised 1982 request still shows a 5% increase over the 1981 level of effort.
- Thirty million net out of the \$46 million decrease is due to the cancellation of the Fusion Materials Irradiation Test Facility (FMIT) that was to be built at Hanford, Washington. DOE is now studying less expensive ways to conduct materials research for the fusion program.
- The present program continues to maintain a broad science and technology base. This will enable DOE to exploit any successes in new fusion concept experiments. Experiments such as EBT at Oak Ridge, Spheromak at Princeton and OHTE at General Atomics are important insurance that the best fusion concept will emerge as an eventual reactor candidate.
- The cancellation of the ISX experiment (another \$8 million) for long pulse operations to be conducted at Oak Ridge represents a legitimate technical judgment by the DOE. More cost effective alternatives exist to provide the same scientific data.

- The Fusion Engineering Device (FED) has been slowed by approximately one year. The additional time should permit a better definition of the goals, concept and design of this facility.
- Some have suggested that fusion should be slowed down in the interest of developing the breeder. This is *not* the Administration policy. These are complimentary nuclear technologies with different development and deployment schedules. They both represent reasonable energy supply options and will receive appropriate levels of support in the future.

# **Other Energy Supply**

Agency: Department of Energy		etional e: 271		eform 4					
Funding	(\$ in millions)								
•	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	688	602	639	683	716	734			
Outlays	657	636	623	647	685	728			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRÁM CHANGES									
Budget Authority	-147	-223	-212	-209	-196	-195			
Outlays	- 70	-195	-215	-205	-197	- 204			
REAGAN BUDGET:									
Budget Authority	541	379	427	474	520	539			
Outlays	587	441	408	442	488	524			

# Program Description

These programs include geothermal, small hydropower, electric energy systems, energy storage, environment, uranium resource assessment, energy impact assistance and general plant projects.

# Proposed Change:

By applying sound criteria to these programs, primarily involving economic subsidy, it is proposed principally to terminate near-term demonstration, commercialization and subsidy activities which should be a private-sector responsibility and which, in many cases, the private sector is already supporting.

#### Rationale

The specific reductions in the area of technology development and their rationale are to:

- terminate geothermal loan guarantees that serve merely to reallocate capital from more productive investments;
- eliminate funding for additional Government-supported commercialization of geothermal technologies that can and should be supported by the private sector;
- eliminate development and demonstration programs in electric energy systems and energy storage that can and should be supported by the private sector;
- terminate subsidies for additional small hydropower demonstrations, because sufficient incentives already are provided through a 21% investment tax credit and through credit programs in the Department of Agriculture.

In addition to the above reductions in technology support programs, other actions are proposed to:

- eliminate energy impact assistance grants to the States that unnecessarily assume responsibility for activities that are more appropriately undertaken by State and local governments with industry support and duplicate other sources of Federal assistance.
- terminate environmental studies that are ineffective and duplicate efforts at the Environmental Protection Agency and other Federal agencies;
- phase out uranium resource assessment activities because this program is no longer necessary to meet nuclear nonprolioferation objectives and because adequate data on uranium resources is already available;
- stretch-out lower-priority construction projects at Department of Energy multi-purpose laboratory facilities during this period of needed restraint.

	1981				1982			
	Carter		Rea	gan	Carter		Reagan	
	BA	ВО	BA	ВО	BA	ВО	BA	BO
Hydropower	22	23	-3	20	3	16	0	10
Electric Energy Systems	40	42	35	38	39	38	10	9
Energy Storage	72	74	<b>52</b> .	52	60	64	39	44
Geothermal	199	160	164	157	97	123	49	84
Environment	237	230	227	225	280	275	231	234
Uranium Resource Assessment								
(NURE)	31	47	31	47	25	25	10	19
Energy Impact Assistance	62	63	10	30	48	65	0	16
General Plant Facilities	_25	<u> 18</u>	<u> 25</u>	_18	_50	_30	<u>40</u>	_25
Total	688	657	541	$\frac{18}{587}$	602	636	379	$\overline{441}$

#### **HYDROPOWER:**

The private sector is now actively pursuing small hydro development. No further DOE spending is needed.

- Applications for FERC preliminary permits increased almost 15 times between 1978 and 1980, to a total of 500 applications.
- In fiscal year 1981, over 572 applications were received in the first four months alone.
- A lot of this activity is being spurred by the 21% investment tax credit.
- For small, publicly-owned facilities, credit assistance is still available through USDA.

#### **ELECTRIC ENERGY SYSTEMS AND ENERGY STORAGE:**

Near term development and demonstration activities — which the private sector is or can be expected to supported — are being phased out. For example, the revised budget terminates:

- development of new and improved chemical batteries for electric vehicle use;
- demonstrations of the use of battery storage to reduce utility peak power demands.

#### **GEOTHERMAL:**

The revised budget terminates funding for near term geothermal activity. For example:

- Near term hydrothermal development such as programs in site confirmation, cost sharing commercialization efforts with the States and technical assistance to industry.
- The demonstration of the binary cycle at Heber, California.
- Operation of the 5MW binary pilot project at Raft River in Idaho.
- The Geothermal Resource Development Fund. Additional guarantees for loans will cease which will allow the banks to assess the value of investments in this technology.

The program for geopressured resource and component development is being reduced to eliminate duplication with industry efforts.

#### **ENVIRONMENT:**

The proposed reduction will terminate duplicative and unnecessary activities while ensuring that critical environmental research and assessment activities continue. For example:

- Short-term, site-specific research activities will be eliminated because they should be a private sector responsibility. Longer-term generic work will be unaffected.
- Duplicative and ineffective environmental assessments, such as the DOE-funded water-for-energy studies performed by the Water Resources Council, will be terminated. These studies duplicate similar activities required under NEPA.

• Environmental control technology evaluations, which are unnecessary to formulate energy-related environmental policy judgements, will be terminated, along with other evaluations at specific demonstration sites which no longer will be DOE-supported.

#### **URANIUM RESOURCE ASSESSMENTS (NURE):**

The uranium resource assessment program has essentially completed its original goal to provide a comprehensive assessment of national uranium resources.

- Essential geologic and geophysical data on 144 high priority quadrangles covering most of the known uranium-producing and high potential areas has been developed.
- Projections of future uranium supply and costs indicate adequate supplies into the next century.
- One of the justifications for the program was to prove enough uranium existed to put off a decision on building the breeder reactor. The Reagan Administration's policy is to proceed with the breeder; therefore this justification for the program no longer exists.

#### **ENERGY IMPACT ASSISTANCE:**

This program is being proposed for termination because energy development activities partially generate sufficient State and local revenues to mitigate the adverse impacts of development without Federal assistance. Additionally, a 1978 report to the President identified more than 115 Federal programs which could be used to assist communities impacted by energy development projects.

A 1980 report by the Congressional Budget Office also identified numerous Federal and State funding sources for impact assistance, including:

- the share of Federal mineral lease royalties which are returned to States (50% of royalties from coal; 37.5% for other minerals) which total nearly \$350 million for FY 1981;
- loans against future mineral lease revenues, which are authorized by P.L. 94-579 to provide "front-end" funding needed by communities;
- Federal payments in lieu of taxes, which are scheduled to provide \$111 million in FY 1981;
- the reclamation fund established by the Surface Mining Control and Reclamation Act (P.L. 95–87), funded from a tax on each ton of coal mined, which can be used for impact assistance.
- State mineral severance taxes, which have grown from \$686 million in 1970 to \$2.5 billion in 1978.

# **Solar Energy Development**

Agency: Department of Energy	Functional Code: 271				Budget Reform Criterion: 4			
Funding	(\$ in millions)							
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	577	583	664	623	5 <b>95</b>	553		
Outlays	589	589	650	657	595	553		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRÁM CHANGES								
Budget Authority	-99	-390	-457	-403	-362	-309		
Outlays	-79	- 380	-443	-437	-362	- 309		
REAGAN BUDGET:								
Budget Authority	478	193	207	220	233	244		
Outlays	510	209	207	220	233	244		

# **Program Description**

The DOE solar program currently includes research and development on a variety of emerging solar technologies (e.g. photovoltaics) and market development efforts to promote the use of solar technologies ready for commercialization (e.g., active solar heating). The current program also includes funds for a permanent facility for the Solar Energy Research Institute (SERI).

#### Proposed Change

The DOE solar program is being reduced by 67% in budget authority from the Carter budget for FY 1982, with cumulative savings of more than \$2 billion by the end of 1986. Reductions are proposed in all solar technologies to eliminate nearer-term technology development and commercialization activities. Long-term high risk, but potentially high payoff, research will continue. Funds for a permanent facility for SERI are deleted.

#### Rationale

These changes are proposed to apply sound economic criteria to replace current subsidy programs. The DOE reductions are part of a new Federal solar strategy that places greater emphasis on the private sector and market forces for the near-term development and commercialization of solar energy. Deregulation of oil and the increasing natural gas prices permitted under the Natural Gas Policy Act will remove the subsidies for competing oil and gas technologies that have prevented solar from achieving its true potential. Under these favorable conditions for solar energy, and assisted by continued solar tax credits, it is no longer necessary or appropriate for DOE to support costly near-term development, demonstration and commercialization efforts that industry can and will do. These changes will have little effect on solar energy use, which will continue a healthy rate of increase over time as rising conventional energy prices and the tax incentives stimulate the demand for commercial solar products.

Funds for construction of a permanent facility for the Solar Energy Research Institute are deleted. The mission of this organization needs to be better defined and an appropriate staffing level agreed upon before any decision is made to proceed.

# Key Facts About the Program

#### TOTAL FEDERAL SOLAR SUPPORT:

The following table compares the Carter and Reagan levels of total Federal support for solar energy. It should be noted that total Federal support for solar energy will remain high under the President's proposal due to continuation of solar tax credits, which are expected to reduce taxes for residential and business investors in solar energy system by \$2.6 billion between 1981 and 1986.

# Budget Authority (\$ in Millions)

			Change	S		
	Ca	rter	Cha	inges	Rea	gan
	1981	1982	1981	1982	1981	1982
DOE Solar Program	577	583	-99	-390	478	193
Other Federal Programs Solar Tax Credits	239	388	-47	-92	192	296
(excluding alcohol fuels						
and biomass)	<u>128</u>	<u>216</u>		==	<u>128</u>	<u>216</u>
Total	944	1187	-146	-482	798	705

#### SOLAR TAX CREDITS

Federal solar tax credits consist of:

- a 40% residential credit available to homeowners on the first \$10,000 of their solar investment.
- a 15% residential credit for landlords.
- a 15% business investment credit.
- tax exemption for industrial development bonds (IDB's) for State renewable resource programs.

These credits provide significant tax reductions for solar energy users:

	FISCAL YEAR								
	1981	1982	1983	1984	1985	1986			
Residential (including landlords)	112	191	276	360	515	646			
Business Investment Credit	15	24	55	100	160	141			
IDB's for State renewable programs	<u> </u>	_1	3	6	7	9			
TOTAL	128	216	334	466	682	796			

Extensive Federal tax incentives for alcohol fuels and biomass energy are also available. These are covered in separate justification papers. States also provide tax breaks for solar energy systems.

#### **SOLAR INDUSTRY GROWTH:**

Stimulated by rising conventional energy prices and solar tax credits, the market for solar energy products is expanding rapidly.

- Active Solar: The number of solar collector manufacturers has grown from 45 in 1974 to 223 in 1980—nearly a five-fold increase.
- Photovoltaics: It is estimated that actual and planned investments by the private sector in photovoltaics have totaled nearly \$300 million to date.
- Biomass: Direct combustion of wood already provides 2% (1.5 Quads) of our national energy consumption; and annual sales of wood stoves have increased from 160,000 in 1972 to over 1,000,000 today.
- Wind: In the mid-1970's there were about seven importers or manufacturers of small wind systems and little private funding of larger systems. Today, there are approximately 37 U.S. manufacturers of small wind systems and at least five privately supported developers of intermediate and large scale systems.

#### EXAMPLES OF ACTIVITIES ELIMINATED OR SIGNIFICANTLY REDUCED:

- Wind: Design and fabrication of additional intermediate and large scale wind machines. With private sales already occurring and companies developing these machines without Federal support, no further Federal funding for this activity is warranted.
- Photovoltaics: Low Cost Solar Array project, which funds quality improvements and cost reductions in near-term photovoltaic production processes. This activity will be undertaken by the private sector, which has made significant investments in this technology.

• Active Solar: Near term technology development and market support for solar hot water and space heating systems. With more than 300,000 systems already in place, and annual sales of \$750 million, product improvements and marketing of these systems can be left to industry.

#### **EXAMPLES OF ACTIVITIES CONTINUED:**

Longer term, high risk, but potentially high pay-off, research such as:

- Photovoltaics: Advanced research and development on amorphous silicon material and devices.
- Biomass: Identification and exploratory development of potential biomass energy feedstocks that have not been investigated extensively (e.g., cultivation of microalgae).
- Solar Thermal: New materials development and concept definition of advanced solar thermal systems for electricity generation and industrial process heat.

# Synthetic Fuels

Agency: Department of Energy		tional :: 271		Budget Reform Criterion: 4					
Funding	(\$ in millions)								
8	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:1/									
Budget Authority	415	858	1064	362	140	25			
Outlays	275	864	859	676	224	256			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRAM CHANGES <sup>2/</sup>									
Budget Authority	-545	-858 <sup>3</sup> /	-1060	-362	-140	-25			
Outlays	-275	-864	-859	-676	-224	-256			
REAGAN BUDGET:									
Budget Authority	-130	0	0	0	0	0			
Outlays	-60	0	0	0	0	0			

Does not include non-synfuel part of Fossil Energy Construction Budget.

# Program Description

Federal support for synthetic fuels is currently located in the DOE's Fossil Energy construction budget, in the DOE's interim Alternative Fuels program and in the Synthetic Fuels Corporation (SFC).

- DOE's Fossil Energy demonstration program currently supports five major synthetic fuel projects estimated to cost over \$2.7 billion through FY 1985. (This include only construction costs and does not include plant operating expenses in the Fossil Energy R&D account which would cost an additional \$1.9 billion.) These projects, all in the final design or site preparation stages, include: SRC I and II direct coal liquefaction, Memphis medium Btu coal gas, Conoco high Btu coal gas and Illinois Coal Gas Group's high Btu coal gas project.
- DOE's Alternative Fuels Program has a total of \$5.5 billion available from 1980 budget authority including \$0.5 billion for feasibility studies and cooperative agreements and \$5 billion for financial support (i.e. loan and price guarantees) for synfuel projects under the Non-Nuclear R&D Act (\$2 billion) and the Defense Production Act (\$3 billion).
- The SFC has \$12.2 billion to support synthetic fuel projects through price supports, purchase commitments, loans, loan guarantees, joint ventures and Government-owned facilities.

## Proposed Change

Terminate additional subsidies for project feasibility studies and cooperative agreements (\$300 million savings in budget authority) and DOE funding for synthetic fuel demonstration projects in fossil energy construction budget. Consolidate DOE alternative fuels program in the SFC after the SFC is declared operational by the President. Under existing statutory authority transfer uncommitted and unobligated DOE interim Alternative Fuels Program funds to the SFC on June 30, 1981.

#### Rationale

By allowing DOE synthetic fuel demonstration projects to compete for funding in the SFC a more effective and focused synthetic fuels program will result.

The Administration policy of eventually focusing all synfuels construction projects in the SFC will capture all of the important benefits of the previous programs while minimizing Federal costs. This policy will have several major advantages:

• It will allow project selections to be made on technical and economic merit; the independent nature of the SFC will help insulate project selection from undue political influences.

Reduction includes rescission of \$300 BA for feasibility studies and cooperative agreements...

Does not reflect future FY 82 rescission of \$170M of FY 81 funds for SRC II.

- It will restore management of the projects to the private sponsors, who will also be expected to have a considerably larger financial stake in the success of the projects. By requiring the private sector to bear more of the risk for these plants we increase the chances for project success, decrease Government costs, provide funding certainty (rather than the uncertainy associated with the annual appropriation process) and allow the private companies and vendors to fund and manage projects and market products of synfuels plants. As noted in a recent General Accounting Office study, Government project management has injected costly delays and other difficulties into the construction and operation of major synfuels facilities.
- It will allow very substantial reductions in Federal outlays. By allowing the SFC to consider funding projects currently being funded by DOE, we can save taxpayers over \$2.7 billion in budget authority for construction over the next 5 years and another \$900 million in operating expenses.

These savings can be achieved without compromising the pace of development of synthetic fuels given the very substantial support that the Synthetic Fuels Corporation can offer.

The Administration is also proposing to rescind \$300 million in budget authority for additional feasibility and cooperative agreement studies. This program basically subsidizes companies to do design studies so that they can later ask the Government for construction subsidies. Cutting out Federal involvement in this activity will not only reduce the Federal cost of synfuels programs but will also encourage companies to develop the capability to do their own studies. It is questionable whether any company which does not have either the technical ability or the relatively small financial resources necessary to do a feasibility study will be able adequately to share risk or provide the sound management necessary to construct and operate a commercial synfuels facility successfully.

# Key Facts About the Program

• The following demonstration projects, currently part of the DOE Fossil Energy program, will be affected by this policy. These project sponsors may submit proposals to the SFC.

Project/ Process	Proposed Location	Industrial Sponsors	Description
SRC-1	Newman, KY	International Coal Refining Co. (ICRC) (Wheelabrator-Frye, Air Products & Chem.)	Demonstration module to convert 6000 t/d of high-sulfur coal into solid and liquid fuels equivalent to 20,000 b/d of crude oil
SRC-II	Morgantown, WV	SRC International Inc. (Gulf Oil subsidiary	Demonstration module to convert 6000 t/d high-sulfur coal into 20,000 b/d (equivalent) of liquid fuels.
High-Btu Gas Demo/BGC-Lu Slagging Gasifier	Noble County, OH rgi	Conoco Coal Development Co. (with 9-member consortium)	Demonstration plan to convert 1270 t/d high-sulfur coal into 19 million cubic feet/d of pipeline quality gas.
High-Btu Gas Demo/ COGAS	Perry County, IL	Illinois Coal Gasification group (ICGG) (5 Illinois gas utilities)	Demonstration-plan to convert 2210 t/d high-sulfur coal into 23 million cubic feet/d of pipeline quality gas & 1720 bbl/d of liquids
Med-Btu Gas Demo/ U-GAS	Memphis, TN	City of Memphis, Light, Gas & Water Division	Demonstration plan to convert 3110 t/d high-sulfur coal into 154 million cubic feet/d of industrial fuel gas

- Private sector cost sharing for most of these projects is minimal, in some cases less than 5% of the total project cost which could exceed \$2 billion for some projects. It will be necessary for the private sponsors of the DOE demonstration projects to restructure their current financial arrangements in order to compete for SFC support. But in a time of severe fiscal stringency, it is unconscionable to allow projects to proceed on the current basis of minimal private contribution and enormous taxpayer support.
- A recent GAO report, which examined Federal costs for the coal liquefaction program, concluded that "premature commitment to contracting and poor construction and contract management greatly increased costs and schedule slippages." GAO concludes that, "larger investments by private sponsors and sharing of cost growth provides an incentive to private sponsors to control costs and helps to assure that each party is fully committed to the success of the project."
- There is a danger that by subsidizing too many projects too early, we increase chances for bottlenecks and key component shortages. This will substantially increase delays and total costs of the program.
- Supporters of the Memphis Project have said that funding the project in SFC could save up to \$200 million and reduce project delays resulting from the existing Federal procurement process and project management.
- Recently one of the supporters of a proposed high Btu coal gasification demonstration announced that it no longer supported construction of the project and that it supports the President's policy in the synfuels area. The Company allegedly will build a smaller diameter gasifier with several other companies using private funds..
- The DOE demo projects could be supported by the SFC either as full scale synthetic fuel projects using loan and price guarantees, purchase agreements or loans, or as synfuel project modules using the joint venture provisions of the Energy Security Act (ESA) (42 U.S.C. 8736). There clearly does not have to be any amendment of the ESA to allow projects presently being supported by DOE to apply for or receive assistance from the SFC.

# **Uranium Enrichment**

Agency: Department of Energy	Functional Code: 271				Budget Reform Criterion: 6			
Funding			<b>(\$</b> in 1	millions)				
5	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	1174	423	135	144	153	161		
Outlays	76	124	-178	-134	277	248		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	- <b>-</b>							
Outlays				- <b>-</b>	<del>-</del> -			
PROGRÁM CHANGES								
Budget Authority	-843	<u>1/</u> _135	+64	-5	-41	~29		
Outlays	- <b>-</b>	-355	-22	-16	-27	- 48		
REAGAN BUDGET:						,,,		
Budget Authority	331	68	200	96	160	230		
Outlays	76	-231	-200	-150	250	230		
$\underline{\nu}$ Reduction in contract authority not appropr	iation.							

# Program Description

The Uranium Enrichment program produces fuel for all domestic and many foreign nuclear power plants. Its obligations and expenditures are offset to a great extent by revenues generated from the sale of enriched uranium.

Fuel (enriched uranium) is currently produced at the three gaseous diffusion plants (GDPs) located at Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio.

Construction of the Gas Centrifuge Enrichment Plant (GCEP) is under construction at Portsmouth, Ohio using advanced and more efficient gas centrifuge technology.

#### PROPOSED CHANGE:

- In FY 81, a reduction in contract authority, a type of budget authority, which the program no longer needs because incoming revenue is now sufficient to cover expenses.
- In FY 82, a drop in production from the gaseous diffusion plants which will reduce power requirements for the plants by 1000 megawatts below the Carter Budget. The reduction will yield a savings of \$189M in FY 82 with no disruption in meeting demand.
- In FY 82, an increase in the price of Separative Work (SWU) yielding an additional \$149M in revenues. The price increase will be accomplished by raising the interest rates on plant and capital and by factoring in a reduced level of production.
- In FY 83 to 86 changes in power cost estimates due to higher power escalation rate projections and increases in revenues resulting from the FY 82 price increase.

#### Rationale

The reduction in operating levels of the gaseous diffusion plants will save \$200M in FY 82 and can be accomplished without impairing the Department's ability to meet demand for enriched uranium. The price of the product is being increased in keeping with the Administration's concern that the costs of special government programs be borne more directly by those whose receive the benefits.

- The FY 82 level of production is 9.5 million Separative Work Units (SWU's). This is the same as the FY 81 level but 4 million SWU less than the Carter level.
- The reduced operating levels in FY 82 at the GDP plants will provide enough production to meet demand by drawing down the SWU stockpile of 30 million by 4 million SWU's.
- Current demand by domestic and foreign customers in FY 82 is 14 million SWU's.

- A normal stockpile requirement (e.g., for working inventory) is 14 million SWU's (16 million less than DOE is presently maintaining).
- These reductions in operating levels will have no effect on employment at the GDP plants.
- The SWU price increase in FY 82 will increase the electricity rates for those consumers served by nuclear power by less than 1%.
- The SWU price increase will continue to make the US produced enriched uranium the most competitive in the world. The price increase of \$11 per SWU will put the DOE price at \$130 per SWU which is \$30 below the market price charged by foreign competitors. This increase is the legal limit permitted by legislation.
- Continuation of GCEP funding will result in a 1994 completion date. The centrifuge technology will consume only 5% of the power of the GDP plants for the same level of output. Its highly efficient production methods will have the effect of reducing the price of SWU by 15% in present dollars. Over 3,000 people will be employed in the Portsmouth, Ohio area during the construction of this project. An addition 1,000 people will be employed nation—wide in support of machinery and component production for GCEP.
- There is no change in the construction schedule of the Gas Centrifuge Enrichment Plant at Portsmouth, Ohio.

Department of Health and Human Services

# Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE)

Agency: Department of Health and Human Services	Functional Code: 609				Budget Reform Criterion: 1		
Funding			<b>(\$</b> in	millions)			
5	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority 1/	7.727	5,731	8,043	8,314	8.621	8,907	
Outlays	7,793	7,685	8,043	8,314	8,621	8,907	
REESTIMATES & ADJUSTMENTS <sup>2/</sup>							
Budget Authority	-22	-147	-351	-474	-592	-732	
Outlays	-24	-194	-351	-474	-592	-732	
PROGRAM CHANGES:							
Budget Authority		-651	-817	-899	-990	-1,018	
Outlavs		-651	-817	-899	-990	-1.018	
REAGAN BUDGET:							
Budget Authority	7,705	4,933	6,874	6,941	7,039	7,157	
Outlays	7,817	6,840	6,874	6,941	7,039	7,157	
1/ Includes proposed legislation items.							
2/ The Carter budget already included savings f	or proposed le	rislation ador	nted in the Re	agan revision	is as follows:		
The Carter budget already metuded savings i	1981	1982	1983	1984	1985	1986	
Budget Authority		-1,182	-1.360	-1,456	-1,563	-1.609	
Outlays		-1,182	-1.360	-1,456	-1,563	-1,609	

# Program Description

AFDC is often viewed as the primary Federal welfare program (although SSI spends as much for the poor). AFDC is administered by the States with Federal matching funds ranging from 50% to 83%. Within benefit standards established by each State, cash assistance is provided to low-income families based on household size and family income. Family eligibility and benefits depend greatly on what is counted as income.

CSE is designed to reduce AFDC costs by helping States locate absent parents who are liable for child support and enforce collection of such support (this program can also be used by non-AFDC families). The Federal government finances 75% of the State's administrative costs and shares in collections for AFDC cases in the same proportion as the AFDC matching rate for that State. Incentive payments (15% of the amount collected) to cooperating jurisdictions are paid out of the Federal share of collections. While the States reap large net savings from this program, the Federal government incurs substantial net costs.

#### Proposed Change

A legislative package is proposed with most of the savings accounted for by addressing the treatment of family income for AFDC purposes and greater sharing of CSE costs by non-Federal sources.

#### AFDC:

- Retrospective accounting and monthly reporting States would be required to determine each month's AFDC benefits based on the family's income and circumstances in the previous month. This would replace the current prospective procedure of estimating future income and family circumstances to calculate benefits, which can result in overpayments and undetected ineligibility and may take several months to correct, if at all.
- Stepparent income The income of stepparents and those assuming the role of stepparents would be counted in determining a child's eligibility and benefits for AFDC, in contrast to current Federal requirements which do not assume any financial responsibility on behalf of stepparents. This proposal would eliminate the anomalous situation of providing AFDC to a child who is an integral part of a household that is not eligible for AFDC, but should be expected to support her/him.

- Earned Income Tax Credit (EITC) Advance payment of the EITC would be assumed and counted against a family's monthly AFDC payment (the EITC can now be taken either on an advance payment basis or as a lump sum payment with the family's income tax refund). This proposal would correct the present inequity by which those receiving EITC payments monthly get their AFDC payments reduced and those who receive their benefits in the form of a tax refund have that amount incorporated into their asset base, which only marginally affects AFDC payment levels. It would also take into effect more appropriately the income AFDC families are receiving, and thus better reflect the family's actual current need for public assistance.
- Minimum AFDC payments AFDC payments below \$10 per month would be prohibited.
  This simplifies administration for marginal cases, especially those that may fluctuate on and
  off the rolls, with little effect on AFDC family income, and would affect only higher income
  AFDC families.
- State and local training costs The Federal matching rate would be reduced from the current 75% to 50%, the same as for other regular AFDC administrative costs. This change will encourage States to evaluate training needs on the same basis as other administrative priorities, rather than skew such judgments toward the richer Federal match.
- Countable other income States would be permitted to offset a family's AFDC grant to the extent (or any fraction thereof) that (1) the family's food stamp bonus duplicates the State AFDC food need standard, and (2) the Federal rent subsidy (Section 8 or public housing) exceeds the State AFDC shelter need standard. This will allow States to take into account the other sources of support AFDC recipients have and would reduce the effect of pyramiding various public assistance benefits that result in high total income to welfare families. This will also enable States to target more funds on the truly needy by increasiong AFDC benefit levels as well. (Note—not all States have a shelter need standard and would be required to establish one.)
- Limited eligibility to 150% of Needs Standard Families with gross income greater than 150% of the State needs standard would be ineligible for AFDC. Families with income over the 150% level can now be eligible for AFDC due to the disregard of earned income because of child care costs, work-related expenses, and other disregards. Families with such high incomes have resources on which to rely and should not draw on public assistance resources that should be reserved for these unable to support themselves.
- Individuals over age 18 Children over age 18 would be ineligible for AFDC unless they were in their senior year of high school. Current AFDC policy is a remnant of the time when the age of majority was 21. Individuals over 18 are legally adults and should be independent. AFDC should be reserved for children who are truly dependent.
- Standard work-related expense disregard Work-related expenses and child care, which are at present unlimited disregards for earned income, would be capped at \$75 and at \$50/child, respectively. There would also be disregarded 1/3 of the earned income remaining after all other disregards has been subtracted form total earned income—at present, the "one-third" disregard applies before the work expense and child care disregards are substracted from earned income.
  - These provisions will greatly simplify AFDC administration and address a major source of error and abuse. They will also provide a strong incentive for AFDC recipients to economize on their work and child expenses. Altering the order of application of the "one-third" disregard will ensure that one-third of work-related expenses are not accounted for twice.
- "\$30 and 1/3" four-month rule The "\$30 and 1/3" disregards noted above would apply only to those AFDC recipients who obtain work when they are already on the rolls, and then only for a four-month period. This is a sufficient transition period and provides an incentive for AFDC recipients to join the labor force. It is not reasonable to continue to substantially increase welfare families' income indefinitely once they are capable of meeting their own needs through employment.
- Resource limits A limit of \$1,000 (equity value) would be placed on an AFDC family's allowable resources. As a result of a recent court decision, resources are valued based on fair market value less encumberances (equity value) rather than full market value, which was the measure used by many States to determine their resource limits prior to the court decision. Because of the change, the value of excluded resources will be considerably more than most States intended.

- Community work experience Each State shall be required to establish and maintain a community work experience program approved by the Secretary of HHS for those individuals required to work (exceptions would be the disabled, persons under 18 or over 65, those working full—time, or mothers with very young children) as a condition of receiving AFDC. Community jobs would be provided if private sector jobs were unavailable. This mandatory requirement for AFDC recipients would encourage attachment to the labor force and self-support and would reduce the public assistance rolls so that more resources would be available for the truly needy.
- Lien provision States would be permitted to place a lien on an AFDC recipient's house for the value in excess of the average value of all houses in the State. The lien would be satisfied on transfer of ownership of the house, except that it would be deferred as long as a member of the household eligible for AFDC continues to reside in the house. Many recipients of AFDC own a valuable home that is not considered an asset for purposes of eligiblity. This proprosal would allow the AFDC recipient to retain his home, but upon the sale of the house the State would be able to recover some of the benefits paid during the period of need.
- AFDC-U primary wage earner For two-parent AFDC families, the unemployed parent shall be defined as the primary wage earner. At present, the States operate under an "unemployed parent" concept. Under the unemployed parent concept, either parent can qualify as the unemployed parent, and even if the other parent were employed, the family could still be eligible for AFDC benefits under the current earning disregards. Adopting the primary wage earner concept will relate eligibility for AFDC more closely to a family's actual need for public assistance.
- Non-recurring lump-sum payments Lump-sum payments would be considered available to
  meet ongoing needs in the AFDC programs, i.e., the lump-sum payment would be
  considered as income in the month received. If such a payment exceeded the standard of
  need, the household would be ineligible for aid. Any amount of the lump-sum payment that
  exceeded the monthly needs standard would be divided by the monthly needs standard, and
  the household would be ineligible for aid for the number of months resulting from that
  calculation.

Under current law, all income available to recipients of AFDC is supposed to be taken into account in determining benefit amounts and continued eligiblity. However, the law is sufficiently vague that there is currently no way to ensure that one-time lump-sum payments are spent for any purpose related to the family's needs over a period of time.

If a recipient receives an inheritance, lump-sum insurance, death or disability payment, income from the sale of property, or income tax refund, the money may be spent immediately on any item. If that occurs, the welfare grant is not reduced or eliminated in future months even though the lump-sum payments would have been sufficient to meet basic living requirements for several months if properly budgeted. This proposal would overcome this deficiency in current law by considering lump-sum payments as income in the month received. Individuals would be held responsible for prudent use of such income.

- Vendor payments The provision limiting vendor payments to 20% of AFDC cases would be eliminated. Present law restricts the number of vendor payments (direct payments by the welfare agency for housing, utilities, etc.) to 20% of the AFDC caseload in a State. At present, welfare recipients could spend their AFDC benefit for other items, and the vendors can have great difficulty in collecting what is legitimately owed them. Removal of this arbitrary limitation will make vendors more willing to provide housing, utilities, etc., to welfare recipients, since they would be assured of receiving payment.
- Recoupment of overpayments Any overpayment or underpayment of assistance would have
  to be corrected as a basic policy of efficient and equitable program administration. Recovery
  of any overpayment of assistance would be made from a recipient's current assistance
  payments, available income and resources, and/or legal process.

There is no specific reference in current law to the adjustment of overpayments in the AFDC program. Federal regulations hold that overpayments cannot be adjusted unless the recipient willfully failed to report a significant change in circumstances or has some current resource, such as exempt earned income or money in the bank. This proposal would mandate recovery of overpayments from future grants or other income. In addition, retroactive corrective payments of underpayments would not be considered as income or as a resource in the month paid or the next months.

- Deeming Provision This proposal would consider the income of the sponsor part of the income of the immigrant during the immigrant's first three years in the U.S. for purposes of determining eligibility for AFDC, Medicaid and Food Stamps. Exceptions would be permitted when sponsors are unable to take care of the immigrants because of unforeseen circumstances. Our immigration policy is to admit members of families and others based on the sponsor's demonstrated ability and willingness to provide support.
- Offers of employment of college students AFDC parents who are attending college would be required to register for work and to meet all other work requirements under the AFDC program. Under current law, an individual may be exempt from the AFDC work requirement and can get a college education at the expense of the taxpayers without having to meet the scholarship and other requirements for education grant or loan programs. The AFDC program was designed to meet the basic living requirements of needy children and their families, not to enable individuals to attend college at taxpayers' expense. It is inequitable to allow able-bodied adults to avoid the work registration requirement because they are atending school, while the taxpayers who pay for their welfare assistance may be unable to afford to go to college themselves or to send their children to college.
- Aid to strikers Participation in a strike because of a labor dispute (other than a lockout) shall not constitue good cause to leave, or to refuse to seek or accept, employment. Individuals unemployed by reason of going on strike would therefore be ineligible for AFDC benefits. Current Federal law does not expressly prohibit strikers from obtaining AFDC benefits. In States where strikers can qualify for AFDC, the first day of a strike produces an immediate surge in applications. AFDC caseloads continue to increase during the strike until most eligibles have found their way onto welfare. When the strike is ended, however, some remain on the rolls. Because of income disregards contained in the law, some persons may be able to remain on the welfare rolls indefinitely. This is inconsistent with the basic purpose of the AFDC program, and reduces the resources available for the truly needy.
- National Recipient Information Systems A National Recipient Information System (NRIS) would be established to collect information from the States and, in turn, provide them with information on individuals receiving public assistance. Central collection of information on recipients of and applicants for public assistance and dissemination of the information to the States will simplify and standardize information collecting and reporting requirements placed on the States, make information available on a more accurate and timely basis, and improve the administration of the various assistance programs. The system should serve as a strong deterrent to fraud and abuse.
- Access to information Information concerning applicants for, or recipients of, aid would
  be made accessible to any State or local agency for public assistance purposes. Access to
  information on such individuals is essential to fair and efficient administration of public
  assistance. The leading cause of error in the AFDC program, underreporting of income,
  could be reduced through access to more complete information.

State and local administrative savings from these AFDC provisions would be \$105 million.

#### CSE:

- Funds for non-AFDC cases An applicant fee of 10% of collections would be charged to defray at least part of the costs for non-AFDC cases. This proposal would alleviate the cost burdens on State and Federal governments for activities in which they have no direct interest, since no AFDC collections are involved. This proposal would also prevent relatively well-off non-AFDC families from using CES services for free. More resources would also be freed up to obtain increased AFDC collections.
- Collection of alimony or Spousal support CSE activities would be expanded to cover
  collection and distribution of alimony for current AFDC cases in the same way as child
  support. Present law authorizes only the collection of child support. This proposal would
  resolve problems where existing support orders do not differentiate between alimony and
  child support, which makes it difficult for local CSE agencies to make and correctly
  distribute collections.
- Financing of State and local incentive payments The incentive payment of jurisdictions that cooperate with other jurisdictions in collecting child support would be financed jointly by the State and Federal governments in the same proportion that they share in CSE collections. At present, the incentive payment (15% of collections) is financed entirely out of

- the Federal share of CSE collections. This proposal would go far to redress the State-Federal imbalance in net return from the CSE program.
- Federal income tax refunds The IRS would halt and collect from an absent parent's Federal income tax refund the amounts owed for child support arrearages identified by a State. Due process would protect the individual's rights. A number of States have used this procedure successfully and have found that many absent parents began making regular support payments when they learned of the existence of the procedure. Under current law, IRS already makes collections from income tax refunds for child support in those cases where a State has certified that it is unable to make the collection.
- Child support obligations discharged in bankruptcy The Bankruptcy Act would be amended to prohibit the discharge in bankruptcy of child support obligations. Fulfillment of child support obligations is crucial to the benefit of inividual children and to overall social policy. Failure by an individual to meet the obligation results in a burden on the State and Federal governments, and may also mean less support for the child even if the child receives AFDC benefits. States indicate that they have had to pay large amounts for child support of bankruptcy individuals. Child support should be honored even by someone who is legally bankrupt.

# Reduce Alcohol, Drug Abuse and Mental Health Research and Training

Agency: Department of Health and Human Services	Functional Code: 552,553			Budget Reform Criterion: 6					
Funding	(\$ in millions)								
J	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	356	390	404	419	434	450			
Outlays	324	341	353	366	379	392			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays		24							
PROGRAM CHANGES									
Budget Authority	-33	-46	-154	-169	-184	-200			
Outlays	-9	-18	-107	-116	-129	-142			
REAGAN BUDGET:									
Budget Authority	323	344	250	250	250	250			
Outlays	315	347	246	250	250	250			

#### Program Description

ADAMHA provides support through grants and contracts, as well as through direct Federal programs, for research and training activities in the areas of alcohol, drug abuse, and mental health. In total, the 1981 and 1982 Carter budget provided increases over the 1980 levels of \$9 and \$43 million in 1981 and 1982 budget authority, including about \$77 and \$100 million for new awards to conduct research in biomedical and behavioral sciences and to train researchers and health personnel in these areas.

# **Proposed Changes**

The Reagan Budget proposes rescissions of \$32 million in 1981 budget authority and reductions of \$46 million in 1982 budget authority for these programs. Funding for new starts in biomedical research and research training would be \$45 million in 1981 and \$51 million in 1982 budget authority. Continuations would be funded, but no new awards would be supported in 1981 and 1982 for social sciences research and research training. No new awards would be made in 1981 and 1982 for funding clinical training and by the end of 1982 all clinical training programs would be phased out.

#### Rationale

Research. Reductions in 1981-1986 are proposed to slow the rate of growth of funding for ADAMHA biomedical research to a rate below projected inflation and to reduce the level of funding for social sciences research below current levels. Across the board reductions in Federal spending — including research — are necessary for economic recovery; social sciences research has been reduced substantially because this research has been less productive than biomedical research.

Research Training. The level of support for trainees in social science areas has been reduced. In addition, institutional overhead has been eliminated from the National Research Service Act research training awards because the Federal Government should not pay higher costs to support a research trainee than are normally charged for a nonfederally supported student at the same institution.

Clinical Training. The supply of mental health professionals is now generally adequate, mental health professionals generally have a good income potential, and thus Federal subsidies for such training are no longer necessary.

# Key Facts About the Program

Since 1963, the supply of psychiatrists, psychologists, psychiatric social workers, and psychiatric nurses has almost doubled:

- psychiatrists: from 16,000 to about 30,000;
- psychologists: from 20,000 to more than 40,000;

- employed registered nurses of whom about 4% specialize in mental health from one-half million to over a million;
- social workers in the National Association of Social Workers of whom about 14% specialize in mental health from 36,000 to 76,000.

Mental health professionals are employed not only in hospitals, clinics, and mental health facilities, but also in courts, correctional institutions and schools. Many other paraprofessionals are now also providing mental health services.

#### Ratio of ADAMHA service providers to general population:

•	Psychiatrists		12.1 per 100,000 (1977)
•	Psychologists		11.8 per 100,000 (1976)
•	Nurses	•	18.1 per 100,000 (1972)
• •	Social Workers		34.9 per 100,000 (1978)
•	Paraprofessionals		250 per 100,000 (estimate)

### Salary level of ADAMHA service providers:

- Psychiatrists: Average 1978 income of \$49,000.
- Psychologists: For psychologists with doctoral level training, median 1978 income of \$35,000.
- Nurses: In 1978, for a beginning psychiatric nurse, \$15,000; median \$17,500.
- Social Workers: In 1978, for a beginning masters level social worker, \$17,500; median \$25,000.

## **Energy And Emergency Assistance Block Grant**

Agency: Department of Health and Human Services	Functional Code: 609			Budget Reform Criterion: 7				
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority		1,893	1,910	1,911	1,911	1,914		
Outlays		1,907	1,910	1,911	1,911	1,914		
REESTIMATES & ADJUSTMENTS								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority		-493	-509	-509	-509	511		
Outlays		-507	-509	-509	-509	511		
REAGAN BUDGET:								
Budget Authority		1,400	1,400	1,400	1,400	1,400		
Outlays		1,400	1,400	1,400	1,400	1,400		

## Program Description

The Federal Government assists low-income households in meeting high energy costs and households in need of emergency financial aid or other crisis support through grant programs administered by the Department of Health and Human Services. Although these categorical programs share common goals, differing requirements for eligible services and recipients restrict State flexibility in meeting priority needs in the most cost-effective manner. For example, only energy costs are eligible services under one program but a broader definition of assistance is authorized under the smaller emergency assistance (Title IV-A) program. Grants under Title IV-A of the Social Security act may be used to provide emergency assistance only to needy families with children and not, for example, to an elderly person living alone, who may need emergency assistance as much or even more.

# Proposed Change

As part of the effort to consolidate categorical programs into block grants to States, the Administration proposes to replace HHS low-income energy assistance and emergency assistance programs with a flexible block grant to States for energy and emergency assistance. State matching funds will not be required. Under this proposal, States would have complete flexibility in the delivery of fuel assistance and other emergency services to meet the needs of their citizens.

#### Rationale

Consolidation of energy and emergency assistance activities into a block grant to States will eliminate unnecessary restrictions on those programs and increase State flexibility in delivering this type of assistance. This increased flexibility is especially important for energy and crisis assistance, given the severe consequences of a State's inability to act swiftly to assist a poor family heat their home in an unusually severe winter or help a family in a fire, flood or other crisis situation. States are in a better position to determine the most appropriate distribution of these funds, since they are closer to the individuals and families needing assistance.

Under the Administration's proposal, States could adopt innovative aproaches to deliver more cost-effective energy and emergency assistance. For example, grants under the low-income energy assistance categorical program cannot be used for low cost conservation projects or minor home repairs which could lower fuel bills or avoid major breakdowns of heating equipment. Under the block grant proposal, States would be free to use these funds to reduce potentially higher future energy consumption and costs. States would also have greater flexibility in the delivery of services provided in the event of emergency situations. For example, temporary financial asistance, food, clothing, shelter, emergency medical care or social services could be given to assist a family in a emergency. In a crisis situation, State and local officials would not have to stop and ask themselves "Can I use these Federal funds to provide this particular service, good, money, etc. to this family?"

# Key Facts About the Program

• Only 27 States participate at present in the emergency assistance program which has certain serious shortcomings, e.g., States cannot determine who can participate types of emergencies covered, and the duration and frequency of payments.

## Health Block Grants

Agency: Department of Health and Human Services		ctional e: 551			Budget Re Criterion:			
Funding	(\$ in millions)							
9	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority		1,753	1,753	1,753	1,753	1,753		
Outlays		621	1,581	1,770	1,753	1,753		
REAESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority		371	371	371	371	371		
Outlays		121	581	570	371	371		
REAGAN BUDGET:								
Budget Authority		1,382	1,382	1,382	1,382	1,382		
Outlays		500	1,000	1,200	1,400	1,400		

### Program Description

Through the years, a complex, duplicative, and uncoordinated array of some 25 Federal health service programs has developed. These programs provide services based on varying criteria including age, income, health status, disease category, occupation, and residence. Most of the programs overlap and duplicate other programs in services provided and/or populations served. Some of these programs are formula grants to States for provision of services at the local level, usually by local governments or agencies. Others make project grants or provide in–kind services or federally paid workers to local public agencies, community–based organizations, and similar non–profit groups. Each program generally has its own separate planning process.

## Proposed Change

As part of the effort to return decisionmaking authority, where appropriate, to States and localities, the Administration proposes to consolidate the present collection of 25 Federal categorical health service grants into two block grants to States: health services and preventive health services.

#### Rationale

Aside from the confusion caused by the total lack of coherence in the Federal delivery effort itself, day to day management has developed into a costly bureaucratic morass of planning, regulating, and reporting at the Federal, State, and local levels. The problems of categorical grant programs are not limited just to this waste and inefficiency or to management difficulties. Because of the fragmented nature of the current funding system, often persons in need of these services must go to several different and unrelated grantees for different services and must receive related health services from different providers. The current system's administrative requirements have resulted in nearly insurmountable barriers for States, local governments, communities, and even individual providers who wish to integrate funds from all grant programs into comprehensive assistance systems.

The Administration's block grant proposal will enable States to plan and coordinate their own service programs, establish their own priorities, and exercise effective program control over resources provided to localities and non-profit organizations. This approach will reduce the multiplicity of rules and regulations (and, hence, Federal direction) under which service agencies currently operate. States will thus have greater flexibility—as well as greater responsibility for results—in providing needed health services to their populations. Overlapping funding from different programs for the same services could be eliminated. States could select the service delivery agency best able to provide certain services that are now provided by direct Federal grantees. The overall result would strengthen State governments and provide publicly–financed services more effectively and at lower costs to those in need.

Appropriation action has been proposed to carry out the Administration's proposal, effective in October of this year, contingent upon enactment of authorizing legislation which will be submitted as soon as possible. The proposed funding level for 1982 is 75% of the 1981 current base or \$1,382 million. Because the new block grant legislation would allow significant savings in program overhead and more efficient service delivery due to the elimination of overlapping service responsibilities, this funding change need not result in a reduction of services.

- Over 1,600 Federal employees manage these programs.
- There are over 12,000 grant sites.
- There are 218 pages of Federal law and 235 pages of Federal regulations for these programs.
- 365,000 manhours are required each year to complete Federal reports.
- The programs included in the health services block grant are:
  - Primary Health Care Centers
  - Primary Care Research and Demonstrations
  - Black Lung Clinics
  - Migrant Health
  - Home Health Services
  - Maternal and Child Health
    - Services
  - Maternal and Child Health/ Supplemental Security Income Disabled Children's Services

- Hemophilia
- Mental Health ServicesDrug Abuse Community
  - Projects
- Drug Abuse Grants to States
  Alcoholism Community Projects
  Alcoholism Grants to States
  Emergency Medical Services
- Sudden Infant Death
   Syndrome
- The programs included in the preventive health services block grant are:
  - High Blood Pressure Control
  - Risk Reduction and Health
  - Education
     Flouridation
  - Lead-Based Paint Poisoning
    - Prevention

- Family Planning Services
- Health Incentive Grants
- Venereal Diseases
- Rat Control
- Genetic Diseases
- Adolescent Health Services

### Social Services Block Grant

Agency: Department of Health and Human Services		ctional e: 506	Budget Refo Criterion: 7						
Funding	(\$ in millions)								
<b>U</b>	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority		5,251	5,539	5,767	5,951	6,030			
Outlays		5,281	5,547	5,751	5,936	6,015			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays				-	_				
-									
PROGRAM CHANGES:									
Budget Authority		-1,451	-1,739	-1,967	-2,151	-2,230			
Outlays		-1,208	-2,037	-2,251	-2,436	-2,515			
REAGAN BUDGET:									
Budget Authority		3,800	3,800	3,800	3,800	3,800			
Outlays		3,500	3,500	3,500	3,500	3,500			
1/ Some activities were previously classified in	function 609 (	income secur	rity).						

## Program Description

The Federal Government funds numerous programs to help low-income individuals and others with special needs become self-sufficient, to prevent unnecessary institutionalization, and to protect children from abuse and neglect. While each program was established to meet laudable goals, in practice they often overlap and duplicate other services and target populations. For example, the Title XX, child welfare and child abuse programs all fund child welfare-related activities. Community action agencies in localities receive funding directly from the Federal Government for social services which are also funded through the States under Title XX. Differing Federal mandates and eligibility requirements make it difficult for States and local communities to tailor services to needy beneficiaries. More often than not, Federal requirements outweigh recipient needs in deciding who gets what type of service in which location.

### Proposed Change

The Administration proposes to replace various Federal categorical social service programs with a flexible block grant to States. States would be free to decide what mix of social services are provided, by whom, and under what eligibility conditions. Burdensome Federal regulations, reporting requirements, standards, etc., would be eliminated. States would thus have greater flexibility — and be accountable for results — in meeting the needs of low-income persons and those with special needs, including children at risk and the disabled. No matching or maintenance of effort requirements would be imposed on States.

#### Rationale

Consolidation of categorical grant programs into block grants is an important element in the Administration's effort to return major responsibility for the administration of various health, education, and social service activities to the States, while slowing the rate of growth of Federal spending.

In the area of social services, the Administration's proposal would significantly reduce State and grantee administrative costs associated with meeting Federal planning, auditing, and reporting requirements. States would be free to develop innovative delivery systems which emphasize continuity of care for individuals rather than fragmented systems which force clients to shop around among numerous local providers. States could devote more resources to high priority services. For example, one State may have a much higher foster care caseload than another State, requiring relatively more resources for child welfare service activities. Another State may need more money for homemaker services.

Greater State flexibility in delivering social services will also eliminate much of the present duplication of services which constitutes a drain on State resources. For example, instead of funding 5 different programs which provide similar information and referral services in a particular county and which are underutilized, the State could fund one such referral center and devote the dollars saved to expanding other types of services.

## Key Facts About the Program

Examples of problems addressed by this block grant:

- Of 3 providers the General Accounting Office surveyed in Seattle, all received duplicative funds to provide the same information and referral services. In Los Angeles, 5 of 10 and in Cleveland, 4 of 7 providers received Federal funds to provide the same information and referral services. consolidation of information and referral services was recommended (HRD 77-134).
- In Children Without Homes (April 1977, Children's Defense Fund), proliferation of Federal funding sources, requirements, and regulations in the child welfare area was criticized. Administrative and programmatic consolidation was urged.
- A General Accounting Office study found \$1 million of duplicative reimbursements for programs and services, involving only six Community Action Agencies.
- A General Accounting Office study (HRD 80-43) criticized the lack of coordination on a
  Federal level for hindering Developmental Disabilities State Planning Councils' attempts to
  use and coordinate activities for a variety of health, education, rehabilitation and other social
  service programs.
- The programs which are included in this block grant are:

Title XX Social Services

Title XX Day Care

Title XX State and Local Training

child Welfare Services

Child Welfare Training

Foster Care

Adoption Assistance

Child Abuse

Runaway Youth

Developmental Disabilities

OHDS Salaries and Expenses

Rehabilitation Services

Community Services Adminsitration

(except community economic development)

## Cuban/Haitian Domestic Assistance

Agency: Department of Health and Human Services	Func Code	tional e: 609			Budget Re Criterion:			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	90	88						
Outlays	153	83	15					
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority		-15						
Outlays			-15					
REAGAN BUDGET:								
Budget Authority		73						
Outlays		83						

#### Program Description

The HHS Cuban/Haitian Domestic Assistance program reimburses States for cash and medical assistance, social services and services for unaccompanied minors to Cuban/Haitian entrants who arrived in the U.S. since 1980. The program also may fund transitional education assistance (through the Department of Education) for school districts with large numbers of Cuban/Haitian entrant children.

## Proposed Change

The proposed change would eliminate \$15 million in special educational grants to local educational agencies which had been requested in the Carter budget.

#### Rationale

In March 1981, school districts received \$7.7 million for Cuban/Haitian entrant children for the 1981–82 school year through the Department of Education. Florida received about \$5.3 million of the 1981 funds. While current U.S. policy permits special educational assistance funding to school districts for an entrant child's initial year in the U.S., the \$15 million previously requested for 1982 would actually provide a *second* year of special educational assistance funding for the 1982–83 school year.

Special educational assistance is best limited to the first year, when school districts are most heavily affected. Continuation of funding could lead to an entitlement expectation and prove difficult to terminate, as in the case of the 20 year 1962–78 arrival Cuban Program. In addition, special educational assistance funding in the form of general grants to school districts may not ensure that Federal funds are spent only on new services for entrant children.

More appropriate channels for possible educational assistance to Florida include:

- Secretary of Education discretionary funds which could be allocated for special uses such as English language instruction. This project approach would ensure that funds are targeted to services for entrant children.
- Education and social services block grant funds, from which heavily impacted areas of a State could receive added funds at the State's discretion.

- Five States have 93% of the new Cuban/Haitian entrant population with Florida alone having 75%.
- Florida is receiving \$7 million for FY 81 for educational assistance to Cuban children through the old Cuban program.
- Florida also received \$7.8 million for bilingual education (Title VII of Elementary and Secondary Education Act) during 1980.

## **Health Maintenance Organizations**

Agency: Department of Health and Human Services	Func Code	tional : 551			Budget Ref Criterion: 6	
Funding			(\$ in m	illions)		
9	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	56 <sup>1</sup> /	48	48	48	48	48
Outlays	30	31	40	48	48	48
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays						
PROGRAM CHANGES:						
Budget Authority	-28	-40	-48	-48	-48	<del>-48</del>
Outlays	-10	-22	-32	-42	-48	-48
REAGAN BUDGET:						
Budget Authority	28	8				
Outlays	20	9	8	6		
1/ Excludes \$17 million supplemental reque	est for the HN	10 loan and	loan guarante	ee program	which has be	en withdrawn.

## Program Description

The HMO program provides grants and loans for the establishment or expansion of HMOs. Loans may also be awarded for construction of ambulatory care facilities.

## Proposed Change

As part of the effort to eliminate unnecessary Federal subsidies, the Administration will propose to phase out the Federal grant and loan subsidy program to health maintenance organizations (HMOs) by the end of 1982.

#### Rationale

The Administration believes that after 8 years of Federal support the feasibility of HMO prepaid health care delivery has been adequately demonstrated, and that HMOs can be financially self-supporting institutions developed without continued Federal subsidies. There are now 235 HMOs with 9 million members located in every urban area with a population greater than 1 million, and affiliated with 15% of the Nation's physicians. In recent years, substantial amounts of private capital have been provided for HMO development.

A major impediment to further investment of private capital in HMO development is not a dearth of Federal support but, rather, the unnecessarily restrictive requirements for Federal qualification presently found in the Health Maintenance Organizations Act. In fact, artificially high minimum benefit requirements and organizational standards have been a leading source of defaults among small, federally supported HMOs that have found that the heavy Federal requirements priced their benefit packages out of the market.

Amendments will be proposed to the HMO Act, which expires at the end of the fiscal year, to remedy this problem. Once HMOs are no longer required to undertake uneconomic activities, private capital should be more available for HMO development, obviating the need for further subsidies.

This proposal will also halt Federal losses from further attempts to start HMOs that are not economically competitive. The current subsidy program focuses on entities that could not obtain private financing because of their high risk, and then imposes unusually extensive, costly benefit packages and other conditions that inhibit their competitiveness. As a result, defaults on unsecured loans for HMO operating deficits and required interest subsidy payments will exhaust the \$35 million HMO loan revolving fund by the end of the year and will require substantial future spending even without awarding any new loans.

This proposal should have no significant effect on development of economically viable HMOs, which can be funded through private sources. Moreover, competitive HMOs will be more effectively encouraged through the health financing reform proposals that the Administration is developing for later submission than through grants and loan subsidies.

- Corporations supporting HMO development or enrollment include R. J. Reynolds, Deere and Co., General Motors, Chrysler, Ford, IBM, Xerox, Blue Cross/Blue Shield, INA, and Prudential.
- Only 2% of medicare and medicaid beneficiaries are enrolled in HMOs due to restrictive HMO legislation and regulations and medicare/medicaid reimbursement policies.
- More than half of HMO membership is in private HMOs which have not received Federal support.

# Health Planning

Agency: Department of Health and Human Services		tional :: 553			Budget Re Criterion:			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	146	147	147	145	145	145		
Outlays	162	160	150	145	145	145		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-24	-89	-145	-145	-145	-145		
Outlays	<del>9</del>	-45	-107	-120	-145	-145		
REAGAN BUDGET:								
Budget Authority	122	58	2					
Outlays	153	115	43	25				

## Program Description

The health planning program provides support, primarily through formula grants, for 213 local health systems agencies (HSAs) and 57 State health planning and development agencies (SHPDAs). The program has a dual charge to assure equal access to quality medical care and to control costs. The Federal government now provides 90% of HSA funds and 75% of SHPDA funds.

## Proposed Change

The Federal health planning program is proposed for phase-out over the 1981-1983 period, consistent with a 2-year Administration timetable to develop and carry out health financing reforms that encourage competition in the health sector. To begin the phase-out, a \$24 million reduction in funding for local health planning is proposed for 1981.

#### Rationale

As part of the general effort to restrain health care costs by stimulating competition in the health care industry, the Administration proposes phasing out the Federal health planning program. This program represents an effort to impose a complex national health regulatory program on States and localities. Moreover, it has not proved effective in controlling costs on a national basis, and it inhibits market forces needed to strengthen competition and provide less costly services.

If competitive forces are to restrain costs, free entry into health care markets is essential. Otherwise, high-cost providers can monopolize health care markets. The certificate-of-need review process conducted under the health planning program is a system whereby hospitals and other institutional providers must receive a Government franchise before beginning operations. This system inhibits free market entry, often propping up high-cost institutions behind a Government-created entry barrier. Elimination of this franchising system is a necessary element in the Administration's efforts to promote the effective functioning of private market forces in the health care sector.

- Health planning advocates argue that the excess hospital bed supply has decreased, proving
  the national effectiveness of the planning program. In reality, 5-States alone accounted for
  over 75% of the decreases and the 2 States with the greatest decreases in excess bed
  supply—New York and Minnesota—owe their success largely to State rate setting
  commissions and strongly pro-competitive environments, not to entry regulation.
- GAO, in a March 1980 report entitled *Unreliability of the American Health Planning Association's Savings Estimate for the Health Planning Program*, disputes the AHPA's claim that \$3.4 billion was saved due to health planning between 1976 and 1978.

### **Health Professions Education**

Agency: Department of Health and Human Services	Func Code	tional : 553			Budget Res Criterion: (			
Funding	(\$ in millions)							
· ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	231	170	170	170	170	170		
Outlays	418	288	355	339	291	228		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-45	-44	-44	-44	-44	-44		
Outlays	-8	-20	-50	-50	-50	-48		
REAGAN BUDGET:								
Budget Authority	186	126	126	126	126	126		
Outlays	410	268	305	289	241	180		

## Program Description

The Department of Health and Human Services supports 27 project and formula grant training programs for institutions and students aimed at increasing the supply of health professionals, primarily physicians, dentists, and nurses.

## Proposed Change

As part of its plans for better targeting the allocation of Federal funds, the Administration proposes to end large general subsidies for the training of physicians and other health professionals. Such programs are no longer necessary in light of the growing projected supply of most health professionals. Instead, Federal programs will be targeted directly on training needs of national priority.

#### Rationale

During the 1960's and the 1970's the supply of health professionals increased dramatically, partly as a result of Federal subsidies of about \$18 billion. During the 1970's, the annual number of graduates from medical schools doubled from 8,000 to nearly 16,000. Today, the Nation as a whole has reached or exceeded the estimated required level of health professionals for almost every major specialty. The number of active physicians alone is expected to reach nearly 600,000 by 1990, an increase of 58% between 1975 and 1990. Moreover, the ratio of physicians per 100,000 population is projected to rise from 173 per 100,000 to 239 per 100,000 in the same time period.

The Administration will propose legislation to refocus Federal aid on a limited number of national priority medical specialties, rather than providing large subsidies for all specialties. In addition, support for training in nonphysician specialities will be focused on occupations such as physician's assistants and nurse practitioners which help address the problem of maldistribution of health professionals.

By more directly targeting Federal health professions training subsidies on national priorities, program costs can be reduced. At the same time, higher-priority, more targeted programs will subsidize the education of health professionals in those fields where they are most needed.

The proposed change is not expected to affect the projected surpluses for the coming decade in nearly all health professions areas. Federal student assistance programs in the Department of Education will continue assisting students to finance their own education and the Department of Health and Human Services will fund a \$120 million grant program for high priority health professions. Included in this program, the Administration will continue support at the 1981 appropriated level of \$20 million for assistance programs to encourage minorities, who are now under-represented in health professions fields, to choose health careers.

- Federal capitation payments amount to only 3% of medical schools' annual revenues.
- Nurse training will continue to be supported through nursing special projects as opposed to general support since the total supply of nurses appears to be adequate but too many qualified nurses have chosen other professions or are being utilized in nonpatient care positions.
- Average medical school tuition in 1980 was about \$3,000, and was only \$1,600 for the two-thirds of students enrolled in public schools in their own states.
- There are three times as many qualified applicants as there are spaces available in health professions schools, indicating that, even with decreased Federal support, helath professions enrollment will likely remain at its high current level.

### Indian Health Service

Agency: Department of Health and Human Services	Functional Code: 551				Budget Reform Criterion: 6			
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	•							
Budget Authority	715	772	801	831	863	897		
Outlays	688	740	766	786	817	850		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-33	-137	-166	-196	-228	-262		
Outlays	-3	-53	68	-165	-196	-229		
REAGAN BUDGET:								
Budget Authority	682	635	635	635	635	635		
Outlays	686	687	688	621	621	621		

## Program Description

The Indian Health Service provides preventive, curative and environmental health services and facilities construction for approximately 795,000 American Indians and Alaska Natives living on or near reservations. The Carter budget provided 1982 construction funds for 3 clinics and 3 hospitals added by Congress to the 1981 appropriation and a \$23 million 1981 supplemental request for sanitation facilities construction.

## Proposed Change

Funds for facilities construction are reduced by \$32 million in 1981 and \$109 million in 1982 by eliminating additional requests for sanitation facilities construction and seeking rescission of funds for the new hospitals and clinics added by Congress. Funds requested for health services in 1982 are \$20 million greater than 1981 but \$28 million less than in the Carter budget. Urban health projects and Indian health manpower scholarships would be phased out.

### Rationale

By slowing construction of health facilities, this proposal would impose needed fiscal restraint for this program. In recent years, facilities construction for Indians has proceeded at a high rate; since 1978, 9 other hospitals and 6 other clinics have been funded.

As part of the slowdown in construction, no additional funds are requested for HUD Indian housing construction.

- Funds not requested for new facilities were similarly opposed by the Carter Administration.
- Urban health projects largely provide referral, rather than medical, services; are not required by treaty obligation; and are over and above services available to the general population.
- Indian manpower projects would be eligible for funding on their merits from \$120 million of 1982 funding provided for all health professions training programs.
- Despite these restraints, outlays from all Federal Indian programs will average more than \$12,000 for each Indian family of 4 in 1982.

## Increasing the Cost-Effectiveness of the Medicaid Program

Agency: Department of Health and Human Services		ctional e: 551			Budget Re Criterion:			
Funding	(\$ in millions)							
<b>o</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	17,236	18,802	21,699	24,933	28,421	32,311		
Outlays	16,452	18,120	21,027	24,178	27,565	31,346		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	-1	34	-416	-1,185	-2,350	-3,844		
Outlays	-1	29	-245	-925	-2,007	-3,437		
PROGRAM CHANGES:								
Budget Authority	-589	-1254	-2,567	-3,939	-5,144	-6,526		
Outlays	-339	<del>-9</del> 44	-2,325	-3,652	-4,878	<del>6</del> ,196		
REAGAN BUDGET:								
Budget Authority	16,646	17,582	18,716	19,809	20,927	21,941		
Outlays	16,112	17,205	18,457	19,601	20,680	21,713		

## Program Description

Medicaid is a program of grants to States to assist them in providing medical insurance coverage to low income families and individuals. The Federal government provides States with open-ended matching payments for their expenditures, with the Federal match (based on State per capita income) ranging from 50% to 78%.

The Carter budget included a mix of minor savings proposals and benefit expansions, with a net impact of -\$95 million from current services in 1982. By 1986, Carter budget legislative proposals would have added \$1.1 billion to current services.

