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labelled [Meeting with Rylee Galt
12/3/74 to review Mike Prody]

- DPH 4/20/77

THE WHITE HOUSE

WASHINGTON

December 4, 1974

MEETING WITH ROY L. ASH

Thursday, December 5, 1974

4:00 p.m. (60 minutes)

Cabinet Room

From: Roy L. Ash

I. PURPOSE

To review the FY 76 budgets for the Departments of Health, Education, and Welfare, and Labor.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The Departments of HEW and Labor have submitted their FY 76 budgets and OMB and members of the White House staff have reviewed their budget requests. The results of this review have been transmitted to both departments. This meeting will focus on the issues raised in the Labor and HEW budget review that require Presidential consideration and determinations.

B. Participants: Roy L. Ash, Paul O'Neill, and Dale McOmber

C. Press Plan: David Kennerly photo.

III. TALKING POINTS

A. Paul O'Neill what is the first issue we'll be considering in our review of the FY 76 budget for the Department of Health, Education, and Welfare?

B. Paul O'Neill, will you begin our discussion of the issues raised by the FY 76 budget for the Department of Labor?

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HANDWRITING FILE



THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: ~~ROY L. ASH~~

SUBJECT: 1976 Budget Decisions: Department of Health, Education, and Welfare

Secretary Weinberger's initial request, my recommended allowance, and his appeal are presented in the tabulation attached at Tab A. The Secretary's appeal letter to you is provided at Tab B. The major outstanding issues on which we need your decision are provided in individual issue formats which include the Department's appeal language. Because HEW involves 14 major issues, we recommend you use the issue formats under the program tabs to register your decisions.

OVERVIEW

1976 Effect of 1975 Reduction Decisions

The major reductions which you recently approved for your 1975 proposals to the Congress were excluded from the HEW request and appeal. These reductions are not discussed in this material, but account for outlay savings in 1976 as follows:

	<u>1976 Outlay Savings</u> (<u>\$ in millions</u>)
<u>New legislation</u>	
Medicare cost sharing	1,311
Medicaid matching formula	636
School assistance in federally affected areas (Impact Aid)	30
Change in AFDC matching formula	60
OASDI retirement test	215
Absent parent support	90
Offsetting effect of Medicare and AFDC proposals on Medicaid (Net)	-105
Total	<u>2,237</u>
<u>Change in pending legislation</u>	
OASDI retroactive benefit option	430
AFDC income disregard	203
Medicaid - adult dental care	76
Health resources planning	15
Total	<u>724</u>

Administrative actions

Medicare reforms	193
AFDC regulations	172
Medicaid actions, including utilization review	20
Total	<u>385</u>

Other rescissions, deferrals, and amendments

Total	<u>159</u>
	<u>3,505</u>

HEW Request and Appeal

The total HEW appeal is \$120.1 billion in outlays. This compares with \$93.3 billion in 1974 and \$108.1 billion in 1975, based on your recent decisions.

The total increase in outlays requested by the Department from your 1975 decision level is \$12 billion, of which \$11.5 billion is in Social Security and Medicare. There is no programmatic disagreement between OMB and HEW on this portion of the increase.

You should be aware, however, of three important items in this area:

First, Secretary Weinberger has requested 7,200 more permanent employees for the Social Security Administration as a first installment of what will probably be a 13,000 increase in personnel. We have prepared for your decision a separate analysis of this issue.

Second, part of your 1975 reduction proposals were legislative reforms in the uncontrollable program areas of Social Security, Medicare, Medicaid, and Public Assistance. If these bills are not enacted by the Congress, the total outlays for these programs in 1976 will be higher by almost \$3 billion.

Third, the estimates for Social Security, Supplemental Security Income, Medicare, Medicaid, and Public Assistance benefits will have to be updated before the 1976 Budget is printed. These estimates could be significantly increased by the actual experience from more recent monthly reports.

The major uncontrollable programs in the HEW budget make up \$106.9 billion of the total \$120.5 billion outlay request. There are essentially no programmatic or policy differences between my allowance and the Secretary's appeal in these program areas with the exception of the Social Services program included as an issue sheet. Estimating differences will be resolved as we work toward the final figures for printing.

In the controllable programs, the HEW appeal level is higher than the allowance by \$973 million in Budget Authority and \$465 million in Outlays. It is also \$825 million over your 1975 decision level in Budget Authority for controllable programs.

There are two basic thematic differences between the allowance and the appeal in the controllable program areas. These differences are reflected in the specific issue sheets.

1. Federal Role. The allowance proposes to begin a gradual phase-out of Federal funding for the direct delivery of health, education, and some social services by increasing the share of program costs borne by state, local, and private grantees -- usually starting with a 20% non-Federal matching requirement in 1976. This shift to shared funding is primarily in areas where the Federal Government has been providing general support for operating programs. It is based on the following:

- The Federal Government has no contribution to bring to these operating programs except general funding support with essentially no convincing rationale for the budget level proposed by HEW except limited funds.
- Shared funding responsibility will encourage tighter administration and more rigorous evaluation of the worth of programs at the local level.
- The present distribution of Federal support for operating service programs is inequitable since it is not based on individual or community ability to pay, but rather on the fortuitous nature of the grant mechanisms.
- In the Social Services program, the increase in state and local financial responsibility is consistent with the greater discretion in program design and direction which is being provided in the new legislation now pending in Congress.
- In the health services field, Medicare and Medicaid provide more equitable general financial assistance to finance needed care, as will health insurance if it is enacted.
- In the education field, the allowance would shift Federal assistance from general operating assistance to programs of innovative development and capacity building. This is the thrust of the allowance for vocational and handicapped education, for example.



- The benefits of income assistance programs and the health financing programs for the poor are increasing commensurate with the general rate of inflation.

HEW maintains that this is not a sound course to follow because:

- The Congress will not agree to the proposals for program reform if we are asking for dollar reductions at the same time.
- It results in reductions in programs which help the poor in a time of inflation.
- Federal funding of the direct delivery of health services should be retained until Comprehensive Health Insurance is in place.
- State and local governments should not be asked to share more of the costs since their recent surpluses are now expected to be followed by deficits in the near future.

The basic problem with the HEW appeal is that it contains no overall conceptual basis for limiting the Federal financial exposure or focusing the Federal role on areas where it can make a significant and meaningful contribution. The HEW request