## Proposed Change

Legislation will be requested to impose an interim limitation on currently open-ended Federal matching payments for Medicaid while fundamental program reforms are developed. Federal payments would be reduced \$100 million below current projections in 1981, would be limited to a 5% increase in 1982, and would be limited to the percentage increase in the GNP deflator in subsequent years. During the interim period, States would be given additional flexibility to manage and structure the program. The limitation would be allocated so that States would retain their current relative share of total Federal Medicaid spending.

In addition, the new budget does not endorse benefit expansions included in the Carter budget and proposes immediate recovery of Federal matching payments to States for previously disallowed erroneous expenditures. The latter change is estimated in the Reagan budget to result in a one-time 1981 saving of \$270 million. Currently, it takes up to eighteen months to recover such disallowances.

#### Rationale

As health care costs have risen dramatically over the last 15 years, the cost of maintaining health care entitlement benfits has escalated alarmingly. Costs under federally supported medical assistance programs for the needy have risen from \$5.2 billion in 1970 to over \$29 billion in this fiscal year. Combined Federal and State expenditures for Medicaid now exceed \$1,300 for each eligible beneficiary.

Federal and State regulatory efforts to date have failed to stem the increase in costs because they fail to affect the underlying cost-increasing bias in the health care system that results from the insulation of all parties in medical care markets from the cost consequences of their decisions. The Administration will propose comprehensive legislation to remedy these market distortions.

As an interim measure prior to the adoption of these Administration initiatives, the Administration will propose legislation to establish a limit on the Medicaid program's unconstrained growth. As part of this proposal, Federal program requirements would be modified to allow States to amend their present programs to ensure that essential services are provided to needy persons in a timely and cost-effective manner.

The Medicaid program has been growing faster than 15% per year for the last 5 years. High Federal matching, excessive benefit provisions, and overly-generous eligibility have made the Medicaid program a very poorly managed social program that fails to provide cost-effective services to those most in need.

Because under the interim cap Federal expenditures would no longer be open-ended, States would have additional incentives to reduce fraud, waste, and abuse in this State-administered program. In addition, the new flexibility granted States would enable them to reorganize their programs to deliver care more effectively and at lower cost.

The Administration believes the degree of restraint provided by the interim limit can be achieved by States without reducing basic services for the most needy. In the 1983–1986 period, the Administration expects to institute comprehensive health financing and Medicaid reforms to reduce the rate of health cost inflation and to improve Medicaid.

Under the Administration proposal, States would not be forced to shoulder unreasonable additional burdens. Legislative changes would be sought to ensure that States have the flexibility to amend quickly the eligibility, benefits, and payment provisions of their State Medicaid plans so as to allow them to meet the essential health care needs of their needy citizens at a lower cost. Under current law, excessive Federal mandates are an obstacle to cost control. The Administration proposal would ensure that States had the authority to reorient their program quickly toward essential services to those most in need. No State, however, would be prevented from providing whatever additional services it deemed appropriate out of its own resources.

- Eligibility errors by the States are currently estimated to cost Federal and State governments approximately \$1.2 billion annually.
- The previous Administration's HEW Inspector General's first annual report (1977) estimated \$4.1-\$4.6 billion worth of waste, fraud and abuse in the Medicaid program.
- The proposed 1982 reduction is only 3% of anticipated Federal-State program expenditures.
- States vary widely in their control over annual expenditure growth. In November, 1980, the five States with the slowest growing programs projected their expenditures would only increase 2.3% in 1981, while the top five States projected a 32.2% average growth.
- States vary widely in expenditures per beneficiary. In 1980, the five highest expense States averaged an estimated \$1,877 per beneficiary, compared to \$712 in Federal-State expenditures in the five lowest expense States.

# National Center for Health Care Technology

Agency: Department of Health and Human Services	Functional Code: 553				Budget Reform Criterion: 6				
Funding		(\$ in millions)							
J	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	4	6	6	6	6	6			
Outlays REESTIMATES & ADJUSTMENTS:	3	5	6	6	6	6			
Budget Authority									
Outlays PROGRAM CHANGES:									
Budget Authority		-6	6	<del></del> 6	6	<del></del> 6			
Outlays		<b>-</b> 5	<del>-</del> 6	<del></del> 6	-6	<del>-6</del>			
REAGAN BUDGET:									
Budget Authority	4								
Outlays	3								

## Program Description

The National Center for Health Care Technology (NCHCT) was created by statute in 1978. NCHCT has focused on assessments of new and emerging health care technologies and on making Medicare coverage recommendations to the Health Care Financing Administration (HCFA).

## Proposed Change

The Administration proposes to eliminate NCHCT as a separate organization and to assign responsibility for its functions, where appropriate, to other HHS activities.

#### Rationale

As part of President Reagan's plans to manage Federal funds more efficiently, the elimination of a separate health care technology center is a good example of a way in which the Federal budget and the level of Federal employment can be responsibly reduced. Rather than continuing to support an ever expanding separate HHS technology center, this change eliminates an unnecessary Federal agency whose functions can be carried out by other activities. Appropriate Federal actions in this area, such as Medicare coverage issues or technology assessments, will be conducted by HCFA, the National Center for Health Services Research (NCHSR), and the National Institutes of Health (NIH).

- As administered by HHS, NCHCT grew from a funding level of \$344 thousand in 1979 to \$6.2 million and 50 staff proposed in the 1982 Carter budget.
- The work of NCHCT parallels closely similar functions carried out by HCFA, NCHSR, and NIH.

# National Health Service Corps (NHSC)

Agency: Department of Health and Human Services	Func Code	tional : 553			Budget Re Criterion:		
Funding	(\$ in millions)						
J	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:	-						
Budget Authority	171	193	224	258	295	335	
Outlays	147	187	206	231	264	300	
REESTIMATES & ADUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority	-23	56	-87	-121	-158	-198	
Outlays	<del></del> 6	-38	-100	-110	-130	-150	
REAGAN BUDGET:							
Budget Authority	148	137	137	137	137	137	
Outlays	141	149	106	121	134	150	

## Program Description

The National Health Service Corps (NHSC) provides federally employed physicians and other health professionals to areas classified by the Department of Health and Human Services (HHS) as health manpower shortage areas. Most of the NHSC recipients receive full tuition and stipend support while in medical school for which they owe service on a year-for-year basis.

#### Proposed Change

As part of its efforts to reduce market distortions and Federal subsidies, the Administration proposes no new scholarships for the NHSC program. This action is intended to prevent unnecessary program growth and costs in the 1990's, when persons receiving new scholarships would complete their training and report for assignment as Federal employees. This proposal would maintain a constant, long term NHSC size of 2,500 assignees to be utilized only in the highest priority areas where physicians and other needed health professionals are not likely to locate voluntarily or where scholarship obligated health professionals could not choose the private practice option because the underserved area could not support a private practice. (The "private praction option" is available to assignees who wish to enter a private practice in shortage areas in return for forgiveness of scholarship obligation.)

#### Rationale

Serious remaining problems of access to adequate primary care will probably be virtually eliminated within the next few years due to growth in the Nation's supply of physicians and past NHSC scholarship commitments. At most, 6,000 health professionals—to serve approximately 12 million underserved people—are necessary to cover all health manpower shortage areas. However, the NHSC placement program alone, under Carter Administration placement policies, would have grown from 2,060 in 1980 to our 9,000 by 1990, even if new awards were frozen today. HHS, working with States, local communities, and potential assignees, will make maximum use of the private practice option and other non-Federal placement to assure that the maximum strength of the NHSC does not exceed 2,500 Federal employees. In addition, recent data indicate that physicians in general, and primary care physicians in particular, are voluntarily locating in smaller communities, and that specialists in rural areas spend 30% or more of their time on primary care. Finally, since the scholarship pipeline is so long, whatever short-term problems in primary care access remain would not be addressed by new awards.

In addition to the excess supply problem, total program costs for assignees obligated by scholarship are very high. Federal costs in 1980 averaged \$100,000 per physician for each year of scholarship-obligated service. Alternative aid programs would be more cost effective. Consequently, the Administration proposes to eliminate all new NHSC scholarship awards in 1981 and 1982 but will allow students who currently have scholarships to complete their training.

- Physician supply expansion is so rapid—34% during the 1970s, and an estimate additional 38% during the 1980s—that a surplus of physicians is expected by 1990 for most medical specialties.
- Access to medical care has improved greatly since the early 1960's, so that even when data are corrected for disability, the poor now see physicians at least as often as the non-poor.

## Moderate Growth for the National Institutes of Health

Agency: Department of Health and Human Services	Functional Code: 552,553		Budget Reform Criterion: 6					
Funding	(\$ in millions)							
<b>O</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	3,594	3,849	3,968	4,099	4,236	4,381		
Outlays	3,410	3,655	3,750	3,875	3,999	4,130		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-81	-86	<del></del> 91	-97	-102	-107		
Outlays	-36	-73	-83	-92	-98	-103		
REAGAN BUDGET:								
Budget Authority	3,512	3,762	3,877	4,002	4,135	4,274		
Outlays	3,374	3,583	3.667	3,783	3,901	4,027		

## Program Description

Reflecting the Administration's commitment to Federal support of essential biomedical research activities, funding increases will be proposed for continued growth of the National Institutes of Health (NIH). NIH provides support for biomedical research, primarily through NIH's eleven Institutes. Research project grants, made mostly to individual researchers and research teams, account for approximately one–half of NIH's budget. Other NIH funds support a variety of research and training activities.

## Proposed Change

Funding wil allow continuation of previous years' commitments and permit substantial numbers of new awards each year. As part of a general effort to achieve economies and reduce lower priority activities, however, the funding increases will not fully cover projected inflation.

#### Rationale

Despite these overall reductions, however, the Administration remains committed to NIH research project grants as a vehicle for stimulating scientific breakthroughs that return benefits to society far in excess of the Federal commitment of funds. One of the principal areas of reduction will be the institutional payments made for NIH (and other) research training under the National Research Service Awards (NRSA) program. This proposal would eliminate the current practice of paying more to an institution for a federally supported trainee than is charged in tuition and fees to nonfederally supported students at the same institution. All trainees would continue to receive awards for their tuition, fees, and living expenses.

- Increased funding from 1981 to 1982 will be provided for all Institutes.
- The numbers of new and competing research project grants in 1981 and 1982 will exceed the 1980 level.
- The number of training grants will also be at approximately the 1980 level.

## Office on Smoking and Health

Agency: Department of Health and Human Services	Functional Code: 553			Budget Reform Criterion: 6				
Funding	(\$ in millions)							
<b>g</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	3	3	3	3	3	3		
Outlays	2	3	3	3	3	3		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-1	-3	-3	-3	-3	-3		
Outlays	-1	-3	-3	-3	-3	-3		
REAGAN BUDGET:								
Budget Authority	2	1/						
Outlays	2							

Funding will continue under a combined OASH health promotion and smoking and health activity, including \$2.9 million and 25 positions in 1982. This represents a reduction of \$3.9 million and 12 positions from the Carter budget. An additional \$10 million for smoking and health demonstration grants has been folded into the proposed health block grants.

## **Program Description**

The HHS Office on Smoking and Health (OSH) was established in 1979 by former HEW Secretary Califano as a separate office under the Office of the Assistant Secretary for Health (OASH). OSH coordinates HHS' national smoking and health program, including providing technical assistance and preparation of an annual report to Congress. Funding for this activity totalled \$2.5 million in 1980 and \$3 million in 1981. President Reagan has proposed a \$1 million rescission in 1981 as part of plans to eliminate a separate OSH by 1982.

## Proposed Change

This change provides for eliminating a separate OSH activity and combining it with the OASH health promotion activity. This combined activity will continue to assist Federal, State and local agencies and private organizations to develop programs in nutrition, exercise, smoking, and alcohol and drug abuse.

#### Rationale

Consistent with other Administration efforts to eliminate unnecessary and duplicative Federal activities, the elimination of a separate OSH terminates low priority activities that should more appropriately be carried out at the State and local levels. The President's proposed health block grants ensure that States will have the flexibility to fund smoking and health programs if they are considered a high priority. Maintenance of a separate Federal smoking and health office will no longer be necessary under these circumstances.

- Since OSH's establishment, one of its major functions has been to coordinate smoking and health activities carried out in several HHS activities, including NIH, CDC and ADAMHA.
- As noted above, implementation of the health block grant proposals coupled with other administrative improvements will enable the Administration to combine smoking and health coordination with the OASH health promotion program.

# **Professional Standards Review Organization (PSROs)**

Agency: Department of Health and Human Services	Functional Code: 551				form 6	
Funding			<b>(\$ in</b> )	millions)		
· ·	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	-					
Obligations	174	174	174	174	174	174
Outlays	171	171	171	171	171	171
REESTIMATES & ADJUSTMENTS:						
Obligations						
Outlays						
PROGRAM CHANGES:						
Obligations	-38	-104	-107	-174	-174	-174
Outlays	-38	-102	-106	-171	-171	-171
REAGAN BUDGET:						
Obligations	135	70	67			
Outlays	133	68	65			

## **Program Description**

This program—administered through 185 Federally funded PSROs of widely differing effectiveness—is intended to assure the necessity and quality of medical care funded through Medicaid and Medicare. The Carter budget provided a new requirement that the PSRO program have as a national objective for 1982 a 2% reduction in Medicare and Medicaid days of hospital care.

## Proposed Change

A competitive system of funding would be introduced by which only those PSROs judged most effective in reducing medical costs and improving quality of care would be refunded. No Federal objective setting would be required and the mandate for utilization review where PSROs are not active would be removed. After 1983, Federal support for PSROs would stop.

#### Rationale

The phase-out of the PSRO program would substantially reduce Federal regulation of health care services. By defunding the least effective PSROs, this proposal would also impose needed fiscal restraint. Recent studies on the effects of the PSRO program by the Congressional Budget Office provide evidence that the PSRO program raises national health care spending. According to these studies, the cost of the nationwide system of hospital utilization review organizations exceeds the resulting savings achieved by reductions in length of hospital stay and lower admission rates. Even this analysis fails to factor in the reality that, due to the way in which hospitals are presently reimbursed for services on a cost basis, cost "savings" achieved through lower medicare and medicaid utilization are simply passed on to hospital users who pay their own bills, or who are covered by private insurance. The phase-out of the PSRO program over the 1981-1983 period is consistent with a 2-year Administration timetable to develop health financing reforms that encourage competition in the health sector. The transitional funding for the most effective PSROs would be continued into 1983 to allow competing systems of care to contract for their services.

- The Congressional Budget Office estimates the PSRO program results in a net loss of \$0.60 for every dollar spent.
- Some PSROs appear to be effective; 50 receive funding from industry or insurance carriers to cover non-Federal patients.
- The American Medical Association and American Hospital Association recently called for the abolition of the PSRO program.

# **Public Health Service Hospitals and Clinics**

Agency: Department of Health and Human Services	Functional Code: 551			Budget Reform Criterion: 6		
Funding	(\$ in millions)					
0	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	168	172	160	170	170	170
Outlays	168	172	160	170	170	170
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays				<del>-</del>	- <b>-</b>	
PROGRAM CHANGES:						
Budget Authority	<del>-39</del>	-99	-150	-160	-160	-160
Outlays	-39	<del>-99</del>	-150	-160	-160	-160
REAGAN BUDGET:						
Budget Authority	129	73	1011	101/	101/	101/
Outlays	129	73	1011	1011	10 <sup>17</sup>	1011
1/ This level would continue to support th	e National Ce	enter for Hans	sen's Disease	and the T	uskeegee syph	ilis study.

## Program Description

The Public Health Service (PHS) has operated a wholly federally financed medical care system for merchant seamen since 1798. The original purpose of the entitlement was to protect the Nation from communicable diseases that could be brought into the country from foreign ports at a time when there were few medical facilities in American port cities. Today, those cities have sufficient medical facilities. Moreover, through the years, this entitlement has been expanded from merchant seamen to include tugboat operators, fishermen, offshore drilling crewmen, dredge industry employees, and others in addition to oceangoing seamen. Thus, a program that was originally designed to provide occasional onshore benefits for seamen who spent most of their days at sea has become, in effect, a free Government health delivery program for selected occupational classes.

## Proposed Change

The Administration will seek repeal of this entitlement and closure of the remaining eight PHS hospitals and 27 clinics now providing free medical care. This change requires a 1981 rescission of \$39 million and a 1982 reduction to the Carter budget of \$99 million.

#### Rationale

The provision of free Government health care for merchant seamen is unnecessary and unwarranted. Moreover, the PHS hospital and clinic system is under-used and actually aggravates health care costs in the cities where the hospitals are located. Improved health and the growth of collectively bargained health care plans have led to low demands on the PHS hospital system. Occupancy rates of the hospitals have averaged about 65% since 1976, compared to national minimum standards of 80% occupancy. In addition, all of the hospitals are located in areas with adequate or excess supply of hospital beds, and all of the eight affected cities have at least one other Federal facility operating at less than 80% occupancy to care for nonmerchant seamen patients entitled to Federal care. Thus, this proposal will not affect appreciably merchant seamen's access to care.

Most of the hospitals and clinics have also been serving a small number of low-income people in their areas, largely on an outpatient basis, in order to fill unused cpacity. This proposal includes funds to allow the Department of Health and Human Services to pay for such services by contract in 1982 while seeking arrangements for indigent care with other under-utilized hospitals in affected areas.

Under this schedule, PHHS operational support of the hospitals and clinics would cease as of October 1 of this year. The entire system would either be closed or turned over to local communities that wish to maintain the facilities by the end of 1982.

- Seamen union members earn between \$12,000 per year to \$79,000 per year and have medical coverage through noncontributory employer financed health insurance plans.
- Over 70% of the PHS system employees are physicians, dentists, nurses, and skilled technicians who would not be expected to face great difficulty in obtaining other employment in the rapidly growing medical care industry.
- The Federal Government will provide \$415 million in subsidies to the American shipping industry in the 1982 budget.

## PHS Commissioned Corps Physician Bonuses

Agency: Department of Health and Human Services	Functional Code: 553			Budget Reform Criterion: 2		
Funding			(\$ in n	nillions)		
<b>3</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	44	48	52	56	60	64
Outlays	44	48	52	56	60	64
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays				<del>-</del> -		
PROGRAM CHANGES:						
Budget Authority		-3	-3	-3	-3	-3
Outlays	<del></del>	-3	-3	-3	-3	-3
REAGAN BUDGET:						
Budget Authority	44	45	49	53	57	61
Outlays	44	45	49	53	57	61

## Program Description

Under an amendment to the Mental Health Systems Act (MHSA) (P.L. 96–398), the 2,700 PHS Commissioned Corps physicians are authorized the same bonus levels as military physicians —a potential annual maximum of \$29,500 above basic salary. The MHSA amendment changed a significant feature in the Uniformed Services Health Professionals Special Pay Act of 1980 (P.L. 96–284) that increased military physician bonuses but held the Commissioned Corps to its existing bonus levels—a potential annual maximum of \$25,700 above basic salary. The MHSA amendment was enacted despite objections from the previous administration which had earlier vetoed such increases.

## Proposed Change

This change would modify the MHSA amendment that tied the bonuses paid to Commissioned Corps physicians to the level paid to the military and allow PHS physician bonuses to be related to HHS needs.

#### Rationale

The argument that both the military and the Commissioned Corps should receive the same pay and benefits because both are "uniformed" services is not valid. While it has been a uniformed service, the Commissioned Corps has functioned very differently from the military health corps. Corps members receive the same benefits as the military—free retirement and medical care, commissary and PX privileges, etc., without comparable hardships and rotational assignments, and without being subject to the Uniformed Code of Military Justice. As part of President Reagan's plan to reduce middle and upper income benefits, the continuation of entitlement bonuses to Commissioned Corps physicians at the same level and on the same basis as the military is unwarranted.

Moreover, there is no difference in function between Corps and General Schedule (GS) health personnel to justify additional benefits. Corps members are paid substantially more for doing the same job than GS employees—\$10,000-\$15,000 more annually for senior Corps physicians. Many Commissioned Corps physicans do not practice medicine—rather, they function as researchers, administrators, or health planners.

With the proposals in President Reagan's 1982 Budget to eliminate inappropriate Federal activities, e.g., closing the PHS hospitals, an estimated 500 Commissioned Corps physicians can contractually be reassigned to meet any documented PHS physician shortages. Thus, as with proposed changes for VA physician bonuses, it is unnecessary to maintain artificially high bonus levels for Commissioned Corps physicians. Rather, bonus levels will be tailored to the needs of each physician personnel system.

## Key Facts About the Program

• The Administration will develop further reforms of the Commissioned Corps system so that it better meets HHS, rather than DOD, recruitment/retention needs and is better integrated with the HHS GS physician payment system.

## Refugee Assistance

Agency: Department of Health and Human Services	Func Code	tional : 609			Budget Re Criterion:	
Funding			<b>(\$</b> in r	nillions)		
•	1981	1982	1983	1984	1985	1986
CARTER BUDGET: <sup>1/</sup>						
Budget Authority	690	652	600	494	335	304
Outlays	579	658	678	581	485	389
REESTIMATES & ADJUSTMENTS						
Budget Authority	-50	-21				
Outlays	<del>3</del> 1	-13	6			
PROGRAM CHANGES:						
Budget Authority		48	-57	-24	-14	-14
Outlays		<b>-41</b>	-47	-39	-22	-15
REAGAN BUDGET:						
Budget Authority	640	583	543	470	321	290
Outlays	548	604	625	542	463	374
1/ The Carter budget already included savings	for this proposa	l Total savin	os exnected a	re as follows:		
Budget Authority	ioi iiiis proposu	124	112	73	56	48
Outlays		88	103	84	62	48

## Program Description

The Refugee Assistance program reimburses States for cash, medical assistance, and social services to refugees for up to three years after their arrival in the U.S. Up to 50% of the 181,000 refugees arriving in the U.S. during fiscal year 1981 may require public assistance. The voluntary agency grant program provides a \$1,000 matching per capita grant for Soviet Jewish refugee resettlement social services in the U.S. The Cuban program phasedown gradually decreases the reimbursement to States (60% in FY 81, 45% in FY 82 and 25% in FY 83) for costs in providing services and benefits to "old" Cubans who arrived in 1962–78.

## Proposed Change

- Rescind \$30.4 million in 1981 for cash and medical assistance, and for voluntary agency grant programs, due to a decrease in the number of refugees (mainly Soviet and Indochinese) arriving in the U.S. in the first quarter of FY 81.
- Rescind \$15 million in 1981 for "old" Cuban program phasedown for cash and medical assistance, and for reimbursement to states for services to Asylum Applicants, due to lower State cost estimates than projected earlier.
- Rescind \$4.5 million in the 1981 Refugee Assistance budget for non-essential non-State administered social service projects and Federal Administration.
- Reduce the level of refugee benefits starting in 1982 to a level comparable to those given to the general population.

#### Rationale

Because of lower refugee flows, as displayed below, \$30.4 million less will be needed in the state administered cash and medical assistance programs, and in the voluntary agency grants for resettlement social services.

	1st Quarter <u>Projected</u>	1st Quarter <u>Actual</u>	Decrease in Flow	% <u>Decrease</u>
Soviet Jewish	6,000	2,198	-3,802	64%
Indochinese	42,000	32,777	-9,223	22%

Eliminating the 20 year Cuban program in 1982 makes our refugee policy more consistent with the Refugee Act of 1980, which allows only 3 years of special Federal reimbursment. The old Cuban program is no longer needed as the average annual income of the old Cuban refugee families equals

96% of the average annual U.S. family income. A different program provides services to Cubans and Haitians arriving after 1978.

The proposed cash assistance changes makes the refugee assistance program more comparable to the AFDC program, and general assistance programs. This will eliminate the higher than normal U.S. public assistance program benefits paid in the refugee program.

## **Key Facts**

- For services and assistance costs to the 125,000 Cubans and Haitians who arrived in Florida during the summer of 1980, states and localities have been reimbursed with Federal funds authorized by the Refugee Educational Assistance Act of 1980 (P.L. 96-422). This Act (also known as Fascell-Stone) provides up to \$100 million in reimbursements to States and localities for services to Cuban and Haitians entrants for FY 82..
- The Federal Government reimburses States at the rate of 100% for services and assistance to refugees for up to three years.
- Voluntary agencies receive a \$350 per capita grant for initial reception and placement services in addition to the \$1000 resettlement social services grant for each Soviet Jewish refugee resettled in the U.S. Soivet Jewish refugees are entitled to all refugee benefits under the Refugee Act of 1980.

## **Social Security Overview**

<b>Funding</b>			<b>(\$</b> in	millions)		
8	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	132,672	152,318	168,554	185,052	210,803	233,916
Outlays	139,884	161,551	183,078	203,705	224,196	244,638
REESTIMATES & ADJUSTMENTS:1/						
Budget Authority	+1,379	+649	+1,765	+2,256	+2,130	+2,680
Outlays	-294	-2,024	-6,741	-11,882	-17,172	-22,897
PROGRAM CHANGES:						
Adult Student Payments:						
Outlays	-35	-1,030	-1,675	-2,075	-2,225	-2,350
(Student Assist. Offset)	()	(+30)	(+50)	(+75)	(+100)	(+100)
Minimum Payment Amount: 2/					, ,	, ,
Outlays	-60	-1,300	-1,400	-1,500	-1,500	-1,500
Payments on a Worker's Death:						
Outlays		-150	-175	-200	-200	-200
Disability Insurance:						
Improve Administration Outlays	-50	-200	-500	-700	-900	-1,100
Institute a Megacap Outlays	-5	-50	-75	-100	-125	-150
Tighten recency-of-work						
(6 out of 13 quarters)						
Outlays	-5	-120	-350	-630	-950	-1,220
REAGAN BUDGET:	3	120	330	030	750	1,220
	134.051	152,967	170,319	187,308	212,933	236,596
Budget Authority		•	•	,	, -	
Outlays	139,435	156,677	172,162	186,618	201,124	215,221

<sup>1/</sup> Includes effects of student assistance (Pell Grant) offset.

# Social Security: Adult Student Payments

Agency: Department of	Functional	Budget Reform
Health and Human Services	Code: 601	Criterion: 1

# Program Description

Full time adult students age 18-21 get social security payments as dependents of retired, disabled or deceased workers. Approximately 800,000 adult students now receive these payments. The average adult student payment is \$255 per month and ranges from a low of \$20 to a high of \$700.

## Proposed Change

Adult student payments would be eliminated. No new adult students would receive payments and existing student payments would be reduced by 25 percent each year over the next three years. Social security revenues would be more fully dedicated to basic benefits.

#### Rationale

- The benefit is inappropriate social security protects against loss in income from risks (old age, disability and death) which are beyond the worker's control. Continuing the adult student payment past age 18 because adult students choose to go to school should not be an insurable risk.
- The payment is poorly designed as educational assistance The payment amount is unrelated to the student's educational costs, proficiency in school, or ability to meet educational expenses.
- Educational assistance is granted more equitably and efficiently under other Federal programs Financial aid for adult students from Federally insured student loans, national defense student loans, and basic educational opportunity grants would be increased for those needing assistance to offset the elimination of social security payments.
- Social security can no longer afford this drain The present financial condition of social security was not anticipated when the student payment was introduced in 1965. The adult student payment departs from the basic purpose of social security. They should be eliminated particularly when trust funds are not adequate to assure basic benefits.

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<sup>2/</sup> Offsetting increases in other Federal programs associated with this proposal are not included above.

• Program participation rates and costs have exploded since 1965 — In the past ten years, the cost to social security of adult student payments have more than quadrupled. During that time, the number of student recipients increased only one-third. This occurred during a massive build-up in direct Federal student assistance.

## Key Facts About the Program

The Federal Government invests heavily in post-secondary students, in recognition of the vital importance of education. Excluding social security, Federal assistance to post-secondary students multiplied 25 times since 1965, growing from less than \$.3 billion in 1965 to \$7.5 billion in 1982.

At the same time, payments to adult students from the social security trust funds were also rapidly increasing, from \$.2 billion in 1965 to \$.5 billion in 1972 to \$2.2 billion in 1982.

Unlike other Federal aid to students, adult student payments in social security are unrelated to educational cost, need, or family income. These payments have become a sizable drain on the social security trust funds, which can simply no longer afford the more than \$2 billion annual cost for these low-priority payments. Other, better targeted, federal educational assistance programs provide for those students needing aid.

	(\$ in billions)				
	<u>1965</u>	1972	<u> 1982</u>		
OASDI Balances (end-of-year)	22.2	43.8	20.3		
OASDI Outlays	17.5	40.2	157.7		
OASDI Reserves (Balance/Outlays)	127%	109%	13%		

## Social Security: Disability Insurance

Agency: Department of Functional Budget Reform Health and Human Services Code: 601 Criterion: 1

## Program Description

Disability insurance (DI) benefits replace worker's earnings (due to their inability to work) for the worker and the family. Both GAO and Social Security Administration studies show that hundreds of thousands of current recipients are not currently disabled but still receive payments. Benefits larger than a disabled worker's prior earnings may induce some individuals to apply for or remain on the DI rolls even though they could work and support themselves. Disability benefits also go to people who, not having been in social security covered work in the past 5 years, lack a reasonable basis to claim social security disability insurance payments. DI caseloads have risen by 80% since 1970, and costs have climbed by 500%.

## Proposed Change

The Social Security Administration will be intensively reviewing cases to insure that only the truly disabled receive disability benefits. To remove the work disincentive caused by excessive benefit levels, a "megacap" will be established to ensure that disability income from all public sources never exceeds the worker's prior after tax earnings, adjusted for inflation. Legislation will also more closely focus eligibility for DI on those individuals who have recently worked in social security covered jobs before becoming disabled.

#### Rationale

The purpose of DI is to provide for workers and their families when a worker can no longer work. Payments should not go to people who are not disabled.

- Intensified reviews of new applicants and current recipients will weed out the 500,000 people receiving payments whom GAO says are not disabled, saving the trust fund hundreds of millions of dollars in mispent payments.
- Other weaknesses in the administration of DI, documented by GAO over the past 4 years, will be corrected by HHS.

Originally, to be eligible for DI, applicants must have worked for at least 6 of the previous 13 calendar quarters. This would relate their loss of earning due to disability to recent social security covered employent. The test was subsequently liberalized, when DI costs were quite low, so that individuals who did not depend on social security covered jobs — perhaps had not even worked in the past 5 years — could qualify for payments.

- Reinstituting the "recency of work" test would more closely link benefits to the replacement of lost (covered) earnings, the original purpose of DI.
- Benefits would be better targeted on individuals whose livelihood came from social security covered employment, while screening out wasteful payments to those with little social security covered work.
- The Supplemental Security income program is the proper "safety net" for the truly needy disabled without recent work experience.

The "megacap" proposal would limit public disability benefits so that they do not exceed a worker's prior after-tax earned income about (80% of earnings), adjusted for inflation. This would avoid:

- Individuals receiving more while disabled than they were paid for working.
- Continuing overly-generous benefits from uncoordinated, multiple sources which offer a perverse incentive, inducing people not to work.

## Key Facts About the Program

The costs of disability insurance have grown by leaps and bounds, as shown below:

	Number of Disabled Workers Receiving Benefits	Annual Benefits(\$ millions)	Average Monthly <u>Benefits</u>
1965	. 988,074	1,159	98
1970	. 1,492,948	2,352	131
1975		6,747	226
1981		16,978	410
1985	. 2,991,000	24,000	655

- "As a result of SSA's [previous] ... poor management ... as many as 584,000 beneficiaries who do not currently meet SSA's eligibility criteria may be receiving disability benefits. These beneficiaries represent over \$2 billion annually in Trust Fund costs. ... substantial savings could be achieved if SSA focused on this problem." (HRD 81–48, March 3, 1981)
- SSA "has no means of measuring program efficiency" and "does not know how often [disability was determined based on]...medical examinations which were too comprehensive or were inadequate." (HRD 79–119, October 9, 1979)
- "The disability claims process needs to be more effectively managed by the Social Security Administration. Weaknesses in the disability claims process cause lengthy delays ...and...overexpenditures". (HRD 78-40, February 16, 1978)

# Social Security: Minimum Payment Amount

Agency: Department of Functional Budget Reform
Health and Human Services Code: 601 Criterion: 1

## Program Description

A minimum initial payment of \$122 per month is given to social security recipients who, under the normal benefit formula, earned a lesser amount. Once on the rolls, the \$122 minimum payment amount is increased by the CPI.

## **Proposed Change**

Pay social security recipients only their "earned" benefits, no longer giving an artificial minimum amount above their earned benefits.

#### Rationale

Both GAO and various Social Security Advisory Councils concluded that the minimum benefit has outlived its usefulness and generates undersirable windfalls to workers with substantial employment not covered by social security. First enacted in 1939 at a \$10 per month level before social security expanded to cover more than 9 out of 10 workers, the original purpose was to raise retirement income for those with very low wage histories, as well as those who worked in jobs before social security extended to their work.

Suppplemental Security Income (SSI), with benefits about double the social security minimum, better fulfills the social objective underlying the minimum. SSI provides a safety net for those in need without diverting over \$1 billion annually from basic social security. The social security trust funds can no longer afford these low-priority payments.

## Key Facts About the Program

- Since 1974, SSI has given cash assistance to the needy aged, blind, and disabled. For these individuals, the minimum payment merely offsets, dollar for dollar, the amount of SSI assistance they would otherwise receive.
- Only 17% (500,000) of minimum payment recipients are truly needy (on SSI). They would not experience any reduction in Federal payments.
- GAO found that for 74% of minimum payment recipients, social security is not the primary income source, and that they receive unintended windfalls beyond their modest social security contributions.

Of the 3 million minimum payment recipients, 1.7 million would not have their income reduced by eliminating minimum payments.

- 1.2 million would have offsetting increases in their OASDI benefits (i.e., derivative benefits to spouses, survivors, etc.).
- 500,000 minimum recipients would have offsetting increases in their SSI benefits.

GAO data show that at least 800,000 minimum recipients do not depend primarily on their social security payments.

- 450,000 (or 15% of minimum recipients) receive Federal pensions averaging over \$900 per month.
- 350,000 (or 12% of minimum recipients) have working spouses whose earnings average over \$14,000 annually.

For the remaining 500,000 minimum recipients, GAO data suggest that a significant number would have public pensions from State or local governments or "other" income.

## Social Security: Payments On A Worker's Death

Agency: Department of Functional Budget Reform
Health and Human Services Code: 601 Criterion: 1

## Program Description

Lump sum death payments of \$255 are made when an insured worker dies regardless of whether there are surviving family members. The payment is made regardless of income, need, or the size of an estate. Typically, payments go directly to funeral home operators.

## Proposed Change

Continue the lump sum death payment only for deceased workers when a surviving spouse or minor children are receiving survivors benefits. Eliminate the burial payment where no survivors benefits are payable. This payment would not go to funeral homes, estates, grown surviving children, or non-aged spouses who are not eligible for survivors benefits (i.e. who have no minor children in their care).

#### Rationale

The original intent of the worker's death payment was not only to help meet expenses for the last illness and burial of a deceased worker, but also to insure that the "return" on social security to a worker (or his estate) exceeded his social security taxes.

- Except for early deaths of beneficiaries without survivors, in virtually all cases social security retirement benefit payments now exceed a worker's social security taxes.
- The lump sum death payment is a maximum of \$255; it would not generally cover full burial costs.

The cost of administering these small payments is 5 times higher than handling basic social security benefits. This proposal would not affect widows and orphans who would receive survivors benefits.

## Key Facts About the Program

Almost half of current payments go to estates with no surviving spouse or surviving minor children. The payment is unrelated to social insurance, prior social security contributions, or benefits.

- The payment has remained frozen since 1954 because of its marginal relation to basic social security.
- Eliminating these payments to estates would better protect orphans and widows because social security's solvency would be improved.

# Supplemental Security Income

Agency: Department of Health and Human Services	Functional Code: 609			Budget Reform Criterion: 1		
Funding			(S in	millions)		
3	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	7,278	7,938	9,443	8,704	10,194	10,926
Outlays	7,305	7,972	9,453	8,675	10,186	10,926
REESTIMATES & ADJUSTMENTS*						
Budget Authority	-35	153	29	518	-196	-433
Outlays	-35	140	28	141	-193	-432
PROGRAM CHANGES:						
Budget Authority		-110	-110	-110	-110	-110
Outlays		-110	-110	-110	-110	-110
REAGAN BUDGET:						
Budget Authority	7,243	7,981	9,362	9,112	9,888	10,383
Outlays	7,270	8,002	9,371	8,706	9,883	10,376
* Effect of outlay reestimates, revised economi	ic assumptions	, and offsettin	g increase as	sociated with	proposed O.	ASDI reductions.

## **Program Description**

Supplemental Security Income (SSI) pays the needy elderly, blind and disabled based on their income with a minimum indexed guarantee of \$238 a month for an individual and \$357 a month for a couple.

## Proposed Change

- Initiate retrospective accounting rather than prospective quarterly budgeting. Thus, instead of projecting income of recipients forward for 90 days, the actual income received over the prior period would be used to determine the Federal benefit payment. (-\$60 million annually).
- Verify interest and divided income through IRS records and tighten SSI regulations conerning the exclusion of irregular income. (-\$50 million annually).

#### Rationale

GAO report HRD 81-37 has recommended that retrospective accounting be used. Such a procedure reduces errors by relying on actual rather than estimated data. It is used in income tested (AFDC and Medicaid) programs by 12 States and is a federally authorized option in the Food Stamp program. A similar change is being sought in AFDC and Food Stamps.

Verifying interest and dividend income was recommended by GAO Report HRD 81–4 (February 4, 1981). This could be done at little cost through computer tape matching.

#### Key Facts About the Program

• By cross-checking records with the Veterans Administration, the Railroad Retirement Board, and the Civil Service retirement benefits system, the Social Security Administration was able to save \$61 million in SSI overpayments annually. Similar cross-checking is proposed for IRS.

Department of Housing and Urban Development

179

# **Administrative Expenses**

Agency: Department of Housing and Urban Development	Functional Code: 999			Budget Reform Criterion: 8					
Funding	(\$ in millions)								
<b>G</b>	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	338	356	355	355	355	355			
Outlays	332	356	355	355	355	355			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRAM CHANGES:									
Budget Authority	-4	-19	-18	-18	-18	-18			
Outlays	-4	-18	-18	-18	-18	-18			
REAGAN BUDGET:									
Budget Authority	334	337	337	337	337	337			
Outlays	328	338	337	337	337	337			

## Program Description

Administrative expenses are chiefly included in two accounts, the Working Capital Fund and Salaries and Expenses. The Working Capital Fund is a revolving fund sustained through reimbursements for services provided. Salaries and Expenses, on the other hand, receives funding from three sources: budget authority (as is included in the above table), transfers from the Federal Housing Administration, and other, smaller transfers.

## Proposed Change

This proposed change would reduce administration expenses commensurate with the proposed reduction in staffing. The proposed staffing reductions reflect both savings from proposed program reductions or eliminations and more effective use of Federal staff resources. The following tables highlight the differences between the Carter and Reagan Budgets for 1981 and 1982. (Unlike the earlier table, the table below reflects all expenses, whether derived from budget authority, FHA transfers, or other transfers.)

			Administra	tive Expens	es	
		1981		•	1982	
	Carter	Reagan	Change	Carter	Reagan	Change
Personnel Compensation	461	458	-4	471	442	-29
Travel	20	18	-2	23	20	-2
Other Expenses	139	136	-3	158	154	-4
TOTAL	621	612	<b>-</b> 9	651	616	-36
			Emp	loyment		
		1981	•	•	1982	
	Carter	Reagan	Change	Carter	Reagan	Change
End-of-year	16,462	15,561	-901	16,762	15,295	-1,467
Full Time Equivalents	16,493	16,188	-305	16,793	15,703	-1,090

#### Rationale

• Reduce overhead and personnel costs of the Federal Government. Most of these staffing reductions result from proposed program reductions.

# **Community Development Block Grants** and Urban Development Action Grants

Agency: Department of Housing and Urban Development		Functional Budget Reform Code: 451 Criterion: 7								
Funding		(\$ in millions)								
•	1981	1982	1983	1984	1985	1986				
CARTER BUDGET:										
Budget Authority	4370	4635	4785	4935	5085	5235				
Outlays	4303	4608	4451	4679	4838	4988				
REESTIMATES & ADJUSTMENTS:										
Budget Authority										
Outlays										
PROGRAM CHANGES:1/										
Budget Authority		-469	-619	lune	ietermined]					
Outlays	- <b>-</b>	+5	-104		leterminedi					
REAGAN BUDGET:				•						
Budget Authority	4370	4166	4166	such sums as	may be nec	essarvl				
Outlays	4303	4613	4347	such sums as						
1/ The Carter Budget already included savir	igs for this proposa	l. Total savii	ngs expect	ed are as follows	:	• • • • • • • • • • • • • • • • • • • •				
	1981	1982	1983	1984	1985	1986				
Budget Authority		-584	931	[un	determined]					
Outlays		-17	-187	[un	determined]					

## Program Description

The Community Development Block Grant program provides grants to units of local government for general community development, principally for the benefit of lower income persons. Entitlement grants, allocated by formula, go to large cities and urban counties. Discretionary grants, allocated by State—wide competitions, go to small cities. The Secretary's Discretionary Fund provides discretionary grants to recipients and projects which would otherwise probably not receive assistance from this program. In 1981, about 2,850 localities will receive assistance.

The Urban Development Action Grant program provides discretionary grants, allocated by national competition, to units of local government to be used in conjunction with private and other public funds in order to promote economic development in distressed areas. In 1981, an estimated 350 grant awards will be announced. Some cities, as in the past, will receive multiple awards.

#### Proposed Change

Beginning in 1982, the Reagan Administration will propose to combine these two programs into a more efficient and effective instrument for the Federal support of locally determined community and economic development activities. In this new program federally imposed requirements will be lessened, Federal intervention in local decision-making will be reduced, eligible activities will be expanded (to include economic development activities in conjunction with for-profit enterprises as now undertaken by UDAG so that private funds can be levenaged), and local flexibility and decision-making will be increased.

#### Rationale

- The consolidation of categorical grant programs into block grants.
- The return of decision-making and implementation powers to local and State governments.
- A lessening of Federal intervention in local community and economic development.

#### Key Facts About the Program

The 1981 CDBG program:

• Entitlement grants will go to about 650 large cities and urban counties; average grant is about \$4.1 million.

- Discretionary grants will go to over 2,000 smaller cities with funding decisions largely made by HUD area offices; average grant is about \$0.5 million. Unneeded Federal involvement.
- Other discretionary grants will be made for specific projects or to specific recipients with funding decisions largely made by HUD headquarters.

# Estimated 1981 Distribution of Funds (dollars in millions)

Large Cities/Urban Counties	\$2,653
Discretionary, Small Cities	938
Secretary's Discretionary Fund	104
TOTAL	\$3,695

#### The 1981 UDAG program:

- Current eligibility standards do not target funds on the most distressed areas. Without the pockets-of-poverty provision, over 50 percent of all large cities are eligible; with the provision, the percent approaches 100 percent.
- Current law requires that 25 percent of the funds be used for smaller communities, while no more than 20 percent may be used for pockets of poverty.
- In 1980 the average grant awarded was about \$2.0 million.
- Funding in 1981 is \$675 million.

#### The new, combined 1982 program:

- Entitlement grants will go to large cities and urban counties as before.
- Entitlement grants will be made to States. (Indian tribes will receive a portion of these funds.)
- There will be a UDAG-type account for 1982 only. These funds will be used in the State program after 1982.
- Less Federal intervention in local decision-making and increased local and State flexibility and discretion in how these funds should be used will result.
- Federal requirements, administrative expenses, and employment will be reduced.

# 1982 Funding (dollars in millions)

Large Cities/Urban Counties	\$2,791
States	875
UDAG-type transition account	500
TOTAL	\$4.166

# Federal Housing Administration/GNMA Mortgage-Backed Securities

Agency: Department of Housing and Urban Development	Functional Code: 604				Budget Reform Criterion: 1		
Funding			<b>(\$ in</b>	millions)			
•	1981	1982	1983	1984	1985	1986	
FED	ERAL HOUS	ING ADM	IINISTRA	TION			
CARTER BUDGET:							
Budget Authority	39,000	44,000	44,300	48,700	53,600	59.000	
Outlays	61	-116	-235	-387	-460	-505	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	0	-0	0	0	0	0	
Outlays	0	-45	-8	8	-8	-8	
PROGRÁM CHANGES:							
Budget Authority	-4,845	-9,000	N/A	N/A	N/A	N/A	
Outlays	-14	-7	+15	+ 44	+81	+129	
REAGAN BUDGET:							
Budget Authority	34,155	35,000	*	*	*	*	
Outlays	47	-168	-228	-351	-387	-384	

#### **GNMA MORTGAGE-BACKED SECURITIES**

CARTER BUDGET:						
Budget Authority	72,000	72,000	72,000	72,000	72,000	72,000
Outlays	-82	-100	-128	-153	-175	-197
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-4,000	-1,000	+3,000	+6,000
Outlays	-8	-10	+ 10	+18	+ 24	+ 30
PROGRAM CHANGES:				•		
Budget Authority	-8,000	-8,000	N/A	N/A	N/A	N/A
Outlays	+1	+2	+3	+5	+6	+7
REAGAN BUDGET:						
Budget Authority	64,000	64,000	68,000 <sup>17</sup>	71,000 <sup>1</sup>	75,000 <sup>1</sup> /	78,000 <sup>1</sup>
Outlays	47	-168	-228	-351	-387	-384

<sup>1/</sup> These commitment levels are to be determined at a later date; numbers shown are for planning and estimating purposes only and are based on no change in FHA insurance activity and a gradual increase in mortgages guaranteed by the VA.

## Program Description

The National Housing Act of 1934, as amended, authorizes about 40 different mortgage insurance programs designed to help finance the production, purchase, repair, and improvement of residential single-family and multifamily properties. The Carter Budget proposed limitations of \$39 billion in FY 1981 and \$44 billion in FY 1982 on the amount of mortgages and loans that the Federal Housing Administration (FHA) can make commitments to insure.

The GNMA Mortgage-Backed Securities program provides Federal guarantees on securities backed by FHA and VA mortgages. The Carter Administration proposed to increase the 1981 enacted commitment ceiling of \$53 billion by \$19 billion, to a total \$72 billion, and to retain that commitment level in 1982 and thereafter.

Because decreases in the limitation on commitments result in fewer fee and premium collections, FHA and GNMA outlays increase whenever the commitment limitation is lowered. Budget authority for FHA and GNMA is not affected by any of the proposed changes or reestimates.

#### **Proposed Changes:**

The Reagan Budget proposes a reduction in the amount of mortgages and loans that FHA can make commitments to insure and a proportionate reduction in the limitation on GNMA mortgage-backed securities as a part of this Administration's efforts to reduce programs that provide benefits to people with middle and upper incomes.

Specifically, FHA commitments will be limited to approximately \$35 billion and GNMA comitments will be limited to \$64 billion in 1981 and 1982. Even at these lower limits, FHA should be able to insure all the homebuyers who are expected to request FHA insurance in 1981 and as many as 400,000 homebuyers in 1982.

Other changes that will reduce FHA outlays in the Reagan budget include:

- An increase in rent contributions of tenants living in projects owned by FHA will be implemented as part of an effort to recover from users more of those costs which are clearly allocable (see rent contributions paper for more details); and
- More cash sales, particularly of projects sold with Section 8 assistance, will be implemented
  to eliminate the unintended benefits that accrue from duplicative rent assistance and
  preferred interest rate subsidies.

#### Rationale

These reductions in FHA and GNMA credit limitations are consistent with proposed reductions in the Section 8 housing program (requiring multifamily insurance) and FHA's share of expected mortgage credit demand. In addition, the Administration will soon begin a thorough reexamination of the role of FHA and GNMA in the housing credit market. This reexamination has been prompted by the following items:

- Private mortgage insurers (PMIs) provide equivalent insurance at a lower price to the same middle-income homebuyers who currently use FHA.
- The private mortgage insurance industry is competitive and is as large as FHA. Moreover, PMIs are willing and able to expand their business if FHA insurance is gradually eliminated; because of this no disruption of housing markets is likely to occur.
- Changes in the secondary market for mortgages, particularly the rapid increase in the use of
  privately-issued securities backed by conventional mortgages, raises questions as to the future
  need for FHA insurance by secondary market participants, as well as the future need for
  GNMA mortgage-backed securities.

- The average annual income of the families who purchased new homes under the largest FHA insurance program was \$31,815 during the 4th quarter of 1980; for the families who purchased existing homes, it was \$28,936.
- FHA's share of single-family mortgage originations has decreased from nearly 25 percent in 1970 to about 12.6 percent in 1980. During the same time span, PMIs have increased their share of single-family mortgage originations from less than 4 percent to 14.5 percent.
- FHA and GNMA mortgage-backed securities accounted for over 55 percent of the \$171 billion of total new commitments issued to guarantee loans by the Federal Government in 1980.
- The amount of GNMA mortgage-backed securities has increased from less than \$14 billion to nearly \$21 billion between 1976 and 1980. During the same time span the amount of privately-issued securities backed by conventional mortgages has gone from 0 to nearly \$5.3 billion.

# **GNMA Tandem Mortgage Assistance Programs**

Agency: Department of Housing and Urban Development		ectional le: 371	Budget Ref Criterion: 4						
Funding	(\$ in millions)								
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	1,407	492	504	706	1,073	1,246			
Outlays	594	1,173	24	1,381	1,079	1,246			
REESTIMATES & ADJUSTMENTS:						,			
Budget Authority	+180	-374	-8	-177	-39	-47			
Outlays	+ 354	-501	-215	-157	-75	-45			
PROGRAM CHANGES:									
Budget Authority	-196	+2,137	-490	-490	-850	-1,004			
Outlays	+3	-4	-258	-289	-890	-1,144			
REAGAN BUDGET:									
Budget Authority	1,391	2,255	6	39	184	195			
Outlays	951	668	967	935	112	57			

## **Program Description**

The Government National Mortgage Association (GNMA) Tandem programs are currently used to provide subsidized mortgage financing (i.e., mortgages at 7.5 percent) for Section 8 rental housing projects and certain unsubsidized middle–income apartment projects located in urban areas. The Carter Administration proposed to continue the tandem program in 1982 to support \$300 million in mortgages and to create a new upfront grant program to support \$1.7 billion in mortgages. This total \$2 billion program level would also be supported in 1981 through a \$200 million supplemental requested in the Carter budget (in addition to the \$1.8 billion in direct loans already authorized). Similarly, commitments to purchase \$2 billion of 7.5 percent mortgages were made each year from 1978 to 1980.

Once the apartments involved have been constructed, GNMA is obligated to purchase the mortgages on the projects at full value. GNMA does not hold these mortgages but rather auctions them off to large investors. GNMA absorbs a loss on the sale of these mortgages in an amount sufficient to bring their yields up to market interest rates. This loss reflects the subsidy provided.

## Proposed Changes

- For 1981, this Administration does not propose that any additional tandem mortgage commitment activity be authorized and the Carter supplemental request is being withdrawn.
- This Administration is planning to shut down these subsidized mortgage financing programs. However, for 1982, the Administration is proposing to buy out the pipeline of projects (i.e., projects that had at least FHA conditional or firm insurance commitments by February 13, 1981) currently being developed. This will require a total \$3.6 billion tandem commitment level, \$3.3 billion above the Carter 1982 request level. The outlay effect of this increase will not be felt until 1983–84.
- No new subsidized mortgage financing programs will be proposed.

#### Rationale

- As part of the Administration's efforts to apply sound economic criteria to economic subsidy programs, those programs providing apartment project mortgages at below-market interest rates will be ended. Rather than providing specialized credit subsidy programs to a fortunate few businesses and households, the President's economic recovery program is designed to reduce inflation and interest rates, thereby benefitting all businesses and households and stimulating housing construction throughout the economy.
- To the extent that these subsidized mortgages were used for HUD subsidized rental projects (Section 8 Tandem), the full cost of these projects should be reflected under the basic rental subsidy program budget, rather than "piggybacking" additional subsidies on them through separate subsidized financing arrangements. Moreover, use of the GNMA tandem financing subsidies adds to Federal outlays in the short-term relative to rental subsidy contracts, which commit the Federal Government to a roughly constant stream of payments over 20 to 30 years.

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis • To the extent that these subsidized mortgages were being used to promote the construction of rental apartments for middle-income tenants (Targeted Tandem), this is a low priority objective in an austere budget environment.

- As of the end of FY 1980, the GNMA tandem mortgage subsidy programs have accumulated a net loss of over \$3.4 billion. This figure essentially represents borrowing from the Treasury that GNMA has no prospect of repaying.
- GNMA is now holding a portfolio of \$4.4 billion in below-market rate mortgages and has outstanding commitments to purchase yet another \$6.5 billion.
- Recent losses on sales of these mortgages have been running at 40 cents per dollar.
- The subsidy now being provided reduces debt service on an apartment project mortgage by about \$2,200 per unit per year.
- The \$3.6 billion pipeline consists of 868 projects with 92,717 units, of which 34,959 units are expected to get Section 8 rental subsidies; the balance will be for tenants not eligible for Section 8 assistance.

# **Housing Counseling Assistance**

Agency: Department of Housing and Urban Development		Functional Code: 506			Budget Reform Criterion: 4					
Funding		(\$ in millions)								
9	1981	1982	1983	1984	1985	1986				
CARTER BUDGET:										
Budget Authority	10	10	10	10	10	10				
Outlays	9	10	10	10	10	10				
REESTIMATES & ADJUSTMENTS:										
Budget Authority										
Outlays										
PROGRAM CHANGES:1/										
Budget Authority	-6	-6	-6	-6	-6	-6				
Outlays	-2	- 5	-6	-6	-6	- 6				
REAGAN BUDGET:				•						
Budget Authority	4	4	4	4	4	4				
Outlays	7	5	4	4	4	4				
1/ The Carter Budget already included savin	igs for this proposa	l. Total savii	ngs expected a	re as follows:	;					
	1981	1982	1983	1984	1985	1986				
Budget Authority	-6	-7	-8	-8	-9	-10				
Outlays	-2	-5	<b>-7</b>	-8	-9	-9				

## Program Description

The Housing Counseling Assistance program provides discretionary grants and technical assistance to HUD-approved private and public nonprofit housing counseling agencies. These agencies provide information and advice to current and prospective tenants and homeowners of HUD-assisted or HUD-insured housing. The Carter Budget planned for \$10 million of grants per year to an estimated 400 approved agencies to support default, comprehensive, renter, and pre-purchase counseling.

## Proposed Change

This proposed change would reduce the Housing Counseling Assistance program, providing financial support only for default counseling. Comprehensive, renter, and pre-purchase counseling would be discontinued.

#### Rationale

- The application of sound criteria to economic subsidy programs requires that housing counseling support be limited to those activies where the benefits exceed the cost.
- Several HUD studies have indicated that default counseling may have a beneficial impact and be a cost effective use of Federal funds. Accordingly, it is being continued.
- However, comprehensive, renter, and prepurchasing counseling, have not been shown to be an effective use of limited Federal funds and no further Federal financial support will be provided. Communities can use their Block Grant funds to support these counseling activities they deem effective.

## Key Facts About the Program

Default counseling was the original intent of this program when it was established in 1968.

## Neighborhood Self-Help Development

Agency: Department of Housing and Urban Development		Functional Code: 451			Budget Reform Criterion: 7				
Funding	(\$ in millions)								
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	9	9	9	9	9	9			
Outlays	15	9	9	9	9	9			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRAM CHANGES:1/									
Budget Authority	-8	-9	-9	-9	-9	-9			
Outlays	-4	- 6	-9	-9	-9	- 9			
REAGAN BUDGET:									
Budget Authority	1	0	0	0	0	0			
Outlays	11	3	0	0	0	0			
1/ The Carter Budget already included savings for the control of the control o	or this proposa	l. Total savir	igs expected a	re as follows:	:				
	1981	1982	1983	1984	1985	1986			
Budget Authority	-8	-10	-11	-11	-12	-12			
Outlays	-4	-6	-10	-11	-11	-12			

## Program Description

The Neighborhood Self-Help Development program provides discretionary grants and technical assistance to neighborhood organizations to undertake specific neighborhood preservation and revitalization activities in lower income areas. The Carter Budget planned for an estimated 60 grant recipients per year.

## Proposed Change

This proposed changed would terminate the Neighborhood Self-Help Development program. It is estimated that no neighborhood organizations would receive grants from this program beginning in 1981.

#### Rationale

• The consolidation of categorical grant programs into block grants. More specifically, the Neighborhood Self-Help Development program unnecessarily duplicates the efforts of the Community Development Block Grant program, which provides localities with funds that can be used for neighborhood preservation and revitalization activities, and the Neighborhood Reinvestment Corporation, which largely provides technical assistance to meet these same goals.

- The Neighborhood Reinvestment Corporation provides a similar service and has received praise for its innovative approaches to neighborhood revitalization, something the Neighborhood Self-Help Development program has not received.
- Established in 1978, this program did not award its first grants until 1980 because of start-up delays.
- As a categorical grant program, it is staff intensive. Its termination will help to reduce Federal employment.

# **Planning Assistance**

Agency: Department of Housing and Urban Development	Func Code	tional : 451		Budget R Criterion						
Funding		(\$ in millions)								
•	1981	1982	1983	1984	1985	1986				
CARTER BUDGET:										
Budget Authority	34	35	35	35	35	35				
Outlays	40	35	35	35	35	35				
REESTIMATES & ADJUSTMENTS:										
Budget Authority		- <del>-</del>								
Outlays										
PROGRAM CHANGES:1/										
Budget Authority	-35	-35	-35	-35	-35	-35				
Outlays	-3	-24	-35	-35	-35	- 35				
REAGAN BUDGET:										
Budget Authority	-1	0	0	0	0	0				
Outlays	37	11	0	0	0	0				
1/ The Carter Budget already included saving	s for this proposa	l. Total savii	ngs expected a	are as follows:	:					
	1981	1982	1983	1984	1985	1986				
Budget Authority	-35	-37	-39	-42	-44	-46				
Outlays	-3	-24	-36	-39	-41	-44				

## Program Description

The Planning Assistance program (previously known as the Comprehensive Planning Grant program) provides discretionary grants to States, areawide organizations, and localities to support, in part, general planning and management activities. The Carter Budget planned for direct grants to an estimated 1,000 entities in 1982. Some of these grants funds, especially those to States, would have been passed through to individual localities.

## Proposed Change

This proposed change would terminate the Planning Assistant program. It is estimated that no States, areawide organizations, or localities would receive planning funds begining in 1981.

#### Rationale

- Application of sound criteria to economic subsidy programs. Since the benefits of sub-national planning activities directly and primarily accrue to sub-national entities, they, and not the Federal Government, should be expected to pay for these activities if they judge them sufficiently worthwhile to support. Other sources of Federal assistance (e.g., General Revenue Sharing and Community Development Block Grant funds) can be used to support sub-national planning activities at the discretion of the recipients.
- After 26 years and over \$1 billion in planning grants to develop local planning capacity, that capacity now exists. State and local governments should sustain it if it is worthwhile.
- General planning assistance not directly related to program implementation has not been proven as effective in influencing program implementation as program implementation oriented planning.

## Key Facts About the Program

Since 1978 States and areawide planning organization have been the principal recipients of
these planning funds. Entitlement CDBG recipients have not received direct financial
support from this program since they may use a portion of the CDBG entitlement grants for
planning activities.

• The following table shows the distribution of 1980 funds and the number of recipients.

	Number of Eligible Applicants	Number of Actual Recipients	Fund Distribution	Average Award
States	57	56	\$8.9M	\$159K
Areawide Organizations	639	560	\$23.3M	\$41K
Localities	33,141	600	\$6.3M	\$10K
Other	435	50	\$1.1M	\$22K
TOTAL	34.272	1.266	\$39.7M	\$31K

# **Public Housing Operating Subsidies**

Agency: Department of Housing and Urban Development	Functional Code: 604		Budget Reform Criterion: 1			
Funding	_•		(\$ in :	millions)		
•	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	1,071	1,265	1,491	1,503	1,495	1,601
Outlays	972	1,141	1,389	1,458	1,499	1,554
REESTIMATES & ADJUSTMENTS:						
Budget Authority	<b></b>					
Outlays						- <b>-</b>
PROGRAM CHANGES:1/						
Budget Authority	-100	-60	-391	-518	-477	-641
Outlays	-43	-90	-242	-462	-496	-568
REAGAN BUDGET:						
Budget Authority	971	1,205	1,100	985	1,018	960
Outlays	929	1,051	1,148	1,037	1,003	986
1/ Included in program changes are increases	in rent contribut	ions for publi	c housing ten	ants as follow	's:	
, 5	1981	1982	1983	1984	1985	1986
Budget Authority		60	132	213	302	402
Outlays		33	100	177	262	357

## **Program Description**

Public housing operating subsidies are paid to 2,700 public housing agencies (PHAs) who administer about 1,157,000 units of public housing—97 percent of all public housing units. Subsidies typically account for 40–50 percent of local housing authorities' operating income. Subsidy is calculated according to a formula that projects operating and utility costs and subtracts tenant rent contributions to determine the Federal payment. Rising operating subsidy needs of PHAs have been driven by (1) increases in the number of public housing units funded by the HUD subsidized housing appropriation and (2) the extent to which growth in tenant income and rent contributions has not kept pace with inflation in operating costs. In addition, rapid increases in utility costs have produced an estimated \$140 million shortfall in 1981. The Carter budget included:

- A 1981 supplemental appropriation request for \$100 million to cover most of the shortfall from rising utility costs; and
- A retrospective inflation adjustment of \$82 million in 1982 and increased amounts in the outyears to correct for past inaccuracies in projecting the impact of inflation upon operating costs.

#### Proposed Change

- No 1981 supplemental appropriation request.
- Increases in tenant rent levels consistent with the increases proposed in Section 8 and other HUD subsidized rental housing programs: 1 percent of income per year for 5 years to a maximum level of 30 percent of income by 1986.
- 1982 funding to include \$82 million as proposed in the Carter budget but no further adjustments—beyond Administration economic forecasts—for inflation in 1983 and thereafter.

#### Rationale

• In order to revise social service programs to eliminate unintended benefits and improve equity in the public housing program, rent levels are being increased and a strenuous effort is being made to hold the Federal payment to cover public housing operating\_costs to a minimum. (The Federal Government already pays the full cost of constructing public housing.)

- The Administration believes that the entire \$140 million shortfall in 1981 funding may be recovered by public housing agencies (PHAs) through payments they receive under the HHS Low-Income Energy Assistance program. HUD is working with HHS to see what changes can be made in the HHS program to encourage State welfare agencies to make such payments to PHAs.
- Requirements for 1983 and beyond are speculative at this point, but there is no reason to assume that operating costs for public housing projects should be projected to rise at a rate faster than the overall rate of inflation in the economy.

- Federal operating subsidy payments have grown from \$13 million in 1969 to an estimated \$1.2 billion in 1982. Operating subsidy per unit will be over \$1,000 per year by 1982.
- Profile of public housing tenant population today:
  - 45 percent elderly.
  - More than 60 percent minority.
  - More than 80 percent estimated to be receiving AFDC, Social Security, or other federally supported transfer payments.
- A large number of PHAs—especially large urban authorities—have virtually no cash reserves; 11 authorities were in net deficit positions in 1980. However, more than 85 percent of all PHAs are considered to have adequate reserves.

#### Rehabilitation Loan Fund

Agency: Department of Housing and Urban Development	Functional Code: 451			Budget Refe Criterion: 7				
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	130	134	138	142	144	146		
Outlays	133	135	140	142	144	146		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-111	-134	-138	-142	-144	-146		
Outlays	-39	-199	-214	-215	-217	- 218		
REAGAN BUDGET:								
Budget Authority	19	0	0	0	0	0		
Outlays	94	-64	-74	-73	-73	-72		

## Program Description

The Rehabilitation Loan Fund provides low-interest loans for single-family and multifamily, as well as a small amount of commercial, rehabilitation in order to promote the revitalization of distressed areas. Loan repayments, as well as new budget authority, are used to make new loans. The Carter Budget planned for the rehabilitation of an estimated 12,500 units annually.

## Proposed Change

This proposed change would terminate the Rehabilitation Loan Fund. It is estimated that this proposed change would result in an estimated 9,150 units in 1981 and 12,500 units annually thereafter not being rehabilitated which otherwise would have been rehabilitated through this program.

#### Rationale

- The consolidation of categorical grant programs into block grants; the Rehabilitation Loan Fund unnecessarily duplicates the efforts of the Community Development Block Grant program, which provides to the same localities funds which may be used for identical types of rehabilitation.
- The CDBG program provides local communities a more flexible vehicle for encouraging housing rehabilitation, and communities are now using over \$1 billion annually from Block Grant funds to support rehabilitation activities.
- By terminating this prgram and relying solely on the use of block grants, local discretion is enhanced, Federal interference in local decision—making is lessened, unnecessary bureaucratic red tape is eliminated, and Federal employment is reduced.

- CDBG funds and Rehabilitation Loan Funds go to the same localities. (There is about a 98 percent overlap.)
- CDBG funds can be used for the exact same types of rehabilitation as Rehabilitation Loan Funds. In fact, CDBG-sponsored rehabilitation can make use of loans, interest subsidies, and direct grants (which can reach lower-income people than loans), while the Rehabilitation Loan Fund can only use loans.
- Rehabilitation Loan funds do not necessarily serve only low income people. HUD estimates
  that in 1979, 26 percent of the loans were made to people who were not classified as low or
  moderate income.
- This program was to have been consolidated with six other programs in 1974 to form the Community Development Block Grant program. It was not consolidated, though the CDBG program was formed.
- In the past the program has had a problem with defaults, though HUD has recently been making a good effort to remedy this situation.

# Research and Technology

Agency: Department of Housing and Urban Development	Functional Code: 451			Budget Reform Criterion: 6					
Funding	(\$ in millions)								
•	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	45	50	50	50	50	50			
Outlays	48	49	50	50	50	50			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays		-8							
PROGRAM CHANGES:									
Budget Authority		-15	-17	-17	-17	-17			
Outlays	-2	-6	-15	-17	-17	-17			
REAGAN BUDGET:									
Budget Authority	45	35	33	33	33	33			
Outlays	46	35	35	33	33	33			

## Program Description

The Research and Technology account provides funding for major data collection efforts, program impact evaluations, and related topics of the Department. Housing and community development issues are the predominant focus of these efforts, although neighborhood activities, consumer protection, and equal opportunity are also researched.

## Proposed Change

The funding for research would be reduced and efforts would focus on critical basic data collection—such as the Annual Housing Survey—and high-priority program concerns. Projects would be expected to provide an identifiable end-product of use in the forseeable future.

#### Rationale

A reduced funding level will ensure that only high-priority projects are funded. It will require the setting of priorities and adherence to these priorities in order to accomplish the major analyses and evaluations required for program reform.

## **Solar Energy and Energy Conservation Bank**

Agency: Department of Housing and Urban Development	Functional Code: 272			Budget Reform Criterion: 4			
Funding			(\$ in )	nillions)			
5	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	121	125	125	125	125	125	
Outlays	47	134	125	125	125	125	
PROGRAM CHANGES:							
Budget Authority	-121	-125	-125	-125	-125	-125	
Outlays	<del>-4</del> 7	-134	-125	-125	-125	-125	
REAGAN BUDGET:							
Budget Authority	0	0	0	0	0	0	
Outlays	0	0	0	0	0	0	

## **Program Description**

Created by the Solar Energy and Energy Conservation Bank Act (Title V of the Synfuels bill) in July 1980, the Solar Energy and Energy Conservation Bank is really two programs: (1) a program of direct grants and loan subsidies to stimulate energy conservation and (2) a program to promote (through loan subsidies) solar technology—especially residential passive solar investments. Both programs would provide greatest support for investments in residences, but agricultural and commercial buildings were also made eligible for loan subsidies. The Carter Budget proposed to keep funding for the Bank fairly low in relation to authorized levels. The initial 1981 appropriation of \$121 million was expected to support 50 percent of the cost of energy conservation investments made by about 75,000 households and to reduce mortgage costs for 11,000 purchasers of new passive solar homes. Actual disbursement of subsidies was expected to be handled through private fiscal agents under contract with the Bank.

## **ProposedChange**

This new program will not be started up:

- The 1981 appropriation is proposed for rescission;
- The 1982 budget has been amended to withdraw the full amount of the Carter Administration's request (\$125 million); and
- Regulations will not be issued and no loan subsidies will be disbursed.

#### Rationale

- As part of the Administration's overall efforts to apply sound criteria to economic subsidy programs, this separate new energy conservation subsidy program should not be started up. Rather than favoring a portion of U.S. households with subsidies to induce conservation, the Administration will rely upon rising prices and existing tax credits to encourage all American households to reduce energy consumption and make conservation investments. In addition, the President's economic recovery program is designed to secure lower interest rates and improve general credit market conditions, thereby improving the ability of all households to borrow for a variety of worthwhile purposes.
- This step is part of the Administration's overall effort to halt the proliferation of Federal programs to fine tune the energy marketplace.
- To the extent local governments seek to promote energy conservation by certain groups, e.g., low-income households, they can use community development support assistance funds for this purpose.

#### Key Facts About the Program

• Currently available tax credits include a 15 percent credit, up to a maximum \$300, for energy conservation and a 40 percent credit, up to a maximum \$4,000, for solar and other renewable energy source equipment. These tax credits are expected to cost the Federal Government \$538 million in foregone revenues in 1981.

- Initial program implementation guidelines established by the Carter Administration would have targeted the energy conservation subsidies on households with incomes between 50 and 80 percent of the median. Although only 75,000 such households would have received benefits in 1981, there are estimated to be 15 million households in this income range, including 8.5 million homeowners.
- The Bank is authorized through FY 1987, but amounts are authorized for appropriations only through FY 1984 and are as follows:

	Fiscal Yea	nillions)		
	<u>1981</u>	1982	<u>1983</u>	<u>1984</u>
Solar	100	200	225	
Energy Conservation	200	625	800	875

• Promotional expenses are authorized to use up to \$20 million of the 1981 appropriation and \$15 million per year in 1982–83.

# Subsidized Housing Program: Summary

Agency: Department of Housing and Urban Development	Functional Code: 604			Budget Reform Criterion: 5				
Funding			(S in	millions)	nillions)			
9	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	29,502	28,775	31,896	33,905	33,566	37,580		
Outlays	5,637	6,982	8,153	9,704	11,301	12,898		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	6		-3.258	-4,580	-5,990	-7,335		
Outlays	-8	-15	+ 149	+ 23	-204	-312		
PROGRAM CHANGES:1/								
Program Level								
Budget Authority	-4,632	-8,688	-9,421	-10,143	-10,838	-11,510		
Outlays	-3	-19	-76	-215	-483	-825		
Tenant Rent Contribution <sup>2</sup>								
Budget Authority								
Outlays		-86	-204	-354	-530	- 731		
Rental Assistance Payments				•				
Budget Authority		-149	-163	-180	-198	-217		
Outlays	<del>-</del> -	-5	-10	-15	-21	- 28		
Indian Housing								
Budget Authority	-161	-703	-744	784	-824	-865		
Outlays				-3	-19	<del>-4</del> 5		
Public Housing Modernization								
Budget Authority	-300	-500	-800	-800	-800	-800		
Outlays			7	27	-60	-100		
REAGAN BUDGET:	• • • • • •	10.524	15.510	3.0 43.0	3.603.6			
Budget Authority	24,403	18,736	17,510	17,418	16,916	16,853		
Outlays	5,626	6,857	8,005	9,113	9,984	10,857		
1/ The Carter Budget already included savings budget reductions, are as follows:	for subsidized	housing. Tot	tal expected s	avings, includ	ling both Car	ter and Reagan		
and the resident of the second in the second	1981	1982	1983	1984	1985	1986		
Budget Authority	-5,599		-16.289	-19.028	-21.023	-22.857		
Outlays	-16	-211	-405	-926	-1,684	-2,402		
2/ Estimates do not include savings in Public I operating subsidies.	Housing progra	m which are i	reflected in tl	ne justificatio		Public Housing		

# Subsidized Housing Program: Program Level

Agency: Department of Housing and Urban Development	Functional Code: 604				Budget Reform Criterion: 1		
Funding (see summary table)		(\$ in millions)					
PROGRAM CHANGES:	1981	1982	1983	1984	1985	1986	
Budget Authority Outlays	-4,632 -3	-8,688 -19	-9,421 -76	-10,143 -215	-10,838 -483	-11,510 -825	

## Program Description

HUD provides rental assistance to more than 3.2 million lower income households through two active programs: (1) the Lower Income Housing Assistance (Section 8) program, and (2) the Public Housing program.

Under the Section 8 program, HUD makes commitments to subsidize rents for low-income families in newly constructed and existing private housing. Families with incomes below 80 percent of area median income receive assistance equal to the difference between the actual rent for their units and a tenant rent contribution, currently limited to 25 percent of the family's adjusted income. Actual rents are limited to a maximum "fair market rent" established and revised annually for the area by HUD. Fair market rent ceilings are substantially higher for newly constructed units than for existing housing, reflecting the higher cost of producing new units.

Under the public housing program, HUD supports the construction of low-income housing owned and operated by local public housing agencies (PHAs) by making annual payments to the PHAs to amortize their long-term, tax-exempt debt issued to finance these projects.

## Proposed Change

- For the planned number of additional subsidized housing units, the Administration proposes
  - reduce the 1981 program from 255,000 to 210,000 units;
    reduce the 1982 program from 260,000 to 175,000 units.
- The ratio between commitments for new construction and commitments for existing housing will also be shifted slightly towards more existing units to take greater advantage of the lower cost existing housing program.

#### Rationale

- Reducing the level of the subsidized housing program is part of the general effort to control long-term Federal Government spending and thereby eliminate inflation and promote economic growth. By the end of 1981, the Federal Government will have outstanding commitments to spend more than \$239 billion over the next 40 years for subsidized housing.
- The Administration's proposed subsidized housing program levels for 1981 and 1982 reflect a balance between our concern about continuing to help overcome housing problems among the truly needy and the need to reexamine the relative effectiveness, efficiency, and equity of our current programs for meeting those housing problems.
- Changing the new/existing unit mix from the proposed 50:50 mix for 1982 to a 45:55 ratio favoring the use of existing housing will reduce long term budget authority commitments without a concomitant reduction in the total number of families assisted.
- While the Administration reviews a wide range of issues affecting the national housing situation, we are proposing reforms that will not reduce benefits to tenants currently living in subsidized housing, but will only reduce the rate of growth of the program. In fact, the Administration's 1981 housing program of 210,000 units will still provide a slight increase above the actual 1980 program level (206,000) achieved by the previous administration.

## Key Facts About the Program

- Even if we make no new subsidized housing commitments after 1981, by 1986, the Federal Government's subsidized housing outlays will grow by 68 percent, increasing from \$5.6 billion in 1981 outlays to over \$9.4 billion in 1986 outlays. These expenditures will not help any additional low-income families beyond those we are already committed to serve.
- The average annual unit cost for a typical newly constructed Section 8 unit was \$3,584 in 1976; in the 1982 budget, this same units is estimated to cost \$7,025 per year, an increase of more than 95 percent over a 6-year time period.
- Existing Section 8 units have substantially lower per unit budget authority costs than newly constructed units:

Type of Unit	Average Budget Authority Per Unit (FY 1982
Section 8 new construction	\$144,000
Public Housing	\$135,000
Section 8 existing	\$ 54,000

• Only an estimated 10 percent of the income eligible population is currently being served by the HUD-subsidized housing programs. The horizontal equity of providing very deep housing subsidies to a limited number of all eligible renters is questionable, particularly when so many unsubsidized tenants pay more than 25 percent of their incomes towards rent. (See separate justification section on tenant rent contribution).

# Subsidized Housing Program: Tenant Rent Contribution

Agency: Department of Housing and Urban Development	Functional Code: 604				Budget Re Criterion:			
Funding (see summary table)	(\$ in millions)							
<b>0</b> ,	1981	1982	1983	1984	1985	1986		
PROGRAM CHANGES:1/								
Budget Authority		~60	-132	-213	-302	-402		
Outlays		-119	-304	-530	-792	-1088		
1/ Includes savings for public housing operation	ng subsidies.							

## Program Description

Under current regulations, tenants living in section 8 subsidized housing, public housing, and other HUD subsidized units are limited to paying not more than 25 percent of their adjusted incomes towards rent. The Federal Government subsidizes the difference between the actual market rent charged for the unit (or, in the case of public housing, the per unit operating cost) and the tenant's rent contribution. Although Congress authorized HUD in 1979 to increase tenant rent payments for a limited number of new tenants, HUD has not implemented this authorized increase.

## Proposed Change

The Administration proposes to gradually increase the maximum allowable rent contribution paid by tenants living in federally subsidized housing from 25 percent to 30 percent of their adjusted incomes.

To achieve this policy change, the President will propose the legislation required to apply the rent burden increases to all tenants. The rent increase from 25 percent to 30 percent of income will be phased in at 1 percentage point of income per year over the next 5 years. Currently, very needy households pay less than 25 percent of their incomes for rent in HUD subsidized housing projects. Since this proposal provides for the same increase for all tenants, the differential for the very needy will be maintained.

#### Rationale

- This increase in tenant rent contributions will reduce some of the inequity of providing very large subsidies to less than 10 percent of the total income eligible households while the rest currently receive no subsidies at all. Moreover, tenants in HUD-subsidized housing are not only receiving a deep subsidy under the current 25 percent cap, but they are generally living in housing of higher quality than that occupied by unsubsidized households of comparable income.
- More than 13 million renters at all levels of income have been paying a greater percentage of their incomes for rent in recent years. The median rent/income ratio increased from .20 in 1970 to .26 in 1979.
- Even after the gradual phase-in of the increase in tenant rent contributions is completed in 1986, the over 3.2 million households currently living in subsidized housing will continue to pay on the average a much lower percentage of their incomes for better housing than the over 30 million lower income households who live in unsubsidized housing. In 1979, rent paid by those in the bottom fifth of the income distribution of renters averaged 47 percent of cash income.
- It is estimated that the increased rent payment for subsidized tenants in 1982 will average less than \$5 per month.

## Key Facts About the Program

• The proposed increase in the rent-to-income ratio for subsidized tenants refers to net income after deductions. Even after the increase to 30 percent of net income is implemented, on the average, subsidized housing tenants will still only be paying about 27.8 percent of gross income by 1986.

• The 25 percent rent contribution standard which was established by the Brooke Amendment of 1969 no longer has any factual support. On average, rent contributions exceed 25 percent by a substantial amount for the 20 percent of families eligible for housing assistance as well as for the next 20 percent of families with incomes too high to be eligible for housing assistance (see table below). Furthermore, the average rent contribution for all families has been increasing.

#### Tenant Rent Contributions, 1974 1979

(Metropolitan area tenants only; excludes public housing tenants)

Rent Contributions as a Percent of Income\*

	Kent Continuudons as a Fe	ercent or mico
Income Class	1974	1979
Lowest fifth	44%	47%
Lower fifth	24	27
Middle fifth	18	19
Upper fifth	14	15
Highest fifth	11	12

Percent paying more than 25% and 30% of income for rent\*

	1974	_		1979
Income Class	<u>25% 30</u>	<u>%</u>	25%	30%
Total	39% 29	$\overline{\%}$	47%	35%
Lowest fifth	85	74	88	78
Lower fifth	42	22	52	29
Middle fifth	11	4	15	6
Upper fifth	3	1	5	1
Highest fifth	1	0	1	0

<sup>\*</sup> Includes utilities and other shelter costs.

# **Subsidized Housing: Rental Assistance Payments**

Agency: Department of Housing and Urban Development	Functional Code: 604		Budge Criter						
Funding (see summary table)	(\$ in millions)								
PROGRAM CHANGES:	1981	1982	1983	1984	1985	1986			
Budget Authority Outlays		-149 -5	-163 -10	-180 -15	-198 -21	-217 - 28			

## Program Description:

The Rental Assistance Payments (RAP) program was established by the Housing and Community Development Act of 1974 to reduce the rent burden for very low income tenants in HUD rental housing units subsidized under the Section 236, Rental Housing Assistance Program. Under the original Section 236 program, HUD provided subsidies to project owners to reduce their effective mortgage interest rate down to 1 percent. This subsidy was then passed on to eligible low and moderate income tenants through a reduced rental rate. (Every tenant was required to pay either the basic rental charge, equal to operating costs plus amortized debt service at a 1 percent interest rate, or 25 percent of income—whichever was higher.) Some very low income tenants were faced with tenant rent burdens substantially greater than 25 percent of their incomes when the basic rental charge increased faster than did their incomes. The RAP program was designed to overcome this problem by providing an additional subsidy to landlords equal to the difference between the basic rent (already subsidized) and 25 percent of income for eligible low income tenants.

RAP subsidies have previously been funded by using unobligated and recaptured authority available from the Section 236 program. When the 1982 Budget was prepared last fall, it was estimated that all the available Section 236 authority would be exhausted by the end of FY 1981. Therefore, the 1982 Carter Budget requested an additional \$148.5 million in budget authority to fund expected 1982 increases in operating costs for about half of those units occupied by RAP tenants.

## Proposed Change

The Reagan Administration proposes to withdraw the request to provide funding for increased rental assistance payments.

#### Rationale

The proposal to withdraw the request for additional RAP funds is made to eliminate the unintended benefits that would accrue if duplicative subsidies were provided. The additional funding is no longer needed because:

- HUD underestimated the amount of authority that would be available to carryover into 1981; thus, at the expected rate of utilitization of RAP funds in 1981, all Section 236 authority will not be exhausted by the end of FY 1981.
- The proposed increase in tenant rents will further reduce any need for additional Federal operating subsidies.

#### Key Facts About the Program

Section 236 interest reduction subsidies are currently being paid on about 535,000 units; the occupants of about 34,000 of these units receive RAP subsidies.

# Subsidized Housing Program: Indian Housing

Agency: Department of Housing and Urban Development	Functional Code: 604			Budget Reform Criterion: 1			
Funding			<b>(\$</b> in	millions)			
ŭ	1981	1982	1983	1984	1985	1986	
PROGRAM CHANGES:1/	-						
Budget Authority	-161	-703	-744	-784	-824	-865	
Outlays		-	-	-3	-19	45	
1/ The Carter Budget already included savings	for this propos	al. Total sav	ings expected	are as follo	vs:		
, ,	1981	1982	1983	1984	1985	1986	
Budget Authority	-161	-1,055	-1,113	-1,168	-1,227	-1,289	
Outlays	<b></b>			3	-25	-63	

## **Program Description**

This is a special set-aside within the public housing production portion of the subsidized housing program. Local implementation is through 164 Indian Housing Authorities serving Indian reservations with a population of approximately 700,000. From the early 1960's to the end of FY 1980 commitments were made to support a little over 54,000 Indian housing units. Most recent data (2/28/81) indicate that of this total, 39,000 units are now completed, 10,000 units have not been started, and 5,000 are under construction. Commitments to construct 5,000 to 6,000 new units per year have been made for the past several years. The Carter budget proposed to reduce this level to 4,000 units in 1982. Water and sanitation facilities for the HUD-supported units are usually provided by the Indian Health Service in HHS, while the Bureau of Indian Affairs typically builds access roads. Approximately 70 percent of the Indian housing units have been single-family units constructed under the Mutual Help Homeownership Opportunity program.

## Proposed Change

- This special category of subsidized housing is proposed for elimination beginning in 1982.
- For 1981, the program level has been reduced slightly—as part of a proposed rescission of subsidized housing budget authority—from 6,000 units in the Carter budget to 5,000 units.

#### Rationale

- As part of the Administration's efforts to revise income maintenance programs to eliminate unintended benefits, this very high cost program should be scrapped and more efficient delivery mechanisms found.
- Difficulties in translating units funded but not completed should be solved rather than adding any more "paper commitments" and tying up budget authority.
- Indian Housing Authorities have had difficulty in managing their HUD housing assistance funds and in some cases have used new construction funds to pay the rent or mortgage contributions required from assisted families.
- As part of the Administration's policy to stretch out public sector capital investment activity, the Indian Health Service (IHS) program—which must be relied upon for essential water and sewer systems for HUD Indian housing construction—is being cut back.

- Indian housing is very expensive:
  - \$72,500 per unit estimated in 1981 rising to nearly \$80,000 per unit in 1982 if the program were continued.
  - The budget authority required per unit would be over \$175,000 per unit in 1982.
- Sources of the high cost of this program include the following:
  - Indian housing is built in remote locations with high transportation costs and difficulty in attracting skilled labor.

- Local contractors are often reluctant to bid on projects because of Davis-Bacon rules.
- Although IHS pays for the construction of water and sewer facilities, the HUD program must pay for hook-up to those facilities.
- Despite the fact that no HUD-assisted units were built until the mid-1960's, many units are in substandard condition and the cost of correcting design and construction deficiencies in Indian and Alaskan Native housing is now estimated at over \$50 million.
- Given the current backlog of Indian housing commitments in the HUD pipeline at the end of 1981 (15,000 units), it will take three years just to complete these units assuming that recent completion rates continue.

# Subsidized Housing Program: Public Housing Modernization

Agency: Department of Housing and Urban Development		ctional e: 604			Budget Re Criterion:			
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:1/								
Budget Authority	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)		
Outlays	(246)	(296)	(371)	(471)	(571)	(671)		
PROGRAM CHANGES:				-				
Budget Authority	-300	-500	-800	-800	-800	-800		
Outlays			-7	-27	-60	-100		
REAGAN BUDGET: <sup>1/</sup>								
Budget Authority	(1,700)	(1,500)	(1.200)	(1,200)	(1.200)	(1,200)		
Outlays	(246)	(296)	(364)	(444)	(511)	(571)		
1/ Included in totals for subsidized housing p	orogram.							

## Program Description

Public Housing Modernization is a program for funding periodic renovation and nonroutine maintenance work on the federally supported public housing stock and has been ongoing for a number of years. For 1981, Congress authorized a new expanded program aimed at making the public housing inventory more energy efficient and less costly to operate. This new, more comprehensive modernization program is also intended to ensure that public housing projects in the worst condition—the 8 percent of the units that are giving the entire public housing a bad image—are made safe and sanitary and are in compliance with HUD minimum property standards. The total budget authority required to complete this level of effort is about \$6 billion in 1980 prices. The Carter Administration planned to implement the new comprehensive modernization program by obligating \$2 billion in budget authority per year beginning in 1981. Each \$1 billion in budget authority supports about \$545 million in actual capital improvements.

## Proposed Change

- The overall effort will be stretched out by slowing the rate at which the objectives of the comprehensive improvement program are met. However, the basic goals of the expanded program will be achieved by 1985–86.
- For 1981, \$300 million in budget authority is proposed for rescission. For 1982, the Carter budget request for \$2 billion has been amended to \$1.5 billion.

#### Rationale

- This proposed change is justified in terms of the Administration's policy of stretching out public sector capital improvement programs.
- The Reagan budget proposal for modernization funding in 1981 and 1982 represents a substantial (and more feasible) increase in modernization activity above the \$1 billion level of 1979 and 1980.
- Because of delays in completing program design plans and regulations and in training staff, there is reason to doubt that HUD can efficiently use \$2 billion in FY 1981 funding.
- The \$2 billion annual program level is probably too ambitious in terms of the capacity of HUD and public housing authority staffs to rapidly plan for and effectively carry out the new comprehensive modernization program.

- A recent study concluded that the current replacement cost of the 1.2 million units of federally supported public housing in this country would be over \$65 billion. More than 400,000 units of public housing are over 20 years old.
- This study estimated the cost for public housing (in 1980 dollars) of correcting deficiencies, meeting handicapped accessibility requirements, and making energy conservation improvements to be \$3.1 billion.

**Department of the Interior** 

# Bureau of Indian Affairs Operating and Construction Programs

Agency: Department of the Interior	Functional Code: 302			Budget Reform Criterion: 5/8				
Funding	(\$ in millions)							
<b>g</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	998	1,055	1,132	1,177	1,236	1,290		
Outlays	919	925	985	1,023	1,074	1,119		
REESTIMATES & ADJUSTMENTS:								
Budget Authority			-52	-97	-139	-193		
Outlays			-42	-80	-117	-162		
PROGRÁM CHANGES								
Budget Authority	-3	-76	-79	-79	-79	-79		
Outlays	-3	- 69	-72	-72	-72	- 72		
REAGAN BUDGET:								
Budget Authority	995	979	1,001	1,001	1,018	1,018		
Outlays	916	856	871	871	885	885		

## Program Description

The Bureau of Indian Affairs (BIA) provides services to Indians that non-Indians receive from all three levels of government. BIA's operating programs include: education, social services, housing, economic development, welfare, natural resources development, and rights protection. BIA's construction program includes funding for schools, irrigation projects, roads, and facility repair.

## Proposed Change

For BIA's operating programs the Administration proposes:

- The consolidation of 10 separate programs into a Consolidated Tribal Government Program, a \$41 million BA reduction.
- Various other small reductions totaling \$19 million in BA.

For BIA's construction programs the Administration proposes:

- A reduction of \$13 million in the facility improvement and repair program.
- A reduction of \$3 million in the road construction program.

#### Rationale

The Consolidated Tribal Government Program approach will: reduce tribal administrative burdens; provide more program flexibility; and give tribal governments more say in the final allocation of the overall reduction than is the case when cuts are made on an individual program basis. The Consolidated Tribal Government Program will result in a 25 percent overall funding reduction for the 10 programs being consolidated. This reduction will be partially cushioned by reducing overhead and personnel costs in the BIA.

Funding for the facility repair and roads construction programs will be partially deferred to the out-years due to the postponable nature of these initiatives, but will still be an increase over the 1981 levels.

#### Key Facts About the Program

In order to begin to streamline and simplify the delivery of Indian programs, the Administration is proposing to consolidate the following ten categorical programs into a Consolidated Tribal Government Program: Agriculture Extension; Johnson-O'Malley Education Assistance; Adult Education; Community Fire Protection; Direct Employment; Adult Vocational Training; Self Determination Grants; College Student Assistance; Indian Action Teams; and Housing. This approach will offer each tribe the option of selecting, within the overall budget, the amounts and types of programs the tribes or the BIA will operate on the reservation during any budget year. If the tribe chooses to operate the programs, it may do so under a new grant mechanism that will be established through regulation.

PL 93-638, the "Indian Self-Determination and Education Assistance Act" requires that the tribe have the option of contracting with the Bureau to operate its programs on reservation or having the Bureau continue to operate or resume operations of such programs. This option is to be retained.

#### Fish and Wildlife Service Reductions

Agency: Department of the Interior	Functional Code: 303				Budget Reform Criterion: 6			
Funding	(S in millions)							
S	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	-							
Budget Authority	437	463	508	534	559	584		
Outlays	431	440	456	478	494	523		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	0	0	-24	-31	-38	-43		
Outlays	0	0	+ 17	+9	+5	-11		
PROGRÁM CHANGES								
Budget Authority	-10	-66	-60	-60	-60	-60		
Outlays	-7	-65	-60	-60	-60	- 60		
REAGAN BUDGET:								
Budget Authority	427	398	424	443	461	481		
Outlays	424	380	413	427	439	452		

#### Program Description

The Fish and Wildlife Service (FWS) operates 415 wildlife refuges containing 84 million acres; 99 fish hatcheries and related production and training facilities; 38 research laboratories and stations; and funds numerous planning and monitoring activities. Both the 1981 and 1982 requests include increases to plan and operate the new refuges authorized by the 1980 Alaska Lands Act. The FWS administers the endangered species program, and the disbursement to the States in 1982 of \$145 million in Federal excise taxes collected on fish and wildlife sports equipment.

## Proposed Change

- Endangered species program is reduced by \$8 million: ending the funding for the small grant program to States (\$4 million) and reducing funds for listing new species, law enforcement and species recovery plans. \$17 million remains for species recovery actions, stopping illegal trade and to review currently listed species.
- Reduces program of permit review, independent planning, and biological services by the Fish and Wildlife Service for projects undertaken by other Federal or federally-assisted agencies or States by about 20 percent (\$10 million) and ends support to universities to carry out similar planning and research activities (\$3.5 million).
- No funds are requested for anadromous fish grants to the States (\$3.5 million).
- Construction is reduced by \$19 million in 1982 leaving \$7.6 million. A 1981 rescission is proposed for a new fish laboratory which would have required additional funding in 1982 and which was of relatively low priority.
- Other reductions in technical assistance, law enforcement, fishery resources and wildlife management total about \$20 million in 1982.

#### Rationale

- Endangered species program should be refocused primarily on species that can be saved, not those whose demise is caused by fundamental environmental or other unavoidable changes. Stricter definitions of species are needed; it is not necessary to save "populations" within species when the species itself is not endangered. State grants often support efforts to save species populations threatened only in a specific state. We believe the States themselves should support such efforts. Planned reductions support this policy.
- Fish and wildlife planning and commenting program is duplicative of efforts that must be carried out under the National Environmental Policy Act by the agency actually constructing the project.

- Grants to States for fisheries and wildlife projects financed from federally collected revenues are not reduced, providing a \$21 million increase in 1982 over 1981.
- Acquisition of wetlands under the Migratory Bird Conservation Account, especially in
  estuaries, has not been reduced, even while other land acquisition programs are under a
  moratorium.
- Operation of refuges is reduced by \$800 thousand, or less than 2 percent on a base of \$37 million. This still allows a planned increase over 1981 of \$2.7 million for maintenance.
- Operation of hatcheries is reduced by \$550 thousand, or about 2 percent on a base of \$27 million. This still provides for a \$2.3 million increase over 1981.
- The \$3.5 million requested in the Carter Budget for payment to the State of Alaska to support subsistence planning required by the 1980 Alaska Lands Act is requested under the Office of the Secretary heading and therefore shows as a reduction in the Fish and Wildlife Service.

## **Improved Targeting of Recreation and Conservation Expenditures**

Agency: Department of the Interior		ctional e: 303			Budget Reform Criterion: 6				
Funding	(\$ in millions)								
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:	•								
Budget Authority	994	1.209	1,300	1,337	1,453	1,448			
Outlays	1,247	1,247	1,267	1,369	1,391	1,459			
REESTIMATES & ADJUSTMENTS:						•			
Budget Authority			-68	-63	-139	-98			
Outlays			-60	-75	-75	-143			
DECREASES									
Budget Authority	-316	-593	-512	-454	-468	-624			
Outlays	-103	- 290	-239	-428	-496	- 564			
INCREASES									
Budget Authority		+105	+ 105	+105	+ 105	+105			
Outlays		+ 60	+114	+114	+111	+108			
REAGAN BUDGET:									
Budget Authority	677	720	825	925	951	831			
Outlays	1,144	1,017	1,082	980	981	831			

## Program Description

The Department of the Interior, through the National Park Service operates 327 park and historic areas comprising about 72 million acres. In addition, Interior administers three major grant-in-aid programs: the Land and Water Conservation Fund (LWCF), the Historic Preservation Fund and Urban Park grants for assisting States and localities in acquiring and developing recreation areas and facilities and administering State historic preservation programs. These grant programs, some technical assistance and planning activities, and coordination of Federal recreation land acquisition funded by the Land and Water Conservation Fund, was provided through the Heritage Conservation and Recreation Service (HCRS).

The Carter 1982 program provided \$564 million for national parks operations and construction; \$17 million for HCRS administration and technical assistance; \$32.5 million for the Historic Preservation Fund; \$75 million for Urban Park grants; \$185 million for LWCF state grants; and \$335 million for Federal land acquisition and administration of LWCF.

#### Proposed Change

Termination of the three grant programs through rescission of \$188 million in 1981 and withdrawal of request for 1982. The National Trust for Historic Preservation would continue to receive the \$4.7 million requested in the Carter Budget. A moratorium on Federal conservation land acquisition is in place, allowing a \$105 million rescission in 1981 and a further \$290 million reduction in the 1982 request for Land and Water Conservation Fund. Rescission of \$15.5 million for the Cumberland Gap Tunnel is requested to avoid wasteful spending on a project now estimated to cost over \$150 million and provide primarily aesthetic benefits. Reducing technical assistance to states and localities and reducing overhead by eliminating HCRS as a separate organization will reduce spending by \$5 million.

A \$525 million multi-year initiative to restore and improve existing national parks will be begun in 1982, with an initial \$105 million request. This initiative will be funded out of the Land and Water Conservation Fund.

#### Rationale

This proposal is an integral component of the Administration's overall effort to impose fiscal restraint on Federal programs. Grants to States and localities for recreation and historic preservation primarily produce *local* benefits. Such activities should compete for local tax dollars on the same footing as other local services and are low priority for Federal funding. Existing tax treatment is estimated to result in \$100 million in tax expenditures for historic structures in 1982.

The \$45 million requested for Federal land acquisition and administration in 1982 will be used to pay court awards on lands already taken or condemned by the United States and for emergency purchases. The \$4.7 million requested for the National Trust for Historic Preservation is necessary because of the Trust's unique relationship to the Federal government.

The park restoration and improvement initiative is an investment strategy in the nationally significant resources held in trust for all Americans by the National Park Service. These resources have been shortchanged as funds have been focused on expanding the number and types of units in the national park system. Recent GAO reports have documented some of the problems resulting from the lack of sufficient maintenance and repair funds.

## Key Facts About the Program

#### **URBAN PARKS:**

The Urban Park program was enacted in 1978 to complement other proposals of the Carter Administration's Urban policy, most of which was never enacted by the Congress. This program has funded such things as: local park maintenance planning, local park rehabilitation projects, and other projects in selected urban areas.

#### HISTORIC PRESERVATION FUND:

Through the efforts of States and localities, the *number of properties eligible for inclusion on the National Register* of Historic Places has grown tremendously in the past few years: Interior estimates that over 240,000 structures are currently listed on the Register; 81,000 properties would be documented for State registration in 1982 under the Carter Budget proposal; and an estimated 5,000 new areas, including historic districts, would have been added to the Register in 1982.

Most Register listed buildings are not nationally significant; in fact many are only locally significant. Registration will continue, but at a slower pace, if each State provides the total funding of its program. Only about \$8 million of the Fund was to be used to help restore buildings listed in the National Register, the rest was to pay salaries and expenses of the States' programs.

#### STATE RECREATION GRANTS OF THE LAND AND WATER CONSERVATION FUND:

This program has provided over \$2.8 billion to States since its inception in 1965. Its major purpose, to provide increased recreation opportunities, is a comparatively low priority. As an example, in 1978, 60 percent of the funding went for development projects, which included: 815 projects with tennis courts; 213 projects with swimming pools; 62 projects with skating rinks; and 55 projects with golf courses.

#### MORATORIUM ON FEDERAL LAND ACQUISITION:

The Federal government owns more than 760 million acres of land, more than one-third of the United States. State and local governments hold a small but growing share (6 percent) bringing public ownership to 40 percent. The Federal government has acquired over 2 million acres of land through the Land and Water Conservation Fund since 1965.

The moratorium will provide for a policy review of planned acquisition, boundaries of existing park areas, and the planning of an aggressive land exchange program to round out the Federal estate.

The GAO has been very critical of land acquisition practices. For example, in January 1981 GAO recommended that lands bought for the Lake Chelan National Recreation Area be sold back to their original owners.

#### NATIONAL PARK RESTORATION AND IMPROVEMENT PROGRAM:

This initiative will focus on five major areas: correcting health and safety problems; cyclic maintenance repair and rehabilitation; historic resources preservation; natural resources preservation and major capital improvements.

# **Mineral Leasing Acceleration**

Agency: Department of the Interior					Budget R Criterion:			
Funding	(\$ in millions)							
· ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	-8,090	-10,409	-10,537	-10,447	-10,457	-10,457		
Outlays	-8,090	-10,409	-10,537	-10,447	-10,457	-10,457		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	-1,673	-492	-284	-391	-507	-608		
Outlays	-1,673	-492	-284	-391	-507	-608		
PROGRÁM CHANGES								
Budget Authority	-250	-900	-1,900	-3,100	-3,500	-3,500		
Outlays	-250	-900	-1,900	-3,100	-3,500	-3,500		
REAGAN BUDGET:								
Budget Authority	-10,013	-11,801	-12,721	-13,938	-14,464	-14,565		
Outlays	-10,013	-11,801	-12,721	-13,938	-14,464	-14,565		

## Program Description

Rights to oil and gas on the Outer Continental Shelf (OCS) are leased by competitive sealed-bid auctions held in accordance with the leasing schedule of June 1980.

Onshore oil and gas, coal, oil shale, geothermal resources, and other minerals are leased by a variety of methods under several legislative authorities. The Carter Budget anticipated two coal lease sales in FY 1982, three in FY 1983, and four in FY 1984. It also planned to hold one competitive oil and gas lease sale in the National Petroleum Reserve in Alaska during FY 1982, to offer four prototype oil shale leases in FY 1983, and to hold the first oil shale lease sale under a permanent leasing program in FY 1985.

## Proposed Change

The revised Interior budget proposes additional funds and personnel for the Bureau of Land Management and the Geological Survey to accelerate mineral leasing. The OCS leasing program will be revised in accordance with the OCS Lands Act. A major objective will be to shorten the time period required to start exploratory drilling in all OCS areas. Efforts will also be made to shorten the lengthy sale preparation process.

Onshore leasing will be accelerated by holding two sales in the National Petroleum Reserve in Alaska in 1982, beginning regular oil shale leasing under a permanent program by 1984, and beginning to simplify administratively the coal leasing process to achieve significantly expanded leasing by 1983 if possible, but no later than 1984.

#### Rationale

The acceleration of leasing sought by the President will significantly increase our knowledge of domestic energy and nonenergy mineral resources. Domestic production will be significantly increased in the longer term, thus contributing to economic growth. The acceleration will increase the proprietary receipts of the government and help to reduce the budget deficit, and also increase the shared revenue payments to States for onshore activities.

#### Key Facts About the Program

Revisions of the OCS oil and gas leasing schedule must be done in accordance with procedures specified in section 18 of the OCS Lands Act. Compliance with the required procedures takes approximately a year to complete. The specific number, size, and location of OCS sales which will be included in the revised OCS schedule will be determined as the program or schedule revision process is carried out.

The current process for preparing individual OCS sales is a lengthy process of many administrative steps. A number of sales on the June 1980 schedule would take more than 40 months to prepare. The Administration's program proposes to streamline and shorten the sale preparation process through more efficient methods of environmental impact statement preparation and parallel completion of some pre-sale steps which are now done sequentially.

The current administrative process for preparing coal lease sales is also highly time-consuming and cumbersome. The proposed program will streamline that process with the objective of assuring that, while unnecessary or unproductive procedures are avoided, information is available for making leasing decisions that adequately consider environmental values and the public's proprietary interests.

The proposed leasing acceleration will increase shared payments to States from mineral leasing receipts. Such payments are expected to increase by \$38 million in FY 1981, \$70 million in FY 1982; \$167 million in FY 1983; \$85 million in Fy 1984; \$104 million in FY 1985; and \$108 million in FY 1986. Alaska, Colorado, Wyoming, and New Mexico are expected to be the major beneficiaries.

# Payment in Lieu of Taxes

Agency: Department of the Interior	Functional Code: 852				Budget Reform Criterion: 1			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:						-, , ,		
Budget Authority	103	0	0	0	0	0		
Outlays	108	0	- 0	0	0	0		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES								
Budget Authority	0	+45	+45	+45	+45	+ 45		
Outlays	0	+45	+45	+45	+45	+45		
REAGAN BUDGET:								
Budget Authority	103	45	45	45	45	45		
Outlays	108	45	45	45	45	45		

#### Program Description

The Carter Budget requested no appropriation in FY 1982 for the payment in lieu of taxes program.

## Proposed Change

A payment in lieu of taxes program would be resumed in FY 1982. However, the new program is contingent upon passage of new legislation to simplify procedures by which calculations are made, eliminate the need to rely on state reports for basic information, and provide for a more equitable system for making payments to local governments. A revised payment formula would net out all revenue payments made to either the State or local governments.

#### Rationale

This program restructuring should eliminate extra unintended benefits that accrued when not all revenues generated from Federal lands were offset against the in-lieu payment. It will also reduce payment inequities that result from interstate differences in distribution of revenues. Currently states can chose not to distribute all their mineral revenues to local units of government, thereby increasing their PILT payment.

#### Key Facts About the Program

The Payment in Lieu of Taxes (PILT) Act was passed in October 1976. The Act's intent was to compensate local units of government for tax revenues foregone due to the existence of Federal lands within the local taxing jurisdiction.

In 1978 the Comptroller General issued an opinion that said that for purposes of Section 1 PILT payments, money was not to be considered "received" by a local government and therefore not deducted from the 75 cents/acre payment, if it (1) went directly to a special purpose unit of government, i.e., a school district, or if (2) it passed through a local unit of government on its way to a special purpose district. The problem with this decision is that in both of these cases the funds not "received" by a local unit of government were being used to aid general government services as envisioned by PILT.

The 1979 GAO report on the PILT program found many procedural irregularities in the administration of the program as well as substantive concerns that the intent of the Act was not being met. A major concern was that in many cases the PILT payment exceeded what a comparable tax payment would be.

The proposed program for economic recovery includes \$45 million in the FY 1982 budget for resumption of a payment program contingent upon passage of new legislation to revise the payment formula. The intent of a revised payment formula is to target funds toward States with large amounts of Federal acreage that receive little or no shared revenues.

This program reform would substantially reduce the total cost of the program while continuing to provide assistance to those local governments with the greatest needs.

# **Surface Mining Regulation and Reclamation**

Agency: Department of the Interior	Functional Code: 302							
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	175	246	266	285	303	320		
Outlays	158	134	177	242	271	299		
REESTIMATES & ADJUSTMENTS:								
Budget Authority			-7	-12	-18	-23		
Outlays			-7	-12	-18	-23 -23		
PROGRÁM CHANGES								
Budget Authority	-2	-67	-54	-70	-85	-104		
Outlays	-2	-23	-32	-48	-39	-61		
REAGAN BUDGET:								
Budget Authority	173	180	205	203	200	193		
Outlays	156	111	138	182	214	215		

## Program Description

Programs include monitoring of State surface mining regulatory activities, review of mine plans on Federal lands, regulation of coal surface mining in States which choose not to submit their own programs, assistance to university mineral institutes and reclamation of abandoned mine lands by USDA, Interior, and the States. The Carter 1982 Budget requested a decrease of \$8 million from 1981 levels in regulatory programs, reflecting the continuing transition to a larger State role. Reclamation program request increased \$79 million over 1981.

## Proposed Change

Regulatory programs are cut a further \$20 million. Funding for assistance to 31 Mineral Institutes is eliminated (-\$9.6 million).

Reclamation programs decrease by \$47 million from the Carter Budget, but still increase \$33 million over 1981.

	(5	\$ in millions)	
Reclamation Programs	1981	Carter Carter	Reagan
State Grants	29	100	70
Interior Projects	31	42	31
Rural Reclamation (USDA)	10	10	4
Other	<u>12</u>	_10	10
Total	82	162	115

### Rationale

Reduced funding for *regulatory programs* will minimize duplication with States and decrease regulatory burden. The Mineral Institute program has been identified as a low priority program which cannot be justified in the current climate of fiscal restraint.

State reclamation grants cut because of delays in eligibility due to court injunctions against State action to seek Federal approval of regulatory programs, a prerequisite for reclamation grant awards. Cuts in the Interior and USDA programs offset the increase over 1981 levels in State grant funding.

# Key Facts About the Program

#### **REGULATORY PROGRAMS:**

- As part of the transition to State primacy (assumption by the States of the lead responsibility for surface mining regulation), OSM's staffing levels will be reduced. The Carter Budget recommended a 10% reduction in total OSM fulltime staffing and a 20% reduction in the staffing for regulatory programs. The revised budget assumes a 23% overall reduction and a 36% reduction in regulatory programs
- The revised budget assumes that 24 of the 27 coal-producing States will have primacy by the beginning of fiscal 1982. The remaining 3 States elected not to submit permanent programs by the March 30, 1980 deadline.

- Monitoring of State program implementation is performed to assure consistency with the provisions of the permanent State programs approved by the Interior Department. Monitoring will include annual Federal inspections of a statistically valid sample of regulated facilities. Approximately 17 percent of all facilities will be inspected. On the average, one Federal inspection will take place for every 69 State inspections. The budget revisions will accelerate the phase down of the Federal inspection program from the current level of 2 inspections per year of most facilities to the lower level required for monitoring.
- To review mine plans on Federal lands, a major OSM responsibility, the agency will depend as much as possible on analysis performed by State regulatory authorities and the review process will be streamlined. Workload estimates for this function have also been reduced since the Carter Budget was formulated.

#### **RECLAMATION PROGRAMS:**

- Reclamation funding will provide a 40 percent increase over 1981 level. Mix of spending will alter; funding for States will increase significantly (141 percent) while funding for Federal projects will be 14 percent lower than 1981.
- Subject to appropriation, each State is eligible to receive 50% of the Abandoned Mine Fund receipts colleted in the State once its regulatory and reclamation programs are approved. The Carter Budget requested an amount approximately equal to the States' share for FY 1982. The proposed reduction reflects the fact that several States will not be prepared to fully utilize reclamation grants until sometime in FY 1982 because they have been enjoined from taking further action to seek approval by the Interior Department for their permanent regulatory programs. Such approval is a prerequisite for eligibility for reclamation grants.
- Reductions have been proposed for the reclamation programs administered by Interior (OSM and the Bureau of Mines) and Agriculture (Soil Conservation Service) because the work undertaken is very similar to that which will be carried out by the States. An exception to this is OSM's emergency reclamation program, which will remain at the 1981 level.

# Youth Conservation Corps (YCC)

Agency: Department of the Interior	Functional Code: 302						Budget Re Criterion: (		
Funding	(\$ in millions)								
o .	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	60	60	60	60	60	60			
Outlays	61	63	60	60	60	60			
REESTIMATES & ADJUSTMENTS:									
Budget Authority			~ ~						
Outlays				,					
PROGRÁM CHANGES									
Budget Authority	-38	-60	-60	-60	-60	-60			
Outlays	-33	-60	-60	-60	-60	-60			
REAGAN BUDGET:									
Budget Authority	22								
Outlays	28	3							

## Program Description

YCC provides summer jobs on Federal and State lands for teenagers, ages 15–18. The 1981 appropriation and Carter 1982 request of \$60 million were to fund 35,000 and 32,000 jobs respectively. Interior and USDA each receives 35% of the funds and all States and territories receive the remaining 30%.

## Proposed Change

A \$38 million proposed rescission will eliminate 1981 funding for the summer programs run by Interior, USDA, 22 states, and 5 territories, reducing enrollment to 8,800. State grant funds for 1981 have already been obligated to 28 states, D.C. and Puerto Rico. Funding for the program will be completely eliminated in FY 1982.\*

#### Rationale

Funding for the program is being eliminated because it is costly compared to other employment programs, it is not targeted to the most needy populations, such as unemployed heads of households, and the work accomplished is of relatively low priority. Participants are selected at random from applicant rolls. Relatively few enrollees are underprivileged.

The work performed by the YCC is generally low priority conservation work. Visitor services at parks and development and maintenance of recreation areas account for 45 percent of the work accomplished.

- In 1980, only 28% of YCC enrollees came from families with incomes of less than \$10,000 and 42% came from families with incomes over \$15,000. Participants largely (76%) lived in rural areas and cities with populations under 50,000.
- Participants receive 10 hours per week of environmental training and perform 30 hours of conservation work, for which they are paid the minimum wage.
- In the Federal YCC program, 38% of enrollees live at work camps 7 days per week while working 5 days. Recreation and additional environmental training are provided on the weekends.

<sup>\*</sup>Termination of funding for a related program, the Young Adult Conservation Corps, is proposed in the Labor Department.

**Department of Justice** 

# **Department Employment**

Agency: Department of Justice	Functional Code: 751,752							
Funding	(\$ in millions)							
8	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	-							
Budget Authority	2,175	2,317	2.377	2,473	2,570	2,672		
Outlays	2,170	2,294	2,341	2,437	2,533	2,624		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-35	-68	-156	-283	-411	-544		
Outlays	-32	-70	-146	-272	-399	-547		
REAGAN BUDGET:								
Budget Authority	2,140	2,249	2,221	2.190	2,159	2,128		
Outlays	2.138	2,224	2.195	2,165	2,134	2.077		

### **Program Description**

The Department provides basic government services of law enforcement and litigation support for the Federal government. Of the 54,173 employees in the 1981 Carter budget, 78% are in law enforcement functions while 18% provide legal services.

## Proposed Change

The Reagan budget proposes employment levels which are 2.0% and 3.9% below the respective 1981 and 1982 proposed Carter end-of-year employment levels. The major reductions were distributed among the following bureaus:

	Full-time end-of-y	ear employment
	1981	1982
Federal Bureau of Investigation	<del>-</del> -	
Drug Enforcement Administration	173	174
Bureau of Prisons	117	249
United States Attorneys and Marshals	334	520
Immigration and Naturalization Service	350	750
Other	<u> 152</u>	<u>471</u>
Total	1,126	2,164

#### Rationale

Full-time permanent staffing under these recommendations for the entire Department would be only 2% below the actual end of 1980 levels and 15% above the staffing levels of a decade ago, in 1972.

Employment reductions in the Department of Justice are targeted at lower priority programs of state and local assistance, programs with insignificant impact, and programs that can be carried out by other public or private bodies.

Drug Enforcement Administration (DEA). Since 1974, DEA employment has remained essentially stable at 4,000. Within that staffing level the agency has shifted its resource allocation in response to the changing nature of drug traffic.

The State and local task force program, now operating in 20 cities, would be substantially reduced. Task forces do not play a significant role in Federal drug priorities, accounting for only 18% of the arrests of high level violators. The drug enforcement capacity of local governments has benefitted from several years of DEA training, lab analyses, and joint investigations.

Special funding for both DEA and selected northeastern cities in 1981 and 1982 to deal with Southwest Asian heroin is eliminated. Although the supply of Southwest Asian heroin in the United States is increasing, the total supply of heroin continues to decrease. The Compliance program was also reduced to force further targeting of investigation to the most egregious cases of drug diversion.

Bureau of Prisons. Federal prison staff grew 72% from a level of 5,640 in 1970 to 9,742 in 1980 owing primarily to the opening of new prison facilities which were built to address overcrowded conditions. However, with the 25% decrease in the prison population from 30,000 in 1977 to 24,000 in 1980, the closing of McNeil Island Penitentiary, and the phasing down of Leavenworth and Atlanta, the Federal Prison System can sustain personnel reductions without threatening the health and safety of inmates.

U.S. Attorneys, Marshals and Trustees. The Reagan budget continues the transfer of responsibility to local authorities for prosecution in, and court support of, the District of Columbia's Superior Court and also to parties other than the U.S. Marshals for the service of process in private lawsuits.

The U.S. Trustee program of bankruptcy administration is eliminated since the Judiciary's performance is ongoing in this area and the Department's involvement in administration is inappropriate since the Attorney General is one of the most frequent parties to bankruptcy cases.

Further employment reductions are gained by reducing the security provided to judges during non-dangerous civil proceedings. Deputy Marshals are now required to attend all trials in 78 of the 94 judicial districts.

Immigration and Naturalization Service (INS). Full-time permanent employment in INS grew 45% between 1971 and 1980 from a level of 6,819 to 9,948, while employment in the rest of the Department grew 21%. The Administration realizes that the immigration law is difficult to enforce and that immigration policy needs to be reassessed, but the Administration also believes that INS has failed to optimize the use of its resources within the current policy and legal framework. Therefore, the employment reduction was targeted to programs that appear to have either low pay-off or a disproportionate allocation of resources given the level of risk involved. The reductions were targeted to the following areas: airport inspections where 1% of alien border crossers are denied entry; investigations and status verification; and several application procedures in the adjudication program.

## Key Facts About the Program

TOTAL

Department of Justice staffing grew 25% from 1971 to 1980. The law enforcement component of the Department has increased in staff by 8.3% since 1975. Since Federal law enforcement resources should not be viewed as a substitute for local efforts, these resources have been targeted increasingly to Federal law enforcement priorities that by their nature exceed the capability and jurisdiction of local forces.

FULL-TIME END-OF-YEAR EMPLOYMENT

45,598

53,478

53,047

52,318

TODE TIME END OF	TENTE LIVE I		1	
	1972	1980	<u>1981</u>	<u>1982</u>
U.S. Attorneys and Marshals	<u>Actual</u> 4,599	<u>Actual</u> 6,272	6,215	5,820
Federal Bureau of Investigation	19,918	18,150	18,230	18,429
Drug Enforcement Administration	2,745	4,032	3,851.	3,865
Immigration and Naturalization Service	7,374	9,948	9,739	9,471
Bureau of Prisons	6,824	9,742	9,732	9,663
Other	4.138	<u>5.330</u>	5.280	5.070

# Juvenile Justice and Delinquency Prevention Program Termination

Agency: Department of Justice	Functional Code: 754							
Funding	(\$ in millions)							
0	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	-							
Budget Authority	103	141	135	146	156	167		
Outlays	120	127	141	187	186	198		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-1	-138	-133	-146	-156	-167		
Outlays	-1	-19	-98	-187	-186	-198		
REAGAN BUDGET:			_					
Budget Authority	102	3	2	0	0	0		
Outlays	119	108	43	0	0	0		

## Program Description

Juvenile Justice and Delinquency Programs (JJDP) provide formula and discretionary grants to State and local governments and to private non-profit corporations for the following primary objectives: 1) removal of status offenders (juveniles who commit acts that would not be offenses if committed by adults) and non-offenders from juvenile detention and correctional facilities; 2) removal of all juveniles from adult lock-ups and jails; and 3) prevention of delinquency and meeting the needs of the serious and violent offender.

## Proposed Change

Services currently provided through JJDP programs would be provided under broader authorities of programs proposed for consolidation into a social services block grant. Thus, the Administration proposes that JJDP activities be carried out by the States in the context of the block grant. This shift in delivery mechanism would eliminate Federal bureaucratic red tape and unnecessary State and local administrative costs, and make relatively more funds available for real program needs.

#### Rationale

Merging JJDP activities into a social services block grant is part of the effort to return management of health and social service programs to States and localities. The goals of the JJDP programs are laudable, and the Administration recognizes the progress made by many States in achieving some of the most important program objectives. States and localities are best able to assess the needs of their juveniles and to determine what programs are needed to prevent delinquency and deal with serious and violent offenders. States and localities know best how to maintain the reforms and achievements they have accomplished. Federal direction and control of juvenile justice programs are not needed. Federal bureaucrats have no special knowledge of how juvenile delinquents can be deterred from further delinquent acts or where problem youth should be housed.

Allowing States and localities to provide JJDP services through a social services block grant will provide States with the flexibility they need and allow them to set their own program priorities. Unproductive administrative time spent preparing plans and shuffling paperwork to meet Federal regulations and guidelines will be eliminated. Because the responsibility for program goals and management will be shifted to States and localities, costs will be lower, response to the unique needs of specific communities will be greater, and communities and families will increase their involvement in planning and implementing programs which affect their youth.

## Key Facts About the Program

Federal funding for this program has helped the States and local communities achieve many desirable institutional reforms and demonstrated more effective, and often less costly, alternatives for dealing with juvenile offenders. We anticipate that State and local governments will continue with these activities that are more effective and less costly than traditional approaches. Local communities, moreover, are best able to judge the most effective programs for their youth and to focus on juveniles with greatest needs. For example:

- Between 1975 and 1977, the rate of detention of status offenders has decreased by 50% and the number of juvenile court cases by 4% as more effective and often less costly alternatives were developed.
- Project New Pride, a successful project providing non-residential community-based treatment for juvenile delinquents with a history of serious offenses, is being replicated in ten locations. The program was started in Denver where more than 70% of Project New Pride youths have been placed in jobs; their rearrest rate is one-third the rate of the unemployed clients. The program costs about \$4,000 per youth per year compared to a cost to a local community of \$24,00 to \$43,000 for incarcerating a juvenile.
- The Restitution by Juvenile Offenders and Alternatives to Incarceration Programs, begun in 1978, has resulted in over 17,000 youth paying more than \$1 million in cash restitution, working more than 190,000 hours of community service, and performing more than 4,157 hours of direct service to crime victims. Over 85% of referred youth have no subsequent contact with juvenile courts.

**Department of Labor** 

# **Black Lung Disability Trust Fund**

Agency: Department of Labor	Functional Code: 601				Budget Re Criterion:				
Funding	(\$ in millions)								
•	1981	1982	1983	1984	1985	1986			
CARTER BUDGET: Outgo Income Deficit	-922 <u>275</u> -647	-770 <u>292</u> -478	-711 <u>321</u> -390	-682 <u>341</u> -341	-812 <u>364</u> -448	-849 <u>379</u> -470			
REESTIMATES & ADJUSTMENTS:	130	0	127	294	437	272			
PROGRAM CHANGES:	30	378	354	353	382	469			
REAGAN BUDGET: Deficit (-)/Surplus	-487	-100	91	306	371	271			

## **Program Description**

Black Lung benefits are paid to coal miners (or their survivors) who have been determined under loose criteria in the law to have been disabled by Black Lung disease. When a mine operating company is identified as responsible for the disease, it is responsible for paying the benefits; otherwise the Government pays.

The Black Lung Disability Trust Fund was established in 1977 to shift the fiscal responsibility for Black Lung benefit payments from the Federal Government to the coal industry. The fund is financed primarily by a coal excise tax of 50 cents per ton on underground-mined coal and 25 cents per ton on surface-mined coal. Additional funds come from reimbursements from coal mine operators for interim benefit payments made by the fund before the operator was found liable and advances from Treasury when liabilities exceed income. Such advances are repayable with interest.

## Proposed Change

The reduction in advances to cover trust fund deficits identified above will be achieved by a legislative overhaul of the Black Lung program. The objective will be to eliminate questionable claims, thus reducing trust fund outlays to a level where the coal industry can finance the program with reasonable tax increases without drawing on the Treasury.

There are potential savings that could be gained by the tightening up of the program's eligibility requirements. Restoring the program to its original purpose — to provide benefits to those certifiably disabled by Black Lung disease — would result in outlay reductions without harming legitimate beneficiaries..

#### Rationale

The deficit of the trust fund has been increasing at an alarming pace. Of the \$792 million expected to be expended from the fund in 1981 only \$275 million will be covered by revenues received from the coal tax. Currently the trust fund is one billion dollars in debt and will be \$1.5 billion in the red by the end of 1981. Within a decade, the fund will be over \$7 billion in deficit if changes are not made to the present law.

A recent GAO sampling of eligibility certifications found that an astonishing 88% of all the claimants certified as eligible were certified, in accordance with the requirements of law, either without proof that the miner was permanently disabled or without proof that a disability resulted from Black Lung disease.

# Key Facts About the Program

Average monthly benefits: \$425

• Beneficiaries, 1982 estimates: 206,400

- Claims filed before June 30, 1973, and decided by Social Security Administration paid from U.S. Treasury, general fund.
  - 1982: 370,000 beneficiaries \$1.1 billion of payments

#### Eligibility Requirements

- Total disability inability to do work comparable to mine work previously performed.
- Pneumoconiosis chronic dust disease of the lung arising out of employment in a coal mine.
- Five presumptions:
  - Miner who worked 10 years in mine and died from respirable disease presumed to have died from Black Lung (rebuttable).
  - Miner who worked 10 years in mine and has Black Lung presumed to have contracted disease in mine (rebuttable).
  - Miner who has chronic dust disease diagnosed by (a) x-ray showing one centimeter lung opacity or (b) biopsy or autopsy showing massive lesions or (c) equivalent other diagnosis method is presumed to be totally disabled by (or to have died from) Black Lung (irrebuttable).
  - Miner who worked 15 years in mine and has x-ray not showing one centimeter lung opacity but submits other evidence of respiratory or pulmonary impairment presumed to be totally disabled by (or to have died from) Black Lung (rebuttable).
  - Survivor of miner who worked 25 years in mines before June 30, 1971, and died before March 1, 1978, entitled to benefits unless it is established that he was not partially or totally disabled by Black Lung.

#### Evidence rules (in law)

- DOL must accept x-ray interpretation of any qualified radiologist (unless fraudulent)
- Negative x-rays alone not sufficient to prove absence of Black Lung.
- Widow's affidavit sufficient to establish that miner totally disabled by or died from Black Lung, where there is no other medical or relevant evidence.

# **CETA:** Employment and Training Grant Consolidation

Agency: Department of Labor	Functional Code: 504				Budget Re Criterion:				
Funding	(\$ in millions)								
5	1981	1982	1983	1984	1985	1986			
CARTER BUDGET: Budget Authority:									
General Grants <sup>17</sup>	2281	2281	2281	2281	2281	2281			
Summer Program Other Youth Grants TOTAL	839 <sup>2</sup> / <u>875</u> 3995	766 <sup>2</sup> / 875 3922	793 <u>875</u> 3949	790 <u>875</u> 3946	787 <u>875</u> 3943	784 <u>875</u> 3940			
Outlays:	5770	<b>07</b> -2	<b>.</b>	02.0	0, 10	23.0			
General Grants Summer Program Other Youth Grants	2156 799 <u>932</u> 3887	2167 797 <u>992</u> 3956	2281 793 <u>868</u>	2281 790 <u>875</u> 3946	2281 787 <u>875</u> 3943	2281 784 <u>875</u> 3940			
TOTAL REESTIMATES AND ADJUSTMENTS:	3887	3956	3942	3946	3943	3940			
Budget Authority									
Outlays PROGRAM CHANGES:									
Budget Authority		-856	-1074	-1263	-1452	-1640			
Outlays REAGAN BUDGET: Budget Authority:		-670	-892	-1094	-1290	-1487			
General Grants <sup>3/</sup> Summer Program TOTAL	3156 <u>839</u> 3995	2300 <u>766</u> 3066	2875	2683	2491	2300			
Outlays:									
General Grants <sup>3/</sup> Summer Program TOTAL	3088 <u>799</u> 3887	2489 <u>797</u> 3286	3051	2852	2653	2453			

<sup>1/</sup> Includes Title II B—C general employment and training grants to States and localities as well as statutory set—asides for Native American and migrant farmworker programs.

# Program Description

Programs. Title II-B,C and related set-asides are the core of the CETA program, providing funds to CETA prime sponsors for a wide variety of training and employment activities chosen at the discretion of the prime sponsors. The Summer Youth Employment Program (SYEP) provides part-time summer jobs for disadvantaged youth. Other youth grant programs, begun in 1977 as part of the Carter economic stimulus plan, provide funds to prime sponsors for II-B,C-type services to youth. Authorization of appropriations for these Carter youth programs expired in 1980; 1981 funding is provided by the continuing resolution.

Carter Budget. The January budget continues Title II-B,C at current resources levels, maintains the SYEP in both 1981 and 1982 at approximately the 1979 and 1980 participant levels, and consolidates the other youth programs (the Youth Employment and Training Program – YETP, and the Youth Community Conservation and Improvement Projects – YCCIP) in a reproposed 1981 youth initiative with \$250M in additional BA. Only current services funding for the initiative-affected programs is included here. (See separate sheet on "Youth Initiative").

## **Proposed Change**

Do not seek legislation to extend YETP and YCCIP authority in 1982. Instead, combine these programs with the Title II-B,C program and increase the II-B,C request so that total outlays in 1982 equal about 80% of the Carter Budget level of the three programs combined.

In 1983, consolidate the summer youth employment program with II-B,C;

S40 million of 1981 summer program was deferred by President Carter into 1982 to provide funding needed to keep participant levels in 1981 and 1982 in the range actually achieved by the 1979 and 1980 programs.

<sup>3/</sup> For comparison purposes, the Reagan Budget lines for general grants include 1981 Other Youth Grants and residual outlays in 1982 and 1983 from the youth programs.

Reduce the consolidated programs gradually through 1986.

Prime sponsors will be able to alter service or client mix under the consolidation. After allowing for savings due to reduced administrative costs, about 450–480 thousand years of service would be available in 1982, a reduction of about 120–150 thousand years of service from the Carter Budget, with additional reductions of about 30–50 thousand years of service each year thereafter. These reductions can all be accomplished through attrition; layoffs will not in general be necessary. Prime sponsors, when relieved of the pressure to spend the large amount of Federal grants now provided, will be able to concentrate on designing effective training programs, reducing the present practice of emphasizing work experience programs which are easy to mount but ineffective in increasing the long-term employment and earnings of participants.

#### Rationale

Categorical grants should be consolidated wherever and whenever feasible. The original purpose of the Comprehensive Employment and Training Act was to block up a myriad of separate training and employment programs into one grant that State and localities could use to carry out programs designed to meet the particular needs of their citizens. This intent has been increasingly thwarted by the enactment of additional categorical programs in 1974, in 1977, and in 1978. In some cases, this fragmentation has led to unworkably small grants — several prime sponsors in 1980 received YCCIP grants of less than \$50,000.

There are no activities in the youth programs which are not also authorized in Title II-B,C — the authorities are entirely overlapping.

Consolidating four categorical programs into one (in addition to the termination of the two Public Service Employment programs — see separate paper) would greatly reduce the Federal administrative burden on prime sponsors. It would also free up local staff to improve the quality and effectiveness of CETA programs in providing participants with the training and skills necessary for them to find unsubsidized private sector employment. Gradual reduction of the total grant amount will encourage prime sponsors to utilize only the most cost-effective approaches — usually on-the-job-training — in their overall programs.

## Key Facts About the Program

- II-B,C already serves youth
  - 48% of participants under 21 in 1980
- II-B,C serves youth more efficiently than YETP or YCCIP (1980 data):
  - Entered employment rates for 21 or younger:

II-B,C - 27% YETP - 17% YCCIP - 18%

- Almost 100,000 youth entered employment from II-B,C, about 37,000 more than from YETP and YCCIP combined.
- Work experience no help to youth after program is over
  - Post-program annual income gains:
    - OJT: c. \$850.
    - classrooom training: c. \$350.
    - work experience: \$0 to negative.
    - both OJT and classroom training gains increases in 2nd year; work experience declines.
  - Service mix (1979 and 1980):
    - II-B,C: 61% classroom or OJT

39% work experience and other

YETP and YCCIP: 12% classroom

66% work experience

22% transition services or other

• Summer Youth: 6% classroom

94% work experience

# **CETA: National Programs**

Agency: Department of Labor	Functional Code: 504				Budget Reform Criterion: 6			
Funding	(\$ in millions)							
<b>o</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	,							
Budget Authority	92 <sup>1</sup> /	151	151	151	151	151		
Outlays	122	151	151					
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority		-108	-110	-110	-110	-110		
Outlays		-100	-110	-110	-110	-110		
REAGAN BUDGET:								
Budget Authority	92 <sup>1</sup> /	43	41	41	41	41		
Outlays	122	51	41	41	41	41		
1/ Excludes \$40 million in 1980 resources deferr	ed into 1981.							

## Program Description

The CETA National Programs provide training and other employment-related services to groups with disadvantages in the labor market through contracts with national level organizations that serve these groups. The 1982 Carter Budget was \$20 million above the current services level.

## Proposed Change

The revised budget reduces the national programs activity to approximately on-third of the current service level. This reduction will reduce the number and variety of discretionary training grants awarded national organizations in any one year.

#### Rationale

This proposed change is part of the general effort to impose fiscal restraint on other programs of national interest. The justification for the level of resources currently provided for these discretionary training contracts is weak. Congress has been critical of these programs because contracts have been awarded or continued with vague statements of what is to be accomplished. Awards have not been based on competition among possible contractors. Prior accomplishments have not been evaluated before renewing contracts. Continuation of these programs at their previously high funding levels is thus not justified in times when overall Government spending must be reduced.

### Key Facts About the Program

Congressional Evaluations:

- The House Government Operations Committee, 1980 three found:
  - Contracts awarded with vague accomplishment statements
  - No evaluations of contracts
  - Contracts not competed
- House action on 1981 budget: cut \$20 million because Department could not explain what use would be made of funds.

#### Groups Getting Contracts:

- Community-based organizations such as OIC and SER (\$10M in 1981).
- National Alliance of Business and AFL-CIO's Human Resource Development Institute (\$25M in 1981).

- Union sponsored training and outreach programs (\$38M in 1981).
- Other groups including:
  - offenders (\$3M)
  - displaced homemakers (\$1M)
  - handicapped workers (\$3M)
  - older workers (\$6M)
  - apprenticeship initiatives (\$5M)
  - trade adjustment training (\$8M)
  - women's programs (\$2M)

### 1982 Distribution:

• Not yet determined by Department of Labor.

## **CETA: Public Service Jobs**

Agency: Department of Labor	Functional Code: 504,603				Budget Reform Criterion: 4			
Funding	. (\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	3,134	4,084	4,276	4,587	4,946	5,341		
Outlays	3,383	3,905	4,083	4,408	4,762	5,143		
REESTIMATES & ADJUSTMENTS:	-		•	•	•	•		
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority	-149	-4,558	-4,222	-4,561	-4,931	-5,341		
Outlays	-535	-3,545	-4,073	-4,408	-4,762	-5,143		
REAGAN BUDGET:						-		
Budget Authority	2,985 <sup>1</sup> /	-474 <sup>1</sup> /	54	26	15			
Outlays	2,848	360	10					

<sup>1/</sup> Includes \$607 million excess title II-D funds deferred into 1982 and used to reduce budget authority needs of continuing CETA programs.

## **Program Description**

The two CETA Public Service Employment (PSE) programs provide economically disadvantaged unemployed persons with subsidized jobs with State and local governments intended to lead to unsubsidized jobs in the private sector. The Carter Budget would have supported an average of 313,000 such jobs in 1981 and 340,000 in 1982.

## Proposed Change

The Administration proposes to phase out the PSE programs by the end of fiscal year 1981. To accomplish this the Secretary of Labor has imposed a hiring freeze on both PSE programs and is developing a phase-down plan to ensure that individuals holding CETA-funded jobs are no longer paid with Federal resources after September 30, 1981. A rescission of unneeded funds for the countercyclical PSE program (Title VI) is being requested and excess resources in the Title II-D PSE program are being deferred in 1982. A 1982 budget amendment is being proposed to reduce the pending request for resources needed for the continuing CETA programs.

The approximately 307,000 individuals who currently hold CETA-funded jobs will either continue in their jobs and be absorbed into the regular State or local government payroll, be placed in an unsubsidized job in the private sector by the CETA sponsor, or have to seek employment elsewhere. Those who lose their jobs will be eligible for unemployment compensation. Average employment during 1981 is expected to be 232,000 under the phase-out plan.

#### Rationale

In keeping with the Administration's intention to apply rigorous standards to economic subsidy programs, the reduction in PSE will return CETA to its original purpose of improving the long-term employability of the low-income, structurally unemployed by providing them with skills that are marketable in the private sector. Changes to the law to advance the "government as employer of last resort" philosophy prevalent during the 70's among training and employment theorists have altered CETA substantially and made PSE the dominant component. Public service employment programs provide little skills training. The work experience that PSE participants receive in public sector jobs has not helped most of them in seeking private sector employment, often because the types of jobs they get in the public sector have no counterparts in the private sector.

In addition to being unsuccessful as a counterstructural employment and training strategy, PSE has proven to be a poor countercyclical device. High levels of PSE employment were reached only in 1977–78, after the depth of the 1974–75 recession had long passed. Considerable evidence indicates, moreover, that the net job creation impact of PSE programs has been relatively small in the longer term. Several studies have shown that a high proportion of CETA employment supplants, rather than augments, hirings that would have occurred regardless of the presence of CETA, effectively diverting

funds that would have been used for this purpose to other endeavors. In all, the track record of PSE programs in achieving their purported objective — to enhance the employability of participants for the 8 out of 10 jobs created by the private sector — has been dismal indeed.

By contrast, training, especially on-the-job training, appears to lead to higher post-program increases in earnings than public service employment. The current Federal training programs have proven to be more effective than the PSE programs at placing participants. Moreover, the average cost of getting an unemployed person into an unsubsidized job from the PSE programs is two to three times more expensive than under the training programs.

- Enrollment data 2/28/81: II-D-208,000; VI-99,000; total-307,000.
- 1981 Carter end-of-year enrollment goal: II-D-240,000; VI-100,000; total-340,000.
- The National Commission on Employment Policy has recommended against using PSE as a countercyclical tool.
- There is *no* difference in the characteristics of individuals participating in II–D (counterstructual PSE) and VI (countercyclical PSE).
- 90% of PSE eligibles are estimated to be eligible under both titles.
- Placement into unsubsidized employment from PSE was 34% in 1980; 41% from training programs.
- In 1980 it cost from \$17,000 to \$22,000 for each PSE worker placed into unsubsidized employment, 2 to 3 times the cost of each placement in the training program (\$5,000 \$11,000).
- Only 30% of PSE enrollees but half of CETA training enrollees have less than a high school education.
- Skills training like OJT shows greater post-program income gains (c. \$850) than PSE programs (c. \$350-750).

# **Employment Service**

Agency: Department of Labor	Functional Code: 504				Budget Re Criterion:			
Funding	(\$ in millions)							
<b>G</b>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	24	26	29	31	34	37		
Outlays	807	879	955	1,039	1,128	1,224		
REESTIMATES & ADJUSTMENTS:								
Budget Authority			3	-5	-8	-11		
Outlays	-4		-76	-160	-249	-345		
PROGRÁM CHANGES:								
Budget Authority		-4	-4	-4	-4	-4		
Outlays		-150	-150	-150	-150	- 150		
REAGAN BUDGET:								
Budget Authority	24	22	22	22	22	22		
Outlays	803	729	729	729	729	729		

## **Program Description**

The federally financed Employment Service (ES) provides recruitment services for employers through more than 2,400 local offices and job-finding and placement services for job seekers. The ES provides special services to employers, including screening and testing applicants to find those who match an employer's job specifications, assisting employers to modify jobs that have been hard to fill, and helping to alleviate in-plant employment problems such as high turnover. Job seekers may receive counseling or testing services. The 1982 Carter Budget would have maintained 30,000 ES State staff funded by Federal grants to States.

## **Proposed Change**

The ES will be redirected to focus job-finding services on those with the most need for assistance and to give others the basic tools needed to search for their own jobs. Direct services to employers, including job listings, visits to employers, screening and testing for employers, and assistance in job restructuring to reduce turnover or absenteeism will decline.

ES staff funded by these grants will be reduced in 1982 to about 25,000. Staff reductions will occur in reporting, overhead, program monitoring, and intermediate levels of supervision. Staff in placement activities will also be reduced as the ES redirects resources to less labor intensive efforts, such as assisting job seekers in finding their own jobs through job-search workshops and job-finding clubs.

#### Rationale

The change will impose fiscal restraint on this program of national interest. Reporting and overhead burdens on staff providing direct services will be reduced, and staff will be utilized more efficiently in helping job seekers find their own jobs.

- These State staff are financed 97% from the Federal unemployment tax on covered employers (reflecting 97% coverage of wage and salaried employment by UI) and 3% from the general funds of the U.S. Treasury.
- Only about 5-8% of job holders got their job through the Employment Service (ES).
- Over 60% of job holders got jobs by applying directly to employers or through friends or relatives.
- An unexplained variation among States in placements per staff year indicates substantial inefficiencies in the Employment Service; the highest 10 States place 266 people in jobs per staff year; the lowest 10 States place only 131 (1980 data).

# Federal Employee Injury Compensation Program

Agency: Department of Labor	Func Code		Budget Reform Criterion: 1					
Funding	(\$ in millions)							
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	311	353	349	415	490	568		
Outlays	311	353	349	415	490	568		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	5	-8	40	16	<del>-9</del>	-57		
Outlays	5	-8	40	16	<del>-</del> 9	-57		
PROGRAM CHANGES:								
Budget Authority		-50	-54	-59	<del>-6</del> 3	-69		
Outlays		-50	-54	-59	-63	-69		
REAGAN BUDGET:								
Budget Authority	316	295	335	372	418	442		
Outlays	316	295	335	372	418	442		

## Program Description

Federal employees injured on the job receive reimbursement for medical expenses and tax-exempt monthly income replacement payments equal to 75% of their former gross salaries. These payments can continue for life. An employee who files a claim that an injury prevents reporting for work can continue to receive full pay for up to 45 days while the claim is being examined.

## Proposed Change

- Make income replacement payments subject to Federal income taxes, but increase the replacement rate to 80% of gross pay.
- Reinstate a 3-day waiting period before a claimant can receive compensation.
- Reduce continuation—of—pay while a claim is being examined to 80% of gross pay.
- Convert injury compensation recipients to civil service annuity rolls after age 65.

#### Rationale

As part of the general effort to improve entitlement programs, the Administration will overhaul the Federal employee injury compensation program. These changes are geared to removing (1) incentives to file questionable claims; (2) disincentives for injured workers to return to work when they are medically able to do so; and (3) inequities in compensation rates, which permit higher paid workers to receive more in compensation benefits than they received in take-home pay when working.

The changes are being proposed because the number of claims being submitted for workers' compensation benefits under the Federal Employees' Compensation Act (FECA) has been growing at an alarming pace, bearing no relationship to the number of Federal employees or the Government's safety record. The annual number of claims received by this program has grown from 18,000 in fiscal year 1970 to over 30,000 in 1980. The increased use of the program is also reflected in the growth of benefit payments, from \$151 million in 1970 to \$785 million in 1980, to over \$1.0 billion in 1982. These figures do not include the estimated \$100–110 million paid out annually by agencies during the 45–day continuation–of–pay period,

In a era when all sectors of society are being called on to restrain growth of government, it is inequitable to provide Federal employees with an injury compensation system which through poor design overcompensates employees relative to the compensation received in the private sector for similar injuries and creates a disincentive to return to work once on the rolls.

## Key Facts About the Program

• Each year about 220 thousand injuries are reported, 105 thousand employees get continuation—of—pay, and 30 thousand full claims are received.

- Total benefits in 1982 are effected to be \$1.1 billion; other agency payments reduce Labor Department outlays.
- Amendments in 1974 greatly liberalized program:
  - Eliminated 3-day waiting period
  - Added 45-day continuation of full pay
  - Raised replacement rate for all to 75% of gross pay
  - Allowed claimant to select doctor for opinion on disability
- The number of injuries reported rose from an average of 117 thousand a year in the 6 years before the amendments, to 217 thousand in the 6 years following the amendments. Yet average Government employment declined, and there was no change in the average number of job related deaths. This indicates that the Government's safety program has not deteriorated.

# **Trade Adjustment Assistance**

Agency: Department of Labor	Functional Code: 603				Budget Reform Criterion: 1			
Funding	(\$ in millions)							
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	2,700	1,500	1,000	500	500	500		
Outlays	2,744	1,500	1,000	500	500	530		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority		-1,150	-760	-380	-380	-380		
Outlays		-1,150	-760	-380	-380	-380		
REAGAN BUDGET:								
Budget Authority	2,700	350	240	120	120	150		
Outlays	2,744	350	240	120	120	150		

## Program Description

Trade Adjustment Assistance (TAA) benefits are paid to workers whose loss of work is attributed, at least in part, to imports. The benefits equal 70% of the workers previous gross wages for up to 52 weeks, with a current maximum of \$289 a week. These benefits can be paid at the same time as the worker is receiving unemployment insurance benefits, although the resulting total weekly payment does not exceed the TAA amount

## Proposed Change

The changes, effective October 1981, for all claimants, would refocus TAA on its primary purpose — adjustment to changed economic conditions. Workers would receive a weekly TAA payment only after they used up all their weeks of unemployment insurance. The TAA weekly payment would equal the unemployment insurance benefit. A total of 52 weeks of benefits (unemployment insurance followed by TAA) would be available. Thus the additional weeks of TAA benefits would be available only for workers displaced from their jobs for extended periods who need more time than provided by unemployment insurance to get training, relocate, or find jobs.

#### Rationale

The changes would revise entitlement to TAA to eliminate unintended benefits. Benefits would be provided only to those workers who truly need additional time to adjust to changed economic conditions, rather than to all regardless of whether their layoffs last two weeks or are permanent.

The changes will virtually eliminate the large retroactive payments under the program, many of which are made to workers who are already back on the job. They will also stop the subsidy to supplemental unemployment benefits (SUB) funds which have been set up by various companies. These funds now can substitute Federal TAA benefits for benefits the workers are already entitled to under their collectively bargained contracts.

- About 583 thousand people are expected to receive TAA benefits in fiscal year 1981; 234 thousand in 1982.
- Most trade benefits are now paid in the large industrial States of the east and midwest: Michigan, Ohio, Indiana, New York, Missouri, and Pennsylvania.
- The Current Program pays 70% of gross wages for 52 weeks (\$289.00/week maximum; maximum adjusted annually in relation to national average wage; last adjustment effective March 23, 1981); UI usually pays 50% of gross wages for 26 weeks (maximum weekly benefits usually 50% of State average wage).

- Of 754 thousand workers who got benefits from 4/75 to 6/80, only 3.3% entered training; 1.6% completed training; 0.46% took job search aid; 0.27% relocation allowances.
- From 4/75 to 6/80, 54% of TAA applicants were already re-employed at the time they applied for benefits.
- In 1980, \$798M in retroactive payments were made to autoworkers; such payments often must be repaid to auto company Supplemental Unemployment Benefit (SUB) funds.
- A Mathematica study of TAA recipients who got first payments in 1976 showed that:
  - Seventy-two percent went back to original employer
  - On average they were employed 75% of the next 3-1/2 years
  - When benefits are disproportionately high, length of unemployment increases; a 10% increase in wage replacement ratio was associated with a 4-day increase in length of unemployment.

# **Unemployment Compensation for Ex-Servicemembers**

Agency: Department of Labor	Func Code		Budget Reform Criterion: 1			
Funding			(\$ in 1	millions)		
<b>o</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	333	351	341	356	370	390
Outlays	333	351	341	356	370	390
REESTIMATES & ADJUSTMENTS:						
Budget Authority	-28	-101	-92	-98	-110	-129
Outlays	-28	-101	<del>-9</del> 2	<del></del> 98	-110	-129
PROGRAM CHANGES:						
Budget Authority	-60	-225	-237	-245	-247	-248
Outlays	-60	-225	-237	-245	-247	-248
REAGAN BUDGET:						
Budget Authority	245	25	12	13	13	13
Outlays	245	25	12	13	13	13

## **Program Description**

Currently, most members of the armed forces who have served at least a year are eligible for 26 weeks of unemployment compensation benefits in most States. Unlike civilian workers, ex-servicemembers may draw benefits even if they quit their job voluntarily.

## Proposed Change

The proposed amendment would make ineligible for benefits those military personnel who voluntarily leave the service, who are released or separated for cause, or who fail to reenlist when they could have done so. The change would be effective for all separations beginning July 1, 1981.

#### Rationale

This change would revise the entitlement for unemployment benefits to eliminate unintended benefits by bringing treatment of ex-military personnel more in line with current treatment of civilians. It would establish national rules for military separations that are voluntary or for cause. In virtually every State, a worker who voluntarily leaves his job receives no benefits for that spell of unemployment or for a part of it or has his weekly benefit reduced. Workers who refuse a job in their customary line of work have their benefits stopped. Those civilians who are discharged for misconduct also receive no benefits. The change will mean that members of the all-volunteer military will be treated similarly to civilians, instead of continuing to receive special treatment that dates from an earlier period when military service was not entirely voluntary..

- About 140 thousand ex-servicemembers are expected to receive unemployment compensation under this program in 1982 and a similar number in 1983.
- About 130 thousand will have left the service voluntarily or have been discharged for cause.
- The average weekly benefit payment is expected to be \$112 in 1982 and \$118 in 1983.

# **Unemployment Insurance: Extended Benefits**

Agency: Department of Labor		ctional e: 603		Budget Reform Criterion: 1					
Funding	(\$ in millions)								
· ·	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	19913	23072	23722	23314	23400	21888			
Outlays	4315	1480	946	510	476	460			
REESTIMATES & ADJUSTMENTS:									
Budget Authority	<del>-</del> 615	-1452	-1243	-95	-1176	+538			
Outlays	-221	-215	-489	-87	<del>-6</del> 3	-122			
PROGRAM CHANGES:									
Budget Authority	-400		-200		-100	-200			
Outlays	-523	-13	-108	-86	-278	-289			
REAGAN BUDGET:									
Budget Authority	18898	21620	22279	23219	22124	22226			
Outlays	3571	1252	349	337	135	49			

NOTE: Total budget authority for unemployment insurance is shown because budget authority for extended benefits is not separately identifiable.

## **Program Description**

Federal law provides that the length of time a person can receive unemployment benefits in a State is made half again as long when the insured unemployment rate reaches specified levels in either the State ("State trigger") or the nation as a whole ("National trigger"). The length of time is usually extended from 26 weeks to 39 weeks. These extended benefits must be paid when a State's insured unemployment rate has averaged at least 4% for 13 weeks and is at least 20% higher than in the corresponding period of the prior two years. States can, and many do, pay these extended benefits when their insured unemployment rate averages at last 5% for 13 weeks regardless of the rate in the prior two years. These benefits are paid in all States when the national insured unemployment rate averages 4.5% for 13 weeks. The insured unemployment rate is calculated by dividing the number of people receiving unemployment insurance, including those receiving extended benefits, by the number of people in the labor force covered by unemployment insurance.

## Proposed Change

- Eliminate the national trigger, which requires payment of extended benefits even in States with low unemployment rates.
- Increase the insured unemployment rate needed to trigger extended benefits on in a State from 4% to 5% if it is 20% above the rate of the prior 2 years; to 6% for those States that wish to pay the benefits regardless of the rate in prior years.
- Strictly enforce the work test enacted last year that requires recipients to accept jobs that pay
  at least as much as their weekly benefit or the minimum wage, whichever is higher, or lose
  their extended benefits..
- Prohibit the payment of extended benefits to those who did not work at least 20 weeks in the year which made them eligible for unemployment insurance.
- Remove recipients of extended benefits from the calculation of the insured unemployment rate.

#### Rationale

These changes are part of the program to revise entitlements to eliminate excess and unintended benefits. Studies show that extending the length of time people can receive unemployment benefits provides a disincentive to work that increases the average length of a spell of unemployment, thus decreasing productive work and unnecessarily increasing benefit outlays.

Eliminating the national extended benefits program will prevent paying benefits in States with low unemployment where it is not needed. As a result of structural shifts in the U.S. economy, while insured unemployment is intolerably high in the industrial Northeast and Midwest, it remains below 2% in a number of sun belt States.

The proposed shift to State triggers at modestly higher threshold levels will redirect benefits to areas where they are needed while removing incentives for prolonging unemployment in growth areas of the nation where job opportunities are available.

Strict enforcement of the new work test will help workers who have little chance to return to their old occupation face the reality of the changing economy and begin new careers. Prohibiting the payment of extended benefits to those with less than 20 weeks of work in the year in which their eligibility for benefits is based will minimize the occasions when workers receive benefits for longer periods of time than they were employed.

Changing the method of calculating the insured unemployment rate will remove several anomalies in the current program. The payment of extended benefits will not be delayed when unemployment rises. This can happen now if people were receiving extended benefits in the prior years' comparison periods; those similar unemployment experiences cannot be counted currently when extended benefits have not started. Payment of extended benefits will not continue when unemployent falls below the level needed to start payment. Extended benefits will no longer be paid in one State for several months while they are not paid in a second State with an identical overall unemployment rate.

## Key Facts About the Program

- About 2.2 million people are expected to receive extended benefits in 1982 under current law; the proposals will reduce the number to 1.1 million.
- Studies indicate that on average the availability of 13 additional weeks of UI adds 1 to 5 weeks to the length of unemployment.
- When national trigger went on July 5, 1980:
   only 19 States had rates high enough to trigger it on.
   Eight States were below a 2% insured unemployment rate.
- When national trigger went off on January 3, 1981:
   only 25 States had rates high enough to continue EB..

#### Effective Dates:

- Work test strict enforcement effective April 1, 1981.
- Eliminate national trigger effective July 1, 1981.
- Trigger rate calculation change effective the week after enactment (estimates assume by July 1, 1981).
- Increased State trigger rates and 20 weeks work in qualifying year require State legislative change; therefore effective October 1, 1982.

# Unemployment Insurance: Regular Benefits Work Test

Agency: Department of Labor	Functional Code: 603				Budget Reform Criterion: 1				
Funding		(\$ in millions)							
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority									
Outlays	16,477	16,71 <b>7</b>	16,782	16,754	16,687	16,661			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays	-435	-1,136	-1,997	-1,862	-2,069	-2,357			
PROGRAM CHANGES:									
Budget Authority									
Outlays	<del></del>		-285	-285	-272	-264			
REAGAN BUDGET:									
Budget Authority									
Outlays	16,042	15.581	14,500	14,607	14,346	14,040			

## Program Description

Those who have lost jobs through no fault of their own are entitled to weekly unemployment benefits. The amount of the benefit (usually 50% of wages up to a maximum set in State law) and the number of weeks it is paid (usually a 26-week maximum) is determined by State law. Under current laws workers who refuse to accept suitable work are denied unemployment insurance (UI) benefits. However, suitable work is usually defined as a job similar to the claimant's previous employment.

## Proposed Change

The proposal would require workers who have received 13 weeks of UI benefits and whose prospects for returning to their previous line of work are not good to seek employment that provides wages at least equal to their UI benefit amount, or the minimum wage, whichever is higher.

#### Rationale

This change would revise the unemployment insurance system to eliminate unintended benefits. By allowing workers in most States to draw up to 6 months of benefits unless jobs in their former occupations are available, the unemployment insurance system actually discourages workers from seeking employment in new industries which, while they pay lower wages initially, hold the prospect of growing employment and new careers. The change will speed the transition of workers from jobs which are not opening up again to jobs in sectors where workers are in demand.

- About 9.2 million people are expected to receive UI payments in 1983.
- The proposed change would affect 280 thousand of them.
- The average weekly UI payment in 1983 is expected to be \$112.
- Federal law now has no suitability of work requirement for regular benefits.
- The change would apply the new Federal work test enacted last year for extended benefit claimants (generally those after 26 weeks) to regular claimants after they had collected 13 weeks of UI.
- The change would be effective October 1, 1982, to permit necessary State law changes.

# Young Adult Conservation Corps (YACC)

Agency: Department of Labor	Func Code	tional : 504		Budget Reform Criterion: 6					
Funding	(\$ in millions)								
_	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:	• •								
Budget Authority	2001/								
Outlays	185	70	-7						
REESTIMATES & ADJUSTMENTS:				•					
Budget Authority									
Outlays						`			
PROGRAM CHANGES:2/									
Budget Authority									
Outlays									
REAGAN BUDGET:									
Budget Authority	2001/								
Outlays	185	70	7	_ `_					
1/ Includes a deferral of \$58.1M to finance the	completion of th	he phase—out	in 1982.						
2/ The Carter Budget already included savings	for this proposa	l. Total savii	ngs expected :						
	1981	1982	1983	1984	1985	1986			
Budget Authority		-250	-250	-250	-250	-250			
Outlays		-179	-243	-250	-250	-250			

## **Program Description**

The YACC program (CETA Title VIII), authorized in 1977, funds conservation work on public lands by unemployed youth ages 16 to 23 of all income levels. Seventy percent of the funds go to the Departments of Agriculture and the Interior (35% to each); 30% are grants to States distributed by share of youth population. In 1980, about 22,700 years of service were provided with an end-of-year participant level of 19,600. The current services program level is about 20,000 participants.

The Carter Budget proposed to phase the program out by the end of FY 1982 through attrition. Funds which have been deferred in 1981 would finance phase-out activities in 1982, so no 1982 appropriation was requested.

## Proposed Change

Do not amend Carter request – continue policy to terminate program. Enrollments would drop to about 11,200 by the end of this fiscal year and to zero by the end of 1982. Some State and Federal conservation work would go undone, but the projects have such little value that few would be undertaken in the absence of the free labor provided by the YACC program. The phase-out will have little impact on current YACC program participants because layoffs will not in general be required. The impact on those who might have enrolled if the program were continued is also expected to be minimal because the program is so small – about 450 youth per State – and draws few participants from any particular group of youth.

#### Rationale

This is a low priority program which cannot be justified in a time of general fiscal restraint. Of all Federal employment and training programs, it is the least targeted on the economically disadvantaged and minorities who are most in need. At the same time, with the exception of the highly targeted and entirely residential Job Corps training program, it costs the most to provide a year of service to a participant. Furthermore, with the exception of the PSE and Youth Community Conservation and Improvement Projects (YCCIP) programs, YACC has the worst record of placing participants in jobs, school, the military, or other training programs. The PSE program is also being phased out. YCCIP is being consolidated into the general employment and training grant under Title II of CETA. States and localities can therefore decide whether it is appropriate to continue YCCIP projects in their communities.

- 70% of funds are spent on Federal lands.
- Therefore, 50% of the 1,700 project camps are located in 10 States west of the Mississippi with 19% of the U.S. population and an average overall unemployment rate slightly below the U.S. 1980 average:
- Only 33% of YACC participants are economically disadvantaged, compared to 100% in the Job Corps; only 12% are black, compared to 53% in the Job Corps.
- On the other hand 59% are high school completers, compared to only 15% in the Job Corps.
- It costs \$12,100 to serve an enrollee for one year in YACC.
- Because of low targeting and high cost, YACC must spend \$305,000 to provide one year of service to low-income black youth, those most at risk in the labor market.
- When the Job Corps spends this much, it provides 12 years of service to low income Black youth.

## Youth Initiative

Agency: Department of Education
Department of Labor

Functional
Code: 501 (Education)
504 (Labor)
924 (contingency allowance)

Funding	(\$ in millions)						
•	1981	1982	1983	1984	1985	1986	
CARTER BUDGET <sup>1/</sup> :							
Budget Authority—Education		900	900	900	900	900	
Budget Authority—Labor		250	250	250	250	250	
Contingency	==		800	800	800	800	
Total -	==	1,150	1,950	1,950	1,950	1,950	
Outlays—Education		50	900	900	900	900	
Outlays-Labor		80	232	250	250	250	
Contingency	==		<u> 260</u>	<u>_760</u>	800	800	
Total		130	1,392	1,910	1,950	1,950	
REESTIMATES AND ADJUSTMENTS:							
Budget Authority				<del>-,</del> -			
Outlays							
PROGRAM CHANGES:							
Budget Authority		-1,150	-1,950	-1,950	-1,950	-1,950	
Outlays		-130	-1,392	~1,910	-1,950	-1,950	
REAGAN BUDGET:							
Budget Authority							
Outlays			- :-				

<sup>1/</sup> Includes only the increase above the current services levels of the programs which were proposed to be included in the initiative.

## Program Description

The Carter Budget included a youth initiative originally proposed in the 1981 budget which would have established a basic skills improvement program involving new grant programs in the Departments of Education and Labor.

The Education grant would have aimed at improving the basic literacy and employability skills of disadvantaged youth in one-fourth of the nation's school districts. It would have attempted to carry out the objectives of Title I of the Elementary and Secondary Education Act and the Vocational Education Act in secondary schools, which have not received much funding from local school authorities from these sources for development of basic and employability skills. The program would also have emphasized the integration of basic skills training into all aspects of the regular secondary school curriculum.

The Labor grant, which would have consolidated three existing youth programs, would have aimed primarily at improving the basic skills of older, mostly drop-out, disadvantaged youth, although carefully structured work experience would also have been provided.

The outyear contingency amount was to be allocated between the departments in 1983 as final legislation evolved and implementation planning moved further along.

Emphasis was to be placed on substantially increased coordination between education and training and employment agencies and among these agencies and the business community.

## Proposed Changes

Do not request the new legislation. Experience with the programs on which the initiative was based does not permit an estimate of the impact of not implementing such a program in terms of improvements in basic skills, unemployment rates, or future earnings of youth.

#### Rationale

Funding of this magnitude above funding for current programs cannot be justified at a time when current programs are being sharply reduced as part of the President's economic recovery program. This lack of justification is particularly acute for a program involving significant changes in institutional relationships, at all levels of government, when these new and complex relationships have not yet been tested for feasibility and productivity. Rather than attempting to implement a new program, this Administration will devote its efforts to assuring a more effective and efficient use of resources that can be made available to ongoing programs.

Department of State

# Department of State Conduct of Foreign Affairs

Agency: Department of State	Fund Code	Budget Reform Criterion: 6							
Funding	(S in millions)								
8	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	1,916	2,369	2,317	2,456	2,524	2,575			
Outlays	1,657	1.997	2,110	2,226	2,315	2,419			
REESTIMATES & ADJUSTMENTS:									
Budget Authority			-126	-307	-405	-476			
Outlays	35	-16	-126	-242	-352	-475			
PROGRAM CHANGES:									
Budget Authority	-28	-77	-56	-39	-40	-43			
Outlays	-23	-64	-63	-46	-40	-43			
REAGAN BUDGET:									
Budget Authority	1,888	2,292	2,135	2,110	2,077	2,056			
Outlays	1,668	1,917	1,921	1,928	1,923	1,901			

Above table excludes assessed contributions to international organizations which are shown in the section on foreign development assistance.

# Program Description

The central efforts of the State Department are directed toward political and economic reporting and analysis; representation and negotiation; visa and passport issuance and the protection and welfare of Americans living and travelling abroad; and the administrative support for those activities and for employees of 22 other U.S. agencies working abroad. In addition, the Department provides assistance to refugees; and manages grants to a limited number of private entities engaged in international activities; such as, the Asia Foundation and the American Institute in Taiwan.

# Proposed Change

Major changes to the Carter Budget include the following:

- Reductions in refugee assistance due to reduced needs (-\$22 million in 1981 and -\$42 million in 1982).
- Administrative reductions, including an employment cut of 550 full-time permanent employees in 1982 and cuts for travel and equipment (-\$3 million in 1981 and -\$14 million in 1982).
- Elimination of all new overseas building construction starts except for the diplomatic complex in Riyadh, Saudia Arabia (-\$15 million in 1982).
- Reductions in grant assistance for international narcotics control (-\$3 million in both 1981 and 1982) and elimination of funding for the Asia Foundation (-\$4 million in 1982).

#### Rationale

These changes are a part of the Administration's effort to impose fiscal restraint on programs of relatively low priority. The reductions in refugee programs will not diminish the strong U.S. support for these humanitarian efforts. Cuts are being taken only where there is clear evidence that previous estimates of need were overstated. Funding for the Asia Foundation is eliminated, because that institution is no longer a significant factor supporting U.S. foreign policy objectives abroad. The cutback in funding for narcotics control also merely reflects diminished need.

The reductions in staff levels are based on the premise that operating efficiences can be achieved and reflect the lower level of administrative support needed for the Agency for International Development and the International Communication Agency programs, which have been cut from Carter budget levels.

- Refugee Assistance, Abroad Reductions eliminate unneeded funds for various refugee aid programs abroad while maintaining basic levels of services. The Kampuchean relief program is reduced by \$10 million in 1981 and \$20 million in 1982 due to much improved conditions in Kampuchea. Reduced Indochinese refugee camp populations in Southeast Asia and other lower needs save an additional \$12.5 million in 1982.
  - Sharply lower numbers of Soviet refugees emigrating to Israel reduce resettlement needs in 1981 by \$12.5 million. For 1982, however, support for Soviet refugees to Israel will be \$12.5 million, 25 percent above the Carter budget request. The 1982 request for the Refugee Emergency Fund is reduced by \$10 million because of large uncommitted balances anticipated to be carried forward for use in 1982.
- The Asia Foundation The Asia Foundation is a private, non-profit organization which attempts to encourage pro-western legal and social reform and to improve the understanding of democratic ideals. It employs approximately 140 individuals in its San Francisco headquarters and eleven Asian countries. In view of current budget stringency, no U.S. agency believes activities of the Foundation are important enough to its objectives to warrant offsetting reductions in other activities.

**Department of Transportation** 

# **Airport Grant Program Reductions**

Agency: Department of Transportation	Functional Code: 402			Budget Reform Criterion: 5			
Funding			(\$ in 1	nillions)			
<b>U</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	722	750	800	850	900	975	
Outlays	524	535	725	901	908	878	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority	-272	-300	-350	-400	-450	-525	
Outlays	-49	- 50	-215	-381	-458	-363	
REAGAN BUDGET:							
Budget Authority	450	450	450	450	450	450	
Outlays	475	485	510	520	450	515	

## Program Description

The airport grant program, which expired at the end of 1980, provided funds to air carrier and general aviation airports. Funds were distributed on both an apportionment and a discretionary basis. In 1980, \$569 million was authorized for air carrier airports, with a minimum of \$15 million earmarked for commuter airports. General aviation airports were authorized to receive \$98 million, with a minimum of \$20 million for reliever airports, which were defined as general aviation airports that attract general aviation flights from large airports.

Grant funds could be used for:

- Construction and reconstruction of items such as runways, taxiways, aircraft aprons, and public-use portions of terminals;
- Land acquisition for airport development and noise abatement;
- Acquisition or installation of navigation aids used in landings and take-offs.

The Carter 1982 budget assumed enactment of reauthorizing legislation by July 1, 1981. Recommended funding levels increased from \$722 to \$975 million during 1981–1986.

# Proposed Change

The Administration has proposed legislation to restructure the airport grant program and hold the annual funding level to \$450 million during 1981–1986. Included in the legislation are proposals to:

- Defederalize the 41 largest primary airports (primary airports are commercial service airports that enplane at least .01% of total annual enplanements at all commercial service airports);
- Remove restrictions on imposition of a "head tax" at those 41 airports and others opting not to receive further Federal assistance;
- Use number of enplanements as the basis for apportioning entitlement funds to the remaining primary airports (approximately 255 airports which would be eligible after defederalization);
- Introduce the airport "block grant" to permit State involvement in allocating funds to general aviation and smaller commercial service airports;
- Increase funding significantly for reliever airports; and
- Continue the discretionary grant program.

#### Rationale

Reductions in the airport grant program are thoroughly consistent with the Administration's broad effort to retarget public sector capital improvement programs so that Federal assistance is not provided unless there is a clear need. In addition, the proposed framework for the grant program is consistent with a number of the Administration's goals for restructuring Federal programs, such as allowing more decisions to be made at the local level and reducing the number of strings attached to Federal grants.

Defederalization of the largest primary airports would enable the Federal Government to target funds to those airports with the clearest need for assistance. These large airports usually have a strong

financial base from landing fees and space rental charges. Many large airports earn a profit. Furthermore, Federal airport grants traditionally have provided only a small portion (approximately 10–15%) of the total revenues of these airports. Removing the statutory bar on "head taxes" would increase the possibility of local funding being available, if needed, in lieu of Federal financial aid. Some airports may opt to renegotiate landing fees instead of instituting head taxes.

The State block grant approach for grants to smaller eligible airports reflects the Administration's commitment to reduce Federal involvement in local decisions and the "red tape" burden placed on States and localities. The increased emphasis on funding for reliever airports reflects the important role of these airports in enhancing safety by ameliorating the often congested air traffic conditions at the nation's largest airports.

## Key Facts About the Program

Defederalization of the 41 largest primary airports would be phased—in — 21 beginning in 1981 and an additional 20 beginning in 1983. A cap of 45% in 1981 and 1982 and 40% in 1983 and beyond would be placed on the amount of available grant funds allocated to primary airports through the entitlement program. This translates into a maximum of \$202.5 million in 1981 and 1982 and \$180 million in 1983 and beyond.

Grant funds for smaller eligible airports would be apportioned by States using a two-part formula taking into account population, land area and the number of non-primary commercial service airports in a State. State apportionments would be reduced proportionately to the reduction required to bring primary airports within the cap. States meeting certain criteria would be authorized to receive apportionments for smaller eligible airports on a block grant basis. Approximately \$100 million annually would be apportioned among the States.

The FAA would continue to allocate discretionary funds according to priority needs. States participating in the block grant program for apportioned funds would be able to receive discretionary funds on a project-by-project basis in the form of a "block grant supplement."

A minimum of \$45 million would be earmarked for reliever airports in 1981 and 1982 increasing up to \$54 million in 1985.

# Airport and Airway Trust Fund

Agency: Department of Transportation Functional Budget Reform Code: 402 Criterion: 3

Governmental Receipts into the	(\$ in billions)							
Airport and Airway Trust Fund	1981	1982	1983	1984	1985	1986		
Current receipts	- 1/	1.4	1.5	1.7	1.9	2.1		
Policy increase	.2 2/	0.6	8.0	1.1	1.3	1.6		
Proposed receipts	.2	2.0	2.3	2.8	3.2	3.7		

V Statutory authority permitting deposit of receipts into the Airport and Airway Trust Fund expired on September 30, 1980.
Current user tax revenues are being deposited into the general fund and highway trust fund.

## Program Description

Prior to the expiration of statutory authority at the end of 1980, revenues from the following aviation user taxes were being deposited into the Airport and Airway Trust Fund: 8% passenger ticket tax, 7 cents/gallon general aviation fuel tax, 5% freight waybill tax, \$3.00 International departure tax and other miscellaneous taxes. The only aviation user taxes currently being levied — a 5% passenger ticket tax, 4 cents/gallon tax on general aviation gasoline and a tire and tube tax — are being deposited into the general fund (ticket tax) and highway trust fund, respectively. The Carter 1982 budget assumed passage of legislation authorizing continued use of the Airport and Airway Trust Fund and increased aviation user taxes starting July 1, 1981.

The Congress traditionally has restricted use of aviation tax revenue. In the past few years, the result has been that expenditures from aviation tax revenue covered only slightly over 40% of the total system costs. The general taxpayer has carried the rest of the burden.

# Proposed Change

The Administration has proposed legislation that would eliminate general fund subsidy of the costs put on the system by the air carriers and general aviation. Air carrier and general aviation would be required to pay approximately 85% of system costs — i.e., all Federal Aviation Administration costs except those associated with military and government use of the system and Metropolitan Washington Airports.

The February 18th and March 10th budget proposals assumed a 9% passenger ticket tax, 20% general aviation fuel tax, 5% freight waybill tax, \$3.00 International departure tax and other miscellaneous taxes. Tax revenues would be deposited into the Airport and Airway Trust Fund.

The tax levels included in the legislative proposal sent to Congress on March 19th — which were based on fuller consideration of allocable costs, program levels to be covered by the fund, and the allocation of costs between general and commercial aviation — were as follows:

	<u> 1981</u>	<u> 1982</u>	<u> 1983</u>	<u> 1984</u>	<u> 1985</u>	<u> 1986</u>
Passenger Ticket Tax	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
General Aviation Gasoline						
Tax (cents/gallon)	12	12	18	32	30	36
General Aviation Jet						
Fuel Tax (cents/gallon)	20	20	35	50	58	65

The revised tax proposal, coupled with the 85% cost recovery requirement, is predicted to result in a decrease of the Trust Fund balance from approximately \$3.8 billion at the end of 1980 to about \$2.7 billion at the end of 1984. (A trust fund balance of at least \$1.0 billion is usually considered as prudent to cover unforeseen contingencies). Beyond 1984, the uncommitted balance will gradually begin to increase.

<sup>2/</sup> Legislation authorizing the Administration's tax proposal and use of the Trust Fund is assumed to go into effect on July 1, 1981.

## Rationale

This proposal will assist the President in achieving his goal of providing relief for the general taxpayer by recovering more equitably the full costs attributable to the air carrier and general aviation users of the system. In 1978, general aviation users were paying a small percentage of the system costs attributable to them. Under the tax proposal sent to the Congress on March 19th, the portion of allocable costs paid by general aviation will increase gradually, but significantly, through 1986. Air carriers have been and will continue to pay at least their full share of costs attributable to them.

Subsidizing users leads to economic inefficiencies, encourages higher use of the aviation system, and thus results in continual pressure to expand the system's capacity. To help break this cycle, air carrier and general aviation should be held responsible for their fair share of the cost of *operating* as well as maintaining and improving the airways system. In the past, only small amounts of user tax revenues have been applied toward operating costs.

The higher tax levels on general aviation jet fuel reflect the fact that these aircraft, generally speaking, place greater demands on the national airspace system than do less sophisticated planes utilizing aviation gasoline.

## Key Facts About the Program

Assumptions about cost allocation are a major determinant in establishing fair and equitable user taxes. Generally speaking, two differing approaches to cost allocation have emerged. One would hold users responsible for the costs that FAA actually incurs in providing service. The other would hold users responsible only for the cost of the minimum service they require. In a joint use system, this means that users operating less sophisticated aircraft (i.e., primarily general aviation) would not be required to pay the cost FAA actually incurs in providing service to them. The unallocated costs would be attributed to public policy regarding aviation safety, reliability and joint use. The general taxpayer would be responsible for these costs.

The cost allocation underlying the Administration's proposal is consistent with the first approach requiring users to pay for costs actually incurred on their behalf. In 1982, FAA's total costs can be allocated approximately 58% to air carrier, 27% to general aviation, 14% to military and government and 1% to Metropolitan Washington Airports.

The general aviation community has continually supported the minimum service required approach to allocate system costs. This approach, however, is inconsistent with cost allocation assumptions used by this Administration for other modes of transportation. For example, under an Administration proposal, inland waterway users would be responsible for the costs associated with their use of the system. The general taxpayer would not be paying for the "public benefit" associated with a joint use system. Similarly, in the highway program, the general taxpayer traditionally has not been required to pay for the "public benefit" associated with having a highway system that accommodates various categories of highway users. The cost allocation assumptions underlying the Administration's tax proposal are generally accepted. The Congressional Budget Office, for example, attributes approximately 25% of FAA costs to general aviation, which is very close to the Administration's proposal.

# **Amtrak Fare Subsidy Reduction**

Agency: Department of Transportation	Functional Code: 401			Budget Reform Criterion: 5			
Funding			(\$ in 1	millions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	<del>9</del> 06	993	1,082	1,171	1,257	1,337	
Outlays	769	943	1,112	1,201	1,284	1,387	
REESTIMATES & ADJUSTMENTS:							
Budget Authority					- <del>-</del>		
Outlays							
PROGRAM CHANGES: <sup>1/</sup>							
Budget Authority	<b>-</b> 25	-380	-550	-700	900	<del></del> 987	
Outlays	-25	-304	-497	-689	-858	1,037	
REAGAN BUDGET:							
Budget Authority	881	613	532	471	357	350	
Outlays	744	639	615	512	426	350	
V The Carter budget already included savings for	this proposal.	Total savi	ngs expected	are as follows	:		
Budget Authority	-25	-431	-606	-760	-964	-1,056	
Outlays	-25	-355	-485	688	-874	-1,050	

## Program Description

Amtrak is a private corporation, subsidized by the Federal Government, which has operated virtually all intercity passenger trains since 1971. About 22 million riders are expected in 1981, over half on routes in the northeast. Over two dozen trains operate daily along the Northeast Corridor (NEC), round-trip trains are operated up to seven times daily on 2l other corridors, and other trains operate approximately daily on 16 long haul routes. Amtrak does not operate freight trains.

## Proposed Change

- Amtrak will price its services, beginning in 1982, so that revenues, including contributions from State and local governments, cover at least 50 percent of the Corporation's total costs, excluding capital costs.
- To comply with the above requirement, Amtrak will have to raise fares, cut expenses, and eliminate its least patronized and most unprofitable routes. Trains will be eliminated in order, by ratio of revenues to fully allocated cost, from poorest to best. The Secretary of Transportation shall develop cost allocation principles to be used consistently in order to rank trains from poorest to best.
- Amtrak will maintain a specific fare policy for each route, with the goal of minimizing the Federal grants necessary to support the operation of its routes.
- The share of State funding will increase for those trains jointly funded by States and Amtrak. Currently the States provide 20% of related operating costs in the first year of service, 35% in the second year, and 50% in the third year. The States' share will be 50% of fully allocated operating costs and 100% of associated capital costs.
- Amtrak will operate commuter rail service only if a State, local, or regional transportation agency reimburses the corporation for the fully allocated cost of the service.

#### Rationale

- Passengers pay only 40% of Amtrak operating costs. On many routes the average ticket subsidy is \$60-70 per person. Subsidy reaches as much as \$192 per ticket on the Sunset Limited (New Orleans to Los Angeles) in 1980. It would be cheaper for the government to give someone a round trip airline ticket from Washington, D.C. to Cincinnati than to subsidize a one-way ticket on the Shenandoah.
- Train travel represents less than nine-tenths of one percent of intercity travel. In areas other than the NEC and possibly a few other short distance routes, Amtrak service is not essential to the nation's passenger travel market. Even if every Amtrak train were full all the time (and Amtrak's trains normally average about half-full) the corporation would still be able to

handle less than 2 percent of all passenger travel in the U.S, even though it provides almost 100 percent of non-commuter passenger train travel. Yet government subsidy exceeded \$800M last year. The administration's proposal shifts the financial burden for Amtrak from taxpayers to passengers.

- Improvements in intercity highways and widespread availability of air travel since 1960 have diminished the need for and utility of passenger trains. A reduction in Amtrak will result in virtually no negative effect on personal travel in the U.S. because Amtrak trains provide such a small percentage of U.S. intercity transportation.
- We estimate that a limited national rail system can be funded with a \$613 million budget.
- To the extent Americans demand long distance trains, not maintained in the Amtrak system, a private sector excursion or vacation market for such travel could emerge in the same way that entrepreneurs now operate ships such as the Delta Queen.

## Key Facts About the Program

- Federal subsidy in 1978 was about 11 cents per bus passenger, 75 cents per commercial aviation passenger, and 37 dollars per Amtrak passenger.
- Between 1972 and 1980 Amtrak's annual operating deficit increased from \$153 million to \$657 million. Costs rose by 357 percent, 25 percent faster than revenues.
- Between 1972 and 1974 Amtrak's fares covered over 50% of its costs. Since then costs have increased faster than revenues.
- Amtrak provides 48 passenger-miles per gallon of fuel across the nation. Intercity buses provide 135 passenger-miles per gallon. An automobile carrying over two people can be more fuel efficient than the average Amtrak train.
- If Amtrak were able to achieve 100 percent load factors and in doing so take all its additional passengers from automobiles, the gasoline savings would be only two tenths of one percent of the current consumption of gasoline by automobiles.
- Amtrak revenues cover 33 percent of its total costs including capital costs. The passenger rail system in the United Kingdom covers approximately 70 percent, Denmark 50 percent, and the Netherlands 50 percent.

These are various areas where Amtrak can reduce its deficit:

#### **Fares**

In the past, Amtrak has had what is called a uniform fare policy. It has generally raised fares by the same percentage across the entire Amtrak system. There are likely to be inefficiencies in this method. Demand and demand elasticities vary across the country. Some routes can bear no fare increase because of competition from other transportation modes. Those routes which cannot support a fare increase and have low revenue/cost ratios will have to be eliminated. As certain fares are increased, and some lines eliminated, revenues will rise as costs fall.

The Administration proposal requires system—wide coverage of 50 percent of costs in 1982. Thus, cross subsidization is possible. This allows more routes to continue that cannot meet a 50 percent test, but maintains the pressure to eliminate poor routes.

#### Lahor Costs

Amtrak is currently involved in labor negotiations with its 21,000 direct employees. It has the opportunity now to reduce labor costs related to these employees.

The operating crews on Amtrak trains are not, however, Amtrak employees. Amtrak is not a party to the national negotiations between railroad labor and management, and Amtrak must accept the labor conditions agreed to by the railroads which directly employ the train crews, e.g., Conrail, Burlington Northern. For this reason upcoming Conrail negotiations are also important to Amtrak.

Some Amtrak employees are eligible for severance pay at 100 percent of current pay until they are 65 and others are eligible for six years.

Operating crews earn a day's pay for 8 hours worked or 150 miles travelled. This rule dates from the days of steam engines when a train stopped every 100 miles to refuel. As train speeds have increased, the rule has not changed. As a result, on the NEC, which carries half of Amtrak's passengers,

engineers need only work for eight round trips between New York and Washington to earn a full month's pay. This is only about 80 hours.

Eliminate Routes and Reduce Train Frequencies

As routes causing the biggest drain on the system are eliminated, Amtrak costs will fall, but revenues will be affected to a lesser degree.

By eliminating the eight routes with the lowest revenue cost ratio, Amtrak can save \$53M (i.e., forego \$90M in avoidable costs and \$37M in revenue). Further savings will result as fixed facilities are reduced to match the smaller, more efficient system.

In addition, Amtrak can reduce costs by dropping frequencies on routes with the least demand.

## Operating Inefficiencies

Amtrak's on-board food service is an example of possible operating inefficiencies. Amtrak's Feburary 1981 budget estimates \$122M in costs for this service in 1982, their third largest cost category for 1982. Yet their revenues cover less than 60% of this cost. Amtrak loses over \$50M annually on food service alone.

# Boat and Yacht User Fees (Coast Guard)

Agency: Department of Transportation	Functional Code: 403				Budget Reform Criterion: 3				
Funding		(\$ in millions)							
•	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority									
Outlays									
PROGRAM CHANGES:									
Budget Authority		-100	-200	-300	-400	-500			
Outlays		-100	-200	-300	-400	-500			
REAGAN BUDGET:									
Budget Authority		-100	-200	-300	-400	-500			
Outlays		-100	-200	-300	-400	-500			

## Program Description

Coast Guard operating expenses will be about \$1.4 billion in 1982. Virtually all the Coast Guard's services are provided without charge: issuance of licenses; inspection of facilities; certification of vessel construction; maintaining aids to navigation; providing rescue and assistance service, and other services.

## Proposed Change

Legislation has been proposed that would authorize the Secretary of Transportation to phase in fees for Coast Guard services. Fees for direct services involving a transaction (e.g., licenses and inspections) would be set according to the cost of providing the service. Other services (e.g., maintaining navigation aids and providing search and rescue services) would be financed by an annual fee or tonnage duty, depending upon the type of vessel involved.

Fees will initially cover less than 10% of Coast Guard operating costs, and will rise to cover about 33% of such costs by 1986.

As now envisioned, some fees will be collected directly by the Coast Guard. Annual fees may be payable by purchasing a decal at a Post Office in the same way that migratory bird stamps are now sold.

#### Rationale

Boat owners and the maritime community are well defined groups benefitting directly from the services offered by the Coast Guard. They rather than the general taxpayer ought to pay for the services they receive.

There are about 8.5 million recreational boats in the U.S. These boats account for about 80% of all Coast Guard rescue and assistance calls. Coast Guard's total search and rescue capability will cost almost \$370 million in 1982. Relatively modest Federal boat fees – lower in most cases than the annual fees paid by automobile owners – would begin to cover a share of these costs and the costs of navigation aids in our rivers, bays and harbors.

Recreational boaters and the maritime industry should easily be able to afford to pay for the costs of the services of the Coast Guard.

## Key Facts About the Program

- The Administration's bill would not set specific fees. The Coast Guard would issue fee schedules for public comment in accordance with normal rulemaking practice.
- To avoid "double taxation" of boat owners on inland waterways, Coast Guard costs will not be included in the base of costs used to calculate inland waterway user fees proposed to be collected by the Corps of Engineers.
- The annual fees will apply only to boats operated on navigable waters of the U.S.

- Most recreational and fishing boat fees will start in the \$10 range for the first year and will be graduated upward by vessel size and other factors.
- Large commercial vessels—foreign and domestic—would be charged a small fee based on tonnage every time they enter a port.
- About 36,000 merchant marine officers' licenses and 30,000 seamen's documents were processed in 1980. Lengthy oral and written exams were involved. These exams have been free, but a reasonable fee will be charged for them under the proposal.

## Conrail

Agency: United States Railway Administration	Functional Code: 401			Budget Reform Criterion: 4			
Funding			<b>(\$</b> in n	illions)			
•	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	5351/	50			- <del>-</del>		
Outlays	535	50					
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays				· <del>-</del> -			
PROGRAM CHANGES: <sup>2/</sup>							
Budget Authority	-25						
Outlays	-125	100					
REAGAN BUDGET:							
Budget Authority	510 <sup>1</sup> /	50					
Outlays	410	150					
1/ Does not include \$129 million of Conrail emp	ployee protection	n costs.					
2/ The Carter budget already included savings	for this proposal	. Total savir	igs expected a	re as follows	(savings show	n as minuses):	
g , ,	1981	1982	1983	1984	1985	1986	
Budget Authority	350	-400	-550	-300	-150	-100	
Outlays	250	-300	-550	-300	-150	-100	

# Program Description

Conrail provides freight and commuter rail service over 17,000 route miles in the Northeastern quadrant of the U.S. Since 1976, the Government has spent over \$5.7 billion on Conrail as follows:

- United States Railway Association (USRA) has received \$3.3 billion in appropriations for investment in Conrail to offset operating losses and undertake capital improvements. The final increment of these appropriations is being exhausted now.
- DOT and the Railroad Retirement Board have received \$0.3 billion in appropriations to make labor protection payments to downgraded or furloughed Conrail employees who were employed by Conrail's bankrupt predecessor railroads (pre-1976 employees).
- DOT has paid \$2.1 billion to the Penn Central to compensate it for the properties transferred to Conrail in 1976.

With 1981 supplemental funding requested in the Reagan Budget (\$325 million), total Federal investment in Conrail will exceed \$6 billion, compared with an estimated total cost of \$2.3 billion in 1976 when Conrail was formed. Despite this huge over—run in projected costs, recent analyses suggest that a "status quo" Conrail would require well over \$2 billion in additional Federal subsidies over the next five years, exclusive of hundreds of millions of dollars in payments for labor protection.

## Proposed Change

The Administration's proposal includes the following elements:

- Abolish Conrail as a corporate entity and sell/transfer its properties to other railroads for continued rail service in the Northeast.
- Repeal Conrail's employee protection entitlements. A new employee protection package will be proposed of much more limited scope.
- Prepare to phase-out all funding for Conrail by the end of 1982. Conrail would be kept essentially intact until Congress authorizes sales and transfers.
- Delay expenditure of \$100 million of a requested \$300 million 1981 supplemental request until 1982, contingent upon assurances that solutions to the Northeast rail problem can be worked out.

## Rationale

Weaning Conrail from Federal subsidies is part of a general effort to reduce the public tax burden and allow market principles to apply. The Federal cost of supporting Conrail has already exceeded original estimates by 50%. These run-away subsidies should be brought under control quickly.

Given the unlikelihood of Conrail becoming self-sufficient in the foreseeable future, it is preferable to have Conrail's properties acquired by other railroads operating in the private sector. Most of Conrail's lines have traffic that can be profitably handled by other railroads. This will also allow Conrail's shippers to participate in the growing movement of railroad mergers, rather than being isolated in a regional railroad cocoon.

The 1981 supplemental will keep Conrail intact this year and allow Congress sufficient time to enact legislation to sell or transfer Conrail lines to other railroads.

Existing statutory lifetime employee protection is extremely expensive and provides Federally funded benefits to rail workers not provided to workers in other industries.

Lacking changes, costs associated with this program could total \$250–500 million annually in liabilities whether Conrail is retained as a corporate entity or its lines are sold to acquiring railroads.

# Key Facts About the Program

When Conrail was formed in 1976, it was the Government that assumed almost all the risks of the enterprise: (a) the bankrupt railroads from which Conrail was formed were guaranteed payment for the value of the properties transferred to Conrail; (b) States and localities were provided Federal rail branchline subsidies to shield them from the impact of proposed line abandonments; (3) shippers were protected by strict rate regulation by the ICC; and (4) organized labor was protected by ensuring lifetime salary protection for all employees who worked for the predecessor railroads for five years or more. In that context, it is not surprising that Conrail has failed to live up to its expectation of becoming financially self-sufficient by 1979.

Conrail has sustained yearly net income losses every year since 1976. Probably the single most significant factor in Conrail's inability to achieve its plan has been its failure to retain its traffic base. While the plan creating Conrail anticipated annual traffic growth of about 2%, Conrail tonnage has dropped by 17% from 1976 to 1980. Coal transportation is holding steady, but all other tonnage has dropped precipitously (-23%). Among the reasons for the traffic decline are: (a) stagnant manufacturing output in Conrail's service area; (b) continuing modal shift from railroads to trucks; and (c) inability of Conrail to position itself for growth in coal traffic.

Conrail compares favorably to other Eastern railroads in its ability to generate revenue from its traffic base. Its revenue per ton mile, for example, outstrips other major carriers. However, its operating expense per ton mile exceeds that of comparable carriers, and its total operating expense as a percent of revenue is the highest of all major carriers.

Conrail's labor force is now shrinking. The employee totals declined from 94,000 in July 1978 to 80,000 in July 1980 (-15%). However, this employment decline has been matched by Conrail's traffic decline, thereby largely canceling the cost savings. Additionally, the employment decline has increased the Government's labor protection liabilities insofar as more of Conrail's employees have, been downgraded or furloughed. This cost would soar if Conrail's workforce is further reduced, as most parties suggest is necessary.

Governmental funding as a percentage of Conrail annual expenditures has ranged from 10–18%. For all years aggregated, the uses of Federal funds have been as follows: 44% for track rehabilitation, 35% for operating subsidies, 14% for capital improvements, and 7% for equipment purchase and rehabilitation.

Conrail has projected that by 1984 it will need a positive cash flow of about \$800 million to meet all its track, capital improvements, equipment, and debt maturity needs. This means \$1.0 billion of annual cash flow improvement. It is difficult to see how this level of improvement can be achieved.

# **Cooperative Automotive Research Program**

Agency: Department of Transportation	Func Code	tional : 401		Budget Reform Criterion: 5		
Funding			(\$ in n	nillions)		
0	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	-					
Budget Authority	12	17	34	50	50	50
Outlays	6	12	17	25	35	45
REESTIMATES & ADJUSTMENTS:						
Budget Authority				`		
Outlays						
PROGRAM CHANGES:1/						
Budget Authority	-12	-17	-34	-50	-50	-50
Outlays	-6	- 12	-17	-25	-35	-45
REAGAN BUDGET:					•	
Budget Authority						
Outlays						
1/ The Carter budget already included sa	vings for this proposal	l. Total savin	gs expected a	re as follows:		
	1981	1982	1983	1984	1985	1986
Budget Authority		-34	-50	-50	-50	-50
Outlays		-17	-25	-35	-45	-50

# Program Description

The Cooperative Automotive Research Program (CARP) was designed in cooperation with the U.S. automotive industry to reduce the nation's dependence on foreign oil by financing a basic research program aimed at accelerating the development of more fuel-efficient and technologically advanced automobiles. Funding was originally intended to be on a matching basis, with the Federal Government providing half the resources. The matching arrangement was waived in fiscal year 1981 because of industry economic conditions. As a result, the 1981 program was to be wholly financed by the Federal Government.

# Proposed Change

The Administration has decided not to initiate CARP. The Reagan Budget proposes to rescind uncommitted 1981 appropriations and to eliminate funding for 1982 and subsequent years.

## Rationale

- Federal financing of long-term research to benefit a particular industry is inappropriate.
- The automotive companies, rather than the Federal Government, are in the best position to decide what kind of research to undertake and when to do so.
- The President's decision to decontrol the price of oil and the emergence of market incentives for greater fuel efficiency, greatly reduced the need for CARP.

## **Great River Road**

Agency: Department of Transportation	Func Code			Budget Reform Criterion: 5			
Funding			(\$ in millions)				
CARTER BUDGET:							
Budget Authority	25						
Outlays	36	38	35	25	16	3	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays				<del>-</del> - `			
PROGRAM CHANGES:1/							
Budget Authority							
Outlays	-6"	-15	-20	-19	-10	- 2	
REAGAN BUDGET:							
Budget Authority	25		- <b>-</b>				
Outlays	30	23	15	9	6	1	
1/ The Carter Budget already included savings for	or this proposal	l. Total savir	ıgs expected a	re as follows:			
	1981	1982	1983	1984	1985	1986	
Budget Authority		-25	-25	-25	-25	-25	
Outlays	-6	-19	-46	-51	-43	-35	

## Program Description

The Federal Highway Act of 1973 authorized the construction or reconstruction of the Great River Road by the ten States bordering the Mississippi River. A single continuous route has been designated which will run from Lake Itasca in Minnesota to Venice, Louisiana.

The Carter Budget proposed consolidating this program within the Federal-aid highway program beginning in 1982.

# **Proposed Change**

The Administration will defer previously authorized and available contract authority in 1981 (i.e., \$17.7 million). The Administration's highway bill includes a provision that will lapse all remaining Great River Road funding. All future work on the road will be performed with the States' regular Federal-aid highway monies.

#### Rationale

To stretch out and retarget public sector capital improvement programs.

All segments of the Great River Road other than access spurs have been designated as being on the Federal-aid system and may be improved using regular Federal-aid funds. The discrete Great River Road program is duplicative and unnecessary.

The estimated cost to complete this highway is \$1.4 billion (1979 dollars).

## Key Facts About the Program

The program was established in the 1973 Highway Act. The 1978 Highway Act provided \$25 million/year in new contract authority for 1979 through 1982. In addition, \$10 million per year of general fund authorizations were provided for off-system segments. Since there are no such segments, these funds are not needed. The annual obligation of contract authority is controlled by an obligation limitation included in the DOT Appropriation Acts. The annual limitation has been \$37.5 million in the last several years.

#### States Affected

Minnesota	Kentucky
Wisconsin	Tennessee
Iowa	Arkansas
Illinois	Mississippi
Missouri	Louisiana

# **Highway Construction Program**

Agency: Department of Transportation	Functional Code: 151,401				Budget Reform Criterion: 5			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:					_, _,			
Budget Authority	9,207	10.536	11,396	11.722	11.953	12,383		
Outlays	8,762	8,507	10,143	11,048	11.465	12,311		
REESTIMATES & ADJUSTMENTS:*	•	·	•			,-		
Budget Authority		215	234	250	270	289		
Outlavs		32	76	163	224	246		
PROGRÁM CHANGES:								
Budget Authority		-2,009	-2,308	-2,273	-2,394	-2,212		
Outlays	-7	-429	-1,534	-1.955	-2.019	-2,148		
REAGAN BUDGET:			•		Ť	•		
Budget Authority	9,207	8,742	9,322	9,699	98.830	10,460		
Outlays	8,755	8,110	8,686	9,256	9,670	10,409		
*Transfer of the Appalachian Highway Progra	m to the Depart	ment of Tran	sportation be	ginning in 19	82.			

# Program Description

The Federal highway program provides grants to the States for construction or reconstruction of certain designated highway systems: Interstate, primary, secondary, and urban. Funds are also provided for rehabilitation or replacement of highway bridges, highway safety projects, and numerous small special categorical programs.

The Carter budget provided for major growth in the Interstate rehabilitation program from \$1.4 billion in 1982 to \$2.4B in 1986. The rural and urban programs were level funded at \$.7 billion and \$.9 billion respectively.

# Proposed Change

The Administration will focus the Federal highway program on the high Federal interest Interstate and primary systems.

- Interstate construction funding will be maintained basically at the currently authorized level, but project eligibility will be narrowed to move toward final "completion" of the Interstate system.
- Interstate rehabilitation (4R) funds will be increased in 1982 by \$525 million above the existing authorized level.
- Lower priority highway programs designed to address State and local problems will be eliminated. The larger rural and urban programs will be phased out to allow States to adjust their programs to meet their greater responsibility.

Outlay savings of \$430 million in 1982 and \$8.0 billion for 1982-1986 will be attained.

#### Rationale

To stretch out and retarget public sector capital improvement programs.

These changes are needed because:

- The Federal interest is primarily supporting and providing for interstate commerce and the national defense. This interest is best served by the Federal Interstate and primary highway programs. In the present economic situation, and for the foreseeaable future, Federal emphasis must be concentrated on these interests (and systems).
- Highway programs designed to meet basically State or local concerns (e.g., secondary and urban) are properly the responsibility of these governmental entities. It is at these governmental levels that the real need, priority, and appropriate funding for projects designed to address particular State or local problems can be determined.

• The goal of completing the Interstate highway system cannot be reached without a major restructuring of this program. The growing cost of completion (i.e., \$54 billion in 1979 prices) makes it mandatory that the Federal Government focus this program on completing unbuilt gaps in the system and upgrading only those segments which are necessary to ensure a minimum level of service.

## Key Facts About the Program

The Administration's highway legislation is as follows:

• Authorizations (\$ in billions):

	Actual	Carter		Proposed			
	1981	1982	1982	1983	1984	1985	1986
Federal-Aid Highways							
(Contact Authority):							
Interstate Const.	3.625	3.5	3.3	3.625	3.625	3.625	3.625
Interstate 4R	.275	1.4	.8	1.3	2.0	2.1	2.7
Primary	1.8	1.8	1.5	1.7	1.8	1.8	1.8
Secondary	.6	.7	.7	.3			
Urban	.8	.9	.9	.5			
Safety	.405	.5					
Bridge	1.3	1.2	.9	1.2	1.4	1.4	1.4
ER	.15	.15	.15	.15	.15	.15	.15
Other	.143	.05	.05	.05	.05	.05	.05
Total	9.098	10.2	8.3	8.825	9.025	9.125	9.725
Obligation limitation	(8.75)	(10.05)	(8.15)	(8.675)	(8.875)	(8.975)	(9.575)
Interstate Substitu-	•	, ,	, ,	` ,	, ,	` ′	` ,
tion (highways):		.3	.2	.225	.375	.375	.375
Appalachian highways:	*	*	.215	.234	.250	.270	.289
\$\$215 million included in An	nalachian Danie	anal Commission	a hudaat				

\*\$215 million included in Appalachian Regional Commission budget.

Major program changes.

## Interstate Completion

Under the existing definition of completion of the Interstate the cost-to-complete estimate is \$53.8 billion (\$48.6 billion Federal share). With inflation, the system as defined can never be completed.

The Administration has established the policy that the Interstate highway system will be completed within existing authorizations and by the statutory 1990 deadline, and has proposed to redefine system completion.

Beginning October 1, 1981, Interstate construction funds will be available only to construct Interstate segments to a minimum level of acceptable service consisting of (1) full-access control, (2) a pavement designed to accommodate traffic anticipated for the next 20 years, and (3) a design of not less nor more than four lanes in rural areas and all urban areas and urbanized areas under 400,000 population, and up to six lanes in urbanized areas over 400,000 population. Future Interstate Cost Estimates would include only costs for the projects eligible under these criteria.

To ensure cost effective use of Interstate funds, the Secretary of Transportation would examine all Interstate System segments on which physical construction has not started to identify possible segments which are not essential to the unified and connected Interstate System, are not cost effective or are environmentally disruptive. The Secretary would be authorized to remove undesirable, nonessential segments from the Interstate System, which would then create authority for Interstate Transfer grants for those segments otherwise eligible.

## • Interstate Rehabilitation (4R)

An expanded program of Interstate resurfacing, restoration, rehabilitation and reconstruction (4R) will be undertaken. Funding will increase by almost 300% in 1982 over 1981. Similar to the Interstate completion program, the Federal Government will pay 90% of the cost for 4R projects.

Projects made ineligible for Interstate completion funding by the redefinition of Interstate completion will become eligible for I-4R funds.

#### Primary and Bridge

The primary and bridge programs will be retained and funded at the authorized levels of \$1.5 billion and \$.9 billion in 1982.

## Secondary and Urban Systems

State and local governments have a greater interest than the Federal Government in highway systems below the Interstate and primary systems. To return responsibility for these highways to the appropriate level of government, phase out of Federal responsibility for, and involvement in, the secondary and urban system programs is proposed. To facilitate the transistion, the Administration proposes authorizations for these programs for fiscal years 1982 and 1983. These transition authorizations should provide the States time to make budget adjustments to assume full funding responsibility for these programs.

## Safety

Highway safety projects should be an integral part of all highway construction. To increase State and local flexibility in meeting highway safety needs, elimination of separate safety categorical programs administered by the Federal Highway Administration is proposed. Funding that would otherwise be authorized for safety projects is incorporated into the larger highway system categories, as safety projects are eligible for these funds.

#### Other

The Administration proposes elimination of a number of existing categorical highway programs and the existing separate 1982 funding authorizations associated with them. States will be able to make their own determinations as to the priority of these programs, most of which will be eligible for Federal funds under the regular primary, secondary or urban programs. The Appalachian Development Highway System program would be transferred from the Appalachian Regional Commisssion and would be financed from the Highway Trust Fund.

## Funding

The Administration proposes a simple extension of the existing highway user taxes and the Highway Trust Fund. The taxes will be extended to 1989 and the trust fund to 1990.

# Highway Safety (402) Grants

Agency: Department of Transportation		tional :: 401			Budget Re Criterion:		
Funding	(\$ in millions)						
9	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority <sup>1</sup>	264	244	202	215	239	255	
Outlays	200	241	218	229	237	244	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority		-167	-125	-138	-162	-178	
Outlays		-47	-112	-138	-150	-163	
REAGAN BUDGET:							
Budget Authority	264	77	77	77	77	77	
Outlays	200	194	106	91	87	81	

<sup>1/</sup> In 1981 and 1982 budget authority represents contract authority and does not accurately reflect a lower obligation limitation of \$189 million in 1981 and \$177 million in 1982. Budget authority and obligations are the same in the outyear. The table listed below under proposed change provides a better assessment of obligation savings.

## **Program Description**

Federal grants are provided to States and localities for:

- Establishing or supplementing highway safety programs in such areas as traffic enforcement, driver licensing and education, alcohol abuse and pedestrian safety.
- Increasing police patrols, equipment, and public information activities relating to 55 mph speed limit enforcement.

## Proposed Change

The Administration has proposed legislation to restrict eligibility to programs that have been successful in promoting highway safety and are an appropriate Federal function. This proposal should produce outlay savings of \$45–160 million per year beginning in 1982 and extending to 1986. The following is a summary of savings by obligation authority:

	(\$ in millions)					
	1981	1982	1983	1984	1985	1986
Basic grants		58	71	84	98	114
SS MPH		40	50	50	60	60
Innovative grants	==	2	4	4	4	4
Total obligations saved		100	125	138	162	178

#### Rationale

- The Federal contribution to total highway safety funding is so small (2 to 3 percent) that the Federal Government has had little impact on what State and local governments actually do.
- A General Accounting Office (GAO) study of the Highway Safety Grants Program concluded that there is no evidence of the effectiveness of many of the categories of grants in reducing highway fatalities and that many potentially effective projects were not implemented by the States.
- Enforcement of maximum highway speed limits (i.e., 55 MPH) should be a discretionary responsibility of the States.

## Key Facts About the Program

- The Highway Safety bill authorizes financial assistance to carry out State safety programs, but fails to establish any goals to be achieved.
- The following are programs of proven success in promoting highway safety: police traffic services, alcohol safety, emergency medical services, traffic records.

# Highway Safety Program (Research, Development, Regulations)

Agency: Department of Transportation		Functional Budget Code: 401 Criterio				Reform on: 5	
Funding			(\$ in r	nillions)			
ŭ	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	87	112	119	132	137	146	
Outlays	85	100	107	119	124	136	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority		-19	-23	-25	-25	-26	
Outlays		-5	-13	-21	-24	-24	
REAGAN BUDGET:							
Budget Authority	87	93	96	107	112	120	
Outlays	85	95	94	98	100	112	

## Program Description

The operations and research budget of the National Highway Traffic Safety Administration includes the following major program areas:

- Rulemaking program promulgation of Federal vehicle safety and fuel economy standards.
- Enforcement programs enforcement of vehicle safety standards and to do compliance testing and defects investigation.
- Highway safety programs provides Federal staff support and demonstration programs to assist the States in the conduct of highway safety programs.
- Research and analysis provides research and development in support of all NHTSA programs, including the collection and analysis of data. Provision is also made to furnish the scientific and technical basis for motor vehicle standards.

# Proposed Change

Reduce budget authority in 1982 by \$19.2 million to reflect reduced emphasis on Federal regulations.

#### Rationale

- Excessive regulation is a significant factor in our current economic difficulties.
- The emergence of market incentives for greater fuel efficiency, greatly reduces the need to develop fuel economy standards beyond 1985.

## Key Facts About the Program

The following is a list of the specific program reductions (\$ in millions):

1982 Carter budget	112.3
Fuel Conservation  Eliminate Carter energy initiative to publicize fuel conservation techniques, such as not "peeling away" from STOP signs.	-4.7
Economic and Technology Assessment  Eliminate unnecessary analysis and support of post-1985 fuel economy standards.	-6.0
• Integrated Vehicle Systems	-2.5

Rulemaking  Eliminate rulemaking for post-1985 fuel economy standards and eliminate expansion in rulemaking.	1.0
Data collection	-4.0
Highway safety  Eliminate the National Driver Register.	1.0
Total reduction	(19.2)
1982 Reagan budget	93.1

# Northeast Corridor Improvement Project Reduction

Agency: Department of Transportation		Functional Code: 40l				form 4		
Funding	(\$ in millions)							
J	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	_							
Budget Authority	350	488	172	20	15			
Outlays	373	465	534	316	152			
REESTIMATES & ADJUSTMENTS:								
Budget Authority						-		
Outlays					<del>-</del> -			
PROGRAM CHANGES:								
Budget Authority		-288	13	-20	-15			
Outlays	-25	-155	-114	-1	-15			
REAGAN BUDGET:								
Budget Authority	350	200	185	_	_			
Outlays	348	310	420	315	137			

## **Program Description**

The Northeast Corridor Improvement Project (NECIP) is intended to improve passenger service between Washington, D.C. and Boston, Massachusetts. It is to facilitate safe, dependable, and high speed rail passenger service on that Corridor. The project includes track improvement, bridge repair, elimination of grade crossings, station improvement, and electrification, as well as installation of signalling and communication systems and railway maintenance facilities.

## Proposed Change

The Administration proposes to reduce total authorizations for NECIP by \$310 million, from \$2.5 billion to \$2.19 billion, and to change the focus of the Project. In the past, faster train speed has been a high priority criterion in the choice of construction improvements. In revising the project, emphasis will be placed on completing a reliable and serviceable rail system.

## Rationale

- Several expensive components of NECIP electrification north of New Haven, replacement of the signalling system, curve realignments have been included in the project largely in order to reduce trip times. Even with these improvements, however, the trip times achieved in the early 1970's, before the project was started, would fall only 20 minutes between New York City and Washington, D.C. (They would fall 50 minutes between New York and Boston.)
- The purpose of increasing train speed has been to attract additional riders to the corridor. But fuel costs continue to increase demand for rail service in this section of the country, thereby largely accomplishing what NECIP planned to spend hundreds of millions to accomplish.
- High speed track is much more expensive to maintain than is medium speed track. It
  requires more frequent resurfacing and repair. It is unlikely that Amtrak will be able to
  fund this work in the future. If Amtrak cannot, the huge initial expense will thus be wasted
  as the track deteriorates.
- Three times as many commuter passengers use the Northeast Corridor as do intercity passengers. Yet NECIP, by focusing on increased speed, benefits the minority of users at great expense. Commuter trip times fall negligibly with high speed trains because distances are short and stops frequent.
- By redirecting the program now, only \$30-40 million will be lost in contracts already let.

## Key Facts About the Program

The \$310 million reduction will be achieved mainly by repairing rather than replacing the signalling system and by eliminating electrification north of New Haven.

#### SIGNALLING SYSTEM

- The originally planned signalling system for NECIP was estimated in early 1981 to cost \$393 million. With each estimate the cost has increased significantly; the initial cost estimate had been \$50 million. A consulting firm hired by the Department of Transportation estimates that the total cost of the system would be closer to \$600 million.
- The Department of Transportation's original plan was to replace the existing signal system with one of the most elaborate systems in existence. The reason for this was to make it possible to run high speed intercity, commuter, and freight trains on the same track. It was thought that the combination of high speed and low speed traffic on the corridor made it necessary for trains to be able to make extreme changes in speed over short distances.
- Almost without exception, the portions of the corridor which are heavily travelled have four tracks. High speed traffic can be consistently routed to the inside tracks, low speed traffic to the outside tracks. This eliminates the need for a signal system allowing extreme changes in speed over short distances.
- Commuter authorities have resisted replacement of the signalling system. They would not benefit from it, but would have to install new equipment in all their trains in order to use the new system, as would freight trains.

#### **ELECTRIFICATION NORTH OF NEW HAVEN**

- FRA had planned to electrify north of New Haven to save fuel and to eliminate a 10 minute delay as locomotives are switched.
- The estimated cost of this electrification is \$190 million. Demand for rail service is low between New Haven and Boston when compared with demand elsewhere on the corridor.

## Railroad Branchlines

Agency: Department of Transportation						Budget Reform Criterion: 4		
Funding			(\$ in r	nillions)				
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	80	80	87	94	101	108		
Outlays	56	80	110	105	110	112		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority	-80	-80	-87	-94	-101	-108		
Outlays	-8	-32	-57	-75	-98	-106		
REAGAN BUDGET:								
Budget Authority								
Outlays	48	48	53	30	12	6		

# Program Description

This program provides formula grant assistance to States for rail planning and for support of rail service on low traffic branchlines. The funds have been used for temporary operating subsidies, track acquisition and rehabilitation, rail planning, construction of sidings, terminals and the like. The program was intended to cushion shippers from the effects of potential or actual rail abandonments.

## Proposed Change

The Administration proposes program phase-out starting in 1981. This, will be accomplished by legislatively reprogramming \$80 million in 1981 appropriations for use for other railroad assistance programs for which supplemental 1981 appropriations otherwise would have been required.

#### Rationale

This action returns to States and localities a program whose benefits are primarily local. Additional reasons are as follows:

- Traffic on the supported lines is so light that interstate commerce will not be disrupted. The supported lines carry less than 0.5% of nationwide rail traffic.
- Over 25% of funds are allocated to States that have little or no branchline rail service problems.
- A soon-to-be released DOT Inspector General report criticizes the program because many rail lines being subsidized will subsequently be abandoned.

## Key Facts About the Program

- The railroad branchline program was originally authorized in 1976. At that time, 21,000 miles of rail lines were eligible for assistance, and the program was supposed to expire in 1981.
- Since then, the program's authorizations have been increased and extended through 1982. Also, the total rail line miles eligible for assistance has exploded to about 100,000 miles.
- Whereas the program was originally intended to help States retain service on lines not included in Conrail when Conrail was formed in 1976, now the program is nationwide in scope.
- Most of the low traffic lines being subsidized carry less than 3 million gross tons per mile annually, although lines up to 5 million gross tons per mile can qualify.

• Biggest recipients are as follows (1981 allocations):

```
Iowa ($9.4 million)
Illinois ($5.0 million)
Wisconsin ($4.1 million)
Minnesota ($4.0 million)
Oklahoma ($3.0 million)
```

 All States are guaranteed no less than 1% of funding allocations. That means that some States which have no railroad abandonment problem — such as Alaska, and Washington, D.C. — are nevertheless guaranteed \$800 thousand under an \$80 million program.

# Railroad Restructuring Assistance

Agency: Department of Transportation	Funct Code:					
Funding			<b>(\$</b> in n	nillions)		
S	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	751/	150	164	178	191	204
Outlays	105	136	202	210	220	188
REESTIMATES & ADJUSTMENTS:						
Budget Authority		'				
Outlays						
PROGRAM CHANGES:						
Budget Authority		-40	-54	-68	-81	-204
Outlays		-5	-30	-55	-70	-90
REAGAN BUDGET:						
Budget Authority	75 <sup>1</sup> /	110	110	110	110	
Outlays	105	131	172	155	150	98
1/ With \$76 million in 1980 unobligated balance	s, 1981 obligati	ons will tota	l \$151 million	•		

## Program Description

This program entails Federal purchase of railroad preferred stock to finance specific improvement projects, especially track rehabilitation. Funds are provided to railroads that cannot obtain funds elsewhere. The preference shares have a maximum term of 30 years, with deferral of repayments up to 11 years. The priority of payment in bankruptcy is below all creditors. Through 1980, 70% of funds have been provided to the Chicago and North Western and the Illinois Central Gulf.

## Proposed Change

- The funding level is reduced by \$40 million in 1982 held at \$110 million for three additional years and terminated in 1986.
- The 1981-82 program will focus available funding on rail restructuring in the Midwest in the wake of the Rock Island and Milwaukee Railroad bankruptcies.
- The 1983-1985 program anticipates assistance to encourage other railroads to acquire Conrail lines, assuming that Conrail's lines will be sold to other railroads.

## Rationale

Phase down of this program is part of a general effort to reduce the public tax burden and allow market principles to apply. Additional reasons are as follows:

- There are other forms of Federal assistance, such as loan guarantees, to assist troubled railroads maintain essential rail services.
- Compared with other forms of Federal railroad assistance, this program entails an extremely high subsidy rate. It carries an effective interest rate of only 2% (yield to maturity).
- There is a lessened need for railroad assistance now that a reasonably strong rail deregulation bill has been enacted (Staggers Rail Act of 1980).

## Key Facts About the Program

- Results from the program are modest. In a 1980 report, GAO asserted that "Federal assistance solely to overcome deferred maintenance is not essential."
- Obligation rates have lagged funding availability. For example, in 1980 DOT obligated only half the funds available to it (\$74 million obligated out of \$146 million available).
- DOT has plentiful loan guarantees available for railroad restructuring purposes (\$300 million in 1981; \$320 million in 1982).

- Funding recipients to date include the following:
  - Illinois Central Gulf \$166 million
  - Chicago and North Western \$148 million
  - Milwaukee \$53 million
  - Southern Pacific \$49 million
  - Boston and Maine \$26 million
  - All other \$15 million

The first two railroads account for 70% of total obligations; the first four railroads account for 90%.

Most railroad stocks have done very well since enactment of rail deregulation legislation.
Many of those railroads that the Government has supported may now raise funds by selling
equities. For example, stock of the Chicago and North Western has tripled in the past year,
thereby greatly enhancing that railroad's ability to raise funds without Federal aid.

# **Urban Mass Transit Capital Assistance**

Agency: Department of Transportation		ctional e: 401			Budget Re Criterion:		
Funding	(\$ in	(\$ in millions)					
5	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	3,590	3,830	4,350	4,645	4,845	5,010	
Outlays	2,768	2,850	3,270	3,615	3,920	4,153	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays	242	11	-150				
PROGRÁM CHANGES:							
Budget Authority	-250	-1,340	-1,635	-1,795	-1,845	-1,860	
Outlays	-54	-420	-805	-1,153	-1,535	-1,649	
REAGAN BUDGET:							
Budget Authority	3,340	2,490	2,715	2,850	3,000	3,150	
Outlays	2,956	2,441	2,315	2,462	2,385	2,516	

## Program Description

The mass transit capital grant program consists of the following:

- Section 3 Discretionary Capital Grants
- Section 5 Formula Bus Grants (Tier IV)
- UMTA Interstate Transfer Grants
- National Capital Transportation Act Grants

The Carter budget projected increasing funding levels by 50% by 1986 over the 1981 Congressionally enacted level.

# Proposed Change

The revised budget reduces funding levels for mass transit capital grants. The budget savings are primarily achieved by reducing the amount of funds for constructing new rail transit systems and extending existing systems. The revised budget provides funds for improving transit services through grants to purchase buses and to update existing rail systems — particularly in large, concentrated urban areas. The construction of new rail transit systems and extensions of existing systems has not proved, however, to be as cost—effective as less capital intensive projects. Federal assistance for such rail construction projects will be postponed at least until the economic situation and the condition of the Federal budget improve.

Specifically, the revised budget emphasizes the following:

- The central focus of the Federal transit assistance program in the future will be on the maintenance and improvement of existing, proven transit systems.
- New rail transit systems and planning activities associated with such systems will no longer be federally financed.
- Transit systems for which the Federal Government has issued formal letters of intent and where construction is underway (including Washington Metro) will be financed to complete operable transit segments.
- Downtown People Mover and Urban Initiatives projects will be terminated immediately, but Urban Initiatives projects already under construction will be completed.

## Rationale

Primary responsibility for mass transit should remain with State and local governments.

In the present economic situation, Federal emphasis should be concentrated on maintaining existing transit systems that have been proven effective and are an essential part of a large urban transportation network.

The availability of steadily increasing Federal transit funding and Federal regulatory requirements has sharply escalated new rail transit systems costs. Federally financed rail systems are often built with extravagant features; construction wages paid are sometimes excessively high due to Federal laws; and routes are added where they are not justified from an economic point of view. The five rail system construction projects now underway that receive Federal assistance (Washington, Miami, Buffalo, Baltimore, and Atlanta) require approximately \$75 million a mile to construct and equip for operation. The same \$75 million could be used to buy more than 500 buses. Also, in comparison, San Diego is building and equipping a trolley line, without any Federal assistance, costing less than \$6 million a mile.

Transit system energy savings are nonexistent or small in the short run and too speculative in the long run to justify major Federal investments on energy efficiency grounds. It has been estimated that BART, the San Francisco Bay Area rapid rail system, required so much energy during its construction that this initial energy investment may never be repaid. Traffic for new rail systems is primarily generated from ex-transit bus users. No real energy, pollution, or congestion benefits are achieved from switching riders between transit modes.

## Key Facts About the Program

The *obligations* assumed for capital assistance are:

	(\$ in millions)		
	1981	1982	
Section 3 <sup>1</sup> /	1980	1725	
Section 5, Tier IV	350	375	
Interstate Transfer <sup>2</sup> /	800	600	
Total	3130	2700	

<sup>1/</sup> Includes \$210 million deferred from 1981 to 1982 in the Section 3 program.

<sup>2/</sup> Includes \$182 million in grants for highway substitute projects in 1981. In 1982 all grants for such highway projects will be funded in the FHWA budget.

# **Urban Mass Transit Operating Assistance**

Agency: Department of Transportation	Functional Code: 401				Budget Reform Criterion: 4			
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	•							
Budget Authority	1,105	1,105	1,105	1,105	1,105	1,105		
Outlays	750	780	1,005	1,080	1,100	1,130		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays	150	142		- <b>-</b>				
PROGRAM CHANGES <sup>1/</sup> :								
Budget Authority			-370	-740	-1,105	-1,105		
Outlays			-208	-512	-899	-1,088		
REAGAŇ BUDGET:								
Budget Authority	1,105	1,105	735	365				
Outlays	900	922	797	568	201	42		

# Program Description

This program is comprised of the first three "tiers" of Section 5 formula grants. Historically, 90% to 95% of the funds distributed through the formulas of the first three tiers have been used for operating expenses. The Federal share of the national total of transit operating expenses has been in the 15% range over the last few years. The Carter budget would have continued funding for these three operating tiers at the current 1981 levels through 1986.

## Proposed Change

Beginning in 1983, funds provided in the first three tiers would be phased out by 1985. In order to cushion the difficulties caused by this phase—out of Federal assistance, the reductions in 1983 and 1984 would be taken in the "base" tier — leaving untouched during the transition years the remaining funds in Tiers II and III which are targeted more at the cities in immediate need.

#### Rationale

The costs of operating local mass transit systems should be the responsibility of the users and local taxpayers.

Federal subsidies for operating costs are at least partially absorbed by lower productivity and reduced fares.

Conventional transit systems on the average have to subsidize slightly more than 50% of the cost of each ride through the local, state and Federal taxpayer. Furthermore, this national transit deficit is escalating rapidly; cost increases from 1973 to 1978 average 13.2% a year while the average annual fare increased only 3.5% over the same period.

Federal funds in some areas help to support marginally effective conventional transit services. Often transportation needs could be better served by more cost effective and innovative alternatives such as carpools, vanpools, subscription bus and jitney services.

Federal subsidies and the Federal "strings" attached to those subsidies tend to drive up operating costs.

The undesirable side effects of Federal subsidies — lower productivity and unrealistically low fare levels — could only be dealt with by an inappropriate level of Federal involvement in local decisions about fares, wage rates, service levels and management practices. These decisions are better left for local decision—makers.

Fares have generally not kept pace with inflation since the 1973 oil embargo, even though the cost of the main alternative means of transportation — the private vehicle — has increased dramatically even more than the rate of inflation. It is probable that the cost of owning and operating one's car will continue to increase faster than the inflation rate; thus, transit fare could be raised considerably to cover the loss of Federal subsidies without losing many patrons.

Transit operating subsidies for everyone — rich and poor alike — are a terribly inefficient way to assist particular disadvantaged groups such as the elderly, the poor, minorities, and youth. One analysis estimated that only 23.5% of transit operating subsidies in 1975 went to low income households.

A gradual phase out of Federal subsidies over the next four years provides time for cities and States to adjust to the absence of Federal assistance. The phase out will not begin until 1983. By concentrating the remaining funds in Tiers II and III, the cities with the most difficult problems will generally have the longest time to adjust.

## Key Facts About the Program

The following budget authority levels will be recommended:

	1991	1984	1983	1984	1985	1786
Tier I	850	850	480	110	0	0
Tier II	165	165	165	165	0	0
Tier III	<u>90</u>	<u>_90</u>	<u>_90</u>	90	<u>0</u>	0
Total	1105	1105	735	365	0	0

1003

Aggregate transit operating expenses have been increasing more rapidly than aggregate transit revenues. About 1965 the national aggregate of transit operating expenses first exceeded revenues. From 1965 to 1978 the ratio of total revenues to expenses fell from 99.2 to 48.0%. From 1973 to 1978 operating expenses rose \$2.18 Billion, yet revenues have risen only a fifth of that amount (\$464 Million).

An analysis of the cost increase demonstrates that, even considering expansion, transit cost increases have far exceeded the general inflation rate. From 1973 to 1977, the GNP Implicit Price Deflator rose 33.7%. Transit operating costs rose 69.7%. The increase in operating costs over the general inflation rate cannot be entirely attributed to service expansion or increased ridership. Operating costs per revenue vehicle mile rose 16.8% in constant dollar terms from 1973 to 1978. Operating costs per passenger trip rose 15.6%. Average wage and fringe benefits have risen faster than the inflation rate. In *constant* dollars, transit workers received 13.5% more in 1978 than 1973. Meanwhile, productivity declined from 1973 to 1978 as labor costs per vehicle mile rose 20.7% from 1973 to 1978.

**Department of the Treasury** 

# Treasury Law Enforcement and Tax Administration Staffing

Agency: Department of the Treasury	Functional Code: 751, 803				Budget Reform Criterion: 8			
Funding <sup>1</sup> /	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	3,328	3,499	3,549	3,656	3,715	3,783		
Outlays	3,306	3,454	3,520	3,630	3,686	3,754		
REESTIMATES & ADJUSTMENTS:						•		
Budget Authority								
Outlays								
PROGRÁM CHANGES:								
Budget Authority	-35	-125	-213	-335	-452	-564		
Outlays	-52	-135	-241	-395	-508	-619		
REAGAN BUDGET:								
Budget Authority	3,293	3,374	3,336	3,321	3,263	3,219		
Outlays	3,254	3,319	3,279	3,235	3,178	3,135		

Figures included in table are the sum of personnel costs for tax administration and law enforcement bureaus (Internal Revenue Service, Bureau of Alcohol, Tobacco and Firearms, U.S. Customs Service and U.S. Secret Service).

## Program Description

Two of the most critical responsibilities of the Treasury Department are law enforcement and tax administration. The Customs Service is charged with collecting customs duties, recovering contraband, and processing persons and cargo through ports of entry. The Secret Service protects designated individuals and enforces the counterfeit and forgery statutes. In administering the laws imposing excise taxes on certain commodities, the Bureau of Alcohol, Tobacco and Firearms (BATF) has both revenue collection and law enforcement duties. The Internal Revenue Service likewise has joint tax administration and enforcement responsibilities.

# Proposed Change

Planned 1981 and 1982 employment and related funding in tax administration and law enforcement programs will be reduced in most areas. While IRS will sustain the largest absolute reduction from the Carter budget level, the revised budget for IRS provides a real increase in full-time permanent positions of 655 in 1981 and 2,251 in 1982. This is a 3% increase over actual 1980 on-board levels of 71,525. This staff is the critical element of the organization and includes those employees engaged in revenue producing programs. In addition, staff devoted to collection of unpaid tax accounts will increase substantially, about 1600 workyears above the 1980 level. This staff increase is anticipated to have a direct revenue yield of over \$600 million.

#### Rationale

This proposal is part of the Administration's effort to reduce overhead and personnel costs. Employment reductions in Treasury's tax administration and law enforcement functions will not disrupt these programs. These reductions are consistent with the President's economic recovery plan calling for tax reductions, more efficient use of Federal resources and greater emphasis on State and local governments' role in areas such as law enforcement.

IRS' need for staff increases in the enforcement areas will be obviated to a large extent by the change in the marginal tax rates for individual taxpayers. This is the most effective and least onerous method of achieving compliance. Compliance is best enhanced by fairness and even-handedness in the tax administration system. Moreover, lower marginal tax rates will encourage those participating in the underground economy to come above ground and report their income, and those who avoid tax liability by abusive tax shelters to redirect activities into more productive investments.

The BATF employment reduction is directed at curtailing the Federal role in anti-cigarette smuggling activities, investigation of explosives/arson incidents and regulatory aspects of the firearms program. These activities are low priority primarily because of the marginal impact they appear to have on the occurrence of a particular crime, such as arson or explosives incidents; the small programmatic payoff compared with the regulatory burden as in the case of the regulation of firearms dealers; and the fact

that some of the problems they sought to combat are no longer a major Federal law enforcement issue, such as over-the-road bootlegging of cigarettes.

While a portion of the Customs Service reductions will be taken in the processing of persons and cargo through the ports of entry, the impact should not be severe, particularly as new and streamlined ways of doing business are developed. Customs has been encouraged to implement new procedures (such as "one-stop processing" and "citizen by-pass"), to be more selective in the inspection process and in the longer term, develop new technologies (such as the mass spectrometer for narcotics detection) for more efficient and effective processing rather than rely mainly on increased employment levels.

The U.S. Secret Service's employment increases from 1980 actual levels in response to new and more demanding responsibilities connected with the protection of the new President's family and an additional former President's detail.

## Key Facts About the Program

IRS program outputs for 1982 will be:

- Processing of 148 million tax returns.
- Auditing of 1,954 thousand tax returns and making 871 thousand contacts through IRS service centers, with an associated revenue assessments of \$7.2 billion.
- Disposing of 2,252 thousand unpaid tax accounts, with associated revenue collected of around \$6 billion.

The 1982 revisions for the Bureau of Alcohol, Tobacco and Firearms reduced employment by 570 positions, or slightly more than 15% from the January budget estimate.

The 1982 revisions for the U.S. Customs Service reduced employment by 1,168 positions or 7.7% from the January budget. The largest portion of these reductions will be achieved through decreases in field support and overhead staff; only 92 inspector positions will be reduced under the current plan.

**Environmental Protection Agency** 

# Clean Lakes, Great Lakes, Chesapeake Bay Program Reductions

Agency: Environmental Protection Agency	Func Code	tional : 304		Budget Reform Criterion: 6					
Funding	(\$ in millions)								
· ·	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	27	25	22	22	22	22			
Outlays	27	25	24	22	22	22			
REESTIMATES & ADJUSTMENTS:									
Budget Authority									
Outlays									
PROGRÁM CHANGES:									
Budget Authority		-20	-18	-18	-18	-18			
Outlays		-7	-13	-17	-18	- 18			
REAGAN BUDGET:									
Budget Authority	27	5	4	4	4	4			
Outlays	27	18	11	5	4	4			

# Program Description

### **CLEAN LAKES:**

• This program provides grants to States and municipalities for cleaning up polluted lakes.

### **GREAT LAKES:**

• This program provides research funds for studies of the Great Lakes ecosystem.

#### CHESAPEAKE BAY:

• A Congressionally mandated five-year study of the Bay ecosystem that will be in its sixth year in 1982..

### Proposed Change

### **CLEAN LAKES:**

• Funding for this program is eliminated.

#### **GREAT LAKES:**

• Funding for research is eliminated, but resources in support of the U.S./Canadian Agreement are maintained.

#### CHESAPEAKE BAY:

• Funding for future research is eliminated as the program comes to completion, but resources to finalize the five-year project remain.

#### Rationale

These are among those activities that, in normal circumstances we might continue funding, but which cannot be given high priority in times of servere economic strain. While resources for all three programs have either been reduced or eliminated, it should be emphasized that EPA's regulatory programs will remain the primary mechanism for water pollution control in these specialized areas.

### CLEAN LAKES:

• This program has primarily benefited the private landowners surrounding lakes. It is primarily a recreation, not a health-based program, and therefore, not part of the Agency's primary health mission. The causes of lake pollution can be, and generally are, attacked through EPA's nationwide water pollution program which is aimed at correcting the causes of water pollution.

#### **GREAT LAKES:**

• Research on Great Lakes pollution has been funded for nearly a decade. It is now time to reassess this program before additional research on the Great Lakes is undertaken. Therefore, specialized research support is eliminated but resources to support the International Joint Commission with Canada remain.

### CHESAPEAKE BAY:

• The five-year Congressional mandate will be fulfilled in 1982 with the finalization of reports. Resources for program completion are maintained, but continued research funding is inappropriate until the results of the past five years are implemented.

### Key Facts About the Program

#### **CLEAN LAKES:**

- More than 200 grants have been awarded to inventory, diagnose, and correct pollution problems in publicly-owned freshwater lakes. More than 120 projects have involved implementation of pollution controls.
- Many States have developed their own programs for protecting and restoring lakes.
- About \$70 million has been appropriated since 1976 for this program.

#### **GREAT LAKES:**

- Continuing general water quality research will benefit the Great Lakes, as well as other water bodies.
- More than 37 academic or research institutions, primary in nearby areas, have received \$23 million in EPA research grants over the last eight years.

#### CHESAPEAKE BAY:

- Resources remaining will be more than sufficient to disseminate program results to the public.
- More than 40 academic or reserach institutions have received about \$19 million in EPA research grants over the last five years.

# **Energy Research and Development**

Agency: Environmental Protection Agency	Functional Code: 271			Budget Reform Criterion: 6			
Funding			(\$ in n	nillions)			
J	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	96	88	88	88	88	88	
Outlays	96	88	88	88	88	88	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRÁM CHANGES:							
Budget Authority		-35	-35	-35	-35	-35	
Outlays		-10	-18	-35	-35	-35	
REAGAN BUDGET:							
Budget Authority	96	53	53	53	53	53	
Outlays	96	78	70	53	53	53	

### Program Description

EPA's Energy R&D program focuses on assessing the environmental and health effects of new and conventional energy technologies. The R&D program also evaluates various control technologies available for industries to meet environmental standards.

### Proposed Change

For the EPA energy research and development program, the Administration proposes:

- To reduce research on pollution control technologies for oil shale development;
- To reduce research on alternative energy sources which have not shown adverse environmental effects—including solar, geothermal, and energy conservation; and
- To reduce research for energy-related pollutants which are also studied in the broader context of the Agency's research and regulatory programs.

### Rationale

This proposal is an integral component of the Administration's overall effort to maintain fiscal restraint on Federal programs.

Research that can reasonably be expected to be done by the private sector is proposed for reduction, as is further research on alternative energy sources which have demonstrated little adverse environmental impact. Reductions were also made where the prioritory energy research needs of the Agency could be met through Agency base programs.

### Key Facts About the Program

Research related to the most significant adverse environmental effects of energy development is funded, including synfuel and coal pollution control technologies for  $SO_x$  and  $NO_x$  emissions.

Funding levels for acid rain research and long-range air pollution transport are not reduced from the Carter FY 1982 request of over \$9.0M.

Research no longer performed by the Agency, but which will be performed by the private sector, includes work on oil shale waste stream characterization.

Low priority research on  $SO_X$  and  $NO_X$ , such as the environmental effects of those pollutants on crops, has been eliminated.

# Regulatory Program Reductions (Agencywide)

Agency: Environmental Protection Agency	Functional Code: 304			Budget Reform Criterion: 8		
Funding	(\$ in millions)					
<b>U</b>	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	1,243	1,276	1,320	1,355	1,390	1,421
Outlays	1,180	1,285	1,317	1,319	1,357	1,386
REESTIMATES & ADJUSTMENTS:						
Budget Authority			-44	78	-113	~144
Outlays			-19	-44	-80	-109
PROGRÁM CHANGES:						
Budget Authority	-21	-150	-150	-150	-150	-150
Outlays	-21	-90	-123	-140	-150	-150
REAGAN BUDGET:						
Budget Authority	1,222	1,126	1,126	1,127	1,127	1,127
Outlays	1,159	1,195	1,175	1,135	1,127	1,127

### Program Description

The Environmental Protection Agency is charged with administering programs for the regulation of air, water, drinking water, hazardous waste, pesticides, radiation, noise, and toxic substances. Included in these programs are research, enforcement and administrative activities that support the regulatory effort.

### **Proposed Change**

Reductions have been proposed in all Agency regulatory programs. Workyears have been cut by 686 in 1981 and 1,222 in 1982. Major changes include:

- The phase-out of the noise program;
- Cutbacks in energy research; and
- Reductions in management overhead.

Although resources to promulgate new regulations will be reduced, budget authority for enforcing existing regulations in 1982 will be increased over the 1981 level. Funding for State grants will also increase over 1981, rising by \$4 million to \$228 million in 1982.

### Rationale

These reductions have been proposed in order to reduce Federal overhead and personnel costs, as well as program waste and inefficiency. They will also eliminate resources for marginal regulatory activities which either unnecessarily impose costs on business or are better handled at the State or local level. EPA will focus its current and future regulatory efforts on only the most important regulations, those that protect the public from toxic pollutants and chemicals.

### Key Facts About the Program

The following table shows the 1982 Budget authority reductions in EPA's regulatory-related programs by medium:

W			(Dollars in Millions)	
MEDIA		CARTER BUDGET	REDUCTION	REAGAN BUDGET
Air		255	-16	239
Water		204	-21	183
Drinking Water		92	-4	88
Solid Waste		137	-17	120
Pesticides		72	-10	62
Radiation		17	-4	13
Noise		13	-11	2
Intermedia		16	-1	15
Toxics		107	<u>-</u> 9	98
Energy		97	-27	70
Regulatory Council		3	-3	0
Management		263 ·	-27	236
	TOTAL	1,276	<u>-27</u> -150	1,126

# Superfund

Agency: Environmental Protection Agency	Func Code	tional : 304			Budget Re Criterion:	
Funding			(\$ in n	nillions)		
• 0	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	117	250	374	428	358	0
Outlays	59	183	312	401	393	0
REESTIMATES & ADJUSTMENTS:						
Budget Authority	0	0	0	0	0	0
Outlays	-17	-50	-67	-58	-25	+ 297
PROGRÁM CHANGES:						
Budget Authority	-10	-50	-49	-28	+42	+ 277
Outlays	-5	-30	-50	-38	+7	+69
REAGAÑ BUDGET:						
Budget Authority	107	200	325	400	400	277
Outlays	37	103	195	305	375	366

### **Program Description**

Superfund, enacted in December 1980, is a new program that provides for comprehensive response to hazardous substance spills and uncontrolled hazardous waste sites. The program will be paid for out of a trust fund which will be financed primarily through industry taxes. Initial implementation will begin in 1981 and include emergency response and longer-term remedial construction work on several sites.

### Proposed Change

The Reagan Budget proposes minor reductions to the levels requested in the Carter Budget for this new program. The FY 1981 funding level is reduced by \$10 million and the FY 1982 funding level is reduced by \$50 million. The technical reestimate of outlays is because EPA now believes that the average time to clean up an abandoned site, and therefore the timing of expenditures, will be longer than previously estimated.

This Administration plans no interruption in the program and supports its implementation. The funding reductions are commensurate with shifts in program emphasis from those assumed in the January Budget. These shifts will result in a more cost-effective program and include:

- A full partnership with the States rather than a massive direct Federal program—using the States' existing capabilities wherever possible;
- A major effort to get responsible private parties to clean up their own sites, using the Fund only for sites where responsible parties cannot be found or refuse to take action; and,
- A major emphasis on recovering monies to the Fund so that more abandoned waste sites can be fixed in the long run.

#### Rationale

This action maintains the full ability to respond to environmental emergencies and to initiate clean-up activities. The effectiveness and integrity of the program is enhanced and is done so at lower costs. In the long run, more abandoned waste sites will receive clean-up and maximum cost-effectiveness will be ensured.

# Key Facts About the Program

The following chart compares key output estimates under the Carter and Reagan budgets. The Reagan output levels reflect the policy shifts discussed above:

	Carte	T	Reaga	ın
	1981 (\$117M)	1982 (\$250M)	1981 (\$107M)	1982 (\$200M)
Removal Response: Sites Spills	50 113	80 225	50 113	50 205
Remedial Response: Sites Only	5	8	5	8
Cost Recovery Cases as a Percentage of potential Workload: Sites Spills	31 36	80 41	36 27	88 15
Private Party Clean-up Actions:	42	57	68	71
State % of Total Response Workload	0	0	20	30

### **Wastewater Treatment Grants**

Agency: Environmental Protection Agency		ctional e: 304		Budget Reform Criterion: 5					
Funding		(\$ in millions)							
3	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:					<del>-</del>				
Budget Authority	3,305	3,700	4.000	4,400	4,700	5,000			
Outlays	4,200	4,230	4,400	4,425	4,350	4,375			
REESTIMATES & ADJUSTMENTS:	•	,	,	.,	.,	.,			
Budget Authority									
Outlays PROGRAM CHANGES:		-100		<del>-</del> -					
Budget Authority	-1,700 <sup>1</sup> /	-3,700	-1,600	-2.000	-2,300	-2.600			
Outlays	-1,700 -20	-3,700	-1.450	-2,000	-2,300 -2,270	-2,000 -2,275			
REAGAN BUDGET:	-20	-230	-1,430	-2,270	-2,270	-2,213			
Budget Authority	2.305	02/	2,400	2,400	2,400	2,400			
	-,	•	,	,					
Outlays	4,180	3,840	2,950	2,155	2,080	2,100			
1/ Includes \$700 million rescission of 1980 an	d prior vear app	opriations.							
		-							
2/ If reforms are enacted by Congress in time	, an appropriato:	ı of \$2.4 billio	n will be requ	iested.					

### **Program Description**

The Environmental Protection Agency spends about \$4 billion annually for the construction of municipal wastewater treatment plants.

With current project eligibilities and Federal cost share, the total estimated Federal cost has grown to \$90 billion. The \$90 billion in total Federal cost is in addition to the \$35 billion already appropriated. This is because under current law, projects that are designed to address problems of the future instead of correcting those of today and projects which have little or no impact on water quality are still eligible for Federal funding.

# Proposed Change

The proposed budget action would:

- Rescind the remaining unobligated balance of \$114 million appropriated under the Public Works Employment Appropriations Act of 1977,
- Rescind \$586 million in unobligated 1980 appropriations, carried forward into 1981,
- Rescind \$1 billion in unobligated 1981 appropriations, and
- Propose a zero appropriation in 1982, pending enactment of reforms that focus the Federal funding on clearing up the backlog of significant water quality problems and place clear limits on the magnitude and scope of the Federal program.

A request of \$2.4 billion would be initiated when reforms are enacted. In subsequent years, an annual level of \$2.4 billion is expected to be sufficient to meet the reformed program needs. The legislative reforms will eliminate from eligibility for Federal funding collection systems, and the portion of plant capacity designed for future population. In addition, those projects that do not significantly improve water quality will not be eligible for Federal funding.

#### Rationale

This proposal is an integral component of the Administration's overall effort to stretch out and retarget public sector capital investment programs.

The reforms proposed will lower the total Federal program cost from \$90 billion to about \$23 billion and would do so without adversely affecting the quality of our nation's waters. Federal funding must be refocused and targeted toward projects that serve existing populations and which directly improve water quality. Project elements serving future growth in community population or which do not improve the quality of receiving waters should be financed by State and local governments, if at all.

The near-term funding level must be reduced as part of the President's Economic Reform Program. No major impact on projects currently underway is envisioned from this reduction since \$14 billion in appropriated but unspent funds are still available to continue projects previously initiated.

# Key Facts About the Program

- Over 4,500 individual projects for the construction of municipal wastewater treatment plants will have work completed from prior year appropriations, even after proposed budget reductions take place.
- About 2,300 construction projects have already been completed. About half of all funds spent were on collection system or other pipe related projects. The other funds went to construction of treatment facilities.

# Funding History (\$ in Billions)

Total Funds Appropriated	34.9
Total Funds Proposed for Rescission	. 1.7
Total Funds Obligated	29.4
Total Unobligated Funds	3.8
Total Unexpended Funds	14.3

National Aeronautics and Space Administration

# **National Aeronautics and Space Administration**

Agency: National Aeronautics and Space Administration	Functional Code: 250			Budget Reform Criterion: 6		
Funding			(\$ in 1	millions)		
8	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	5,534	6,722	7,273	6,788	6,240	5,799
Outlays	5,283	6,360	6,961	6,814	6,364	6,000
REESTIMATES & ADJUSTMENTS:				•		
Budget Authority			-46	-120	-142	-200
Outlays			-46	-120	-142	-200
PROGRÁM CHANGES:						
Budget Authority	-15	-604	-739	-813	-523	-239
Outlays	-12	-469	-660	-695	-682	-482
REAGAN BUDGET:	•					
Budget Authority	5,519	6,118	6,488	5,855	5,575	5,360
Outlays	5,271	5,891	6,255	5,999	5,540	5,318

## Program Description

Programs of NASA consist primarily of R&D activities in the area of space transportation, space science, space and terrestrial applications, aeronautics R&D, and general agency-wide supporting activities.

- Space transportation programs provide for procurement and operation of a fleet of space shuttle orbiters and other space and ground hardware to meet the launch needs of civil, military, and foreign users.
- Space science programs investigate the Earth's space environment, the Sun, the planets and distant objects in the Universe primarily through the use of unmanned satellites supported by ground based research.
- Space and terrestrial applications activities support R&D to apply space technology to practical uses on Earth. Included are activities to improve understanding of Earth resources, climate, weather and pollution; to develop agricultural forecasting techniques based on satellite data; to extend the range of satellite communications; and to assess future prospects of materials processing in space.
- Aeronautics R&D supports fundamental research in the aeronautical disciplines (e.g., aerodynamics, propulsion) and selected component technology development and demonstration efforts.
- General agency-wide support activities include primarily satellite tracking and data acquisition support, personnel costs and administrative activities; maintenance and upgrade of the agency's physical plant, and R&D addressing fundamental space technology problems and opportunities common to a broad spectrum of space programs.

The following table summarizes the Reagan budget adjustment:

	(BUI	IONS OF DOLLARS)					
	Jan	uary			Amer	nded	
	Bu	dget	Change		Bud	Budget	
	1981	1982	1981	1982	1981	1982	
Space Transportation	2,627	3,273	+52	-168	2,679	3,105	
Space Science	562	727	-24	-173	538	584,	
Space and Terrestrial		-					
Applications	354	473	-22	-100	332	373	
Aeronautics	276	324	-4	-59	272	265	
Other	<u>1.715</u>	<u>1.895</u>	<u>-17</u>	-104	. <u>1.698</u>	1.791	
Total NASA	5,534	6,722	-15	-604	5,519	6,118	

### Proposed Change

The revised budget proposes to eliminate or defer all 1981 and 1982 new program initiatives in space transportation, space science, space and terrestrial applications and aeronautics R&D, and makes reductions to ongoing programs as follows:

- For space transportation, the revised budget: delays readiness of the spacelab to be carried as a shuttle payload; eliminates funding for the solar electric propulsion system for which no applications have been approved; makes adjustments in operating funds associated primarily with rescheduled shuttle flights for space science missions and other reductions in the early operational flight rate; and, defers relatively lower priority shuttle-related hardware procurements. In 1981, an additional \$52 million in budget authority is allocated to the shuttle program, within the total NASA appropriation. This increase will provide added schedule confidence in shuttle development, test and production activities.
- For space science, the revised budget: defers major efforts on several projects including the Venus Orbiting Imaging Radar, the Gamma Ray Observatory, and spacelab experiments; and reduces U.S. participation in the International Solar Polar Mission to be carried out cooperatively with the Europeans.
- For space and terrestrial applications, the revised budget: cancels several new projects including the NOAA/Defense/NASA demonstration of a National Oceanic Satellite System, a geological applications program related to mineral exploration, and the follow-on operational demonstration of a joint international search and rescue satellite mission; delays or reduces work on instruments for a future Upper Atmospheric Research Satellite, agricultural applications of remote sensing data, and materials processing in space experiments on the shuttle; terminates the separately identified program for remote sensing technology transfer activities and phases down the technology utilization program.
- For aeronautics R&D, the revised budget: eliminates funding in 1982 for a new numerical aerodynamic simulator and a program to develop new materials for use in primary aircraft structures; reduces generally ongoing aeronautics technology development and demonstration efforts.
- For general agency-wide activities, the revised budget proposes broad general reductions including such activities as facility improvements; specific funding for NASA energy technology work; the development of generic space technology, and reductions in administrative expenses.

### Rationale

- For space transportation, the revised budget maintains progress in the space shuttle program to achieve the operational readiness dates and capabilities needed for civil and critical national security missions starting in July 1983.
- For space science, deferral of some new and recently initiated flight projects and a restructuring or reduction of some ongoing programs are necessary because of increased costs for ongoing programs, the urgent need for fiscal restraint, and the high costs and technological risks inherent in large new projects. The new or recently initiated projects proposed for deferral have relatively small past investments, resulting in relatively small cost penalties for delays. The revised budget: maintains on schedule the two highest priority space science projects, the space telescope and the Galileo mission to Jupiter; maintains all other planned major projects on a deferred or reduced basis; and includes funds to utilize fully satellites launched in prior years.
- For space and terrestrial applications, the sharp rate of growth proposed for this program in the January 1982 Budget is inconsistent with the need for fiscal restraint. Several projects that are less urgent need to be reduced or cancelled. However, the revised budget would continue to maintain strong core programs in all major areas of activity, including research on space remote sensing techniques related to managing Earth resources; research related to understanding weather and climate; space communications R&D; and longer term research related to materials processing in space.
- For aeronautics R&D, the reductions are focused primarily on new projects having relatively small accumulated past investments and on ongoing technology development and demonstration activities which are more appropriately the responsibility of the private sector. The revised budget preserves the fundamental research activities having broad civil and military applicability.

  302

• For agency-wide supporting activities, cuts are focused on deferrable projects (e.g., facility construction and improvement) and activities not related to the primary mission of NASA (e.g., energy technology R&D). The revised budget preserves a strong institutional base capable of supporting the full range of future activities to maintain U.S. leadership in space and aeronautics.

- Although the proposed 1982 revised budget for NASA, \$6,118 million in budget authority, represents a *decrease* of \$604 million (or 9%) from the January budget, it provides an *increase* of \$584 million (or 11%) over the funding level already appropriated for NASA in 1981.
- The shuttle accounts for over 70% of the increase now proposed from 1981 to 1982. Funding for shuttle and related programs are proposed to increase 18% above the level appropriated in 1981.
- Funding for NASA programs other than shuttle will increase an average of about 4% in 1982 over the previously appropriated level. An increase of \$41 million in 1982 is proposed for the key nonshuttle programs of space science and space applications to permit the highest priority activities to continue as planned.

**Veterans Administration** 

# **Beneficiary Travel**

Agency: Veterans Administration				Budget Reform Criterion: 1			
Funding			(\$ in n	nillions)			
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET <sup>1/</sup> :							
Budget Authority	84	78	86	94	102	110	
Outlays	84	78	86	94	102	110	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	0	0	0	0	0	0	
Outlays	0	0	0	0	0	0	
PROGRAM CHANGES <sup>2/</sup> :							
Budget Authority	-8	-5	<b>-</b> 7	8	-10	-11	
Outlays	-8	-5	-7	8	-10	-11	
REAGAN BUDGET:							
Budget Authority	76	73	79	86	92	99	
Outlays	76	73	79	86	92	99	

<sup>1/</sup> Funding relates only to beneficiary travel resources and includes the Carter proposal to reduce resources by \$15 million in 1982-1986.

# Program Description

The VA currently provides reimbursement to veterans for actual or computed mileage costs of travel between the veteran's home and the VA medical facility. The purpose of the reimbursement is to ensure that eligible beneficiaries will be able to avail themselves of needed care.

# Proposed Change

The Administration proposes, effective July 1, 1981, to establish a \$5 deductible in travel reimbursment for non-service-disabled veterans receiving medical care at VA facilities. This is estimated to save \$20 million in 1982. (The 1982 Carter Budget proposed a \$15 million reduction in beneficiary travel, effective October 1, 1981.)

#### Rationale

With the well-recognized need to restrain Government spending, beneficiary travel reimbursements must be seen as a low priority in relation to the VA's health care mission. Additionally, while it is reasonable to defray the cost of travel for service-disabled veterans, it is unreasonable to assume that non-service-disabled veterans cannot pay part of their transportation to receive VA medical care. A deductible of \$5 should not pose an undue hardship on low-income veterans, or be a barrier to care.

- The Administrator was given the authority (P.L. 96–151) to establish standards to determine the validity of claimed inability to pay travel costs. However, the legislation had so many limitations that it has produced minimal savings and is now requiring the establishment of a deductible for non-service-disabled veterans.
- It is estimated that nearly 50 percent of travel reimbursements are for less than \$5.

<sup>2/ 1982-1986</sup> savings have been reestimated from the March Revisions.

# **Construction Projects**

gency: Veterans Functional Administration Code: 703			Budget Reform Criterion: 5			
Funding			(\$ in	millions)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	424	501	794	1,515	1,385	1,385
Outlays	277	443	498	635	1,190	1,190
REESTIMATES & ADJUSTMENTS:						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
PROGRÁM CHANGES:						
Budget Authority	-162	-71	52	11	0	0
Outlays	-28	-91	-74	55	-3	36
REAGAN BUDGET:						
Budget Authority	262	430	846	1,526	1,385	1,385
Outlays	249	352	424	580	1,187	1,226

# Program Description

This account funds construction projects, primarily for medical facilities, costing \$2 million or more.

### Proposed Change

The Camden, N.J. and Baltimore, Md. hospital projects are proposed for cancellation, with rescission of appropriated funds, and nine other projects are proposed for deferral: Denver, Colo. clinical addition, 1 year; New Orleans, La. clinical addition, 2 years; Chillicothe, Ohio phased replacement facility, 2 years; Washington, D.C. nursing home care addition and parking facility, 2 years; Long Beach, Cal. research and education addition, 2 years; Palo Alto, Cal. surgical addition, 2 years; East Orange, N.J. facility renovation, 2 years; St. Albans (Brooklyn), N.Y. laundry addition, 2 years; and Gainesville, Fla. clinical addition, 2 years.

### Rationale

The two hospital projects proposed for rescission are in overbedded areas. The other projects are deferred to stretch out Federal capital expenditures and allow the Administration an opportunity to review the distribution of VA medical facilities.

- Both rescinded hospitals have three other VA hospitals within 30 miles.
- The deferred projects can be delayed with little, if any, risk to patient and employee safety.

# **Outpatient Dental Treatment**

Agency: Veterans Administration	Functional Code: 703				Budget Reform Criterion: 1			
Funding			(\$ in m	illions)				
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	95	45	54	63	70	77		
Outlays	95	45	54	63	70	77		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	0	0	0	0	0	0		
Outlays	0	0	0	0	0	0		
PROGRÁM CHANGES:			• .	<b>.</b>				
Budget Authority	-8	$(-32)^{1/}$	$(-30)^{1/}$	$(-28)^{1/}$ $(-28)^{1/}$	$(-27)^{1/}$ $(-27)^{1/}$	$(-26)^{1/}$		
Outlays	-8	$(-32)^{1/}$	$(-30)^{1/}$	$(-28)^{1/}$	$(-27)^{1/}$	$(-26)^{1/}$ $(-26)^{1/}$		
REAGAN BUDGET:								
Budget Authority	87	45	54	63	70	77		
Outlays	87	45	54	63	70	77		

<sup>1/</sup> Legislative savings proposed in the Carter and Reagan budgets.

# Program Description

The VA medical program includes outpatient dental services and treatment for veterans under various types of eligibility. Veterans eligible for class II benefits receive dental services and treatment for conditions that existed during active duty if application is made within one year of discharge or release from military service. These are generally minor dental conditions which are not a result of service trauma or related to prisoner-of-war status and which should have been treated while in service.

# Proposed Change

The Administration proposes effective July 1, 1981, to eliminate class II dental benefits and require that DOD take the responsibility for treatment prior to discharge. (The 1982 Carter Budget proposed elimination of this benefit effective October 1, 1981.)

#### Rationale

Since active duty military personnel are entitled to complete medical and dental care, it should be the responsibility of the dental services of the Department of Defense to treat conditions that exist during service. Provision of these services affects VA's ability to channel scarce resources and attention on veterans with more serious dental conditions resulting from direct service trauma or prisoner-of-war status and on veterans who have 100 percent service-related disabilities.

- For 1982 an estimated 63,000 veterans will be affected at an average VA staff cost of \$450 and a fee basis cost of \$585.
- Those receiving such outpatient dental treatment are generally veterans whose dental conditions existed during or before their active military duty but who either did not seek or receive any treatment during service. These are generally minor dental conditions.
- Since the existing authority permits veterans to delay treatment for up to 12 months, unnecessary deterioration of an otherwise routine condition or development of new dental problems often results which add greatly to the cost of treatment.
- There are no controls in the case of veterans whose service was of relatively brief duration. A survey conducted by VA found that about 40 percent of all volunteers entering military service do not complete a tour of duty with about half of these leaving during the first six months. For the group with less than 6 months service, it is almost certain that cavities and periodontal disease noted at discharge preexisted military service.

### **GI Bill: No Extension**

Agency: Veterans Administration	Functional Code: 702			Budget Reform Criterion: 1		
Funding			(\$ in :	millions)		
•	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	•					
Budget Authority	2,040	1,689	1,359	1,051	851	668
Outlays	2,071	1,699	1,369	1,061	861	668
REESTIMATES & ADJUSTMENTS:						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
PROGRÁM CHANGES:						
Budget Authority	0	-63	-67	-16	-14	-13
Outlays	0	-63	-67	-16	-14	-13
REAGAN BUDGET:						
Budget Authority	2,040	1,626	1,292	1,035	837	655
Outlays	2,071	1,636	1,302	1,045	847	655

# Program Description

The GI bill provides up to four school years worth of benefits to veterans for education and training to aid the transition to civilian life. Veterans have ten years following discharge to use this entitlement.

## Proposed Change

Withdraw the Carter proposal to extend the eligibility period for two additional years for on-the-job and apprenticeship programs for certain disadvantaged veterans.

### Rationale

Despite H.R. 3272 and S.870, the 96th Congress introduced for the Carter Administration, Congress has not enacted this proposal. In this period of fiscal restraint, such a low-priority benefit increase is unnecessary.

- The only programs for which veterans are eligible are on-the-job training and high school or vocational technical programs.
- Carter budget projected use by 36,000 veterans in each of the first two years.
- Most of these veterans are now in their middle 30's.

# G.I. Bill: Flight and Correspondence Training

Agency: Veterans Administration					Budget Refe Criterion: 1		
Funding			(\$ in n	illions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	2,040	1,689	1,359	1,051	851	668	
Outlays	2,071	1,699	1,369	1,061	861	668	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	0	0	0	0	0	0	
Outlays	0	0	0	.0	0	0	
PROGRÁM CHANGES:		1.	1.	1 /	٠,		
Budget Authority	-14	$(-32)^{1/}$	$(-28)^{1/}$	$(-24)^{1/}$	$(-11)^{1/}$	$(-3)^{1/}$ $(-3)^{1/}$	
Outlays	-14	$(-32)^{1/}$	$(-28)^{1/}$	$(-24)^{1/}$	(-11) <sup>1</sup> /	$(-3)^{1/}$	
REAGAN BUDGET:			` ′	` ′	` ,	,	
Budget Authority	2,026	1,689	1,359	1,051	851	668	
Outlays	2,057	1,699	1,269	1,061	861	668	
1/ Legislative savings proposed in the Carter	and Reagan budg	gets.					

# Program Description

The GI bill provides benefits to eligible veterans for education and training to aid the transition to civilian life.

# Proposed Change

The Carter budget included a legislative proposal to terminate benefits to veterans for flight and correspondence training effective October 1, 1981. The March revisions would move the effective date to July 1, 1981.

### Rationale

This proposal terminates use of GI bill entitlements for activities which are primarily avocational in nature and which seldom contribute to the employability of the veteran graduate. Legislation passed in 1980 (P.L. 96–466), which requires that the veteran share the cost of instruction, appears to have had little effect on demand for use of the GI bill for this purpose. 1981 savings are assumed on the basis of this bill's inclusion in the reconciliation package.

### Key Facts About the Program

•	Rates of:	Flight	Correspondence
	Completion	52%	41%
	Related-field placement of completers	43%	less than 50%

• If these programs remain in law, it is estimated that 45,000 veterans would participate.

### **Insurance Loans**

				Budget Re Criterion:	
		(\$ in	millions)		
1981	1982	1983	1984	1985	1986
				-	
1,175	1,202	1,212	1,214	1,221	1,196
1,047	1,071	1,090	1,108	1,163	1,188
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
-91	-96	-65	-41	~13	0
1,175	1,202	1,212	1,214	1,221	1,196
956	975	1,025	1,067	1,150	1,888
	1981  1,175 1,047  0 0 -91 1,175	1,175 1,202 1,047 1,071 0 0 0 0 0 0 -91 -96 1,175 1,202	Code: 701  (\$ in : 1981 1982 1983  1,175 1,202 1,212 1,047 1,071 1,090  0 0 0 0 0 0 0 0 0 0 -91 -96 -65  1,175 1,202 1,212	Code: 701  (\$ in millions)  1981 1982 1983 1984  1,175 1,202 1,212 1,214 1,047 1,071 1,090 1,108  0 -91 -96 -65 -41  1,175 1,202 1,212 1,214	Code: 701       Criterion:         (\$ in millions)         1981       1982       1983       1984       1985         1,175       1,202       1,212       1,214       1,221       1,221       1,163         0       -91       -96       -65       -41       -13       1,175       1,202       1,212       1,214       1,221       1,221       1,214       1,221

### **Program Description**

The Veterans Administration provides approximately \$30 billion in insurance to over four million veterans. Veterans who make policy loans against those policies with cash surrender value, are currently being charged interest at the rate of 5 percent per annum. During periods of high interest rates, many veterans borrow against their insurance policies. This has had the effect of encouraging veterans to borrow, diminishing the future security of veterans' families in the event of the untimely death of the veteran since the value of the insurance policy is reduced.

### Proposed Change

The revised budget proposes to set policy loan interest rates at a level 2 percent below the market interest rate. This will reduce interest subsidies, discouraging veterans from unnecessary borrowing, while still allowing loans to veterans in need. This will produce major reductions in policy loans during this period of high interest rates, but will have a diminishing effect as interest rates abate.

### Rationale

The objective of this proposal is to revise entitlements to eliminate an unintended benefit to veterans. At the time that regulations were promulgated setting interest rates on policy loans at 5 percent, resulting interest rates have increased, no changes have been made in loan interest rates, resulting in an unintended benefit to veterans borrowing on their insurance policies. The proposed changes will restore policy loan subsidies to the levels that existed at the time the 5 percent rates were established.

# Key Facts About the Program

VA operates six insurance programs for veterans and administers one program for active-duty military personnel.

- 4.6 million veterans are insured for a total of \$31.2 billion.
- 3.0 million veterans holding permanent policies are eligible for policy loans. Over 80 percent (2.5 million) of these are in the National Service Life Insurance (NSLI) program for World War II veterans. NSLI policy holders average 58.3 years of age.
- In 1979, policy loans had a dollar value of \$172 million; in 1981, loans are estimated at \$301 million, a 75 percent increase.

- In 1979, repayments were 75 percent of loans made; in 1981, repayments are estimated to be 50 percent of loans made.
- In 1979, the 5 percent interest rate charged averaged approximately 4 percent below market rates (US Treasury Security Yields, Constant Maturities, 10 years); in 1981, the 5 percent interest rate will average 8 percent below market rates.
- In 1982, insurance loans will be reduced from \$298 million at 5 percent to \$202 million at the recommended 2 percent differential rate.

# Physicians' and Dentists' Bonuses

Agency: Veterans Administration	Functional Code: 703			Budget Reform Criterion: 8			
Funding			(\$ in n	nillions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	797	838	897	959	1,027	1,098	
Outlays	797	838	897	959	1,027	1,098	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	0	0	0	0	0	0	
Outlays	0	0	0	0	0	0	
PROGRÁM CHANGES:							
Budget Authority	-10	-40	-40	-40	-40	-40	
Outlays	-10	-40	-40	-40	-40	-40	
REAGAN BUDGET:							
Budget Authority	787	798	857	919	987	1,058	
Outlays	787	798	857	919	987	1,058	

### Program Description

VA's Department of Medicine and Surgery employs 12,920 physicians and dentists to provide medical and dental care to service-disabled and, on a space-available basis, to other veterans unable to defray the cost of medical care at non-VA medical facilities. The Carter budget for 1982 allows \$135 million for physicians' bonuses up to \$27,500 per annum over and above regular salaries (at the \$50,112.50 Federal ceiling for 85 percent of VA physicians).

### Proposed Change

The revised budget proposes to reduce total funds available for physicians' and dentists' bonuses in order to assure that these bonuses are provided only in cases and to the extent necessary to recruit and retain necessary skills. The reductions will be accomplished by restricting funds that may be paid in physicians' and dentists' bonuses to not more than 12 percent of the total amount provided in appropriations for physicians' and dentists' remuneration.

### Rationale

The objective of this proposal is to reduce unnecessary costs of personnel to the Federal Government. Prior to enactment of P.L. 96–330 in August 1980, VA physicians could receive annual bonuses of up to \$12,000 in addition to their regular salary. The proposed change will eliminate the payment of bonuses in excessive amounts to VA physicians, while giving the Administrator of VA authority to raise bonuses to \$27,500 per year in those instances in which this is found necessary to attract and retain individuals with scarce specialites or to attract physicians into difficult–to–recruit areas. For others, bonuses will be lower.

- In 1982, VA will employ 11,866 (FTE) physicians (just over half, full-time) and 1,054 dentists.
- P.L. 96-330 increased VA physicians' and dentists' bonuses from \$12,000 to a high of \$27,500 per annum. (Dentists' bonuses increased from \$6,750 to \$12,000.).
- Total 1982 costs of physicians' and dentists' bonuses are estimated to be \$135 million, \$40 million higher than estimates used in the Congress at the time of its passage.
- This bonus increase gives pay raises of 27 to 38 percent for VA physicians.
- It made VA physicians the highest paid Federal physicians. At mid-career:
  - VA physicians could earn 25 percent (\$77,600 vs. \$62,100) more than the maximum authorized annual salary of Armed Forces physicians.
  - VA physicians could earn 38 percent more (\$77,600 vs. \$56,400) than general schedule physicians.

- VA physicians' "base" salaries are significantly higher than those of military physicians.
  - Average VA base salary is \$48,700.
  - Average military base salary (includes military allowances) is \$29,200.
  - 85 percent of VA physicians are at mid-career or higher levels.
  - 58 percent of military physicians are at mid-career or higher levels.
- VA physician vacancies were low, ranging between 1.4 and 3.9 percent of their average of 10,700 authorized full-time and part-time positions during the year prior to enactment of P.L. 96-330.

### Medical Care: Miscellaneous Reductions

Agency: Veterans Administration		ctional e: 703			Budget Re Criterion:	
Funding			(\$ in 1	millions)		
o de la companya de	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	6,203	7,225	7,769	8,213	8,728	9,257
Outlays	6,152	7,203	7,748	8,208	8,705	9,233
REESTIMATES & ADJUSTMENTS:	•					•
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
PROGRÁM CHANGES:						
Budget Authority	11	194	412	675	934	1,182
Outlays	11	194	412	<del>6</del> 75	934	1.182
REAGAN BUDGET:						ĺ
Budget Authority	6.192	7.031	7.357	7,538	7.794	8.075
Outlays	6,141	7,009	7,336	7,533	7,794	8,051

### Program Description

The VA provides hospital and medical care to veterans in its nationwide medical system and in non-VA facilities on a reimbursement basis. This paper discusses miscellaneous reductions in the three major VA medical accounts.

# Proposed Change

Reductions associated directly and indirectly with medical staffing reductions and miscellaneous changes to the medical programs are proposed. Associated with staffing changes, are reductions in new initiatives, facility activations and increases for specialized medical programs. The miscellaneous changes reflect revised 1982 inflation allowances for non-personnel funds, no allowance for "increased usage" or for out-year inflation, Government-wide reductions in travel and consulting services, reduced increases for equipment and no increase in medical consulting and attending personnel rates.

### Rationale

The objective of this change is to impose fiscal restraint on the veterans medical care programs. This restraint has been imposed primarily through the reduction of overhead costs and restraining growth in the medical administration, research, and medical care programs.

### Key Facts About the Program

1982 medical care non-personnel reductions (\$194 million):

	Non-personnel reductions in new initiatives, facility activations and	
•	increases planned for specialized medical programs	\$54
•	Revised inflation allowances (9.8% to 9.1%)	44
•	No allowance for "increased usage"	51
•	Reduction in capital investment	31
•	Reduction in travel and consulting services	4
•	Elimination of planned rate increases for consulting and attending personnel	10

# Medical Staffing

Agency: Veterans Administration		etional e: 703			Budget Re Criterion:			
Funding	(\$ in millions)							
g	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	6,203	7,225	7,769	8,213	8,728	9,257		
Outlays	6,152	7,203	7,748	8,208	8,705	9,233		
REESTIMATES & ADJUSTMENTS:						·		
Budget Authority	0	0	0	0	0	0		
Outlays	0	0	0	0	0	0		
PROGRÁM CHANGES:								
Budget Authority	32	132	236	307	386	477		
Outlays	32	132	236	307	386	477		
REAGAN BUDGET:								
Budget Authority	6,171	7,093	7,533	7,906	8,342	8,780		
Outlays	6,120	7,071	7,512	7,901	8,319	8,756		

## Program Description

To provide hospital and medical care to veterans in its nationwide medical system, average employment for VA was estimated in the Carter 1982 Budget at 191,165 and 191,816 for FY 1981 and 1982, respectively. This staffing level would provide for the administration of the medical system (928 FTE); research into health problems (4,601 FTE), and the treatment of 1.4 million inpatients and 18.4 million outpatient visits (186,287 FTE).

### Proposed Change

Reduce the *non-direct care* employment of the three medical accounts (82,594 of 191,816 FTE) consistent with Government-wide employment reductions and eliminate 1983–1986 growth planned for facility activations and new initiatives. This change reduces VA medical employment by 1,368 FTE and 5,551 FTE in 1981 and 1982, respectively.

#### Rationale

In order to bring about the reduction in Federal employment that President Reagan has promised the American people, it will be necessary to make some reductions in the size of VA's medical care programs. (The Department of Medicine and Surgery (DM&S) employs over 90 percent of VA's total personnel.) The Administration proposes to return DM&S to approximately the staffing level that it had in 1979. If VA staffing reductions are made in areas which have the lowest impact on patient care, the cuts can be achieved with minimal impact on the medical treatment of veterans.

### Key Facts About the Program

• The following compares the average employment for the 3 medical accounts (Medical care, Medical and prosthetic research, and Medical administration and miscellaneous operating expenses (MAMOE).

	1980	198	31	19	82
	<u>Actual</u>	Carter	<u>Reagan</u>	Carter	Reagan
Medical Care Research	185,054 4,360	185,869 4,443	184,589 4,369	186,287 4,601	181,106 4,293
MAMOE Total	$\frac{831}{190,245}$	<u>853</u> 191,165	$\frac{839}{189,797}$	928 191,816	<u>866</u> 186,265

• 116,775 direct care positions (107,795 FTE) in the Medical care account were exempted from the Government-wide employment reduction. No exemptions were allowed in the research and MAMOE accounts.

• Impact on selected medical care workload indicators (VA facilities only):

	1980	1	1981	1	1982	
	<u>Actual</u>	<u>Carter</u>	Reagan	<u>Carter</u>	Reagan	
Inpat. treatment	1,275,446	1,265,950	1,265,950	1,267,054	1,267,007	
Daily census	83,936	81,042	81,042	80,418	80,387	
Outpat. visits	15,751,690	16,054,000	16,012,000	16,129,000	14,429,000	
Length of stay	22.6	22.4	22.4	22.2	22.2	
Staffing ratios	2.11	2.21	2.19	2.25	2.21	

- 1982 Medical and prosthetic research reductions (308 FTE) will be primarily achieved through reducing the increases for new initiatives (254 FTE, \$5.8 million).
- 1982 Medical administration and miscellaneous operating expenses (MAMOE) reductions (62 FTE) will be achieved through reductions in planned staff augmentation (34 FTE, \$1.7 million) and in Health Care Information System and other ADP support increases (28 FTE, \$1.8 million).
- Out-year effect on medical care employment. The Carter budget provided for substantial growth in medical care employment primarily for facility activations, which include replacement hospitals and additional nursing home beds (30% increase by 1986). The 1983–1986 revised level reflects the Government-wide employment reduction of non-direct care personnel and elimination of any increase in employment over 1982 level. Employment for facility activations will now come from within existing levels.

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Carter Budget	188,437	190,647	193,126	196,181
Facility activations	(2,818)	(5,264)	(7,376)	(10,600)
Reductions	<u>-8,880</u>	-11.861	- <u>15.111</u>	-18.937
Reagan level	179,557	178,786	178,015	177,244

• The following table identifies the average employment since 1973.

	AVERAGE EMPLOYMENT							
	<u>1973</u>	<u> 1975</u>	<u> 1977</u>	<u>1978</u>	<u> 1979</u>	<u>1980</u>		
Major Medical Programs:								
Medical care	152,267	163,813	176,142	184,258	181,088	185,054		
MAMOE	772	748	788	777	781	831		
Research	3,807	4,232	4,333	4,367	4,416	4,360		
Total Medical programs	156,846	168,793	181,263	189,402	186,285	190,245		

# **Veterans Readjustment Counseling Centers**

Agency: Veterans Administration	Functional Code: 703				Budget Reform Criterion: 8		
Funding	(\$ in millions)						
9	1981	1982	1983	1984	1985	1986	
CARTER BUDGET <sup>1/</sup> :							
Budget Authority	30	31	(33)	(35)	(37)	(38)	
Outlays	30	31	(33)	(35)	(37)	(38)	
REESTIMATES & ADJUSTMENTS:			` ,	` ,	` '	,	
Budget Authority	0	0	0	0	0	0	
Outlays	0	0	0	0	0	0	
PROGRÁM CHANGES:							
Budget Authority	-4	-31	(-33)	(-35)	(-37)	(-38)	
Outlays	-4	- 31	(-33)	(-35)	( <del>-</del> 37)	( <del>-</del> 38)	
REAGAN BUDGET:			` ,	` ,	` ,	<b>、</b> · ,	
Budget Authority	26	0	0	0	0	0	
Outlays	26	0	0	0	0	0	
1/							

The Carter budget proposed a one-year extension of the program.

### **Program Description**

P.L. 96–22 authorized the Administrator, within the limits of VA facilities, to furnish counseling to Vietnam veterans to assist them in readjusting to civilian life. Eligibility for counseling was terminated at two years after discharge from service or two years after the effective date of the legislation (10/79).

In 1979, Administrator Cleland made a programmatic decision to use this authority to seek out Vietnam veterans who refused to seek assistance from traditional VA sources. To do this he established 91 "storefront" outreach centers, mostly in inner city areas. These operations were very loosely managed (from VA Central Office), and typically consisted of a team leader, about half of the time a social worker or psychologist, two staff members (Vietnam veterans who have been given short training courses in counseling), and a secretary.

The principal objective of this operation was to seek out disaffected Vietnam veterans, counsel them on veterans' benefits and services, and, where appropriate, persuade them to seek professional counseling from psychologists and psychiatrists at neighboring VA hospitals. The program was instituted on a temporary (2 year) basis because it was believed that the major part of the target population would have been contacted by the end of that time.

# Proposed Change

The Reagan budget revisions propose not to seek extension of the authority for readjustment counseling centers beyond its expiration date of September 30, 1981. The Carter budget had proposed a one-year extension of the program.

#### Rationale

The "storefront" centers have contacted the majority of veterans who might be helped by this approach. A nationwide system of outreach centers is not a cost-effective way of reaching the remaining veterans in need of help.

- The initial congressional authorization provided for a two-year period of entitlement. Since most of the veterans affected have been out of service since the early 1970's, their 2-year entitlement expires by the end of FY 1981.
- The outreach centers duplicate services offered in VA medical centers and Regional Offices.
   Most of the services provided by the centers have been and should continue to be provided by traditional VA facilities and veterans' organizations.

- The outreach centers are not prepared to provide professional counseling services, and must rely on supporting VA hospitals to provide this care. Although VA hospitals are directed to give priority care to cases referred from outreach centers, neither outreach centers nor hospitals have maintained records on referred veterans and officials contacted believe it to be low.
- VA facilities have made a concerted effort in recent years to be aware of the needs and problems of Vietnam veterans. Although service organizations have been described as being more oriented for World War II and Korean veterans, they provide valuable functions which should be used for Vietnam veterans.
  - Distribution of information and guidance on veteran entitlements is provided by all veterans' organizations through highly knowledgeable personnel at locations in almost every city.
  - Social contact, giving veterans an opportunity to discuss their war experiences, is a major function of all veterans' organizations.
- Efforts to collect firm data on the productivity of these centers have been minimally successful, with some centers refusing and others providing highly questionable data.
  - Over the first year and a half of this program, available data show that 47,000 veterans have received services from outreach centers. Data show that these 47,000 veterans generated 128,000 patient visits, and 24,000 family visits. That averages slightly more than 500 cases and 1,670 visits a year per center or about 6 visits a day for the 4 employees at each center, a very low level of activity. About 60 percent of those provided services actually served in Vietnam.
  - No data are available on the disposition of these cases, i.e., whether referred to hospitals or local benefits offices.

Foreign Assistance

321

# Foreign Development Assistance

Agency: Foreign Assistance (individual agencies programs follows)	Functional Code: 151,153 and 154			Budget Reform Criterion: 6			
Funding	(\$ in millions)						
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	5,449	7,277	6,601	7,717	8,228	8,688	
Outlays	4,951	5,212	5,700	6,394	6,947	7,470	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	-7	-15	-15	-15	-15	-15	
Outlays	-120	-93	5	16	-6	-12	
PROGRAM CHANGES:							
Budget Authority	-624	-1.852	-203	-2,512	-2,977	-3,187	
Outlays	-92	-425	-612	-1,161	-1,489	-1,940	
REAGAÑ BUDGET:							
Budget Authority	4,818	5,410	6,383	5,190	5,236	5,486	
Outlays	4,739	4,694	5,093	5,249	5,452	5,518	

## Program Description

Reductions in foreign development assistance affect six major programs.

- Contributions to support development lending by Multilateral Development Banks.
- Assessed contributions to a range of U.N. and other *international organizations*, as well as voluntary contributions to U.N. and other international development programs.
- The development loan and grant activities of 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.*
- U.S. support for the *Common Fund*, which will facilitate financing for international commodity agreements.

In addition, reductions have been taken in the funds of the Inter-American Foundation, which makes grants to indigenous private Latin American groups, and no funds have been provided for the African Development Foundation, which was intended to play a similar role in Africa.

### Proposed Change

The 1982 Reagan budget would reduce these programs by \$1,867 million including reestimates, a 26 percent cutback. By 1986 the reduction from the Carter budget would be \$3.2 billion in budget authority, or 37 percent. Outlay reductions will be somewhat less, particularly in the near-term, because budget authority for these programs spends out slowly and because some of the 1982 reductions involve the deferral of spending to 1983 and beyond. The specific reductions and the reasons for them are presented in the papers that follow.

### Rationale

The Carter budget proposed large increases in nearly all of the major development aid programs. This was not only to finance past commitments made to multilateral institutions but to finance anticipated future commitments in this area and to expand bilateral programs rapidly as well. The Reagan budget assumes that development aid activities must achieve U.S. foreign policy objectives in a manner consistent with the expenditure constraints of the President's economic recovery program. Future development aid spending levels must also reflect the Administration's foreign policy priorities, which give preference to security assistance programs to counter Soviet adventurism and to bilateral programs which can reach intended beneficiaries more directly than multilateral programs. As a result, in connection with the proposed reductions from the Carter budget the Administration will:

- Undertake a major reassessment of the importance of the multilateral development banks to the United States and the effectiveness and benefits of future contributions to these organizations.
- Undertake a similar study of contributions to international organizations.
- Define new approaches to bilateral development aid, particularly placing greater reliance on private sector participation, which will enable the Agency for International Development to achieve its objectives at lower costs.
- Reexamine food aid credit sales as foreign assistance rather than as a surplus disposal device to determine whether continued large funding is necessary.

The Reagan budget assures that all past international commitments will be met, although payments will be stretched out consistent with international agreements. Major humanitarian programs for refugees, victims of disasters and the malnurished are to be continued close to the levels of recent years.

# Multilateral Development Banks

Agency: Department of the Treasury International Development Cooperation Agency					Budget Re Criterion:		
Funding			<b>(\$</b> in :	millions)			
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	1,584	2,499	1,600	2,142	2,142	2,141	
Outlays	1,013	1.259	1,374	1,485	1,528	1,628	
REESTIMATES & ADJUSTMENTS:						-	
Budget Authority							
Outlays	-82	-55					
PROGRAM CHANGES:							
Budget Authority	-540	-976	858	-868	-883	-882	
Outlays	-9	-69	-95	-106	-156	-305	
REAGAN BUDGET:							
Budget Authority	1,044	1,523	2,458	1,274	1,259	1,259	
Outlays	923	1,135	1,279	1,379	1,372	1,323	

## Program Description

The multilateral development banks provide investment capital and technical assistance to developing nations. They have become the major source of development lending to the Third World. Periodically, their resources must be replenished, because repayments on previous loans are insufficient to meet the demand for new lending. The total amount of the replenishments and industrialized donor country shares are determined in international negotiations. Donor contributions are paid in installments over periods of several years. With one exception, the amounts proposed in the Carter budget for these institutions have been previously and formally agreed to by the United States in these negotiations. The Carter budget also contained funds to make up "arrearages" to the banks caused by past congressional failure to appropriate funds covering the full amount pledged to the institutions by the United States.

Each major institution has both concessional and non-concessional programs as follows:

onal Development on (IDA—a component ) orld Bank)
d for Special as
velopment Fund
evelopment Fund
onal Fund for ural Development hich makes loans for aid small farmers)

Non-concessional lending is financed only fractionally by funds paid into the institutions. This lending comes mainly from the banks' borrowings on world capital markets backed by donor-government guarantees of repayment to the banks' bondholders.

## **Proposed Changes**

The Reagan budget proposals would:

- Reduce the planned contribution to the 1982–84 replenishment of IFAD funds (not previously agreed to) from \$255 million to \$180 million.
- Reduce the U.S. contribution in the first two years of the 1981-1983 IDA Sixth Replenishment, cutting the Carter budget request in half in 1981 and by one-fifth in 1982, while increasing the 1983 contribution to offset the earlier cuts thereby maintaining the current \$3.24 billion U.S. commitment for the three year period.
- Stretch out payments to other multilateral development banks.
  - Most significantly, by providing the previously pledged \$658 million U.S. paid-in subscription to the World Bank's general capital increase over six years, 1982–1987, rather than all in 1982 as proposed by the Carter budget.
  - Stretching out the payment of arrearages to the regional development banks over periods of several years.

The table on the following page shows the proposed arrangement for stretching out payments.

#### Rationale

The lending levels of these institutions have grown much more rapidly than bilateral U.S. assistance in the recent past. Their programs should be reassessed by the United States to determine whether large scale future spending by them is consistent with the effective achievement of U.S. foreign policy objectives. This assessment must take into account the very tight future budget constraints and the direct role bilateral programs can play in achieving goals abroad. While ideally this reassessment should affect U.S. contributions starting now, the United States cannot revoke previous agreements to provide funds without seriously undermining a system of international rules for cooperation from which it benefits overall. The stretch-outs and deferred payments proposed are fully consistent with internationally negotiated agreements.

- Lending by the World Bank and International Development Association rose from \$2.3 billion in 1970 to \$11.5 billion in 1980, a five-fold increase.
- There has been concern that the banks cannot handle the increasing volume of their lending programs effectively. In the Asian and Inter-American Banks' non-concessional funds, the pipeline of undisbursed loan funds has risen from \$950 million to \$3.7 billion between 1971 and 1979.
- The World Bank and the regional banks, by the terms of their charters, have made loans in recent years to Vietnam, Ethiopia and Afghanistan, countries hostile to the United States.
- The Administration will study the costs and benefits of U.S. participation in the banks prior to entering into new commitments.

# Proposed Changes in 1981–1982 MDB Funding Requests (BA in \$ millions)

Institution	<del> </del>	1981	1982	1983	1984	1985	1986
IFAD	Carter Reagan		85 45	85 60	85 75		
IDA (VI)	Carter Reagan	1,080 540	1,080 850	1,080 1,850			
IBRD (GCI)	Carter Reagan	<del></del> 	658 110	 110	 110	 110	 110
IDB (Arrearages) Capital	Carter (Sched) (Arrear) Reagan (Sched) (Arrear)	52 (52) () 52 (52) ()	59 (52) (7) 53 (52) (2)	52 (52) () 57 (52) ( 5)	() () () ()	 () () () ()	() () () ()
FSO	Carter (Sched) (Arrear) Reagan (Sched) (Arrear)	200 (175) ( 25) 200 (175) ( 25)	300 (175) (125) 191 (175) (16)	175 (175) () 206 (175) ( 31)	 () () 39 () (39)	() () 39 () (39)	() () ()
ADB (Arrearage Fund	Carter (Sched) (Arrear) Reagan (Sched) (Arrear)	115 (111) ( 4) 115 (111) ( 4)	168 (111) ( 56) 125 (111) ( 14)	111 (111) () 125 (111) (14)	 () () 14 () (14)	 () () 14 () (4)	 () () ()

# **International Organizations**

(assessed and voluntary)

Agency: Department of State	Functional Code: 151, 153			Budget Reform Criterion: 6					
Funding	(\$ in millions)								
	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Budget Authority	722	902	886	957	1,027	1,099			
Outlays	745	853	871	936	1,005	1,076			
REESTIMATES & ADJUSTMENTS:									
Budget Authority		193	-179	-237	-254	-58			
Outlays		-180	-174	-228	-85	-54			
REAGAN BUDGET:									
Budget Authority	722	709	707	720	774	1,040			
Outlays	745	673	697	708	920	1,021			

## **Program Description**

Assessed international organization contributions represent U.S. obligations under treaties to provide a fixed share of the expenses of the United Nations and other multilateral bodies. Voluntary contributions are primarily to UN development programs and special multilateral funds.

## **Proposed Changes**

- Reductions in budget requests for assessed contributions for 1982–1986 will be accomplished by slipping the quarterly payments schedule to 15 major organizations progressively later so that by 1985 all the funds will be sought one fiscal year after the Carter Budget proposed them. This will save \$160 million in 1982 budget authority.
- Voluntary contributions will be cut back each year from planned levels. The 1982 saving will be \$33 million in budget authority.

#### Rationale

As with the multilateral development banks, the United States must reassess the effectiveness of these international organizations, as compared with bilateral programs, in meeting U.S. foreign policy objectives and their efficiency as aid-giving institutions. The deferral of assessed payments provides time for a thorough review of the costs and benefits of U.S. membership in these organizations while temporarily reducing the impact of these contributions on the U.S. budget. Reductions in voluntary contributions reflect concerns that the organizations' programming criteria may not target funds on the most promising activities to promote development in ways that maximize private sector participation.

- Development aid in some U.N. programs is made available to every Third World country with the recipient governments frequently determining how the funds will be spent.
- In the recent past the regular assessed budgets of several U.N. organizations have increased substantially.
- By the terms of their charters these organizations must provide grant assistance to all eligible member countries, including Cuba and Vietnam.
- The State Department will be reviewing contributions to international organizations to determine how efficiently the institutions operate and how well they serve the interests of developing nations, the United States and other major donors.

# Agency for International Development

Agency: International Development Cooperation Agency		ctional e: 151		form 6		
Funding			(\$ in	millions)		
S .	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	1,711	2,386	2,679	3,010	3,342	3,702
Outlays	1,610	1.674	2,026	2,371	2,703	3,027
REESTIMATES & ADJUSTMENTS:						
Budget Authority	<b>-</b> 7	-15	-15	-15	-15	-15
Outlays	-38	-33	+5	+1	6	-12
PROGRAM CHANGES:						
Budget Authority	-3	-471	-764	-1,095	-1,427	-1,787
Outlays	-3	-38	-205	-504	-819	-1,126
REAGAN BUDGET:						
Budget Authority	1,701	1,900	1,900	1,900	1,900	1,900
Outlays	1,569	1,603	1,826	1,868	1,878	1,889

## Program Description

AID provides bilateral assistance through grants and concessional loans to more than 60 countries in Africa, Asia and Latin America. AID also finances development research programs implemented by U.S. universities and other institutions.

#### Proposed Changes

The 1982 Reagan proposal would reduce the 1982 program by \$486 million from the Carter budget to a level of \$1.9 billion.

#### Rationale

The Carter proposal included a "Leadership Package" to encourage other donors to increase their aid programs. It would have provided mostly resource transfers which are one-time consumption subsidies rather than additions to investment. Such a large bilateral aid increase would be unacceptable to the public and the Congress, and would probably not have had the desired catalytic effect even if approved.

- The Reagan proposal would permit an increase of \$200 million more than the 1981 level, indicating the importance of bilateral aid as a development and foreign policy tool.
- AID programs will be reoriented to encourage U.S. and LDC private sector participation in the development process. This will concentrate more assistance on countries whose market orientation gives promise of economic growth and will, over time, reduce the burden on donor governments which provide official development assistance.

#### P.L. 480—Food Aid

Agency: Department of Agriculture	Functional Code: 151				Budget Reform Criterion: 6		
Funding			(\$ in 1	millions)			
<b>o</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	1,305	1,263	1,273	1,429	1,521	1,532	
Outlays	1,471	1,263	1,273	1,429	1,521	1,532	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority	-76	-100	-110	-266	-358	-369	
Outlays	-76	-100	-110	-266	-358	-369	
REAGAN BUDGET:							
Budget Authority	1,229	1,163	1,163	1,163	1,163	1,163	
Outlays	1,395	1,163	1,163	1,163	1,163	1,163	

## Program Description

The Public Law 480 food aid program provides low interest loans to foreign governments for food imports, mainly wheat, under Title I and provides for direct food donations to needy people under Title II through such organizations as CARE and Catholic Relief Service.

#### **Proposed Changes**

- Eliminate the pending \$76 million 1981 supplemental request for Title I.
- Reduce 1982 budget authority by \$100 million; \$78.2 from Title I and \$21.8 million from Title II.

#### Rationale

• The P.L. 480 program is no longer needed as a surplus disposal mechanism and therefore must be justified as a foreign aid instrument. Unless it is used carefully, food aid through concessional sales may only serve to subsidize consumption in developing countries with little prospect that the need for food imports on soft credit terms will ever diminish. The Reagan Budget proposal would constrain the program by reducing funds available for unspecified purposes, while its operations are reviewed.

- Because P.L. 480 Title I is also financed by repayments of earlier loans, the budget authority figures understate the size of the total program. In 1982 under the Reagan budget proposal, Title I financing will be \$877 million, and Title II food aid will be \$764 million.
- Total tonnage for the program will decline by only about 10 percent from 1980 actual levels, from 5.9 to 5.4 million metric tons.
- The Title I reductions will eliminate unprogrammed funds for emergencies. Now that 1981 is half over, these funds appear not to be needed this year. The 1982 Title I reduction will still leave \$116 million above planned country programs to meet emergencies.
- The proposed changes will not significantly affect U.S. farm income or prices. The average \$200 million a year outlay reduction during 1981-86 can easily be absorbed by average rates of growth in export demand.
- The 1982 Title II program will be 1.7 million tons, the same amount proposed in the Carter budget. A \$22 million reduction in the program merely reflects the elimination of some high cost foods without reducing tonnage. The Administration is committed to support this humanitarian program.

# **Peace Corps**

Agency: ACTION	Functional Code: 151			Budget Reform Criterion: 6				
Funding	(\$ in millions)							
ŭ	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	109	122	130	142	155	170		
Outlays	107	121	127	139	152	167		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays				÷ -				
PROGRAM CHANGES:								
Budget Authority	-3	-27	-35	-47	-60	-75		
Outlays	-2	-24	-32	-44	-57	- 72		
REAGAN BUDGET:								
Budget Authority	106	95	95	95	95	95		
Outlays	104	97	95	95	95	95		

## Program Description

The Peace Corps recruits, trains, and maintains U.S. volunteers overseas to fill the trained manpower needs of developing nations and to promote mutual understanding. In 1980, the volunteers provided 5,097 workyears of service in energy, health, education, agriculture, and a range of other fields at the community level in 61 developing countries.

#### Proposed Change

The 1981 and 1982 reductions in the Peace Corps budget will be accomplished by concentrating the program in fewer countries and fewer program areas (e.g., forestry, energy) and by eliminating activities not directly related to the agency's mission of sending volunteers abroad.

#### Rationale

- Reducing the level of effort overseas will have little measurable impact on host country development.
- Programs will be continued in most countries where volunteers currently serve, so that there will be minimal negative political impact.
- Despite the cutbacks, more than 2,450 trainees will be accepted into the program in 1982, and volunteers will provide more than 4,500 workyears of service. By 1983, the volunteer program will stabilize at a level roughly 20% below the Carter 1982 level.

# **Common Fund for Commodities**

Agency: Department of the Treasury	Functional Code: 155				Budget Reform Criterion: 6		
Funding			(\$ in n	nillions)			
•	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:	•						
Budget Authority		74					
Outlays		15			<u></u>		
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays				15			
PROGRAM CHANGES:							
Budget Authority		-74	39	15	20		
Outlays		-15	15				
REAGAN BUDGET:							
Budget Authority			39	15	20		
Outlays			15	15			

## **Program Description**

Currently being negotiated under UN auspices, the Common Fund will pool the resources of participating international commodity agreements to finance buffer stocks which will buy and sell the commodities on world markets to preclude large random price fluctuations. This stabilization policy should benefit both producers and consumers. Backed by pooled funds and by direct contributions of governments, the Common Fund will be able to borrow on more favorable terms than could any single buffer stock.

## **Proposed Changes**

The U.S. contribution, \$73.85 million, would be postponed from 1982 to 1983–1985. This will avoid seeking funds before they are needed. The deferral of funding is not expected to affect the Common Fund's program or the U.S. participation in it.

**Other Agencies** 

# **ACTION (Domestic Programs)**

Agency: ACTION	Functional Code: 506			Budget Reform Criterion: 6			
Funding			(\$ in	millions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	165.0	185.5	190.7	195.7	200.4	204.7	
Outlays	155.7	182.8	186.9	191.8	196.4	200.7	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-5.2	-10.2	-14.9	-19.2	
Outlays	0.3	9.3	-5.1	-6.3	-10.9	-15.2	
PROGRAM CHANGES:							
Budget Authority	-9.3	-40.2	-51.3	-63.0	64.9	-67.4	
Outlays	-3.3	-45.2	-50.3	-63.0	-64.9	-67.4	
REAGAN BUDGET:							
Budget Authority	155.8	145.3	134.2	122.5	120.6	118.2	
Outlays	152.7	147.0	131.5	122.5	120.6	118.2	

## Program Description

ACTION domestic programs promote volunteering, seek to demonstrate effects of volunteering, and recruit and support volunteers to help local organizations work on problems of poverty. Volunteers receive differing degrees of ACTION support and have differing time commitments. The Volunteers in Service to America (VISTA) program has full-time volunteers whose living expenses are borne by ACTION. The part-time volunteers in the programs for older people (Foster Grandparents, Senior Companions, and Retired Senior Volunteer Program) may be substantially supported or they may work in programs for which ACTION bears only administrative costs. Promotional and demonstration programs are operated directly or supported through grants.

VISTA volunteers work on a variety of community projects. Foster Grandparents work with children who have special needs. Senior Companion volunteers help other older people maintain independent living arrangements. Retired Senior (RSVP) volunteers work on community projects or help individuals.

### Proposed Change

- Reduce the average number of VISTA volunteers in 1982 from 5,000 in the Carter budget to 2,550, reducing the budget authority proposed in January from \$42.8 million to \$20.7 million.
- Reduce promotional programs from \$14.9 million to \$5 million. This will cut out expansions of demonstrations of volunteer activities proposed in the Carter budget and reduce Federal funding for youth volunteers in school \$1 million below current services.
- Keep all three ACTION programs for Older Americans at the current level, eliminating the Carter proposed 1982 expansion of the Senior Companions program that would have provided for 20 more grants to support 1,040 new Senior Companions volunteers.
- Rescind excess 1981 budget authority to forestall 1981 expansions of VISTA and Senior Companions toward 1982 levels that were planned in the Carter budget.

#### Rationale

These reductions are part of fiscal restraint proposals. The necessity of reducing Government spending requires placing a greater reliance on the normal voluntary activity in the private sector. The major program that is reduced – VISTA – costs the Government the most per volunteer. Supporting each VISTA volunteer costs the Government about \$10,000 a year. Comparable amounts for the other programs are about \$3,600 for Senior Companions, \$3,300 for Foster Grandparents, and \$126 for RSVP.

The Reagan Budget amounts will let ACTION preserve current levels in the three programs for older people and maintain its commitment to help older Americans help themselves.

# **Appalachian Regional Commission**

Agency: Appalachian Regional Commission		ctional e: 452			Budget Re Criterion:			
Funding	(\$ in millions)							
8	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	343	344	373	400	430	460		
Outlays	330	325	360	390	420	449		
REESTIMATES & ADJUSTMENTS:1/								
Budget Authority		-215	-234	-250	-270	-289		
Outlays		-11	-76	-163	-224	-246		
PROGRAM CHANGES:								
Budget Authority	-110	-129	-139	-150	-160	-171		
Outlays	-6	-60	-77	-101	-105	-167		
REAGAN BUDGET:								
Budget Authority	233							
Outlays	324	254	207	126	91	36		
1/ Beginning in 1982 the Appalachian Highwa	y Program is tra	nsferred to th	e Federal Hig	hway Admini	stration			

### Program Description

The Appalachian Regional Commission provides grants to the thirteen Appalachian States for economic and community development and for improving highway access to Appalachia.

- The area (economic) development programs provide funding directly to the States, or through other Federal agencies, for community infrastructure, housing, economic development and job creation, resource development, and planning projects.
- The Appalachia highway program provides for construction of the Appalachian Development Highway System and for access roads to places of potential economic development.

The Carter budget proposed holding both the area development and highway programs basically at the 1981 funding levels in 1982.

## Proposed Change

Federal funding for the non-highway programs of the Appalachian Regional Commission will be terminated immediately, saving \$110M in 1981.

The Appalachian highway program will be transferred to the Federal Highway Development Administration and funded out of the Highway Trust Fund beginning in 1982. Only the Appalachian Development Highway System will be funded in the future. Like the economic development activities, the access roads programs will be terminated.

#### Rationale

This is part of the Administration's overall effort to apply sound criteria to economic subsidy programs.

In the more than fifteen year history of the Appalachian program a number of positive changes have taken place (i.e., population in-migration, improved per capita income, education, and health, and reduced poverty-level population). While some problems may still exist, the Region must proceed on its own and use the capabilities developed at the State and local level to address these problems.

Future improvements in economic and social well-being in Appalachia will be stimulated through general improvements in the economic condition of the nation as a whole, including Appalachia.

The Administration's program of general tax, fiscal and regulatory reductions will support growth in the Appalachian region, thus providing the means to address specific problems or needs in Appalachia without the necessity of a direct Federal program. In 1980, the thirteen Appalachian States obligated about \$128M in non-highway ARC funds. The Administration's program will generate tax savings (i.e., personal tax reductions) of \$4.9 billion, in 1981 growing to \$42 billion in 1984 for these same thirteen States.

### Key Facts About the Program

Changes that have taken place in Appalachia since establishment of the ARC are as follows:

- Population. From 1970 to 1980, the Appalachian region grew an average of about 100,000 a year from in-migration.
- Jobs. Between 1965 and 1978, the Region added about 1.8 million jobs.
- Unemployment. Appalachia's official unemployment rate has been reduced to a level more nearly approximating that of the nation. Unemployment in the early 1960's was nearly double that of the nation.
- Per capita income. Between 1965 and 1978, Appalachian total personal income per capita climbed from 78% to 84% of the national average.
- Poverty. The poverty population has decreased from 31% in 1960 to about 14% in 1976.
- Education. The adult population completing high school has risen from about 33% to in 1960 to about 53% by 1976.

## Architectural Transportation Barriers Compliance Board (ATBCB)

Agency: ATBCB	Functional Code: 751			Budget Reform Criterion: 8			
Funding	(\$ in millions)						
<b>o</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:	•					,	
Budget Authority	2.4	2	3	3	3	3	
Outlays	2.1	2	2	3	3	3	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-0.1	-0.2	-0.3	-0.4	
Outlays			-0.1	0.2	-0.2	-0.3	
PROGRAM CHANGES							
Budget Authority		2	2.9	2.8	2.7	2.6	
Outlays		2	1.9	2.8	2.8	2.7	
REAGAN BUDGET:							
Budget Authority	2.4						
Outlays	2.1						

#### Program Description

The Architectural and Transportation Barriers Compliance Board was established by the Rehabilitation Act of 1973 to ensure compliance with the Architectural Barriers Act of 1968. The Act requires that buildings and facilities which are constructed, altered, or leased by the Federal Government be accessible by handicapped persons. The Act also requires that four agencies (DOD, HUD, GSA, and the Postal Service) establish standards to ensure accessibility. ATBCB annually processes about 150 complaints from the public; about 99 percent are resolved without litigation or further enforcement action.

### Proposed Change

Termination of ATBCB by requesting no funding for 1982.

#### Rationale

ATBCB provides an unnecessary regulatory layer within the Executive Branch. Failure to fund ATBCB should not result in any deterioration in the progress being made to improve accesibility by the handicapped to federally owned and leased buildings. ATBCB activities can be subsumed by activities of other agencies as authorized by the Architectural Barriers Act of 1968 and Section 504 of the Rehabilitation Act of 1973. Accessibility complaints can be made directly to responsible agencies for resolution.

At present, all Federal agencies have either promulgated final 504 regulations or have been instructed by OMB to finalize their regulations and submit them to the Justice Department for review and approval.

These regulations have in the past been uncoordinated by the agencies promulgating them, which led to the establishment of inconsistent standards and ineffective enforcement. Executive Order 12250 delegates authority to the Attorney General for coordinating enforcement of Section 504 of the Rehabilitation Act, as well as the enforcement of laws prohibiting other forms of discrimination in programs receiving Federal financial assistance. This new coordination authority will enable the agencies with Section 504 responsibilities to enforce their own laws more effectively. The Justice Department's staff resources in this area include 41 positions for coordinating agency activities. The Department can also draw upon the agencies' staffs for assistance.

The efforts the ATBCB to ensure compliance with the Architectural Barriers Act of 1968 have led to much bickering and bad feeling among the Federal agencies involved. The ATBCB efforts may even have been counterproductive because each agency is reluctant to make changes for the handicapped because of the fear that the ATBCB may further tighten compliance standards. Coordination among the four standard-setting agencies by a coordinating committee will speed up the issuance of standards by each agency. It will therefore also speed up compliance with the Barriers Act. The General Services Administration, upon termination of ATBCB, will coordinate Federal activities required by the Architectural Barriers Act.

#### Key Facts About the Program

- ATBCB is composed of eleven general public members (nine of whom are handicapped) and eleven Federal members.
- On January 16, 1981, ATBCB promulgated regulations establishing minimum guidelines and requirements for standards pursuant to the Architectural Barriers Act and took the unusual step of making them effective immediately. The Administration believes these regulations have cost implications that were inadequately assessed in the rule-making process.
  - For example, the Committee of Independent Telephone Manufacturer has filed a petition with ATBCB to revise its minimum standards requiring that telephones be located no more than 48 inches from the ground and telephone booths be 48 inches wide to accommodate side access from a wheelchair. The petition cites research that fewer than one percent of persons in wheelchairs (1/100 of 1 percent of the total population) would benefit from the 48 inch height. The petition estimates the cost of this guideline on telephone enclosure manufacturers would be about \$10 million for redesign. In addition, these manufacturers have about \$15 million worth of enclosures in inventory with a 54 inch height which would be unusable.
- Another example of ATBCB policies and regulations is ATBCB litigation against the Department of Transportation (DOT) and the City of Chicago, currently under consideration by an administrative law judge. Chicago is renovating its "State Street Mall" initially estimated to cost about \$19 million. The renovation project will provide eight escalators leading to an underground mezzanine.

The ATBCB litigation would require the installation of eight elevators (450 ft. apart) at an additional cost of about \$20-28 million. While both DOT and Chicago would agree to install one elevator, ATBCB is insistent thal *all* entrances must be fully accessible. The ATBCB actions intrude on DOT attempts to administer its Section 504 regulations.

## **CAB Subsidy Elimination**

Agency: Civil Aeronautics Board		Functional Code: 402				form 4		
Funding	(\$ in millions)							
9	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	144	144	143	138	123	97		
Outlays	148	144	143	139	124	99		
REESTIMATES & ADJUSTMENT:								
Budget Authority				`				
Outlays								
PROGRAM CHANGES:								
Budget Authority		-56	64	-54	-34	-2 -2		
Outlays		-51	-64	-54	-34	-2		
REAGAN BUDGET:					•			
Budget Authority	144	88	79	84	89	95		
Outlays	148	93	79	85	90	97		
				•				

## Program Description

The 406 airline subsidy program, administered by the Civil Aeronautics Board (CAB), was created in 1983 in order to develop the air transportation industry in the United States, and to improve mail service. Subsidized service is scattered all over rural parts of the country.

In 1978 an additional airline subsidy program (419) was created to ensure essential levels of service to all local communities that would lose airline service as a result of deregulation.

#### **Proposed Changes**

The 406 program will be eliminated. All communities currently receiving 406 service will either receive service from unsubsidized airlines or will be eligible for subsidy under the 419 "essential air service" program.

#### Rationale

- Since creation of the 406 program the airline industry has matured. It is now financially sound. This eliminates the need for the program, which has cost the government \$380 million in the past 5 years.
- There are airlines now receiving government subsidy for service to communities where nonsubsidized airlines are willing and able to provide service.
- The 419 subsidy program to local communities ensures that service is provided to every community that would lose service as a result of eliminating the 406 program.
- Fuel will be conserved as commuter planes replace jets in communities where demand is low.
- The existing law provides for gradual phase-out of the 406 program. In 1986 it is to disappear totally. This has already caused affected airlines and communities to prepare alternatives to 406 service.

- 406 subsidizes 12 airlines: Republic, Frontier, Republic West (formerly Hughes Air West), Piedmont, Ozark, Cochise, Air Midwest, Sky West, Air New England, Alaska, Kodiak-Western, and Wien.
- Republic and Frontier are currently receiving the highest 406 subsidies. Republic is eligible for \$34 million in 1981, Frontier \$23 million. Frontier has already written to the President pledging support for the Administration's position.

- The Civil Aeronautics Board's experience with the 419 program indicates that 35 percent of the communities currently receiving 406 subsidized service in the "lower 48" will immediately be served by unsubsidized airlines if 406 is terminated. Unsubsidized airlines will be willing to replace 406 carriers because these communities have high demand for airline service (over 100 enplanements per day).
- The Board's experience also indicates that within eighteen months more than 60 percent of the communities now receiving 406 subsidy will receive unsubsidized airline service. These communities are eligible for over \$64 million in 1981 under the 406 program.
- 419 service is a more cost effective program than 406 because it funds a fixed amount of service provided by appropriately sized aircraft. Under the 406 program, on the other hand, the Board has no control over the equipment choice or schedules of subsidized airlines. This has resulted in the Board's subsidizing excessive use of large equipment and more frequent service than can be profitably sustained.
- No community in Alaska will lose service because of terminating the 406 program. The cost of the 419 program in Alaska will be less than the cost of the 406 program because there are so many unsubsidized carriers already competing with subsidized carriers in that State. Unsubsidized carriers will be able to replace 406 carriers in about 75 percent of the currently subsidized points.

# **Community Services Programs**

Agency: Community Services Administration (CSA)	Functional Code: 506				Budget Reform Criterion: 7			
Funding			(\$ in t	nillions)				
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	536	542	542	542	542	542		
Outlays	584	544	542	542	542	542		
PROGRAM CHANGES:								
Budget Authority		-542	-542	-542	-542	-542		
Outlays		-297	-542	-542	-542	-542		
REAGAN BUDGET:								
Budget Authority	536							
Outlays	584	247						

#### Program Description

The Community Services program finances three main activities: (1) community action agencies (over 900) which administer programs for low-income people at the local level, (2) community economic development which promotes local development through 32 community-based organizations, (3) miscellaneous, narrow categorical activities. e.g., for migrant workers, services for low-income elderly persons. These programs as a cluster help low-income people at the local level identify their needs, mobilize resources, administer local programs, and coordinate service delivery for the low-income population.

#### Proposed Changes

Authority to carry out activities of the kind financed by the community services program would be available under the proposed social services block grant, with the exception of community economic development which would be covered under the community development support assistance authority administered by HUD. Since CSA would not continue as a separate agency after 1981, a loan fund and a revolving fund which it administers would be transferred to agencies operating similar programs.

Decisions regarding the availability of funds for services similar to those provided by CSA will be made at State and local levels.

#### Rationale

As part of the effort to return decisionmaking authority to the State and local levels, to eliminate overlap and duplication, to promote coherence in Federal program delivery, and to reduce waste and inefficiences in program management, the authority to undertake activities financed by the community services program will be consolidated into social services block grants.

These changes are expected to enable States to plan and coordinate their own programs according to their own priorities, and with greater flexibility. Administrative costs are expected to decrease and the array of rules and regulations accompanying categorical programs would be eliminated.

- CSA makes about 1600 grants to community action agencies (CAA's) for local initiative activities.
- GAO issued reports criticizing CSA's audit operations: "Grant auditing, or a maze of inconsistancy, gaps and duplication" (June 15, 1979). "Quality testing of audits of grantee records; improvements needed" (July 19, 1979).
- CSA weak financial controls make it vulnerable to fraud and abuse, according to a GAO report. (FGMSD-80-73)

## **Consumer Product Safety Commission**

Agency: Consumer Product Safety Commission	Functional Code: 554				Budget Reform Criterion: 6		
Funding			<b>(\$</b> in n	nillions)			
o o	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	44	45	45	45	45	45	
Outlays	44	47	45	45	45	45	
REESTIMATES & ADJUSTMENT:							
Budget Authority							
Outlays							
PROGRAM CHANGES:							
Budget Authority	-2	-12	-12	-12	-12	-12	
Outlays	-2	-12	-12	-12	-12	-12	
REAGAN BUDGET:							
Budget Authority	42	33	33	33	33	33	
Outlays	42	35	33	33	33	33	

#### Program Description

CPSC identifies unreasonable hazards associated with consumer products and seeks to control them through education of consumers, obtaining voluntary changes in production by manufacturers or, when necessary, promulgation and enforcement of rules regulating or banning hazardous products.

#### Proposed Changes

Budget authority and outlays are proposed to be decreased by \$2 million in 1981 and \$12 million in 1982 through selected reductions in field activities, modifying the hospital-based acute injury surveillance systems, limiting expansion in chronic chemical hazard regulation, restricting compliance and enforcement activities, and increasing efficiency of organization.

#### Rationale

By cutting back lower-priority activities, this proposal would impose needed fiscal restraint, without jeopardizing the agency's statutory mission. CPSC's success in recent years in controlling the most important acute hazards has lessened the need for expensive surveillance activities. Success in achieving voluntary industry compliance and improved cooperation with State and local consumer protection agencies means enforcement activities can be limited. Unanswered questions about the human health impact of chronic chemical exposure indicate a need for more research, not more regulation, in this area.

- Increased funding will be provided for the HHS National Toxicology Program.
- Interagency regulatory coordination for toxic chemicals is provided by the Interagency Regulatory Liaison Group.

# Corporation for Public Broadcasting

Agency: CPB	Func Code	tional : 503			Budget Reform Criterion: 6		
Funding			(\$ in n	nillions)			
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	162	172	172	183	198	210	
Outlays	162	172	172	183	198	210	
REESTIMATES & ADJUSTMENTS:							
Budget Authority				-11	-26	-38	
Outlays				-11	-26	-38	
PROGRAM CHANGES:							
Budget Authority		-43	-52	-62	-72	-72	
Outlays		-43	-52	-62	-72	-72	
REAGAN BUDGET:							
Budget Authority	162	129	120	110	100	100	
Outlays	162	129	120	110	100	100	

## Program Description

CPB is the primary vehicle for providing Federal financial assistance to the 217 radio and 170 television stations that currently compose the non-commercial broadcasting system.

### Proposed Change

The Administration has proposed a 25 percent reduction in 1982 funds for the Corporation for Public Broadcasting. Additional reductions are proposed for 1983 and 1984. Total reductions will produce savings of \$301 million between 1982 and 1986. The reductions will be primarily directed at CPB's administrative costs and national program production, while CPB support for local stations will be maintained at as high a level as possible.

#### Rationale

This reduction is part of the President's Economic Recovery Plan. Noncommercial stations should determine the need for and type of programs they require and be allowed greater discretion to finance their own productions.

The contribution of public broadcasting to society is debatable, but one fact is clear: the prime beneficiaries of a public broadcasting station are its listeners and viewers. Any benefit which non-listeners and non-viewers receive from the Corporation for Public Broadcasting (CPB) is purely conjectural and more than likely nonexistent. Thus, there is no overriding national justification for the funding of CPB.

Moreover, the audience of CPB-supported stations tend to be wealthier and more educated than the general populace; they certainly possess the personal resources to support such stations and they should do so, if they want ot enjoy the benefits of public broadcasting. Taxpayers as a whole should not be compelled to suybsidize entertainment for a select few.

Fears that the proposed reduction in CPB would cripple public broadcasting are highly exaggerated. The proposed reduction would still leave most of the program in place. Public broadcasting is well enough established that its appeals for donations and support should be taken seriously. If they are not — if the viewing and listening public is not sufficiently interested in public broadcasting's future to provide adequate financial support — then there is even less reason why those who choose not or can not listen to such stations should be forced to pay taxes to support them.

## Key Facts About the Program

During the period between FY 1973 and FY 1979 Federal support essentially leveled off. However, during the same period support from subscribers, business and industry showed significant increases (e.g., in 1973 private support supplied \$55 million of the total financing; in 1979 it supplied almost \$164 million).

Recent breakthroughs in new technologies have offered an incredible array of equipment designed to reach new markets. The advance of cable T.V., as well as the combined mass-effect of the marketing of video taperecorders and tapes, laser-discs and satellite earth stations, will significantly impact the variety and availability of quality programming to the public.

## Wage and Price Standards Program

Agency: Council on Wage and Price Stability	Functional Code: 802				Budget Reform Criterion: 6		
Funding			(\$ in r	nillions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	9.4	2.9					
Outlays	9.4	4.4	3.1	3.2			
REESTIMATES & ADJUSTMENTS:							
Budget Authority				`			
Outlays							
PROGRÁM CHANGES:							
Budget Authority	-4.1	-2.9			~ ~		
Outlays	-5.2	-4.4	-3.1	-3.2			
REAGAN BUDGET:					•		
Budget Authority	5.3						
Outlays	4.2						

## Program Description

In 1978, President Carter issued Exectuive Order 12092, directing CWPS to expand its monitoring efforts and to begin a program of voluntary pay and price standards, and directing the Office of Federal Procurement Policy to issue regulations denying Federal contracts to violators of the standards. Business and labor viewed the guidelines as burdensome, biased, and ineffective. There was widespread dissatisfaction with the pay and price restraints.

The CWPS staff grew from 42 in 1974 to 238 in 1979.

#### Proposed Change

President Reagan signed Executive Order 12288, which terminated the voluntary wage and price standards program initiated under President Carter. The Administration has proposed rescission of unnecessary funds in 1981. Extension of the current authorization for the agency which expires on September 30, 1981, will not be sought.

#### Rationale

The Administration has ended the wage and price standards program because of the voluminous reporting burden that was imposed on businesses under this program, and because these standards proved to be totally ineffective in halting the rising rate of inflation.

- While CWPS was in existence, inflation reached its highest level of the past ten years. The program was literally ineffective.
- The confidential business data submitted to CWPS will be destroyed.

# District of Columbia Borrowing from the U.S. Treasury

Agency: District of Columbia		ctional e: 852			Budget Reform Criterion: 5		
Funding			<b>(\$</b> in	millions)			
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	465.0	580.6	580.0	503.7	466.3	476.4	
Outlays	467.7	606.5	585.5	503.7	466.3	476.4	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	-60.0						
Outlays	-60.0						
PROGRAM CHANGES:							
Budget Authority		-38.6	-83.9	÷13.6	+71.3	+85.4	
Outlays		-74.5	-99.4	-141.4	-83.7	-69.6	
REAGAN BUDGET:							
Budget Authority	405.0	542.0	496.1	517.3	537.6	561.8	
Outlays	407.7	532.0	486.1	362.3	382.6	406.8	

## Program Description

#### Loans to the District of Columbia

The District of Columbia has exclusively financed 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, 1980, totalled \$1.4 billion. Because of congressional concern about the District's financial position, the Congress has authorized the City to continue borrowing from the Treasury for capital projects until it can enter the bond market.

## Proposed Change

The Administration proposes to cap the capital improvement borrowing at \$155 million in budget authority and to phaseout the District borrowings from the Treasury by 1984. This action would reduce the 1982 outlays by \$74.5 million.

#### Rationale

This action is part of the Administration's effort to stretch out and retarget public sector capital improvement programs. The District should not substantially increase its long-term capital borrowing at the same time it is trying to enter the bond market to finance its deficit. It is anticipated that the District of Columbia Government will enter the municipal bond market, and thus, will have no further need to borrow from the U.S. Treasury after 1983. The Administration's proposed termination by 1984 of the District's borrowing from the U.S. Treasury for capital projects is consistent with the theme of Section 461 of the Home Rule Charter—which was to facilitate District access to the private capital market.

- It is more costly for the District to borrow from the U.S. Treasury than if the City sold bonds to finance capital expenditures in the commercial bond market. If the City were in the private bond market, it would save the District millions of dollars each year.
- The District should make every effort to slow the growth in its long-term debt while it is trying to acquire an acceptable bond rating to enter the bond market. The Carter budget proposed to increase borrowing for new capital investments substantially from the 1980 and 1981 levels of \$104 million and \$131 million to \$194 million in 1982. Actual draw down of these loans was expected to more than double during this period.
- On behalf of the District, Congressman Fauntroy has recently introduced legislation that would permit the City to enter the commercial bond market.

## **Executive Office of the President Resources**

Agency: Executive Office of the President	Func Code	tional : 806			Budget Re Criterion:	
Funding	(\$ in millions)					
J	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	•					
Budget Authority	110	111	111	122	117	121
Outlays	108	111	112	115	115	118
REESTIMATES & ADJUSTMENTS:						
Budget Authority				-8 `		
Outlays						
PROGRÁM CHANGES						
Budget Authority	-6	6	-5	-8	-11	-13
Outlays	-7	-7	<del>-</del> 7	-9	-9	-12
REAGAN BUDGET:						
Budget Authority	104	105	106	106	107	107
Outlays	101	104	105	106	106	107

#### **Program Description**

The Executive Office of the President provides funds for the maintenance of the White House and the Vice President's residence, and for staff support to the President on a wide range of topics, including budgetary matters, the environment, science and technology, and national security.

#### Proposed Change

The Administration plans to reduce the number of full-time permanent positions in the Executive Office by over 12% in 1981 and proposes to maintain this reduced level through 1982. This reduction comes primarily from three areas.

- The voluntary wage and price standards program initiated by President Carter will be terminated.
- Activities of the Council on Environmental Quality will be limited to only those statutorily mandated.
- Science and technology staffing will be substantially reduced.

#### Rationale

This proposal is an integral component of the Administration's efforts to reduce Federal overhead and personnel costs.

The termination of the wage and price standards program will help to fulfill the President's pledge to remove the unnecessary burden of Federal reporting requirements from the public.

The Administration believes strongly that the Executive Office must lead the fight against increased government spending. A 12% reduction in full-time permanent positions substantially exceeds the general government-wide targets imposed by OMB.

# **Export-Import Bank**

Agency: Export-Import Bank		ctional e: 155			Budget Reform Criterion: 4		
Funding			(\$ in	millions)			
· ·	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	7,021	4,594	4,648	5,315	6,027	6,704	
Outlays	2,350	2,657	2,702	2,366	2,639	3,029	
REESTIMATES & ADJUSTMENTS:	·			-	,	ŕ	
Budget Authority	-106	-49	-158	-284	-395	-506	
Outlays	81	-363	-406	-32	-198	-281	
PROGRAM CHANGE:							
Budget Authority	-748	-571	-891	-1,266	-1.690	-2,117	
Outlays	70	-236	-523	-782	-1,026	-1,248	
REAGAN BUDGET:							
Budget Authority	6,167	3,974	3,599	3,766	3,942	4,081	
Outlays	2,361	2,058	1,773	1,552	1,359	1,500	

## **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 to purchasers of U.S. exports,
- discounting (refinancing) of medium-term commercial bank credits,
- guarantees of privately originated loans, and
- loan insurance against defaults by foreign purchasers.

The size of the Bank's annual program is established by limitations in appropriations acts on direct loan obligations and on commitments to guarantee loans. The difference between the Carter and Reagan budget proposals for new authorizations are shown in the table below.

## **Proposed Changes**

The Administration proposes to:

- reduce new direct and discount loan authorizations by \$752 million in 1981 to \$5,148 million and by \$600 million in 1982 to \$4,400 million.
- reduce loan guarantee authorizations by \$1.0 billion in 1981 to \$7,559 million and by \$1.2 billion in 1982 to \$8,220 million.

# Limitations on New Authorizations (\$ in millions)

Authorization Levels	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Direct loan limitation	5,900	5,000	5,500	6,050	6,650	7,300
Direct loans	5,500	5,000	5,500	6,050	6,650	7,300
Discount loans	400					
Loan guarantee limitation	8,560	9,420	10,360	11,400	12,540	13,800
PROGRAM CHANGE:						·
Direct loan limitation	-752	-600	-810	-1,090	-1,440	-1.850
Direct loans	-752	-1.000	-1.210	-1,490	-1.840	-2.250
Discount loans		400	400	400	400	400
Loan guarantee limitation	-1,001	-1,200	-1,540	-2.040	-2,660	-3.430
REAGAN BUDGET:		ŕ	-	-	•	
Direct loan limitation	<i>5,148</i>	4,400	4.690	4.960	5.210	5,450
Direct loans	4,748	4.000	4,290	4,560	4.810	5,050
Discount loans	400	400	400	400	400	400
Loan guarantee limitation	7,559	8,220	8,820	9,360	9,880	10,370

#### Rationale

President Reagan proposes to reduce or eliminate federal subsidies to business. He believes that American business should be required to compete in the market, unfettered by unnecessary government restrictions but unaided by special government privileges. In particular, he thinks it unfair that taxpayers should be forced to share the interest costs of private, profit—making — and often larger — corporations engaged in export enterprise.

The policy of using the Export-Import Bank as a vehicle for meeting foreign export subsidy programs has not been justified by documented offsetting gains in economic efficiency. The Export-Import Bank has grown so rapidly in the past few years, and its lending policies have become so generalized, that the Bank's credit facilities have become widely regarded as virtual entitlement programs. That private businesses should be "entitled" to special taxpayer subsidies is a concept firmly rejected by this administration.

The need for restraint is obvious. In particular:

- Between 1977 and 1981, the Carter Administration planned to increase direct lending activity by 600%, and to nearly double loan guarantees for the Export-Import Bank.
- During 1980, the Bank's average interest rate for direct loans, 8.5%, was only about two-thirds of the rate that U.S. corporations paid for comparable borrowing in the private sector.
- The Bank's lending rates have even fallen below its cost of borrowing at relatively low U.S. Government borrowing rates which is projected to cause the government to lose \$100 million on the Export-Import Bank's operations in 1982.

Cutting back on this program will not have a significant adverse impact on our trade posture:

- The Bank's subsidy to foreign borrowers (estimated by the Congressional Budget Office to be between \$200 million and \$1 billion in 1980 alone) results in a low rate of return to our economy and drains away badly needed capital that results in reducing or eliminating our benefits from trade.
- The United States international accounts are now strong, particularly with respect to the other major industrial nations. The U.S. current account balance has improved by \$15 billion since 1978, while those of Germany and Japan have declined by \$25 billion. In addition, the U.S. share of world trade stabilized during the 1970's and has increased in recent years. Fluctuations in U.S. export performance are a result primarily of cyclical changes in the U.S. and foreign economies, and not of growth in the Bank's direct lending. In fact, the direct loan program finances only 2–3 percent of U.S. exports.

A far better way to promote U.S. exports is to make the American economy more productive and to reduce domestic inflation. Inefficient, market-distorting programs such as the Eximbank make such overall economic improvements more difficult, and thus, in a larger perspective, can hamper our trade posture. Placing appropriate restraints on this and similar business programs is an productivity and to fight inflation

# Flood Program

Agency: Federal Emergency Management Agency	Functional Code: 453				Budget Reform Criterion: 3			
Funding			<b>(\$</b> in 1	nillions)				
· ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	561	214	210	214	236	257		
Outlays	230	214	230	252	270	283		
REESTIMATES & ADJUSTMENTS:								
Budget Authority	-448		26	43	38	30		
Outlays				<del>-</del> , -				
PROGRAM CHANGES:								
Budget Authority		-99	-111	-121	-129	-135		
Outlays		-97	-115	-125	-132	-137		
REAGAN BUDGET:								
Budget Authority	113	115	124	136	145	151		
Outlays	230	117	115	127	138	146		

### **Program Description**

This program provides nation-wide flood insurance to businesses and individuals. It has evolved into a subsidized insurance program that cost the Federal Government over \$380 million in 1980. Rates in subsidized portions of the program have not been increased since 1972, when they were actually lowered from previous rates.

#### Proposed Change

The Administration proposes to raise the rates in the program back to their pre-1972 levels. Residential rates will increase from \$.25 to \$.40 per \$100 of coverage. This — together with several minor adjustments — will reduce outlays by 45% in 1982, and will result in total savings of over \$600 million from 1982-1986. It will substantially reduce the Federal subsidy to those insured under this program.

#### Rationale

This change supports the Administration's policy of recovering clearly allocable costs from users. Currently, the taxpayers have been paying out almost three dollars in losses per each dollar received in premium income. People who receive the benefits of flood insurance should pay its costs. This change will eliminate a substantial portion of the subsidy that the taxpayer now provides and further discourage uneconomic development in flood prone areas.

#### Key Facts About the Program

The following table displays the current and proposed rate structures per \$100 of coverage:

Old Rates	Structure	Contents
resident	.25	.35
non-resident (business, etc.)	.40	.75
New Rates		
resident	.40	.50
non-resident	.50	1.00

The program resulted in outlays of \$382 million in 1980 and \$239 million in 1979. Average claim size, number of persons covered, and number of claims—not to mention general inflation levels—have all increased over the past few years while uneconomic rates have not changed.

The following table shows average premium per subsidized policy of \$30,473:

	1981	1982	1983	1984	1985	1986
Current	\$ 91	110	110	110	110	110
Proposed	91	159	159	159	159	159

# General Staff Reduction, FTC

Agency: Federal Trade Commission	Func Code	tional : 376			Budget Reform Criterion: 6		
Funding			(\$ in	millions)			
3	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:	-						
Budget Authority	74.3	77.9	80.0	81.7	83.4	85.2	
Outlays	73.3	76.5	79.2	80.1	81.8	83.3	
REESTIMATES & ADJUSTMENTS:							
Budget Authority							
Outlays					- <del>-</del>		
PROGRAM CHANGES:							
Budget Authority	-3.5	-8.5	-15.4	-20.3	-22.5	-24.8	
Outlays	-4.3	-8.4	-15.9	-19.9	-22.1	-24.1	
REAGAN BUDGET:							
Budget Authority	70.8	69.4	64.6	61.4	60.9	60.4	
Outlays	69.0	68.1	63.3	60.2	59.7	59.2	

## Program Description

The Federal Trade Commission is an independent regulatory agency with three primary missions: competition, consumer protection, and economic analysis and reporting. The Bureau of Competition shares responsibility with the Justice Department's Antitrust Division in the enforcement of antitrust statutes. Forty-five percent (800) of the FTC staff work on antitrust enforcement, 46% (823) engage in consumer protection activities, and 97% (161) prepare economic reports and analysis. About 20% of FTC staff are employed in ten regional offices.

#### Proposed Change

This proposal would reduce FTC's 1981 budget by 4.7% and the 1982 budget by 10.9%. The change in funding would result in a general across-the-agency staff reduction and the phasing out of the regional offices.

#### Rationale

By imposing fiscal restraints and reduced staffing levels, the reductions described are an integral component of President Reagan's comprehensive economic plan for spending reductions, tax reductions, and actions to remove unnecessary regulatory burdens.

The proposed reductions will permit the FTC to refocus, retarget, and pursue the true objectives set forth in antitrust statutes. The appropriate focus for FTC's antitrust efforts is on major cases that affect the national economy, price fixing, and other horizontal merger activities that could clearly lead to a lessening of competition and undermine competitive markets and consumers' welfare.

In the consumer protection area, the Commission has introduced regulations on business that have failed to demonstrate a positive benefit/cost ratio and have thus passed costs on to consumers. The FTC has imposed regulations without a clear concept of what harms the consumer, and in many cases these regulations are impeding the efficient workings of the marketplace.

In recent years, there has been considerable activity at the State, local, and private level to resolve many of the same problems the FTC attempts to address. Consumers have been able to seek redress through a variety of formal and informal mechanisms without resorting to Federal administrative law procedures or to the civil and criminal justice process.

It is possible to reduce resources in the FTC prudently without adversely harming the consumer or small business. By reducing regulatory and reporting burdens on private business, and eliminating restrictions on commerce, business will pass savings on to consumers.

## Key Facts About the Program

In 1970, Federal antitrust enforcement spending was \$17 million with 1,200 full-time employees. Today that number has jumped to \$71.5 million with 1,686 full-time employees, an increase of over 400% in spending. The proposed reductions before Congress would, by 1986, bring spending in the Federal antitrust area back to the 1980 level. The reductions will produce an overall agency dollar savings of 30%.

The proposed reductions would encourage the FTC to concentrate on antitrust practices that create diseconomies to consumers, rather than pursue cases based on the rationale that "bigness equates to anti-competitive behavior," especially in vertical mergers.

State Attorneys General have expanded activity in the antitrust area, another reason for eliminating the need for the FTC at the local or State level. Court cases, also, have demonstrated the power of private antitrust actions.

## **Building Construction**

					Budget Reform Criterion: 5		
(\$ in millions)							
1981	1982	1983	1984	1985	1986		
•							
	121						
74	87	72	88	148	66		
			`				
					- <del>-</del>		
	-121						
	-12	-7	-27	-79	-26		
				•			
74	75	65	61	69	40		
	74   	121 74 87  121 12	1981 1982 1983 121 74 87 72	1981 1982 1983 1984 121 74 87 72 88	1981     1982     1983     1984     1985        121          74     87     72     88     148                             -121       -7        -12     -7     -27     -79		

## Program Description

Construction of new Federal buildings is funded through a self-financed, revolving fund in the General Services Administration (GSA). The Fund is financed from rental receipts that are paid by each Federal agency for the office space and services that are provided to them by GSA.

The Carter budget proposed a sizeable increase in new construction of Federal buildings. New obligational authority (not shown in the table above) for construction would increase from \$16 million in 1981 to \$196 million in 1982. The largest project is the new headquarters building for the Nuclear Regulatory Commission in Silver Spring, Maryland. Other projects include a courthouse in Birmingham, Alabama and border stations in California, Arizona, and Maine.

The Carter budget also proposed \$121 million in borrowing authority from the Treasury to fund construction in excess of that possible with funds from rental receipts. This borrowing authority was specifically tied to the construction of the building for the Nuclear Regulatory Commission.

#### Proposed Change

- Defer all new construction projects for Federal buildings except for two essential border stations (Otay Mesa, California and Houlton, Maine).
- Retain funding for cost increases and other adjustments to existing projects that have already received some appropriations.
- Retain funding for acquisitions of existing postal service buildings that have Federal tenants and are being excessed by the U.S. Postal Service.

#### Rationale

This stretch out and retargeting of public sector capital improvement projects would allow a reassessment of new construction needs in light of the sharply reduced levels of Federal personnel. In addition to these reductions in Federal construction, the amount of leased space will also be reduced.

## Key Facts About the Program

The two essential border stations, which are funded, are necessary to fulfill our international commitments. The Otay Mesa station is a new border crossing point in California and the Houlton, Maine station must be opened when Interstate I-95 is completed.

Total construction outlays in GSA remain relatively constant after the Reagan revisions at \$60 - 75M per year. These outlays are primarily due to projects approved in prior years.

New funding for the following projects would be eliminated.

TYPE OF		NEW OBLIG.	SPENDOUT (S in millions )					
BUILDING	<u>PLACE</u>	<u>AUTHORITY</u>	1982	<u>1983</u>	<u>1984</u>	1985	<u>1986</u>	
Office Bldg.	Silver Spring, Maryland	132	6	4	21	62	21**	
Courthouse	Birmingham, Alabama	27	5	1	4	12	4	
Border Station	San Luis, Arizona	7	*	*	1	4	1	
Office Bldg.	Vancouver, Washington	1	*	*	*	1	*	
Miscellaneous Projects	<b>-</b> -	1	*	*	•	1	•	

<sup>\*</sup>Less than \$500,000.
\*\*An additional \$19 million would be spent in later years on the NRC building.

#### **Historical Publication and Records Commission Grants**

Agency: General Services Administration	Functional Code: 804				Budget Reform Criterion: 6			
Funding	(\$ in millions)							
- · · · · · · · · · · · · · · · · · · ·	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:	-							
Budget Authority	4	3	3	3	3	3		
Outlays	4	3	3	3	3	3		
REESTIMATES & ADJUSTMENTS:								
Budget Authority		- <del>-</del>						
Outlays			<del>-</del> -					
PROGRAM CHANGES:								
Budget Authority		-3	-3	-3	-3	-3		
Outlays		-3	-3	-3	-3	-3		
REAGAŇ BUDGET:								
Budget Authority	4							
Outlays	4							

#### **Program Description**

The National Historical Publication and Records Commission gives grants to universities, other nonprofit organizations (e.g., historical societies) and institutions, and Federal, state and local governments for preservation and publication of U.S. historical materials. Federal funding for these grants began in 1964 with \$350,000; annual funding has grown since that time to \$4 million in 1981. The Carter budget proposed a reduction in these grants from \$4 million to \$3 million in 1982.

## **Proposed Change**

Federal funding of these grants will be eliminated.

#### Rationale

In accordance with fiscal restraint on other programs of national interest, these grants should be eliminated. They are a low priority program that does not need Federal funding. Future research efforts should depend upon funding through private contributions and from state and local governments as was the practice prior to 1964.

#### Key Facts About the Program

The effects of depending totally on non-Federal funding follow:

- High priority projects will still be funded through private donations or by state and local governments or universities. For example, since 1965 the founding fathers projects have received \$4 million in Federal funds and \$3 million in non-Federal funds.
- High priority projects will be stretched out without Federal funds but they already take a long, long time to complete. For example, the five founding fathers projects all began between 1949 and 1965, and none is finished yet. The oldest—the papers of Thomas Jefferson—began in 1949; so far 19 volumes have been published and 31 volumes remain to be completed.

Authorization for these grants expire at the end of FY 1981. The expiration of this legislation will affect only the Federal funding for these grants. All other activities of the Commission, including the acceptance and distribution of private donations, is already authorized in the statutes of the National Archives. Therefore, the Administration will not submit any reauthorizing legislation.

# Sales of Excess Materials from the National Defense Stockpile

Agency: General Services Administration		tional :: 054			Budget Re Criterion:		
Funding			<b>(\$</b> in r	nillions)			
0	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	-477	<del>-4</del> 77	-410	-486	<del>-4</del> 75	-473	
Outlays	<del>-4</del> 77	-477	-410	-486	-475	-473	
REESTIMATES & ADJUSTMENTS:							
Budget Authority	16	-9	10	24	28	28	
Outlays	16	-9	10	24	28	28	
PROGRAM CHANGES <sup>1/</sup> :							
Budget Authority		-507	-507	-75	206	206	
Outlays		-507	-507	-75	206	206	
REAGAN BUDGET:							
Budget Authority	-461	-993	-907	-537	-241	-239	
Outlays	-461	-993	-907	-537	-241	-239	
1/ The Carter Budget already included a legisle are as follows:	ative proposal t	o sell additio	nal materials	from the stoc	kpile. Total r	eceipts from 1	this proposal
	1981	1982	1983	1984	1985	1986	
Budget Authority	210	210	217	430	436	434	
Outlays	210	210	217	430	436	434	

### Program Description

The General Services Administration maintains the National Defense Stockpile of strategic and critical materials for use in a national emergency.

Over the past twenty years, a number of excess materials have been sold from the stockpile. However, it still contains approximately \$6 billion in materials that have been declared excess by the national defense agencies. Silver and tin comprise over 80% of this \$6 billion in excess materials.

The Carter budget proposed sales of these excess commodities in 1982 that would generate receipts of \$477 million as follows: \$267 million of materials currently authorized for sale by the Congress and \$210 million of materials that require congressional authorization (mostly silver sales).

#### Proposed Change

Accelerate the sales of these excess materials. Specifically, accelerate the sale of silver from 15 million ounces per year (Carter budget level) to 52 million ounces in 1982. Sales will continue at an average of one million ounces a week until the excess silver is sold.

Fiscal Year	Carter Budget	Reagan Budget
1981	15	15
1982	15	52
1983	15	52
1984	15	21
1985	15	
1986	15	

#### Rationale

These sales are part of the Administration's efforts to reduce waste in the Federal Government by eliminating unnecessary stockpile holdings. This increase in receipts from the accelerated sales of excess silver will (1) provide needed revenues for future acquisitions of required stockpile materials and (2) avoid needless expenditures for the security, rotation, inspection and other storage costs of these excess materials.

The receipts from these sales will be earmarked under current law for purchases of essential materials for the stockpile. Every effort will be made to avoid any undue disruption of the usual markets of producers, processors and consumers of these materials as provided in the Strategic and Critical Materials Stock Piling Act (P.L. 96-41).

## Key Facts About the Program

Sales at this level should not disrupt the market for silver because it is such a speculative commodity. (By law, stockpile sales must not disrupt the markets for any commodity.) Higher amounts of silver were sold in the past without disrupting the market as shown below:

Approximately 300 million ounces of silver were sold from the stockpile from 1967 through 1970. During the four years of sales, the price of silver rose from \$1.78 to \$1.83 an ounce. Prices were generally above the \$1.78 level throughout the period. Sales during this period averaged over one million ounces a week.

There is no strategic need to stockpile silver under any of the national defense scenarios. The annual U.S. production of silver is ample for national defense purposes.

#### Federal Protective Service

Agency: General Services Administration	Func Code	tional : 804			Budget Re Criterion:			
Funding	(\$ in millions)							
3	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority								
Outlays	116	120	120	120	120	120		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays	<u>-</u> -			<del></del>				
PROGRAM CHANGES <sup>1/</sup>								
Budget Authority								
Outlays	-1	~ 8	-15	-23	-31	- 32		
REAGAN BUDGET:								
Budget Authority								
Outlays	115	112	105	97	89	88		

Amounts are included in the published "Summary tables of Programmatic Decreases to the January budget" under the General Services Administration heading "Administration Reductions not included above."

#### Program Description

The Federal Protective Service provides protection to government buildings through mobile patrols and fixed guard posts. It employs over 3,000 Federal employees and approximately an equal number of contract guards.

## Proposed Change

Reduce the protection of Federal buildings to levels that are similar to the private sector. The reduction will save 576 positions by the end of 1982 and 1,610 positions by the end of 1986. The reduction will be achieved entirely through attrition.

#### Rationale

This is part of the Administration's effort to reduce overhead and personnel costs. The aim of this reduction is to provide protective levels for office buildings that are similar to those in the private sector. In effect, the Government will depend more on local police, as was the practice prior to the build-up of security in the early 1970's.

## Key Facts About the Program

This reduction will be implemented slowly through the attrition of current employees. This will avoid any sudden disruption in security and permit a review by the General Services Administration of those areas where marginal protection should be reduced.

These reductions are sizeable and will lessen the security of Federal buildings. However, the first phase of the reduction through fiscal year 1982 will eliminate only the sharp increase in protection that occurred in the early 1970's, i.e., at the end of FY 1982 the number of personnel in the Federal Protective Service will still remain above the levels in the late 1960's. Further reductions will occur in FY 1983 and beyond only after the General Services Administration has completed a review of where marginal protection can be reduced.

The staff history for GSA Guards follows:

<b>YEAR</b>	APPROPRIATED	REIMBURSABLE	<b>TOTAL</b>	
1966	2,285	970	3,255	lowest year
1967	2,329	1,018	3,347	
	****	* * * * * * * * * * * *	* *	
1970	2,465	953	3,418	
1971	4,842	1,143	5,985	highest year
1972	4,561	1,103	5,664	
	* * * * * *	* * * * * * * * * * * *	* * *	
1978	3,455	1,146	4,601	
1979	3,480	1,203	4,683	
108	3,480	1,368	4,848	
1981*	3,078	1,092	4,170**	
1982*	2,668	1,002	3,670**	

<sup>\*</sup> Estimate

\*\* Reagan levels remain above the levels in the 1960's.

# **International Communication Agency**

Agency: International Communication Agency		tional : 154			Budget Re Criterion:		
Funding	(\$ in millions)						
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	475	590	565	615	663	705	
Outlays	484	513	582	634	673	697	
REESTIMATES & ADJUSTMENTS:							
Budget Authority			-44	-88	-131	-173	
Outlays			-30	-77	-120	-163	
PROGRAM CHANGES:							
Budget Authority	-4	-29	-39	-44	-49	-49	
Outlays	-4	-24	-40	-44	-49	-49	
REAGAN BUDGET:							
Budget Authority	470	561	482	483	483	483	
Outlays	480	489	512	513	504	485	

# Program Description

The International Communication Agency (ICA) conducts academic and leader exchanges; produces and disseminates media materials; holds seminars on important issues and American life; operates libraries and cultural centers; acts as press agent for U.S. ambassadors in 125 countries; broadcasts (Voice of America) in 41 languages; and advises the President, the National Security Council and the Secretary of State on the foreign public opinion implications of foreign policy issues.

#### **Proposed Changes**

- Major traveling exhibits in the developing world and regional television series will be eliminated.
- Academic exchanges and support for private exchanges and the East-West Center will be reduced.
- Overseas staffs will be reduced and two branch posts will be closed.
- Reductions will be realized in administrative support, training, and technical improvements.
- Employees currently being paid at foreign service salary rates but who will not subsequently be part of the world-wide foreign service system will be converted to the appropriate General Schedule grades and pay rather than artificially high grades.

#### Rationale

The proposed reductions eliminate or cut back lower priority activities and call for increased efficiency in the management of the program. The Voice of America is judged to be the preferred medium for reaching mass audiences and has not been cut. In a period of fiscal restraint, it is necessary to reduce administrative and overhead costs.

#### Key Facts about the Program

- Exhibits are very expensive and audiences tend not to be those people on whom ICA places highest priority.
- U.S. government academic exchanges account for less than 3% of all foreign students studying in this country; thus a slight reduction in this area should not materially affect interchange with other countries.
- The employee compensation change is necessary because, as a result of the Foreign Service Act of 1980, some employees are being overpaid.
- Overseas staff reductions will affect primarily foreign national employees and will not materially affect the agency's ability to conduct its business.

# **Legal Services Corporation**

Agency: Legal Services Corporation				Budget Reform Criterion: 7			
Funding	(\$ in millions)						
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	321	347	364	382	401	421	
Outlays	328	347	364	382	401	421	
PROGRAM CHANGES:							
Budget Authority		-347	-364	-382	-401	-421	
Outlays		-312	-364	-382	-401	-421	
REAGAN BUDGET:							
Budget Authority	321						
Outlays	328	35					

# Program Description

The Legal Services Corporation (LSC) is a private non-profit corporation which funds free civil legal assistance to the poor through over 300 grantees nationwide. Support centers, training, research, and overhead are also funded. Appropriations have grown from \$72 million in 1975 to \$321 million in 1981. The LSC authorization has expired, and terms of all members of the Presidentially-appointed Board of Directors expire by July.

#### **Proposed Changes**

Legal services is an authorized activity within the proposed HHS social services block grant. States will have broad discretion to determine which specific social services best meet local needs and should be funded. The President will not recommend reauthorization of the Corporation, and will not seek 1982 funding for LSC.

#### Rationale

This change is based on budget reform criteria discussed in the President's February 18 message to Congress—consolidation of categorical grant programs into block grants to States. This will increase State priority-setting and control over resources, decrease overhead, and improve coordination among different social services.

Added pro bono effforts by private attorneys, as part of their professional responsibility, could substantially augment legal services funding provided by the block grant. With about 500,000 private attorneys nationwide, this can be a significant resource for legal services for the poor.

# Key Facts About the Program

• Since 1975, LSC appropriations have had average annual growth of about 35%.

• . •

FY	Appropriation (\$ in millions)	% Increase over prior year
1975	72	
1976	90	25
1977	125	39
1978	205	64
1979	270	32
1980	300	11
1981	321	7

• According to LSC, nearly \$50 million from *other* Federal, State and local, and private sources is currently available for legal services. GAO has reported (HRD 78-164; November 6, 1978) that "improved coordination is needed. . to ensure maximum use of all potential resources and efficient and effective delivery of free legal services to the poor."

- The American Bar Association (ABA) Code of Professional Responsibility states that:
  - "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 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."
- Restrictions on advertising, competition, and other barriers to normal market forces for legal services are being eliminated. This should increase the availability of low-cost legal services, particularly in "routine" cases such as divorce.
- Most legal services are now provided by LSC grantees, operating as staff attorney offices
  directly handling individual cases. A major Congressional-mandated study has concluded
  that other delivery systems which make greater use of the private bar are viable—"judicare"
  (operating in conjunction with staff attorneys) and contracts with law firms.

# **National Consumer Cooperative Bank**

Agency: National Consumer Cooperative Bank		tional :: 376			Budget Re Criterion:			
Funding	(S in millions)							
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	122	136	160	185	185	200		
Outlays	136	128	152	178	175	190		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays				<del>-</del> -				
PROGRÅM CHANGES:								
Budget Authority	-89	-136	-160	-185	-185	-200		
Outlays	-86	-136	-159	-180	-177	-192		
REAGAN BUDGET:								
Budget Authority	32							
Outlays	50	-8	-7	-2	-2	-2		

# Program Description

The National Consumer Cooperative Bank (NCCB) was created in 1978 to provide financing for creditworthy consumer cooperative organizations, "soft" loans to potentially viable cooperatives, and interest subsidies to cooperatives whose members are predominally low income persons. Under the Carter budget, the regular lending program would increase its activities (\$100 milion), and the remaining programs would continue to experience slow growth.

#### Proposed Change

It is proposed to terminate funding for and the activities of the NCCB. All unobligated lending balances will be rescinded in 1981, and all requests for 1982 funding will be withdrawn. Repeal legislation his been proposed, and Treasury will manage and liquidate the existing NCCB loan portfolio and redeem outstanding capital stock held by the Bank's borrowers.

#### Rationale

The program reflects the Administration's need to impose fiscal restraint on many programs and to eliminate programs that are not of national scope or interest.

The National Consumer Cooperative Bank is a heavily subsidized special interest program, one of many that are contributing to an inflationary Federal budget deficit. The elimination of this program will save hundreds of millions of dollars over the next several years and will contibute significantly toward reducing inflationary pressure. This will ultimately benefit a broad cross section of the American public.

There is no compelling evidence that economically viable cooperatives are unable to obtain private financing. Creditworthy cooperatives with strong managements that supply their memberships with necessary goods and services should be able to find private market financing. There is no need for Federal taxpayers to provide special subsidies for these businesses, and inefficient cooperatives should not be subsidized.

# Key Facts About the Program

Although the National Consumer Coopertive Bank appears to have been created as a self supporting entity, there are a number of ways in which it is heavily subsidized:

• While \$300 million in startup capital which must be repaid was authorized, salaries and expenses are funded with separate appropriations which do not have to be repaid. To date these have totalled over \$18 million, and the Carter budget requested an additional \$8.7 million for FY 1982.

- All "soft" long term capital advances and interest subsidies are funded with appropriations that are not required to be repaid to the Treasury under the Act. Instead, repayments of advances may be reused by the Office of Self Help Development and Technical Assistance without additional appropriation. To date over \$35 million has been appropriated for these purposes, and the Carter Budget requested an additional \$27 million for 1982.
- Although the statute appears to require the Bank to pay a dividend on the Federal investment equal to the Treasury's cost of funds, a 25% ceiling on before tax earnings, including deductions for loss reserves, effectively brings the reimbursement to Treasury for its cost of funds to zero. For the over \$77 million in Federal purchases of NCCB stock to date, Treasury has had to pay private investors rates that at times exceeded 15%.
- The Bank recently withdrew all of its Treasury balances and invested them in marketable securities, despite an earlier pledge to keep balances in the Treasury until needed for loans. It currently costs the government over 13 percent to obtain funds in the private capital markets.

Finally, the NCCB is not a viable organization. It is a Federal bank making loans in often small amounts to primarily local organizations. Its costs of servicing loans would therefore continue to be prohibitive. To the extent that co-ops borrow from the Bank, they fail to establish the local banking relationships important to small and growing businesses.

#### Loan commitments to consumer cooperatives (Smillions)

Year	Regular Program	Capital Advance (Soft loans)		
1979				
1980	21.5	0.6		
1981 (January) (February)	55.9	6.7		

#### National Endowments for the Arts and Humanities

Agency: National Endowments for the Arts & Humanities	Func Code	tional : 503		]	Budget Re Criterion:	form 6
Funding			(\$ in n	nillions)		
9	1981	1982	1983	1984	1985	1986
National Endowment for the Arts						
CARTER BUDGET:						
Budget Authority	159	175	188	203	217	230
Outlays	154	168	175	188	202	212
REESTIMATES AND ADJUSTMENTS:				•		
Budget Authority			-13	-28	-42	-55
Outlays			-7	-21	-36	-49
PROGRAM CHANGES:						
Budget Authority		-87	-81	-75	-70	-65
Outlays		-45	-71	-69	-61	-55
REAGAN BUDGET:						
Budget Authority	159	88	94	100	105	110
Outlays	159	123	97	98	103	108
National Endowment for the						
Humanities						
CARTER BUDGET:						
Budget Authority	152	169	179	193	206	219
Outlays	155	166	182	195	207	218
REESTIMATES AND ADJUSTMENTS:	200	200		2,0	20,	220
Budget Authority			-10	-24	-37	-50
Outlays			-12	-29	-41	-52
PROGRAM CHANGES:						
Budget Authority		-84	-79	-72	-67	-62
Outlays		-42	-57	-68	-68	-65
REAGAN BUDGET:		_				
Budget Authority	152	85	90	97	102	107
Outlays	151	124	113	98	98	101

# **Program Description**

The National Endowment for the Arts awards discretionary grants to State and local arts agencies, cultural institutions, organizations, and individuals. Grants are aimed at: (1) encouraging creative efforts by artists; (2) enhancing access to the arts; (3) supporting arts institutions; (4) providing leadership in the arts; and (5) maintaining the artistic heritage of diverse cultural and ethnic groups. The Endowment supports eighteen programs ranging from Dance and Music to Folk Arts and Literature, and within these programs, some 120 funding categories.

The National Endowment for the Humanities awards discretionary grants aimed at: (1) promoting public understanding of the humanities; (2) improving the quality of teaching in the humanities; (3) strengthening the scholarly foundation for humanistic study; and (4) contributing to the future well-being of essential institutional and human resources critical to humanistic study. Grants are awarded to individuals, institutions, and organizations in 33 program areas ranging from fellowships to support research and translations to interdisciplinary community education projects in science, technology and human values.

# Proposed Change

The Administration proposes to reduce budget authority for the Arts and Humanities Endowments by 50% effective in 1982.

#### Rationale

Reductions of this magnitude are premised on the concept that Federal policy for arts and humanities support must be revamped. In recent years, the Endowments have spread Federal financial support into an ever-wider range of artistic and cultural endeavor. This action will place more emphasis on the role of private philanthropy and State and local support for arts and cultural activities.

Moreover, in view of the current economic crisis requiring reductions in programs critical for life support, funding for artistic and cultural pursuits is a relatively low priority budget item. Given the need for reductions across the full range of Federal programs that meet more basic human needs, low priority items must bear a greater burden if fiscal restraint is to be achieved in a balanced and compassion way.

# Key Facts About the Program

Budget by Funding Category
(RA & in millions)

	(DV A III IIIII)	101131	
	1981	1982 Jan. Budget	1982 Revised
National Endowment for the Arts	1701	Bull. Dudget	INCTISCE
Definite program funds	113.9	127.0	57.8
Administration	11.9*	13.6	12.7
Challenge grants	13.4	15.9	2.5
Treasury funds	19.3	18.5	
	158.5	175.0	15.0 88.0
National Endowment for the Humanities			
Definite program funds	106.5	117.7	59.0
Administration	11.2	12.7	11.0
Challenge grants	24.0	27.0	9.6
Treasury funds	<u>9.5</u>	_12.0	_5.4
•	151.2	169.4	85.0

<sup>\*</sup>Does not include pay suplemental request of \$235,000.

#### National Endowment for the Arts Programs

Artists-in-Schools

Dance

Design Arts

**Expansion Arts** 

Fellows

Folk Arts

Inter-Arts

International

Literature

Media Arts

Museums

Music

Opera-Musical Theater

Research

Special Constituencies

State Arts Agencies

Theater

Visual Arts

Challenge

#### National Endowment for the Humanities Programs

Public Programs

Humanities Projects in media

Humanities projects in museums and historical organizations

Humanities projects in libraries

Education Programs

Elementary and secondary education

Higher education/regional and national grants

Higher education/individual institutions:

Consultant grants

Pilot grants

Implementation grants

Fellowships and Seminars Programs

National Endowment for the Humanities Fellowships

Fellowships for independent study and research

Fellowships for college teachers

Residential fellowships for college teachers

Summer stipends

Summer seminars for college teachers

Fellowships at centers for advanced study

Fellowships and seminars for the professions

#### Research Programs

General research

Basic research

Intercultural research programs

State, local, and regional studies

Research, local, and regional studies

Research materials

Research tools program

Program for editions

Translations program

Publications program

Research resources

Organization and improvement projects

Conservation and preservation projects

#### State Programs

Special Programs and Planning

Youth programs

Science, technology, and human values

Program development

Special projects

Planning and assessment studies

# **National Science Foundation Programs**

Agency: National Science Foundation		ctional e: 251			Budget Re Criterion:		
Funding	(\$ in millions)						
	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	1,083	1,358	1,471	1,584	1,694	1,799	
Outlays	1,007	1,190	1,324	1,441	1,558	1,673	
REESTIMATES & ADJUSTMENTS:		-			-		
Budget Authority			-14	-37	-62	-85	
Outlays			-12	-33	-57	-65	
PROGRÁM CHANGES							
Budget Authority	-83	-320	-346	-369	-392	-411	
Outlays	-36	-209	-312	-336	-360	-397	
REAGAN BUDGET:							
Budget Authority	1,000	1,038	1,111	1,178	1,240	1,303	
Outlays	971	981	1,000	1,072	1,141	1,211	

#### **Program Description**

NSF provides support for research (particularly basic research) in all scientific disciplines, and for science and engineering education. The 1982 Carter Budget represented an increase of 25% over 1981 appropriated levels — one of the largest annual increases for NSF in the last two decades.

# Proposed Change

NSF programs would be reduced in 1981 by \$83 million or 8% below the appropriated level and in 1982 by \$320 million or 24% below the Carter Budget. These reductions are made possible through:

- deferral of the new programs proposed in the Carter budget;
- elimination in 1982 of support for separate programs in science education;
- reduction of behavioral, social, and economic sciences; and
- reduction of funding for separately identified industry and international science activities.

The revised budget would largely protect the core programs of the Foundation for the support of research in the mathematical, physical, biological, and neural sciences; in the earth, ocean, atmospheric and astronomical sciences; and in engineering. Certain relatively narrowly focused activities in research would be reduced or eliminated. The Antarctic research program, which maintains a U.S. presence in that region, and the ocean drilling programs, conducted with joint industry and international funding would continue essentially as planned.

#### Rationale

The 1982 Carter Budget increase of 25% over 1981 for NSF clearly cannot be sustained in the current environment of severe fiscal restraint.

- New Programs proposed in the Carter 1982 Budget, totalling \$110 million and including the
  university scientific laboratory and instrumentation upgrading program and the 25 meter
  radio telescope, can be dererred for future consideration. The objectives of the
  instrumentation modernization program can be partially met through the Foundation's
  research project support.
- Separate programs in science and engineering education are being phased out because:
  - funds saved are necessary to achieve an overall reduction in the Foundation without sacrificing support of basic research in the natural sciences which is a relatively more appropriate responsibility of the NSF and Federal Government;
  - NSF support for science education has been spread among a large number of small programs which have little potential to impact significantly the problems they have addressed; hence their elimination would have a relatively small adverse impact; and

- —Despite the eventual elimination of the fellowship and traineeship element of the science education program, the Foundation will continue to support over 9,000 graduate research assistants and postdoctoral fellows through its regular research project support grants.
- Support for the *behavioral*, *social and economic sciences* is being reduced significantly because much of the support of these sciences is considered of relatively lesser importance to the economy than support of the natural sciences. With \$21 million left in the NSF budget for the behavioral, social and economic sciences, support can still be provided for critical high priority research.
- Other changes in the support of science would eliminate or reduce separately identified funding for several narrowly focused programs cross doctorate programs at NSF. Examples include: (1) Women-in-Science program which is less important now in view of significant improvements in the participation of women in the scientific workforce. (2) Two-to-four year college research instrumentation grants for which separately identified funding should not be provided because high quality research in any academic institution is eligible for funding through NSF research programs. (3) An experimental program to stimulate "competitive" research which is inappropriate for continued funding because it channels funds away from support of the best possible research solely for the purpose of ensuring greater geographic uniformity in distribution of research funds.
- Although separately identified industry and international science programs are being reduced, highly meritorious activities can continue to be supported with the funds remaining or in competition with projects funded through regular research grants.

#### Key Facts About the Program

- The revised budget for 1982 will still provide an increase of \$38 million in budget authority over 1981.
- The revised budget of \$1.038 billion represents an increase of more than \$100 million over the past three years (since 1979).
- The revised budget will still permit a 15% increase over 1981 in support of research in the natural sciences and engineering. Support for such research is the highest priority responsibility of the Foundation because along with other Federal long-term research —it provides the underpinning for future growth in the economy and leadership in science and engineering.
- Although science education programs are being eliminated, sufficient funds are provided in the 1982 budget for science education to continue support for persons on previously awarded multi-year fellowships.

## **Annual Indexation of Civil Service Retirement Annuities**

Agency: Office of Personnel Management		ctional e: 602			Budget Re Criterion:			
Funding	(\$ in millions)							
	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	27,634	29,597	32,008	34,139	36,010	37,704		
Outlays	17,633	19,926	22,667	25,248	27,774	30,207		
REESTIMATES & ADJUSTMENTS:					-	•		
Budget Authority	+ 24	-47	-167	-382	-535	-762		
Outlays	-77	-253	-597	-1,031	-1,547	-2,158		
PROGRAM CHANGES:								
Budget Authority								
Outlays								
REAGAN BUDGET:								
Budget Authority	27,658	29,550	31,841	33,757	35,475	36,942		
Outlays	17,556	19,673	22,070	24,217	26,227	28,049		

#### Program Description

1.6 million civil service retirees and survivors receive annuities that are fully adjusted for inflation twice a year (in March and September). The amount of the increases is determined by the increase in the Consumer Price Index (CPI).

# Proposed Change

The Administration has proposed that Federal annuities be adjusted annually. The adjustment would be made in March of each year on the basis of the annual increase in the CPI. Under this proposal, no September adjustments would be made (the September, 1981 adjustment would be the first one to be eliminated).

#### Rationale

This proposal is part of the Administration's effort to revise entitlements to eliminate unintended benefits.

Virtually no group is as well protected against inflation as Federal retirees. Full automatic indexation of annuities is an extraordinary benefit in and of itself. Full semi-annual adjustments are almost without parallel in any other sector of the economy.

Social Security pensions are only adjusted once a year. Typically, individuals with both private pension plans and social security have protection of up to 70% of the CPI. These 70% adjustments are not more frequent than once a year. The President's Commission on Pension Policy found that one-half of State and local pensions are adjusted for inflation but with specified limits, generally 3% annually. Less than 5% of all State and local employees are covered by plans that provide for unlimited automatic adjustment.

Ironically, the generous adjustments for retired Federal Government employees are not only inequitable in terms of the retired population mentioned above, but also produce inequities between Federal retirees within the same system. Older retirees often receive greater benefits than recent retirees with comparable positions and length of Federal service. For example, a GS-5 typist retiring in 1965 at age 62 with 30 years of Federal service would currently receive an annual annuity of over \$11,000, while a similar employee retiring last summer would receive less than \$8,000 annually.

#### Key Facts About the Program

Evidence of the overwhelming generosity of Federal employee retirement systems demands that its recipients be asked to take their share in the reductions in government expenditures. The reduction is not drastic. The March CPI adjustment each year will produce an annuity rate that is the same as that produced under a twice-a-year system. The difference is that the annuity paid under once-a-year is less than twice-a-year for 6 months of the year (i.e., October through March). The following is a tabular illustration of the effect of the proposal on the rate of annuity paid.

#### COST OF LIVING ADJUSTMENTS

	Cur	rent Process	Proposed Process		
CPI Adjustment	% CPI	Monthly Annuity	% CPI	Monthly Annuity	
March 1981		\$ 958 <sup>1</sup> /		\$ 9581/	
Sept. 1981	5.8	1,014			
March 1982	4.1	1,056	10.2	1,056	
Sept. 1982	4.3	1,101			
March 1983	2.6	1,130	7	1,130	

The total annual loss to an annuitant paid at a rate of \$958 monthly is \$336 a year. As the table indicates, this is a one-time loss and is not compounded in succeeding years.

In return, the estimated savings in 1982 to the CSR fund, if annual COLA is adopted, is \$510M. Further, a highly inequitable policy will be discontinued. Under current policy and our proposed changes, virtually every Federal beneficiary group receiving assistance with automatic adjustments for the impact of inflation will have their payments adjusted annually including the military, social security, workmen's compensation, food stamps, and child nutrition.

V Average annuity paid to Federal employee beneficiaries on the Civil Service retirement rolls.

# **Intergovernmental Personnel Act Grant Program**

Agency: Office of Personnel Management		etional e: 806			Budget Re Criterion:	
Funding			(\$ in	millions)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:	-					
Budget Authority	20.0	20.0	20.0	20.0	20.0	20.0
Outlays	20.5	21.5	20.0	20.0	20.0	20.0
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays				- <del>-</del>		
PROGRAM CHANGES:						
Budget Authority	-5.6	-20.0	-20.0	-20.0	-20.0	-20.0
Outlays	-2.0	-12.9	-20.0	-20.0	-20.0	-20.0
REAGAN BUDGET:						
Budget Authority	14.4					
Outlays	18.5	8.6				

#### Program Description

At the projected level of \$20 million, The Office of Personnel Management would allocate \$16M in grant funds to State and local governments, on a 50-50 matching formula, for personnel management projects, including labor relations, staffing, and training. An additional \$4M would be allocated to discretionary demonstration and intergovernmental activities. A total of 800 projects is planned—roughly \$25 thousand in Federal funds per project.

#### Proposed Change

The Administration does not propose to seek further funding of this categorical grant program. The change would also eliminate the need for extensive pre-award consultation, processing of grant applications, and monitoring implementation.

#### *Ra*tion*ale*

The elimination of the Intergovernmental Personnel Act Grant (IPA) program is proposed because of the strong conviction that personnel activities and improvements in the area of merit staffing, training, compensation, and labor relations are the direct responsibility of State and local governments and should be funded by them.

Insofar as the Federal Government has aggravated the problems of State and locals in carrying out their personnel responsibilities through the heavy demands placed on them to manage a multiplicity of grant programs, the Administration has developed a far better solution than continuance of IPA. That solution is to remove those demands by eliminating many catagorical grants and consolidating them into four block grant programs.

#### Key Facts About the Program

The Federal Government has funded, on a matching-fund basis, some 5,000 personnel management improvement and training projects over a 10-year period at a cost of about \$160 million.

The primary purpose of the Federal Government's involvement was to demonstrate, through the provision of "seed-money" to fund a series of projects, the value to State and local governments of investing their own resources in efforts to build or improve merit-based personnel systems. Implicit in this concept was the expectation that the program would end after a reasonable period. The Administration believes that a 10-year demonstration period is more than adequate and that it is now appropriate to eliminate direct Federal involvement.

Finally, the proposal eliminates the need for a Federal bureaucracy to distribute and monitor the awards and for the inevitable Federal presence and control that follow this process.

# Postal Service Subsidy Reduction

Agency: United States Postal Service		Functional Code: 372			Budget Reform Criterion: 4			
Funding			(\$ in n	nillions)				
•	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	1,343	1.119	831	789	764	754		
Outlays	1,343	1,119	831	789	764	754		
PROGRAM CHANGES1/:	•	•						
Budget Authority		-250	-112	-237	-226	-216		
Outlays		-250	-112	-237	-226	-216		
REAGAN BUDGET:								
Budget Authority	1,343	869	719	552	538	538		
Outlays	1,343	869	719	552	538	538		
1/ The Carter Budget already included follows:	savings for a related p	roposal. Tota	l savings from	current law	under this pro	posal are as		
	1981	1982	1983	1984	1985	1986		
Budget Authority	-250	-632	-690	-765	-779	-779		
Outlays	-250	-632	-690	-765	-779	-779		

## Program Description

This proposed reduction would affect the public service subsidy and the revenue forgone payments to the Postal Service. The public service subsidy offsets the costs of maintaining services that are not self-sustaining. The revenue forgone subsidy provides funds for reduced rates for certain classes of mail.

## **Proposed Changes**

Under this proposal the public service subsidy will be phased out by 1984. The revenue forgone subsidy will be reduced to \$500 million in FY 1982 and beyond. These reductions should result in the Postal Service taking action to further increase the productivity and cost-effectiveness of postal operations.

#### Rationale

In applying sound economic criteria to subsidy programs, the Administration believes that the costs of mail service should be borne by its users, not taxpayers. Subsidies to the Postal Service undercut its incentives to realize operational efficiences, hindering its progress towards financial independence. Further, articifially suppressed mail rates encourage inefficient use of the mail system and have the effect of increasing postage rates. The Administration believes that the Postal Service, if it is to become a viable business concern, must live within its operating revenues.

#### Key Facts About the Program

- Even with the proposed reductions, certain mailers will continue to receive subsidies which will make up the difference between the rate they actually pay and the regular rate charged to non-subsidized mailers.
- The nonprofit rate is now subsidized to such an extent that bulk mailers have little incentive to update their mailing lists, preferring instead to mail duplicates.
- Revenue forgone subsidies represent less than 0.2 precent of the net non-profit income reported by non-profit organizations. These organizations are estimated to receive almost \$12 billion in Federal grants and other benefits in 1980, exclusive of mailing subsidies which were \$643 million.

Savings of the proposed reductions from current law are shown in the following table:

	(Outlays in millions of dollars)						
1981	1982	1983	1984	1985	1986		
Public Service Subsidy:							
Current law736	644	552	789	764	754		
Reagan level486	300	150	0	0	0		
Revenue Forgone Subsidy:							
Current law789	789	789	789	789	789		
Reagan level789	500	500	500	500	500		
Total savings from current							
law:250	632	690	765	779	779		

### Railroad Retirement

Agency: Railroad Retirement Board		tional : 601			Budget Re Criterion:		
Funding			(\$ in	millions)			
-	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:	-						
Outlays	5,295	5,827	6,285	6,664	7,007	7,351	
REESTIMATES & ADJUSTMENT:							
Outlays	+41	-61	-186	-301	-432	-575	
PROGRAM CHANGES <sup>1/</sup> :							
Outlays	-10	40	-40	-40	-40	-40	
REAGAN BUDGET:							
Outlays	5,326	5,726	6,059	6,323	6,535	6.736	
1/ The Carter Budget already included say adopted in the Reagan revisions. Pension As	rings for anoth ssurance increased	er proposal, sed trust fur 1982	the Rail 1 id receipts ( 1983	Pension Assur BA) and redu 1984	rance Amend ced outlays, 1985	lments which as follows: 1986	has been
Budget Authority	1701	+ 340	+ 372	+ 396	+424	439	
Outlays		<u>-40</u>		-120			
Total, Deficit Reduction		(380)	<u>-80</u> (452)	(516)	<u>-159</u> (583)	<u>-195</u> (634)	

# Program Description

The federally administered rail industry plan pays pensions to 1 million retired or disabled rail workers, their dependents and survivors. The rail sector has not adequately funded their existing industry pension plan which is insolvent and will be out of funds by April 1982. The rail industry pension plan is actuarially underfunded by at least 4 percent of industry payroll in the long term.

Based on the rail sector's commitment to report their joint recommendation for sound financing of existing as well as higher pensions by March 1, 1981, the Congress enacted in December 1980 an ad hoc increase to take effect three months after the report (June 1981). The parties have missed their deadline, and a negotiated agreement for sound industry financing is unlikely to emerge in the near future.

# **Proposed Changes**

To avoid exacerbating the rail plan's insolvency, repeal the increase and enact the Rail Pension Assurance Amendments until the rail sector soundly finances their pensions.

#### Rationale

Since 1976 RRB's Chief Actuary has projected serious underfunding of the rail industry pension. Rail labor and management have yet to agree on financing of their industry pension, a responsibility they have to the 1 million beneficiaries and 500,000 rail workers. The Nation's taxpayers now annually subsidize the rail industry pension by \$700 per rail worker.

Benefits should not be increased when the rail industry pension will be bankrupt in a year. The rail sector should soundly fund existing pensions *before* increasing payments. The Rail Pension Assurance Amendments would increase revenues by one-half the actuarial deficit and prospectively reduce payments by the other half.

# Key Facts About the Program

- Rail earnings will average over \$29,800 in 1982, placing rail employees among the highest paid workers in America.
- Rail pensions are among the richest multi-employer pensions. Railroaders' pensions exceed Federal Civil Service or Military Retirement payments for comparable earnings, according to GAO (HRD 79-41, June 8, 1979).

- Federal taxpayers *directly* subsidize the rail industry pension plan by \$350 million annually. This current taxpayer subsidy equals \$700 per rail employee. The rail industry seeks to double this windfall subsidy.
- Social Security, in a unique arrangement, annually contributes \$1.9 billion to the rail industry pension plan. The rail industry seeks to transfer an added \$2 billion out from social security into their pension plan.

#### **SBA Business Credit Assistance**

Agency: Small Business Administration	Func Code	tional :: 376			Budget Re Criterion:	
Funding			<b>(\$</b> in r	nillions)		
	1981	1982	1983	1984	1985	1986
CARTER BUDGET:						
Budget Authority	619	546	624	674	690	699
Outlays	572	614	709	752	768	777
REESTIMATES & ADJUSTMENTS:						
Budget Authority						
Outlays						
PROGRAM CHANGES <sup>1/</sup> :						
Budget Authority	0	-149	-22	-60	-75	-82
Outlays	-49	-81	-197	-226	-240	-248
REAGAN BUDGET:						
Budget Authority	619	397	602	614	615	617
Outlays	524	534	513	527	529	530
	f st:			<b>f</b> -11		
17 The Carter Budget already included savi						
	1981	1982	1983	1984	1985	1986
Budget Authority	0	-289	-120	-170	-191	-203
Outlays	-96	-160	-295	-336	-356	-369

#### Program Description

The Small Business Administration (SBA) provides credit assistance to small businesses through its:

- direct and guaranteed business loan programs;
- 100% guarantee of State pollution control bonds, the proceeds of which are used to enable small businesses to acquire pollution control equipment; and
- 90% guarantee of losses incurred by surety companies on bid, payment, or performance bonds that are issued to small contractors.

The Carter 1982 Budget proposed to consolidate SBA's business loan programs and to raise the subsidized interest rates on direct loans to the rate charged for guaranteed loans. The Carter Budget also proposed to reduce the 1981 program levels approved by the Congress for both direct and guaranteed business loans:

	(Program level in millions of dollars)				
		1981			
	Cong. Action	Carter Budget	Reagan Budget	Carter Budget	Reagan Budget
Business Loans: Direct Guaranteed	404 4,518	346 4,168	304 3,888	346 4,200	260 3,150

The Carter Budget proposed no changes in 1981 or 1982 from the 1980 program level (\$1.6 billion) for surety bond guarantees. It did, however, propose a modest increase in the program level for pollution control bond guarantees, requesting that the ceiling be raised from \$100 million in 1980 to \$110 million in 1981, and then to \$125 million in 1982 (i.e., the statutory authorization ceilings).

#### Proposed Change

- Reduce all credit assistance program levels by 25% in 1982. (In 1981, reduce uncommitted resources proportionately).
- Eliminate deep interest subsidies on direct loans by increasing interest rates to the market level charged for guaranteed loans, i.e., within no more than 2 3/4 percentage points above New York prime.

Ending deep interest subsidies would eliminate the artificial demand for direct loans and would facilitate efforts to make SBA the lender of last resort. It is anticipated that private lenders will provide sufficient resources to mitigate the effect of reductions in SBA lending and other credit assistance activities. This will be facilitated by the President's proposed tax, fiscal, and regulatory reduction measures, which are designed to stimulate economic expansion and job creation.

#### Rationale

- The proposed changes are an integral component of the President's plan to apply sound criteria to economic subsidy programs.
- Small business will benefit substantially more from the President's overall economic plan to stabilize financial markets, reduce interest rates, and get inflation down than from SBA financial assistance.
- Increasing interest rates would reduce the number of marginal small businesses that are unable to compete in the marketplace and are dependent on Federal subsidies to survive. It would also minimize distortions in the credit market, as well as productivity losses.
- It has not been demonstrated that the private sector will not absorb significant portions of SBA financial assistance to small business.
- The proposed changes are part of a comprehensive plan to restructure SBA credit assistance activities, with the ultimate objective of reducing the Government's level of intervention.

#### Key Facts About the Program

- Even after the reductions, 1981 and 1982 guaranteed loan program levels do not represent a significant decline below the actual 1980 level. In 1980, \$3,176 million in new guaranteed loan commitments were made. The Reagan Budget provides for new guaranteed loan commitments of \$3,388 million and \$3,150 million in 1981 and 1982, respectively.
- In 1980, SBA made a total of 31,519 direct and guaranteed loans. As of January 31, 1981, SBA had a total of 137,500 direct and guaranteed loans outstanding. This means that SBA is providing financial assistance to less than 2% of the 14 million small businesses identified by IRS.
- The Pollution Control Bond Guarantee program provides an indirect guarantee of tax-exempt revenue bonds and, therefore, operates in violation of Administration credit policy.
- SBA's management of the Surety Bond Guarantee program has been criticized by GAO (in a 12/27/79 report) for not taking adequate steps to minimize losses and to ensure that small businesses are able eventually to obtain bonds without Federal guarantees.

#### SBA Disaster Loan Assistance

Agency: Small Business Administration	Functional Code: 453				Budget Reform Criterion: 4		
Funding			(\$ in r	nillions)			
<b>G</b>	1981	1982	1983	1984	1985	1986	
CARTER BUDGET:							
Budget Authority	1,480	0	0	0	0	0	
Outlays	2,300	-99	-100	-100	-100	-100	
REESTIMATES & ADJUSTMENTS:	ŕ						
Budget Authority					`		
Outlays							
PROGRAM CHANGES:							
Budget Authority	-780	0	0	0	0	0	
Outlays	-780	8	-2	11	24	36	
REAGAN BUDGET:							
Budget Authority	700	0	0	0	0	0	
Outlays	1,520	-91	-102	-89	-76	-63	

#### **Program Description**

The Small Business Administration (SBA) provides heavily subsidized loans to individuals and businesses that are victims of physical and non-physical disasters. These loans are funded through a combination of budget authority and repayments on outstanding loans. The negative outlays shown above represent repayments in excess of program needs.

- Physical Disaster Loans. Loans to rehabilitate or replace damaged property are provided at interest rates of:
  - 3% for homeowners,
  - 5% for business that cannot obtain credit elsewhere, and
  - at the current cost of Treasury borrowing for businesses that can obtain credit elsewhere

These loans are authorized in areas where the President, the Secretary of Agriculture, or the Administrator of SBA declares a disaster resulting from a natural catastrophe. Loans may also be awarded to small businesses located in a disaster area to mitigate the economic effects of the disaster.

• Non Physical Disaster Loans. These loans are provided only to small businesses that suffer economic injury as a consequence of government regulatory or legislative action (e.g., air and water pollution standards, standards for occupational safety and health, involuntary dislocation, and U.S. Olympic boycott).

Legislation (P.L. 96-302) enacted in July 1980 has, with very few exceptions, ended the availability of SBA disaster assistance to farmers. To reflect this change, the Carter Budget proposed a 1982 disaster loan program level of \$490 million, as compared to a 1981 level of \$2,850 million, which included assistance to farmers that suffered losses from droughts that began before the new law was enacted.

#### Proposed Change

- Withdraw 1981 supplemental request and adopt policies that will ensure that the Disaster Loan Fund operates within existing budgetary resources (i.e., a 1981 program level of \$2.1 billion).
- Terminate funding for non-physical disaster assistance. In 1981, the \$10 million originally provided for this purpose during the second half of the year will be used to meet the need for physical disaster assistance. The request for \$50 million in 1982 is being withdrawn.
- Raise interest rates on physical disaster loans to the current cost of Treasury borrowing, thereby limiting interest subsidies.
- Limit disaster assistance loans to victims who have no sources of private financial assistance.

The major reductions identified should not significantly affect disaster victims who are most deserving of assistance. SBA has developed new disaster loan allocation policies that take into account the need to establish priorities among eligible disaster victims and ensure that all deserving victims receive some aid.

#### Rationale

- The proposed changes are consistent with the President's policy of applying sound criteria to economic subsidy programs.
- An increase in interest rates would eliminate the incentive to apply for disaster loans when
  no real need exists and would still provide substantial savings to disaster victims over
  prevailing market rates.
- The open-ended availability of Federal disaster assistance is a disincentive for individuals and businesses to make sound locational decisions.
- Since there is no attempt to target assistance to those in most need, the Government ultimately subsidizes the rich as well as the poor.
- According to a 1979 GAO Report, there is little or no assurance that "disaster assistance loans are not used in frivolous ways, particularly by wealthier borrowers." A January 1981 GAO Report on Federal aid in Massachusetts after the 1978 blizzard indicated that there was evidence of misuse or duplication of disaster benefits in 26% of the sample cases audited.
- Many of the "non-physical" disaster loans are necessitated by poor business judgment. To the extent that financial assistance is justified, it can be provided through SBA's regular business loan program.

#### Key Facts About the Program

- SBA's disaster loan portfolio has increased from \$563 million in 1971 to \$5.4 billion in 1980.
- If no constraints were imposed, SBA estimates that the demand for 1981 disaster assistance would exceed \$4.9 billion.
- Until regulations were revised on March 19, 1981, SBA provided loans to disaster victims without regard to the availability of private financing or personal net worth.
- Under its revised regulations, SBA will impose a means test and a credit elsewhere test and will limit business disaster loans to 60% of verified physical losses. Homeowners will continue to receive 100% of verified physical losses.

# **Summary of Small SBA Items**

Agency: Small Business Administration		tional : 376			Budget Reform Criterion: 6			
Funding			<b>(\$</b> in n	nillions)				
9	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	45	48	48	48	48	48		
Outlays	45	48	48	48	48	48		
REESTIMATES & ADJUSTMENTS:								
Budget Authority								
Outlays				- <b>-</b>	<del>-</del> -			
PROGRAM CHANGES:								
Budget Authority	-4	-20	-16	-16	-16	-16		
Outlays	-8	-16	-16	-16	-16	-16		
REAGAÑ BUDGET:								
Budget Authority	41	28	32	32	32	32		
Outlays	37	32	32	32	32	32		

# Program Description

The Small Business Administration (SBA) funds several special purpose management and technical assistance programs, including:

- The Small Business Development Center (SBDC) program, which provides a university-centered approach to the delivery of management assistance to small businesses (\$5.4 million in 1982).
- The Women's Business Enterprise (WBE) program, which targets management and technical assistance to women business owners (\$6.4 million in 1982).
- The 7(j) Development Assistance program (sometimes referred to as "call contracting"), which provides technical and management assistance—through private contractors—to firms determined by SBA to be socially and economically disadvantaged (\$12 million in 1982).
- The Business Development Expenses (BDE) program, which provides funds to socially and economically disadvantaged firms participating in SBA's 8(a) procurement program to purchase equipment and/or materials needed to perform a Government contract (\$24 million in 1982).

#### Proposed Change

- Terminate funding (\$5.4 million) for the Small Business Development Center program beginning in 1982.
- Eliminate separate funding for all Women's Business Enterprise activities that can be performed through on-going SBA programs (i.e., reduce WBE by \$2.2 million in 1981 and \$4.8 million in 1982).
- Eliminate Carter Budget enhancements of \$2 million in 1981 and 1982 for 7(j) Development Assistance.
- Eliminate Carter Budget increases of \$4 million in 1981 and 1982 for Business Development Expenses for 8(a) firms.

The proposed changes would not have a significant adverse effect on SBA clientele. Assistance to special interest groups will be provided through on-going SBA mainstream programs. The SBDC program is a pilot project; therefore, its termination will have minimal effects on the small business community at large. Similarly, elimination of planned enhancements for minority business assistance will not reduce benefits below those currently received.

#### Rationale

- These changes are consistent with President Reagan's efforts to impose fiscal restraint on programs of national interest.
- The President's comprehensive economic recovery program of tax, fiscal, and regulatory reduction measures will do more to stimulate small business development than SBA direct spending programs.
- The SBDC program creates a major budget threat as requests increase for Centers in each State. Early evaluations of the program (by GAO and by an outside consultant) cited serious deficiencies in the delivery of management assistance through this program, including inadequate faculty participation, insufficient follow-up with clients, and limited minority outreach efforts. There is also evidence that the program may benefit universities more than small businesses.
- The elimination of a separate Women's Business Enterprise program does not eliminate SBA's mandate to provide technical and management assistance to women business owners through its on-going programs. A small staff will be maintained to ensure that adequate assistance is being provided to women and to develop alternative ways of addressing women's needs through on-going programs.
- Given efforts to constrain Federal spending, funding for the delivery of technical and management assistance to socially and economically disadvantaged businesses must be held constant. The effects of this reduction are mitigated by the fact that SBA's efforts in this area are supplemented by the Minority Business Development Agency in the Department of Commerce.

# Student Loan Marketing Association (SLMA)

Agency: Student Loan Marketing Association		ctional e: 506			Budget Reform Criterion: 6			
Funding			(\$ in	millions)				
• •	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority	1,095	1,923	2,500	3,000	3,500	4,000		
Outlays	1,095	1,923	2,500	3,000	3,500	4,000		
REESTIMATES & ADJUSTMENTS:	·			•		•		
Budget Authority	1,000		-289	-457	-957	-1,457		
Outlays	1,000		-289	-457	-957	-1,457		
PROGRAM CHANGES						•		
Budget Authority		-1,423	-2,211	-2,543	-2,543	-2,543		
Outlays		-1,423	-2,211	-2,543	-2,543	-2,543		
REAGAN BUDGET:								
Budget Authority	2,095	500						
Outlays	2,095	500						

# **Program Description**

SLMA was set up by Congress as a private corporation to provide a secondary market for the Guaranteed Student Loan (GSL) program. SLMA buys these loans using the Department of the Teasury's Federal Financing Bank (FFB) capital provided under a Department of Education guarantee. SLMA has effectively increased the total volume of loans under the GSL program above what would be lent without a secondary market.

#### Proposed Changes

The Administration proposes to eliminate the Department of Education's guarantee of SLMA's FFB borrowing, and therefore deny SLMA's access to the FFB. Off-budget savings will occur due to a reduction of an estimated \$14 billion of FFB lending over the next five years.

#### Rationale

This proposal is a component of the Administation's effort to impose fiscal constraint on Government lending and reduce intervention into private capital markets. Further government stimulation of SLMA is unnecessary. Outstanding GSL commitments are scheduled to double in 1982 over the level prevailing as recently as 1980, rising to about \$30 billion in outstanding commitments by the end of 1982. Some of the 49 State guarantee agencies now provide secondary markets for student loans, and there are other incentives within the GSL program to generate private loan capital. Given this resource base in support of student loans, it is unnecessary for the Federal Government to provide SLMA with subsidized capital to expand its secondary market operations. Although this proposal has no on-budget outlay impact, it will reduce the Federal presence in the Nation's private credit markets by reducing the borrowing requirements of the off-budget Federal Financing Bank. SLMA can access the private market.

# Key Facts About the Program

- As of September 1980, SLMA had \$1,168,089 thousand outstanding in warehousing advances. It is expected that volume will reach an adjusted level of \$1,327,900 thousand by September 30, 1981. SLMA expects to purchase \$916,092 thousand in loans in 1981, and have a net increase of \$1,017,500 thousand in 1982, to reach a level of \$3,044,000 thousand as of September 30, 1982.
- As of September 30, 1980, SLMA had entered into agreements to purchase during the next 204 months up to \$665 million of federally and State insured student loans originated by 11 State higher education agencies and 8 financial institutions. As of September 30, 1981, SLMA expects to have outstanding \$890 million of such agreements to purchase.
- As of September 30, 1980, SLMA had total outstanding debt obligations to the Federal Financing Bank of \$2,345 million.

- SLMA will be precluded from receiving a double Federal subsidy the subsidized interest rates on Guaranteed Student Loans based returning a fair profit over the cost of private money and the subsidy of using below private market rate Federal financing. This insures SLMA of large profits on its operation. In 1980 SLMA recorded record profits of \$9.4 million, a 50 percent increase over 1979 profits. Earnings per share jumped from \$38.80 in 1979 to \$56.64 in 1980.
- The Federal borrowing is only one of the many means SLMA has available for raising capital.
- The Education Amendment of 1980 removes SLMA's access to the FFB after 1984, the Administration's proposal would implement this change two years earlier. This would force SLMA to seek private funds to support its operation, something SLMA has always said it wants to do when it is ready.
- The 3/2/81 Chronical of Higher Education quoted Ed Fox, President of SLMA as saying that "the corporation is ready to continue its services to private lenders if allowed a gradual shift from government financing of its operations."
- The Administration's proposal will permit SLMA to borrow an additional \$1.5 billion from the FFB between 1981 and 1982 in order to ease the effects of a sudden loss of Federal support for current long term commitments and ease the transition to financing through the private market.
- SLMA's Federal guarantee was intended to be a temporary feature of its operation until it became established in financial markers. When the FFB was created in 1974, SLMA became an eligible borrower because of the Federal guarantee of its debt. Since that time, it has borrowed exclusively from the FFB and has not sought financing through private markets.

**Savings Affecting Many Agencies** 

# Savings Due to Reduction in Regulations

Agency: Regulatory Functional Budget Reform Reform Code: 999 Criterion; NA

President Reagan has initiated a comprehensive progam to eliminate unnecessary governmental interference in the economic and private lives of all Americans. While some regulatory activity is needed to protect the health and safety of the public — few would suggest eliminating traffic signals — every regulation costs the taxpayer in two ways. There are the direct costs associated with maintaining the bureaucracies that issue, administer, and enforce regulations. The administration's proposal will reduce these costs by more than \$100 million in 1981 and \$500 million in 1982. These savings are included in other savings shown elsewhere. The other costs that regulations place on the public are higher prices and government interference in their everyday lives. These costs are discussed elsewhere in the President's message.

The budget impact of several major reductions in regulation proposed by the administration is discussed below.

- Decontrol of oil prices will encourage the development of our petroleum resources and also reduce the direct cost to the taxpayer of government regulation by \$50 million in 1982.
- Elimination of the Council on Wage and Price Stability will save the taxpayer \$1.5 million in 1981 alone.
- Elimination of unnecessary governmental controls on the delivery of health care will save approximately \$200 million in 1982. The Administration proposes to eliminate the burdensome bureaucracies of health planning agencies and professional standards review organizations.

In addition to these specific reductions, these figures include some across-the-board cuts in the budgets of regulatory agencies. Fewer regulators will necessarily result in fewer regulations and less harassment of the regulated.

# Savings Due to Reductions in Federal Regulatory programs 1/ (dollar amounts in millions)

Regulatory	1	981			1982			
Activity	Employment*	<u>BA</u>	0	Employment*	BA	0		
Business and commerce	438	12	14	768	24	25		
Environment and energy	826	150	107	3,098	355	308		
Health care industry and other	212	68	53	955	217	172		
TOTAL	1,476	229	173	4,821	595	506		

<sup>1/</sup> These savings are included in other savings shown elsewhere.

<sup>\*</sup> Full-time equivalent.

# **Reductions of Federal Civilian Employment and Related Savings**

Agency: All Agencies		ctional le: 999		Budget Reform Criterion: 8					
		(Nu	mber of emplo	employees-thousands)					
	1981	1982	1983	1984	1985	1986			
CARTER BUDGET:									
Total	2,111	2,132	2,132	2,132	2,132	2,132			
Defense	(916)	(916)	(916)	(916)	(916)	(916)			
Non-Defense	(1,195)	(1,216)	(1,216)	(1,216)	(1,216)	(1,216)			
POTENTIAL CHANGE:	, ,	• • •	, , ,		,	. ,			
Defense	14	20	20	14	8	2			
Non-Defense	-33	-63	-83	-102	-123	-144			
REAGAN BUDGET:									
Total	2,092	2,089	2,069	2,044	2,017	1,990			
Defense	(930)	(936)	(936)	(930)	(924)	(918)			
Non-Defense	(1,162)	(1,153)	(1,133)	(1,114)	(1,093)	(1,072)			

#### PERSONNEL COMPENSATION AND BENEFITS

	Budget Authority and Outlays (in billions of dollars)						
	1981	1982	1983	1984	1985	1986	
Carter Budget 1/	56.5	58.0	58.0	58.0	58.0	58.0	
Defense	0.1	0.3	0.3	0:2	0.2	0.1	
Non-Defense	<b>−</b> 0.4	-1.6	-2.1	-2.6	-3.1	-3.7	
Reagan Budget	56.2	56.7	56.2	55.6	55.1	54.4	
1/ Excluding future pay adjustments							

Compensation and benefits for Federal civilian workers comprise a significant part of the Federal budget—about \$56.5 billion for 1981.

#### Rationale

As a step in reducing the size, cost, and inefficiency of the Government, the President has imposed new lower civilian personnel ceilings for 1981 and 1982 for Executive Branch agencies. At the same time, the Government-wide hiring freeze has been lifted for those agencies that are able to meet their revised lower personnel ceilings. These lower personnel levels will help foster a new attitude toward eliminating waste and inefficiency in Government and spur increased productivity.

Lower levels of Federal employment are appropriate because of reduced program levels in the revised Reagan budget. In addition, lower Federal employment levels can be achieved by reducing overhead and by greater efficiencies in carrying out Federal programs.

To meet the Nation's highest priority needs and to assure that essential services are not interrupted, heads of agencies have been instructed to make reallocations within their respective agencies. This will result in more efficient use of personnel and funds by targeting limited resources to those operations that vitally affect the Nation.

#### Proposed Change

For non-Defnese agencies, civilian employment will be reduced to a level that would have been achieved if the total freeze on hiring remained in effect throughout 1981. There were some exceptions to this general statement.

- The Defense Department's employment will increase in tandem with proposed increases in budgetary resources for national defense.
- The Department of Health and Human Services will experience a small, short-term, increase in staffing to implement social security benefit reforms.

- The Department of State will hold level for 1981 for reasons of national security.
- The Treasury Department will experience a lesser decline in IRS than would have been derived from continuing the freeze to provide for increased levels of audit examinations, which in turn will increase revenues.

The end result will be a reduction in total employment of 32,900 positions from the Carter budget estimates for 1981. For 1982 there will be a reduction of 63,100 positions from the Carter budget and for the years of 1983–1986 there will be further reductions each year.

For the non-Defense agencies this will result in savings of about \$400 million in 1981 and about \$1,600 million in 1982.

For the Department of Defense, civilian employment will increase from the Carter budget by 14,000 positions in 1981; by 20,000 in 1982 and 1983; and by lesser amounts in later years.

# Full-Time Equivalent Employment in the Executive Branch (Revised 1982 Budget)

	<del>-</del>		
	1980	1981	1982
Full-time permanent	1,882,300 245.400	1,868,300 252,100	1,854,100 246.700
TOTAL	2,127,700	2,120,400	2,100,800

# Summary of the Full-Time Equivalent of Full-Time Permanent Civilian Employment in the Executive Branch (Revised 1982 Budget)<sup>1</sup>/

# **Exluding the Postal Service**

		FISCAL YE	AR	
	1980	1981	1982	Change
	estimate	estimate	estimate	1981-1982
Agriculture	85,400	83,800	84,800	1,000
Commerce	29,300	32,100	30,900	-1,200
Defense—Military functions	855,000	869,600	878,700	9,100
Defense—Civil functions	27,700	27,800	25,400	-2,400
Education	6,400	6,000	5,800	-200
Energy	19,600	19,100	17,400	-1,700
Health and Human Services	136,400	134,900	129,800	-5,100
Housing and Urban Development	15,600	15,700	15,200	-500
Interior	53,800	53,100	52,800	-300
Justice	53,400	53,600	52,800	-800
Labor	22,100	21,800	21,000	-800
State	21,800	22,000	21,900	-100
Transportation	68,800	68,000	65,800	-2,200
Treasury	109,400	107,900	108,000	100
Environmental Protection Agency	10,700	10,600	10,400	-200
National Aeronautics and Space Administration	22,600	22,000	21,700	-300
Veterans Administration	193,100	194,000	188,900	-5,100
Other independent agencies:				
General Services Administration	32,300	31,600	30,100	-1,500
International Communication Agency	8,000	7,900	7,500	-400
International Development Cooperation Agency	5,700	5,600	5,400	-200
Nuclear Regulatory Commission	2,800	3,200	3,300	100
Office of Personnel Management	6,400	5,900	5,700	-200
Panama Canal Commission	7,700	8,300	8,300	
Small Business Administration	4,400	4,500	4,300	-200
Tennessee Valley Authority	16,500	16,200	15,500	-700
Miscellaneous	42,400	42,100	41,700	-400
Subtotal	1,857,300	1,867,300	1,853,100	-14,200
Contingencies <sup>2</sup> /		1,000	1,000	
Total	1,857,300	1,868,300	1,854,100	-14,200

 $<sup>^{1/}</sup>$  Excludes developmental positions under the worker-trainee opportunity program (TOP) as well as certain statutory exemptions.

<sup>2/</sup> Subject to alter distribution

# Total Federal Employment, End-of-Year (Revised 1982 Budget)

		September 30	
Description	1980	1981	1982
	Actual	Estimate	Estimate
Civilian employment in the executive branch:			
Full-time permanent (including lapse)	1,866,773	1,858,900	1,844,800
Other than full-time permanent	266,963	233,200	243,600
Subtotal	2,133,736	2,092,100	2,088,400
Postal Service:			
Full-time permanent	535,050	532,800	527,000
Other than full-time	125,035	127,800	124,300
Subtotal	660,085	660,600	651,300
Exempt from ceilings 1/	27,530	28,000	28,000
Subtotal, executive branch civilian	,	,	,-,-
employment <sup>2/, 3/</sup>	2,821,351	2,780,700	2,767,700
Military personnel on active duty: 4/			
Department of Defense	2,050,127	2,075,400	2,119,900
Department of Transportation (Coast			
Guard)	39,375	39,800	39,500
Subtotal, Military personnel	2,089,502	2,115,200	2,159,400
Total, Executive Branch Employment	4,910,853	4,895,900	4,927,100
Legislative and judicial personnel: 5/			
Full-time permanent	32,690		
Other than full-time permanent	22,198		
Subtotal, legislative and judicial branches	54,888		
GRAND TOTAL	4,965,741		

<sup>1/</sup> Developmental positions under the Worker-Trainee Opportunity Program; disadvantaged summer and part-time workers under such Office of Personnel Management programs as Summer Aids, Stay-in-School, and Junior Fellowship; and certain statutory exemptions.

<sup>2/</sup> Excludes indirect hire foreign nationals working under master labor contracts overseas. Actual employment for 1980 was 74,570. Such employment for 1981 is estimated to be 84,100.

<sup>3/</sup> For 1981 and 1982, reflects fractional counting of part-time permanent positions, pursuant to the provisions of P.L. 95-437.

<sup>4/</sup> Excludes reserve components.

<sup>5/ 1981</sup> and 1982 estimates are not available for the legislative and judicial branches. Also, excludes members and officers of the Congress.

# TOTAL FEDERAL CIVILIAN EMPLOYMENT — EXECUTIVE BRANCH

# (Excluding the Postal Service; End-of-Year)

	1981			1982			
	January	Revised		January	Revised		
	Budget	Budget	Change	Budget	Budget	Change	
Agriculture	129,200	125,000	-4,200	132,300	126,000	-6,300	
Commerce	39,200	37,300	-1,900	43,100	39,600	-3,500	
Defense-Military functions	916,000	930,000	14,000	916,000	936,000	20,000	
Defense—Civil functions	31,900	31,900		34,700	32,100	-2,600	
Education	7,200	6,800	-400	6,900	6,400	-500	
Energy.	21,500	20,300	-1,200	21,700	18,400	-3,300	
Health and Human Services	154,500	160,100	5,600	155,300	155,500	200	
Housing and Urban Development	16,400	15,500	-900	16,800	15,300	-1,500	
Interior	77,000	75,000	-2,000	78,700	74,300	-4,400	
Justice	55,900	54,700	-1,200	56,500	54,100	-2,400	
Labor	23,500	21,900	-1,600	23,500	21,800	-1,700	
State	23,400	23,400		23,700	23,200	-500	
Transportation	71,800	68,800	-3,000	72,200	67,500	-4,700	
Treasury	125,000	120,900	-4,100	128,300	121,200	-7,100	
Environmental Protection Agency	14,800	14,100	-700	15,500	13,800	-1,700	
National Aeronautics and Space							
Administration	23,800	23,300	-500	23,800	23,200	-600	
Veterans Administration	216,700	212,000	-4,700	217,200	208,000	<b>-</b> 9,200	
Other:							
General Services Administration	35,500	33,700	-1,800	36,200	33,300	-2,900	
International Communication Agency	8,100	7,700	~400	8,100	7,700	-400	
International Development							
Cooperation Agency	6,100	5,900	-200	6,100	5,800	-300	
Nuclear Regulatory Commission	3,500	3,400	-100	3,600	3,500	-100	
Office of Personnel Management	7,400	7,400		8,000	7,400	-600	
Panama Canal Commission	8,700	8,600	-100	8,600	8,500	-100	
Small Business Administration	5,000	4,700	-300	5,000	4,500	-500	
Tennessee Valley Authority	49,000	45,500	-3,500	48,000	44,000	-4,000	
Miscellaneous	<u>45,900</u>	<u>43,200</u>	<u>-2,700</u>	<u>47,700</u>	<u>44.300</u>	<u>-3.400</u>	
Subtotal	2,117,000	2,101,100	-15,900	2,137,500	2,094,400	-42,100	
Contingencies	2,000	1,000	-1,000	2,000	1,000	-1,000	
Expected Lapse	<u>-8,000</u>	<u>-10,000</u>	<u>-2,000</u>	<u>-8.000</u>	<u>-8.000</u>	==	
TOTAL	2,111,000	2,092,100	-18,900	2,131,500	2,088,400	-43,100	

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# Summary of Full-Time Permanent Civilian Employment in the Executive Branch (Revised 1982 Budget) 1/

# (Excluding the Postal Service)

# (End-of-Year)

			As of	September 30
	1980	1981	1982	1981-82
	actual	estimate	estimate	change
Agriculture	82,528	84,300	84,900	600
Commerce	29,270	28,500	27,600	-900
Defense—Military functions	867,750	879,000	885,000	6,000
Defense—Civil functions	27,730	27,600	25,400	-2,200
Education	5,639	6,000	5,600	-400
Energy	19,827	18,900	17,200	-1,700
Health and Human Services	136,364	137,900	131,200	-6,700
Housing and Urban Development	15,613	14,900	14,600	-300
Interior	53,210	53,500	52,000	-1,500
Justice	53,444	53,000	52,300	-700
Labor	22,112	21,200	20,800	-400
State	22,048	22,000	21,800	-200
Transportation	68,924	66,300	65,200	-1,100
Treasury	107,463	107,700	108,100	400
Environmental Protection Agency	10,678	10,800	10,400	-400
National Aeronautics and Space	•			
Administration	22,613	21,900	21,900	
Veterans Administration	195,255	194,400	192,100	-2,300
Other.		•	·	
General Services Administration	32,413	30,600°	29,700	-900
International Communication Agency.	7,997	7,500	7,500	-
International Development	,	•	,	
Cooperation Agency	5,614	5,500	5,400	-100
Nuclear Regulatory Commission	3,029	3,300	3,400	100
Office of Personnel Management	6,235	5,900	5,700	-200
Panama Canal Commission	7,673	8,300	8,100	-200
Small Business Administration	4,408	4,400	4,200	-200
Tennessee Valley Authority	16,523	15,500	15,100	-400
Miscellaneous	42,413	42,000	41.600	-400
Subtotal	$1.8\overline{66.773}$	$1.8\overline{70.900}$	1,856,800	-14.100
Contingencies 2/		1000	1000	
Subtotal	1,866,773	1,871,900	1,857,800	$-14,1\overline{00}$
Expected lapse		-13,000	-13.000	
TOTAL	1,866,773	1,858,900	1,844,800	$-14,1\overline{00}$

 $<sup>\</sup>frac{1}{2}$  Excludes developmental positions under the worker-trainee opportunity program (WTOP) as well as certain statutory exemptions.

<sup>2/</sup> Subject to later distribution.

# Revision of the Federal Pay Comparability Standard

Agency: All Civilian Agencies	Functional Code: 921		Budget Reform Criterion: 8					
Funding		(\$ in millions)						
<u> </u>	1981	1982	1983	1984	1985	1986		
CARTER BUDGET:								
Budget Authority		958	3,765	6,252	8,789	11.372		
Outlays		920	3,652	6,153	8,687	11,269		
REESTIMATES & ADJUSTMENTS:				-	-	*		
Budget Authority								
Outlays								
PROGRAM CHANGES:								
Budget Authority <sup>1</sup>		-159	-635	-1,132	-1,540	-2,022		
Qutlays 1/		-149	-616	-1.161	-1.597	-2.131		
REAGAN BUDGET:				-,	_,0,,	2,232		
Budget Authority		799	3,130	5,120	7,249	9,350		
Outlays		771	3,036	4,992	7,090	9,138		
1/ Partial effect of revision only. See table on	next page for fu	ll, Governme	nt-wide effec	et.				

#### Program Description

Under a system prescribed in law, the President annually adjusts Federal civilian pay rates to keep them comparable to private sector rates, or he may decide on an alternative increase "because of national emergency or economic conditions affecting the general welfare."

#### Proposed Change

The principle of comparability is sound but the way it is implemented needs to be changed by: (1) considering benefits along with pay in comparability determinations because benefits have become such a significant part of employee compensation in both the public and private sectors; (2) considering State and local government pay and benefits along with those of the private sector because State and local employment has grown to be substantial and many employees do the same work as their Federal counterparts; (3) setting the comparability standard at 94 percent of non–Federal pay and benefits in consideration of the attractive features of Federal employment in comparison with many jobs in the private sector; (4) revising other features of the system to bring them more closely in line with those of the non–Federal sector such as using locality pay for white collar workers and providing flexibility to compete for skills in short supply; and (5) indexing military increases directly to increases in the non–Federal sector rather than to Federal civilian white collar increases.

#### Rationale

These proposals will reduce outlays very substantially. Equally important, they will produce a structure of employee pay and benefits that is fair to both the employee and the taxpayer while insuring that the Government is able to attract and retain a workforce with the qualifications, experience and skills it needs to achieve the objectives set for it.

# Key Facts About the Program

A number of major studies of the civilian paysetting procedures have been conducted in the last decade. All have found comparability with the private sector rates to be the best basis for Federal paysetting, but all have recommended changes in the current methods of implementing that concept. The latest major study was made by the Ford administration, and its recommendations were converted by the Carter administration into a legislative proposal for comprehensive reform. It was not adopted by the last Congress.

The Reagan Administration reviewed the previous Administration's proposal, retained its major provisions and added a provision establishing the comparability standard at 94 percent of non–Federal pay and benefits. This legislative proposal was forwarded to the Congress on March 24, 1981.

The provisions of the bill will be implemented over a 3 year period. For example, we anticipate that the 94 percent standard will be phased—in in 3 equal installments. Similarly, locality pay will be gradually extended throughout the nation. Enactment of this proposal is expected to result in a white collar pay increase in October 1981 of about 4.8 percent, and total savings of \$3.7 billion in FY 1982 alone.

The table above measures savings from the previous Administration's budget and only for civilians employed in civilian agencies. As such, it does not take into account increases under current law and does not measure savings for civilians employed by the Department of Defense. Accordingly, the table below gives a more comprehensive picture of the full, Government—wide savings to be achieved by enactment of the legislation proposed.

#### Total Civilian Pay Increase, Including DOD Civilians

	(outlays in billions of dollars)				
	1982	1983	1984	1985	1986
Current Law:	5.7	10.6	15.0	19.4	23.5
Proposed Legislation:	<u>2.0</u>	<u>5.3</u>	<u>8.8</u>	<u>12.7</u>	<u>16.4</u>
Savings:	3.7	5.3	6.2	6.7	7.1

#### **Davis-Bacon and Service Contract Acts**

Agency: Government- wide	Functional Code: 051, 921			Budget Reform Criterion: 8		
Funding	(\$ in millions)					
Expected Savings (Budget Authority/Outlays): 1	1981	1982	1983	1984	1985	1986
Defense <sup>2</sup>		70	130	200	250	350
Non–Defense Total	==	<u>150</u> 220	<u>270</u> 400	<u>400</u> 600	<u>550</u> 800	<u>650</u> 1000

<sup>1/</sup> These savings estimates are based on previous studies. More definitive data will be obtained from the agencies in the course of reviewing specific administrative modifications. Since data was not available to spread the expected savings by agency account, the non-defense savings were applied by reducing the Allowance for Contingencies

#### **Program Description**

Under the Davis-Bacon and Service Contract Acts, the Department of Labor, through administration of the Acts, establishes minimum wage rates, based on a prevailing wage concept, for wages and benefits paid to workers by Government construction and service contractors. Studies indicate that minimum wage rates set under authority of these Acts on the average result in added costs to the Federal Government. For FY 1982, the Davis-Bacon Act will cover about \$32 billion of direct Federal or Federally-assisted construction contracts above the current threshold of \$2,000. The Service Contract Act covers an additional estimated \$5-10 billion per year of Federal contracts for services above the current threshold of \$2,500.

#### Proposed Change

The Administration is conducting a review of administrative practices under the Davis-Bacon and Service Contract Acts. The principal objective of the review is to modify administrative practices to ensure that prevailing wage determinations made by the Department of Labor under these Acts reflect actual minimum wages paid in localities where Federal contracts are performed. Reform of administrative practices is expected to result in cumulative savings of about \$3 billion by 1986.

#### Rationale

This review of administrative practices is an integral component of the Administration's overall effort to reduce Federal overhead, personnel costs, and program waste and inefficiency.

Previous studies by the Council of Economic Advisers, GAO, OMB, and academicians have indicated that substantial savings in agency budgets could be achieved by revising current administrative practices. These studies estimate that current administrative practices result in wage rate determinations for Federal contracts at levels generally higher than those paid in private industry. Costs to the Federal Government are inflated by approximately 6–7 percent of total contract costs as a result of current practices.

Some economists have suggested that current practices tend to pull private industry wages upward, thereby further fueling inflation.

Current practices tend to discriminate against young, minority, and female workers trying to break into construction trades. Administrative reform will improve competitiveness in Federal contracting and also encourage greater equity in the labor markets.

Private industry has long contended that the prevailing wage laws result in added costs to contractors by requiring higher wage standards under Federal contracts. Current practices undermine the collective bargaining process and create internal labor strife with some workers paid at collectively bargained rates while others are paid at higher, administratively—determined rates.

Also included in separate section on Department of Defense Savings.

#### Key Facts About the Program

The most recent GAO analysis (HRD-81-10 — Review of Costs on METRO Construction) of the inflationary impact of wage rate determinations under the Davis-Bacon Act indicates that current administrative practices increase total construction costs by 6.8 percent. As a result, METRO construction costs could be increased by about \$149 million.

The GAO survey in Montgomery County, Maryland found that the prevailing wage rates set by DOL were higher than actual rates in similar private construction in the locality. For example: For a laborer, the actual rate was \$6.05, while DOL's prescribed rate was \$10.95—\$4.90 higher (55 percent higher); for a carpenter, the actual rate was \$9.24, while DOL's prescribed rate was \$13.56—\$4.32 higher (68 percent higher); for a power equipment operator (bulldozer), the rate was \$8.99, while DOL's prescribed rate was \$13.72—\$4.73 higher (65 percent higher).

An earlier GAO review (HRD-79-18) of 30 Federal or Federally assisted construction projects, costing an estimated \$25.9 million, showed that the majority of the wage rate determinations issued by DOL were higher than the actual rates in 12 of the localities. The higher wage rate determinations prescribed by DOL on average were 37 percent higher (ranging from 5-123 percent higher than actual wages) than the comparable wage rates prevailing in the localities.

A study completed by the Council of Economic Advisers in 1979 concluded that total Federal Government construction costs could be reduced by 5.6–11 percent if labor costs on construction projects were brought down to levels prevailing in private construction.

**Appendices** 

## APPENDIX I

# Rescissions Proposed and Deferrals Reported in Conjunction With The President's Budget Revisions

(in thousands of dollars)

	Budget Authority
Rescissions Proposed (122)	14,757,545 1/
Deferrals Reported (26 new items, 5 revised deferrals)	1,704,642
TOTAL, RESCISSION PROPOSALS AND DEFERRALS	16,462,187

#### RESCISSION PROPOSALS

Rescission#	Item	Budget <u>Authority</u>
	Executive Office of the President	
R81-38	Council on Environmental Quality and Office of	<b>200</b>
	Environmental Quality	708
R81-34	Salaries and expenses	1,500
	Office of Science and Technology Policy	•
R81-39	Salaries and expenses	595
	Funds Appropriated to the President	
R81-40	Appalachian Regional Development Programs	110,000
R81-41	Disaster Relief	8,000
DOI 10	International Development Assistance	2 000
R81-42	Sahel development program	2,000
R81–43	Inter-American Foundation	138
	Department of Agriculture	
D01 44	Agricultural Stabilization and Conservation Service	1.600
R81-44	Dairy and beekeeper indemnity programs	1,500
R81-45	Rural communication development fund	16,341
1101 15	Farmers Home Administration	10,511
R81-46	Rural development planning grants	2,000
R81-47	Rural community fire protection grants	1,500
R81-48		500
R81-119	Rural housing insurance fund	316,000 2/
R81-120	Agriculural credit insurance fund	88,850 2/
R81-121	Rural development insurance fund	160,000 2/
	Department of Commerce	
R81-49	Economic Development Administration Economic development assistance programs	342,350
No1-43	Regional Development programs	342,330
R81-50	Regional development programs	21,000
	United States Travel Service	
R81-51	Salaries and expenses	41
DOI 100	National Oceanic and Atmospheric Administration	25.424
R81-123 R81-52	Operations, research, and facilities	36,493 9,000
R81-53	Costal energy impact fund	40,000
· <del>-</del>	Science and Technical Research	,000
R81-54	Scientific and technical research and services	3,370

Rescission#	Item	Budget <u>Authority</u>
	National Telecommunications and Information Administration	
R81-55	Salaries and expenses	313
	Public telecommunications facilities, planning and	
R81-124	construction	25,717
R81-56	Maritime Administration Research and development	2,500
1101 00	-	2,500
	Department of Education Office of Elementary and Secondary Education	
R81-125	School assistance in federally affected areas	66,500
R81-57	Equal educational opportunities	73,253
R81-126	Elementary and secondary education	982,385
D01 60	Office of Special Education and Rehabilitation Services	267.020
R81–58 R81–59	Education for the handicapped, gifted and talented	267,938
K81-39	Rehabilitation services and handicapped research Office of Vocational and Adult Education	22,323
R81-127	Vocational and adult education	238,777
701.100	Office of Postsecondary Education	
R81-128	Student loan insurance	103,270
R81-129	Higher and continuing education	49,239
R81-60	College housing loans	14,550
R81-61	Office of Educational Research and Improvement Libraries and learning technologies	42,750
R81-62	Institute of museum services	12,357
R81-63	School improvement programs	36,606
R81-130	Department of Energy Energy Programs Energy supply, research and development activities - operating expenses	126,609
DOI 101	Energy supply, research and development activities -	700
R81-131	plant and capital equipment	7,967
R81–132 R81–64	Fossil energy research and development	65,932 246,900
R81-65	Fossil energy construction  Energy production, demonstration, and distribution	12,649
R81-133	Energy conservation	306,045
R81–66	Energy information administration	13,443
R81-67	Economic regulation	33,155
R81-68	Geothermal resources development fund	22,066
R81-69	Alternative fuels production	300,000
R81-70	Departmental Administration	11,500
	Department of Health and Human Services	
R81-134	Health Services Administration Health Services	11,616
R81-71	Indian health facilities	8,871
1101 /1	Centers for Disease Control	0,071
R81-135	Preventive health services	38,520
	National Institutes of Health	
R81-136	National Cancer Institute	17,986
R81-137	National Heart, Lung and Blood Institute	11,120
R81-138	National Institute of Dental Research National Institute of Arthritis, Metabolism, and	700
R81-139	Digestive Diseases	3,943
R81-140	National Institute of Neurological and Communicative Disorders and Stroke	4,388
R81-72	National Institute of Allergy and Infectious Diseases	1,088
R81-73	National Institute of Anergy and Three does Diseases  National Institute of General Medical Sciences	18,682
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Rescission#	Item	Budget <u>Authority</u>
	National Institute of Child Health and Human	
R81-141	Development	4,119
R81-142	National Eye Institute	3,856
R81-143	National Institute of Environmental Health Sciences	2,179
R81-144	National Institute of Aging	1,593
R81-145	Research Resources	3,714
R81-146	National Library of Medicine	341
R81-147	Office of the Director	360
DO1 140	Alcohol, Drug Abuse, and Mental Health Administration	00.370
R81-148	Alcohol, drug abuse, and mental health	98,370
R81–74	Construction and renovation, St. Elizabeths Hospital	1,020
R81-149	Health Resources Administration  Health resources	131,751
	Office of Assistant Secretary for Health	,
R81-75	Salaries and expenses	30,724
	Health Care Financing Administration	
R81-76	Payments to health care trust funds	8,693
R81-77	Program management	6,992
D01 70	Social Security Administration	25 100
R81–78	Refugee assistance	25,100
R81-150	Human Development Services Human development services	10,100
	Department of Housing and Urban Development	,
	Housing Programs	
R81-79	Subsidized housing programs	5,099,104
R81-151	Congregate services program	10,000
-,	Solar Energy and Energy Conservation Bank	20,000
R81-80	Assistance for solar and conservation improvements	121,000
D01 01	Community Planning and Development	24.076
R81-81 R81-82	Planning assistance	34,976
No1-02		110,857
	Neighborhoods, Voluntary Associations and Consumer Protection	
R81-83	Housing counseling assistance	6,000
R81-84	Neighborhood self-help development program	8,119
	Department of the Interior	,
	Office of Water Research and Technology	
R81-85	Salaries and expenses	11,800
	United States Fish and Wildlife Service	,
R81-86	Construction and anadromous fish	2,500
	National Park Service	
R81-87	Urban park and recreation grants	35,000
R81-88	Land and water conservation fund	250,000
R81-89	Historic preservation fund	8,000
R81-90	Construction (trust fund)	15,500
R81-91	Office of Surface Mining Reclamation and Enforcement	1.054
V01-31	Regulation and technology Office of the Solicitor and Office of the Secretary	1,954
R81-35	Youth conservation corps	38,194
	Department of Labor	,
	Employment and Training Administration	
R81-92	Temporary employment assistance	234,475
	Department of State	

Rescission#	Item	Budget <u>Authority</u>
R81-93	Bureau of Refugee Programs Migration and refugee assistance	22,500
R81-94	Bureau for International Narcotics Matters International narcotics control	2 100
K01-94	Department of Transportation	3,100
R81-95	Urban Mass Transportation Administration Urban mass transportation fund	24,700
R81-96	Research and Special Programs Administration Cooperative automotive research	11,500
R81-97	Department of the Treasury Bureau of Government Financial Operations Biomass energy development	1,245,500
R81-98 R81-99 R81-100	Environmental Protection Agency Research and development (pollution and abatement) Abatement, control and compliance Construction grants	149 1,253 1,700,000
R81-101	National Aeronautics and Space Administration Research and development	4,500
R81-102	Veterans Administration Construction, major projects	162,160
	Other Independent Agencies ACTION	
R81-103	Operating expenses, domestic programs	3,207
R81-104	Arms Control and Disarmament Agency Arms control and disarmament activities	1,500
R81-152	Community Services Administration Community services program	6,000
R81-105	Corporation for Public Broadcasting Public broadcasting fund	95,000
R81-106	Federal Mediation and Conciliation Service Salaries and expenses	687
R81-153	Federal Mine Safety and Health Review Commission Salaries and expenses	186
R81-107	Federal Trade Commission Salaries and expenses	226
R81-108	Marine Mammal Commission Salaries and expenses	4
R81-109	Merit Systems Protection Board Salaries and expenses	210
R81-36	National Consumer Cooperative Bank Investment in National Consumer Cooperative Bank	59,849
R81-37	Self-help development and technical assistance  National Science Foundation	29,990
R81-110	Research and related activities	66,000
R81-111	Science and engineering education activities  Occupational Safety and Health Review Commission	16,000
R81-112	Salaries and expenses  Office of the Federal Inspector for the Alaska	39
R81-113	Natural Gas Transportation System Salaries and expenses	445
R81-154	Postal Service Payment to the Postal Service Fund	250,000

Rescission#	Item	Budget <u>Authority</u>
R81–114	Pennsylvania Avenue Development Corporation	60
K01-114	Salaries and expenses	00
R81-115	Salaries and expenses	1,940
	Small Business Administration	- <b>,</b> -
R81-116	Salaries and expenses	1,405
DOI 155	Tennessee Valley Authority	7.000 OOO
R81-155	Tennessee Valley Authority fund	177,000
R81–117	Tennessee Valley Authority fund	500
D01 110	Water Resources Council	c 000
R81–118	Water resources planning	5,000
	Off-Budget Federal Entities:	
	Department of Agriculture	
	Rural Electrification Administration	2.
R81-122	Rural electrification and telephone revolving fund	187,000 <sup>2</sup> /
	Subtotal, rescission proposals	14,757,545

 $<sup>\</sup>underline{1}$ / Includes four proposals to reduce authority to incur obligations for direct loans by a total of \$751.8 million.

#### **DEFERRALS REPORTED**

Deferral #	<u>Item</u>	Budget <u>Authority</u>
D81-79	Funds Appropriated to the President Appalachian Regional Development Programs Appalachian regional development programs	10,000
	Department of Commerce	
D81-103	Minority Business Development Agency Minority business development	3,400
D81-80	Maritime Administration Ship construction	92,000
D81-81	Department of Defense - Civil Corps of Engineers, Civil Construction, general	10,000
D81-82	Department of Education Office of Postsecondary Education Higher education facilities loan and insurance	25,000
	Department of Energy	
D81-29A	Atomic Energy Defense Activities Operating expenses	10,000
D81-83	Energy Programs Strategic petroleum reserve	8,000

<sup>2/</sup> This amount represents a proposed reduction in authority to incur obligations for direct loans.

Deferral #	<u>Item</u>	Budget <u>Authority</u>
D81-33A	Fossil energy construction	205,000
	Department of Health and Human Services	
	Social Security Administration	
D81-104	Limitation on administrative expenses	8,004
	Department of Housing and Urban Development	
D01 04	Policy Development and Research	
D81-84	Research and technology	5,000
	Department of Justice	
D81-85	General Administration Salaries and expenses	7 105
D01-02	Federal Prison System	7,485
D81-86	Salaries and expenses	4,385
	Office of Justice Assistance, Research and Statistics	
D81-87	Law enforcement assistance	670
	Department of Labor	
D01 264	Employment and Training Administration	700 107
D81-36A	Employment and training assistance	729,187
	Department of Transportation	
D81-88	Office of the Secretary  Transportation planning, research and development	1,040
D81-88	Federal Aviation Administration	1,040
D81-17B	Facilities and equipment (Airport and airway trust fund)	365,783
	Federal Highway Administration	•
D81-89	Trust fund share of other highway programs	21,500
D81-90	Federal Railroad Administration Railroad research and development	383
D81-91	Rail service assistance	80,341
D81-92	Northeast corridor improvement program	125,000
	Urban Mass Transportation Administration	•
D81-93	Urban mass transportation fund	210,000
D81-94	Research and Special Programs Administration Research and special programs	3,100
1701-34	Research and special programs	3,100
	Veterans Administration	
D81-95	Medical care	29,389
D81-96	Medical and prosthetic research	1,690
D81-97	Medical administration and miscellaneous operating	515
D81-98	expenses  Construction, major projects	183,493
201 70	Construction, major projects	105, 175
	Other Independent Agencies	
	General Services Administration	
D81-99	Office of Inspector General	444
D81-100 D81-101	Allowances and office staff for former Presidents  Consumer information center	8 50
1791-101	Small Business Administration	<b>J</b> U
D81-41A	Business loan and investment fund	113,400
D81-102	Surety bond guarantees revolving fund	6,000
	Subtotal, deferrals	(2,260,267)

<u>Item</u>	Budget <u>Authority</u>
New items reported by President Reagan	(836,897)
Administration	(867,745)
Effect of deferrals reported by President Reagan	(1,704,642)
Amounts reported initially by the previous Administration.	(555,625)
TOTAL, RESCISSION PROPOSALS	
AND DEFERRALS	16,462,187

#### APPENDIX II

### **Programs Being Recommended for Termination over 1981–1986**

#### **EXECUTIVE OFFICE OF THE PRESIDENT**

Council on Wage and Price Stability

#### FUNDS APPROPRIATED TO THE PRESIDENT

Appalachian Regional Development program Non-highway programs International Development Assistance African development foundation

#### DEPARTMENT OF AGRICULTURE

Commodity Credit Corporation

Storage Facility loans (termination in 1986)

Rural Electrification Administration

REA direct loans to telephone companies

Farmers Home Administration

Alcohol fuels/biomass loans program

Business and industry loan guarantee program

Home ownership assistance program

Rural development planning grants

Rural community fire protection

Rural housing supervisory assistance grants

Food and Nutrition Service

Summer feeding program

Snack subsidies

Nutrition education

Equipment assistance

Meal subsidies for middle/upper income students

Forest Service

Grants for forest management on State and county lands

in Northern Minnesota

#### DEPARTMENT OF COMMERCE

Office of the Secretary

Secretarial representatives

Office of productivity, technology, and innovation

International Trade Administration

Small business export expansion

Economic Development Administration

Regional Development Commissions

National Telecommunications and Information Administration

Public telecommunications facilities grant program

National Oceanic and Atmospheric Administration

Coastal energy impact program

Coastal zone management state grant program

Fisheries development and state grant programs

National ocean satellite system (NOSS) (Commerce portion)

Sea grant program

#### DEPARTMENT OF DEFENSE

Stand-off Jammer Systems development

8" Artillery rocket projectile development

National ocean satellite system (NOSS) (Defense portion)

Shipboard laser guided weapon (Seafire)

Tactical electronic warfare decoy system (TEWDS)

Human and manpower effectiveness study

Anti-ship torpedo defense development

VCX (new carrier-on-board delivery aircraft development)

Mine-laying/cargo aircraft development

Small submarine development

Laser acquisition device development

High-altitude high-speed target development

#### DEPARTMENT OF EDUCATION

College libraries

Institute of Museum Services

Veterans cost of instruction

Educational outreach programs

Land Grant Colleges (permanent appropriation)

Public service grants and fellowships

Mining fellowships

Law school clinical experience

Special foreign currency program (P.L. 86-610)

#### DEPARTMENT OF ENERGY

Fossil Programs

Fossil commercialization

Synthetic Fuels feasibility studies/cooperative agreements (2nd solicitation)

Coal loan guarantees

Solar programs

Alcohol fuels subsidies

Ocean thermal energy conversion

Solar MX-renewable energy system

Other Energy Supply Programs

Geothermal loan guarantees

Small hydropower subsidies

**Energy Impact Assistance** 

**Energy Conservation Programs** 

Consumer products technology

Industrial conservation

Appropriate technology small grants

Building energy performance standards

Appliance efficiency standards

Community systems market development

Residential/commercial conservation service and auditor training

Innovative conservation delivery demonstrations

Energy extension service

State energy conservation grants (basic and supplemental)

State energy emergency planning grants

**Energy Regulation Programs** 

Administration of oil price and allocation controls

Standby gasoline rationing

Conversion of utilities and others to coal and other alternative fuels

Rate reform assistance to public utility commissions

Interventions in State utility rate-making proceedings

Hydropower resources analysis

International Affairs

Country energy assessment

#### DEPARTMENT OF HEALTH AND HUMAN SERVICES

Merchant seamen entitlement and PHS hospitals and clinics

End State Renal Disease Network Councils

Clinical Training for Mental Health and Substance Abuse (1983)

Office of Smoking and Health

National Institute of Occupational Safety and Health training

Nursing Research Grants

Nursing Fellowships

Health Professions loans, nursing loans, nursing capitation, nursing

traineeships, Nursing Scholarships

Health Professions schools start-up

**Dental Training** 

**Emergency Medical Training** 

Allied Health

Health Professions Education Improvement and Development

Health planning

Maternal and child health research and training

Exceptional needs scholarships

National Center for Health Care Technology

Health Maintenance Organizations

Professional Standards Review Organizations (PSRO's)

Vocational rehabilitation

National Clearinghouse on Aging

Cuban refugee phasedown

Cuban/Haitian entrants education assistance

#### DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Non profit sponsor assistance

Section 202, Elderly and Handicapped Housing Fund

Section 11B, Tax exempt financing

Indian Housing

GNMA Sepcial Assistance Functions Fund; Section 8 and Targeted tandem

assistance programs

Solar and Energy Conservation Bank

Planning assistance

Rehabilitation loan fund

Neighborhood self-help development program

#### DEPARTMENT OF THE INTERIOR

Urban Park Rehabilitation Fund
Land and Water Conservation Fund, State recreation grants
Office of Water Research and Technology
Saline research and development program

Youth Conservation Corps

#### DEPARTMENT OF JUSTICE

Office of Justice Assistance, Research, and Statistics, Juvenile justice and delinquency prevention program

#### DEPARTMENT OF LABOR

Employment and Training Administration

Public service employment, (Title II-D and Title VI

of the Comprehensive Employment and Training Act)

Young Adult Conservation Corps (YACC-Title VIII of the

Comprehensive Employment and Training Act)

Welfare Reform Demonstrations (Title III of the

Comprehensive Employment and Training Act)

#### DEPARTMENT OF TRANSPORTATION

Federal Railroad Administration

Local rail service assistance program (low volume railroad branch lines)

Urban Mass Transportation Administration

Mass transit operating subsidies

Waterborne demonstration project

Research and Special Programs Administration

Cooperative automotive research program

#### **ENVIRONMENTAL PROTECTION AGENCY**

Clean Lakes program

Subtitle D, Solid waste management grants

Resource recovery local financial assistance

Solid waste technical assistance panels

Noise control program

#### OTHER INDEPENDENT AGENCIES

ACTION;

Volunteers in Service to America (VISTA)

Architectural and Transportation

Barriers Compliance Board

Civil Aeronautics Board

406 subsidy programs

Federal Mediation and Concilation Service:

Grants for Labor-Management Committees

General Services Adminstration

Historical grants to the National Historical Publication

and Records Commission

Legal Services Corporation

National Consumer Cooperative Bank

National Science Foundation

Science and engineering education

Office of Personnel Management

Intergovernmental Personnel Act (IPA) program

Payment to the Postal Servi ce Fund

Public service subsidies

**Small Business Administration** 

Non-physical disaster loans

Women's business enterprise

Small business development center program

U.S. Railway Association

Conrail subsidies

Water Resources Council

# **Indices**

.

# INDEX I

# **Keyword Index by Program**

Program	Department/Agency	<u>Page</u>
ACTION (Domestic programs)	Other Agencies	335
Adult Student Benefits, Social Security	Health and Human Services	172
Aid to Families with Dependent Children (AFDC)		139
Airport Construction	Transportation	255
Airway and Airport Trust Fund	Transportation	257
Agency for International Development (AID)	Foreign Assistance	329
Alcohol, Drug Abuse, and Mental Health Administration	Health and Human Services	144
Alcohol Fuels/Biomass/Urban Waste	Energy	109
AMTRAK	Transportation	259
Appalachian Regional Commission (ARC)	Other Agencies	336
Architectural and Transportation Barriers Compliance Board	Other Agencies	338
Arts, National Endowments for	Other Agencies	366
Auto, Cooperative Reserach	Transportation	266
Beneficiary Travel, VA	Veterans Administration	307
Black Lung Disability Trust Funds	Labor	229
Block Grants Education	Education	86
Block Grants, HHS	Health and Human Services	146,148,150
Boat and Yacht User Fees (Coast Guard)	Transportation	262
Budget Reform Criterion Index	Index II	425
Building Construction, GSA	Other Agencies	354
Bureau of Indian Affairs	Interior	209
Business Credit Assistance, SBA	Other Agencies	378
CCC, Interest Rates/Waiver Changes	Agriculture	23
CCC, Storage Facility Loan	Agriculture	25
CETA	Labor	231-235
Chesapeake Bay Program	Environmental Protection Agency	291
Child Nutrition	Agriculture	21
Child Support Enforcement	Health and Human Services	139
Civil Aeronautics Board	Other Agencies	340
Civil Service Retirement Annuities, OPM	Other Agencies	371
Clean Lakes	Environmental Protection Agency	291
Coast Guard, User fees	Transportation	262
Coastal Energy Impact Program (CEIP), NOAA	Commerce	61
Coastal Zone Management (CZM), NOAA	Commerce	61
College Housing Loans	Education	85
Common Fund for Commodities	Foreign Assistance	332

Program	Department/Agency	Page
Commodity Credit Corportation (CCC)	Agriculture	23,25
Community Development Block Grants (CDGB)	Housing and Urban Development	182
Community Services Administration	Other Agencies	342
CONRAIL	Transportation	264
Conservation Cost Sharing	Agriculture	27
Conservation, Energy	Energy	113
Construction, VA	Veterans Administration	308
Consumer Cooperative Bank	Other Agencies	364
Consumer Product Safety Commission	Other Agencies	343
Cooperative Automotive Research Program	Transportation	266
Corporation for Public Broadcasting	Other Agencies	344
Correspondence Courses, VA	Veterans Administration	311
Council on Wage and Price Stability	Other Agencies	346
Cubans/Haitians, Domestic Assistance	Health and Human Services	152
<b>,</b>		
Davis-Bacon Act	Savings Affecting Many Agencies	398
Defense Savings	Defense-Military	71
Deferrals	Appendix I	403
Dental Treatment, VA	Veterans Administration	309
Disability Insurance, Social Security	Health and Human Services	174
Disaster Loan Assistance, SBA	Other Agencies	380
District of Columbia	Other Agencies	347
	_	
Economic Development and Title V Regional Commissions Programs	Commerce	55
Elementary and Secondary Education Block Grants	Education	86
Employment and Training Grant Consolidation, CETA	Labor	231
Employment Service	Labor	237
Energy, Administrative Reductions	Energy	111
Energy and Emergency Assistance Block Grant	Health and Human Services	146
Energy Research and Development, EPA	Environmental Protection Agency	293
Energy Sciences	Energy	119
Executive Office of the President (EOP), Resources	Other Agencies	348
Ex-Servicemember Unemployment Compensation	Labor	242
Export-Import Bank	Other Agencies	349
Extended Benefits, Unemployment Compensation	Labor	243
		** **
Farmers Home Administration (FmHA)	Agriculture	29-36
Federal Civilian Employment Reductions	Savings Affecting Many Agencies	390
Federal Emergency Management Agency	Other Agencies	351
Federal Employee Injury Compensation	Labor	238
Federal Protective Service, GSA	Other Agencies	359

Program	Department/Agency	Page
Federal Trade Commission	Other Agencies	352
FmHA, Business and Industry Loan Program	Agriculture	29
FmHA, Direct Lending	Agriculture	31
FmHA, Grant and Home Ownership Assistance	Agriculture	34
Fish and Wildlife Service	Interior	210
Fisheries Management and Development, NOAA	Commerce	61
Flight Training, VA	Veterans Administration	311
Flood Insurance Program, FEMA	Other Agencies	351
Food Aid P.L. 480	Foreign Assistance	330
Food Stamps	Agriculture	37
Foreign Affairs, Operation of	State	251
Foreign Development Assistance	Foreign Assistance	323
Forest Service	Agriculture	39
Fossil, Energy	Energy	120
Functional Index	Index III	433
Fusion, Energy	Energy	123
General Flight Training, GI Bill	Veterans Administration	311
General Science, Energy	Energy	122
General Services Administration	Other Agencies	354-359
GI Bill, No Extension	Veterans Administration	310
GI Bill, Flight Training and Correspondence Training	Veterans Administration	311
GNMA Mortgage-Backed Securities	Housing and Urban Development	184
Government National Mortgage Association (GNMA) Tandum	Housing and Urban Development	186
Grain Inspection, user charges	Agriculture	50
Grant and Home Ownership Assistance, FmHA	Agriculture	34
Great Lakes	Environmental Protection Agency	291
Great River Road	Transportation	267
Health Block Grants	Health and Human Services	148
Health Maintenance Organizations (HMOs)	Health and Human Services	153
Health Planning	Health and Human Services	155
Health Professions Education	Health and Human Services	156
Higher and Continuing Education	Education	90
Highway Construction Program	Transportation	268
Highway Safety Grants (402)	Transportation	271
Highway Safety Program, Research and Development, Regulations	Transportation	272
Historic Publication and Records Commission Grants, GSA	Other Agencies	356
Housing Counseling	Housing and Urban Development	188
Humanities, National Endownments for	Other Agencies	366
HUD, Administrative Expenses	Housing and Urban Development	181

Program	Department/Agency	Page
Impact Aid	Education	93
Index:	Y . 4 YY	405
Budget Reform Criterion Functional Index	Index II Index III	425 433
Program Index	Index I	417
Indian Health Service	Health and Human Services	158
Indian Housing	Housing and Urban Development	204
Information, Energy	Energy	115
Institute of Museum Services	Education	95
Insurance Loans, VA	Veterans Administration	312
Intergovernmental Personnel Act, OPM	Other Agencies	373
International Communication Agency	Other Agencies	361
International Organizations	Foreign Assistance	328
Justice, Department Employment	Justice	223
Juvenile Justice and Delinquency Prevention	Justice	225
Keyword Index by Program	Index I	417
LANDSAT (Land Remote Satellite Sensing)	Commerce	59
Legal Services Corporation	Other Agencies	362
Library Programs	Education	97
Magnetic Fusion	Energy	123
Maritime Assistance	Commerce	57
Mass Transit, Urban	Transportation	280,282
Medicaid	Health and Human Services	159
Medical Care, VA	Veterans Administration	316
Medical Staffing, VA	Veterans Administration	317
Merchant Seamen (PHS) Hospitals/Clinics	Health and Human Services	167
Mineral Leasing Acceleration	Interior	214
Minimum Payment Amount, Social Security	Health and Human Services	176
Minority Development Assistance	Commerce	66
Minority Procurement Program, SBA	Other Agencies	328
Mortage-Backed Securities, GNMA	Housing and Urban Development	184
Modernization, Public Housing	Housing and Urban Development	206
Multilateral Development Banks	Foreign Assistance	325
NASA, Reductions in Research and Development	National Aeronautics and Space Administr	ration 301
National Aeronautics and Space Administration	Nationaal Aeronautics and Space Administ	tration 301
National Center for Health Care Technology	Health and Human Services	161
National Consumer Cooperative Bank	Other Agencies	364
National Defense Stockpile, sales of excess materials, GSA	Other Agencies	357
National Endowments for Arts/Humanities	Other Agencies	366
National Health Service Corps	Health and Human Services	162
-		

Program	Department/Agency	Page
National Institute of Education	Education	99
National Institutes of Health	Health and Human Services	164
National Oceanic and Atmospheric Administration (NOAA)	Commerce	59,61,66
National Ocean Satellite System (NOSS), NOAA	Commerce	61
National Programs, CETA	Labor	233
National Science Foundation	Other Agencies	369
National Telecommunications and Information Administration	Commerce	65
Neighborhood Self-Help Development	Housing and Urban Development	189
NOAA, Ocean programs	Commerce	61
Northeast Corridor Improvement Project	Transportation	274
Nutrition Assistance for Puerto Rico	Agriculture	41
Office of Personnel Mangement (OPM), Civil Service Retirement	Other Agencies	371
Office of Personnel Management (OPM), Intergovernmental Personnel Act	Other Agencies	373
Office of Productivity, Technology and Innovation	Commerce	66
Office of Water Policy	Water Resources Programs	78
Office on Smoking and Health	Health and Human Services	165
Operating Subsidies, Public Housing	Housing and Urban Development	192
Other supply, Energy	Energy	125
Pay Comparability Standard, relatedsavings	Savings Affecting Many Agencies	396
Payment in Lieu of Taxes	Interior	216
Payments on a Worker's Death, Social Security	Health and Human Services	177
Peace Corps	Foreign Assistance	331
Personnel, Office of Personnel Management	Other Agencies	371,373
Physicians/Dentists Bonuses, VA	Veterans Administration	314
P.L. 480, Food Aid	Foreign Assistance	330
Planning Assistance	Housing and Urban Development	190
Postal Service	Other Agencies	374
Professional Standards Review Organizations (PSROs)	Health and Human Services	166
Program Index	Index I	417
Program Level, Subsidized Housing	Housing and Urban Development	199
Programs Being Recommended for Termination over 1981–1986	Appendix II	411
Public Health Service (PHS) Commissioned Corps	Health and Human Services	169
Public Health Service (Merchant Seamen) Hospitals and Clinics	Health and Human Services	167
Public Housing Modernization	Housing and Urban Development	206
Public Housing, Operating Subsidies	Housing and Urban Development	192

Program	Department/Agency	Page
Public Service Jobs, CETA	Labor	235
Public Telecommunications Facilities Grants	Commerce	65
Railroad Branchlines	Transportation	276
Railroad Restructuring Assistance	Transportation	278
Railroad Retirement Board	Other Agencies	376
Readjustment Counseling Centers, VA	Veterans Administration	319
Refugee Assistance, Domestic	Health and Human Services	170
Regional Development Commissions	Commerce	55
Regular Benefits Work Test	Labor	245
Regulation, Energy	Energy	117
Regulation Reduction Savings	Savings Affecting Many Agencies	389
Regulatory Program Reductions, EPA	Environmental Protection Agency	294
Rehabilitation Loans	Housing and Urban Development	194
Remote Land Satellite Sensing (LANDSAT)	Commerce	59
Rental Assistance Payments	Housing and Urban Development	203
Rescissions and Deferrals	Appendix I	403
Research and Technology, HUD	Housing and Urban Development	195
Rural Electrification Administration (REA), Community Antenna (Cable) Loans	Agriculture	43
Rural Electrification Administration (REA), Direct Lending	Agriculture	44
Rural Electrification Administration (REA), Telephone Bank Capital Stock Purchases	Agriculture	46
Savings Due to Reduction in Regulations	Savings Affecting Many Agencies	389
Sea Grant Termination, NOAA	Commerce	61
Service Contract Act	Savings Affecting Many Agencies	398
Small Business Administration	Other Agencies	378-382
Small Business Development Center	Other Agencies	382
Social Security, Overview	Health and Human Services	172
Social Services Block Grant	Health and Human Services	150
Solar, Energy	Energy	128
Solar Energy and Conservation Bank	Housing and Urban Development	196
Special Milk	Agriculture	48
Special Population Programs	Éducation	101
Special Suplemental Food Program for Women, Infants and Children	Agriculture	49
State Department, Operation of Foreign Affairs	State	251
Student Assistance	Education	103
Student Loan Marketing Association	Other Agencies	384
Subsidized Housing	Housing and Urban Development	198-206
Subsidized Housing, Summary	Housing and Urban Development	198
Surface Mining, Regulation and Reclamation	Interior	217
Superfund	Environmental Protection Agency	295
Supplemental Security Income	Health and Human Services	178

Program	Department/Agency	<u>Page</u>
Synfuels	Energy	131
Tandem, GNMA	Housing and Urban Development	186
Targeting Recreation and Conservation Expenditures	Interior	212
Telecommunications and Information Administration	Commerce	65
Telephone Bank Capital Stock Purchase, REA	Agriculture	46
Tenant Rent Burden, Subsidized Housing	Housing and Urban Development	201
Termination, Programs Recommended for, 1981–1986	Appendix II	411
Trade Adjustment Assistance	Labor	240
Treasury Law Enforcement/Tax Administration Staffing	Treasury	287
Unemployment Comensation for Ex-Servicemembers	Labor	242
Unemployment Insurance	Labor	243,245
Uranium Enrichment	Energy	134
Urban Development Action Grants (UDAG)	Housing and Urban Development	182
Urban Mass Transit, Capital Assistance	Transportation	280
Urban Mass Transit, Operating Assistance	Transportation	282
User Charges for Grain Inspection and Cotton and Tobacco	Agriculture	50
User Fees, Waterways/Deep Draft Ports	Water Resources Programs	80
Veterans Medical Program	Veterans Administration	316,317
Veterans Readjustment Counseling Centers	Veterans Administration	319.
Vocational Education	Education	105
		200
Wage and Price Standards	Other Agencies	346
Wastewater Treatment Grants	Environmental Protection Agency	297
Water and Sewer Loan Levels and Interest Rates, FmHA	Agriculture	36
Water Resource Development Construction	Water Resources Programs	76
Water Projects Unfunded	Water Resources Programs	75
Water Research and Technology	Water Resoruces Programs	77
Water Resources Council/Office of Water Policy	Water Resources Programs	78
Waterway and Port User Fees	Water Resources Programs	80
Women's Business, SBA	Other Agencies	382
Work Test, Unemployment Insurance	Labor	245
Young Adult Conservation Corps	Labor	246
Youth Conservation Corps	Interior	219
Youth Initiative	Labor	248

# INDEX II Budget Reform Criterion Index

I.	REVISE ENTITLEMENTS TO ELIMINATE UNINTENDED BENEFITS
	Adult Student Benefits
	AFDC and Child Support Enforcement
	Annual Indexation of Civil Service Retirement Annuities
	Beneficiary Travel
	Black Lung Disability Trust Fund
	Cubans/Haitians, Domestic Assistance
	Disability Insurance
	Federal Employee Injury Compensation Program
	FHA/GNMA Mortgage-Backed Securities
	Food Stamps
	G.I. Bill: Flight and Correspondence Training
	G.I. Bill: No extension
	Indian Housing
	Insurance Loans, VA
	Outpatient Dental Treatment
	Medicaid
	Minimum Payment Amount, Social Security
	Payment in Lieu of Taxes
	Payments on a Worker's Death, Social Security
	Public Housing Operating Subsidies
	Railroad Retirement Board
	Rental Assistance Payments
	Solar Energy and Energy Conservation Bank

		Page
	Special Milk	48
	Subsidized Housing: Program Level	199
	Supplemental Security Income	178
	Tenant Rent Contribution	201
	Trade Adjustment Assistance	240
	Unemployment Compensation for Ex-Servicemembers	242
	Unemployment Insurance: Extended Benefits	243
	Unemployment Insurance: Regular Benefits Work Test	245
	Vocational Education	105
2.	REDUCE MIDDLE-UPPER INCOME BENEFITS	
	Child nutrition	21
	Public Health Service Commissioned Corps Physician Bonuses	169
	Railroad Retirement Board	376
	Student Assistance	103
3.	RECOVERY CLEARLY ALLOCABLE COSTS FROM USERS	
	(increase in governmental receipts)	
	Airport and Airway Trust Fund	257
	Boat and Yacht User Fees (Coast Guard)	262
	Flood Insurance Program	351
	User Charges for Grain Inspection and Cotton and Tobacco	50
	User Fees for Recovery for Construction and Operation of Inland Waterways and Deep Ports	80
4.	APPLY SOUND CRITERIA TO ECONOMIC SUBSIDY PROGRAMS	
	Alcohol Fuels/Biomass/Urban waste	109
	Appalachian Regional Commission	336
	Business Credit Assistance	378
	CAB Subsidy Elimination	340
	CCC Interest Rates and Interest Waiver Changes	23
	CCC Storage Facility Loans	25

	Page
CETA: Public Service Jobs	231
CONRAIL	264
Disaster Loan Assistance	380
Economic Development and Title V Regional Commissions	55
Energy Conservation Programs	113
Export-Import Bank	349
FmHA Business and Industry Loan Program	29
FmHA Direct Lending	31
FmHA Water and Sewer Loan Levels and Interest Rates	36
Forest Service Reductions	39
Fossil Energy	120
GNMA Tandem Mortgage Assistance	186
Housing Counseling Assistance	188
Mineral Leasing Acceleration	214
Northeast Corridor Improvement	274
Other Energy Supply	125
Planning Assistance	190
Postal Service Subsidy Reduction	374
Railroad Branchlines	276
Railroad Restructuring Assistance	278
REA (Rural) Community Antenna Television (CATV)  Loans Elimination	4
REA Direct Lending Reductions (Including elimination of FFB direct lending)	4
REA Rural Telephone Bank (Capital Stock Purchase Elimination)	4
Solar Energy and Energy Conservation Bank	19
Solar Energy Development	12
Synthetic Fuels	13
Urban Mass Transit Operating Assistance	28:

	•	Page
5.	STRETCH OUT AND RETARGET PUBLIC SECTOR CAPITAL IMPROVEMENT PROGRAMS	
	ACTION (Domestic Programs)	335
	Airport Construction Grant Program	255
	AMTRAK	259
	Building Construction	354
	Bureau of Indian Affairs	209
	Construction, VA	308
	Cooperative Automotive Research Program	266
	District of Columbia: Borrowing from the U.S. Treasury	347
	Great River Road	267
	Highway Construction Program	268
	Highway Safety Program	271
	Maritime Assistance	57
	NOAA Ocean Programs	61
	Public Housing Modernization	206
	Subsidized Housing: Summary	198
	Urban Mass Transit: Capital Assistance	280
	Wastewater Treatment Grants	297
	Water Resource Development Construction	76
	Water Projects Unfunded	75
	Water Research and Technology	77
6.	IMPOSE FISCAL RESTRAINT ON OTHER PROGRAMS OF NATIONAL INTEREST	
	ACTION (Domestic Programs)	335
	Agency for International Development	329
	Alcohol, Drug Abuse and Mental Health Administration	144
	CETA: National Programs	231
	Child nutrition	2]

	Page
Clean Lakes, Great Lakes, Chesapeake Bay Program Reductions	291
College Housing Loans	85
Common Fund for Commodities	332
Conduct of Foreign Affairs	251
Conservation Cost-Sharing	27
Consumer Product Safety Commission	343
Corporation for Public Broadcasting	344
Council on Wage and Price Stability	346
Employment Service	237
Energy Information Activities	115
Energy Regulation	117
Energy Research and Development	293
Energy Sciences	119
FmHA Grant and Home Ownership Assistance	34
FmHA Water and Sewer Loan Levels and Interest Rates	36
Federal Trade Commission	352
Fish and Wildlife Service Reductions	210
Foreign Development Assistance	323
Forest Service Reductions	39
General Science Program	122
Health Maintenance Organizations	153
Health Planning	155
Health Professions Education	156
Higher and Continuing Education	90
Highway Safety (402) Grants	271
Historical Publications and Records Commission Grants	356
Improved Targeting of Conservation Expenditures	212

	Page
Indian Health Service	158
Institute of Museum Services	95
Intergovernmental Personnel Act Grant Program	373
International Communication Agency	361
International Organizations	328
LANDSAT, Land Remote Satellite Sensing	59
Library Programs	97
Magnetic Fusion	123
Maritime Assistance, Construction and Operating Subsidies	57
Medical Care: Miscellaneous Reductions, VA	316
Mulitlateral Development Banks	325
National Aeronautics and Space Administration	301
National Center for Health Care Technology	161
National Consumer Cooperative Bank	364
National Endowments for the Arts and Humanities	366
National Health Service Corps	162
National Institute of Education	99
National Institutes of Health	164
National Science Foundation Programs	369
NOAA Ocean Programs	61
Office of Smoking and Health	165
Peace Corps	331
P.L. 480 — Food Aid	330
Professional Standards Review Organization (PSROs)	166
Public Health Service Hospitals and Clinics	167
Public Telecommunications Facilities Program	65
Railroad Retirement Board	376
Refigee Assistance	170

	P
Research and Technology, HUD	
SBA; Small Items	
School Assistance in Federally Affected Areas (Impact Aid)	
Smaller Items, Commerce	
Special Milk	
Special Population Programs	
Special Supplemental Food Program for Women, Infants, and Children	
Student Loan Marketing Association	
Surface Mining Regulation and Reclamation	
Uranium Enrichment	
Vocational Education	
Wage and Price Standards Program	
Water Resources Council/Office of Water Policy	
Young Adult Conservation Corps	
Youth Conservation Corps	
Youth Initiative	
CONSOLIDATE CATEGORICAL GRANT PROGRAMS INTO BLOCK GRANTS	
Alcohol Fuels/Biomass/Urban Waste	
CETA: Employment and Training Grant Consolidation	
Community Development Block Grants (CDBG) and Urban Development Grants and Urban Development (UDAG)	
Community Services Programs	
Department of Energy Overhead	
Elementary and Secondary Education Block Grants	
Energy and Emergency Assistance Block Grant	
Health Block Grants	
Juvenile Justice and Delinquency Prevention Program	
Legal Services Corporation	

7.

		Page
	Neighborhood Self-Help Development	189
	Nutrition Assistance for Puerto Rico	41
	Rehabilitation Loan Fund	194
	Social Services Block Grant	150
8.	REDUCE OVERHEAD AND PERSONNEL COSTS OF THE FEDERAL GOVERNMENT	
	Administrative Expenses, HUD	181
	Architectural Transportation Barriers Compliance Board (ATBCB)	338
	Bureau of Indian Affairs, Operating and Construction Programs	209
	Davis-Bacon and Service Contracts Acts	398
	Defense Savings	71
	Executive Office of the President: Resources	348
	Federal Pay Comparability Standard	396
	Federal Protective Service	359
	Forest Service	39
	Justice Department: Employment	223
	Medical Staffing, VA	317
	Physicians' and Dentists' Bonuses	314
	Reductions of Federal Civilian Employment	390
	Regulatory Program Reductions (Agencywide, EPA)	294
	Sale of Excess Materials from the National Defense Stockpile	357
	Superfund	295
	Treasury Law Enforcement Tax Administration Staffing	287
	Veterans Readjustment Counseling Centers	319

## **INDEX III**

# Functional Index1/

FUNCTION/SUBFUNCTION		PAGE	
050 Nati	onal Defense		
051	Department of Defense-Military	71,398	
053	Atomic energy defense activities	_	
054	Defense–related activities	357	
150 Inte	rnational Affairs		
151	Foreign economic and financial assistance	251, 268, 323, 325, 328, 329, 330, 331	
152	Military assistance		
153	Conduct of foreign affairs	251, 323, 328	
154	Foreign information and exchange		
	activities	323, 361	
155	International financial programs	332, 349	
250 Gen	eral Sciences, Space, and Technology		
251	General science and basic research	301, 369	
253	Space flight	301	
254	Science, applications, and technology	301	
255	Supporting space activities	301	
270 Ene	rgy		
271	Energy supply	44, 119, 120, 122, 124, 125, 128, 131, 134, 293	
272	Energy conservation	113, 196	
274	Emergency energy preparedness	_	
276	Energy information, policy regulation	109, 111, 115, 117	
300 Nat	ural Resources and Environment		
301	Water resources	75, 76, 77, 78, 80	
302	Conservation and land management	27, 39, 61, 66, 209, 217, 219	
303	Recreational resources	210, 212	
304	Pollution control and abatement	291, 294, 295, 297	
306	Other natural resources	59, 66, 214	
350 Agr	iculture		
351	Farm income stabilization	23, 25, 29, 31	
352	Agricultural research and services	36, 50	
	llar amounts distributed by function see the Fiscal Year 1982	,	

370 Com	merce and Housing Credit	
371	Mortgage credit and thrift insurance	31, 34, 186
372	Postal Service	374
376	Other advancement and regulation of commerce	61, 66, 352, 364, 378, 382
400 Tran	sportation	
401	Ground transportation	259, 264, 266, 267, 268, 274, 276, 278, 280, 282
402	Air transportation	255, 257, 271, 272, 340
403	Water transportation	57, 262
407	Other transportation	_
450 Con	nmunity and Regional Development	
451	Community development	182, 189, 190, 194, 195
452	Area and regional development	43, 46, 55, 61, 336
453	Disaster relief and insurance	31, 351, 380
500 Edu	cation, Training, Employment, and Socia	ıl Services
501	Elementary, secondary, and vocational education	86, 93, 101, 105, 248
502	Higher education	85, 90, 101, 103
503	Research and general education aids	65, 95, 97, 99, 344, 366
504	Training and employment	231, 233, 235, 237, 246, 248
505	Other labor	_
506	Social services	150, 188, 335, 342, 384
550 Hea	ulth	
551	Health care services	148, 153, 158, 159, 166, 169
552	Health research	144, 164, 165
553	Education and training of health care work	
554	force	144, 155, 156, 161, 162, 164, 169
554	Consumer and occupational health and safety	343
600 Inc	ome Security	
601	General retirement and disability insurance.	167, 174, 176, 177, 229, 376
602	Federal employee retirement and disability	238, 371
603	Unemployment compensation	235, 240, 242, 243, 245
604	Housing assistance	184, 192, 198, 199, 201, 203, 204, 206
605	Food and nutrition assistance	21, 37, 41, 48, 49
609	Other income security	139, 146, 152, 172, 178
007	<u></u>	,,,,,,,,,

700 Veter	rans Benefits and Services				
701	Income security for veterans	312			
702	Veterans education, training, and				
	rehabilitation	310, 311			
703	Hospital and medical care for veterans	307, 308, 309, 314, 316, 317, 319			
704	Veterans housing				
705	Other veterans beneftis and services	_			
750 Adm	inistration of Justice				
751	Federal law enforcement activities	223, 287, 338			
752	Federal litigative and judicial activities	223, 362			
753	Federal correctional activities				
754	Criminal justice assistance	225			
800 General Government					
801	Legislative functions	_			
802	Executive direction and management	346			
803	Central fiscal operations	287			
804	General property and records management	354, 356, 359			
805	Central personnel management	- · · ·			
806	Other general government	348, 373			
850 Gen	eral Purpose Fiscal Assistance				
851	General revenue sharing				
852	Other general purpose fiscal assistance	347			
900 Inte	rost				
901	Interest on the public debt				
902	Other interest				
702	Outer merest				
920 Allo	wances				
921	Civilian agency pay raises	396, 398			
924	Contingencies for other requirements	248			
950 Und	istributed Offsetting Receipts				
951	Employer share, employee retirement				
952	Interest received by trust funds	*****			
953	Rents and royalties on the Outer Continental Shelf	214			
999	Multiple functions	181, 389, 390			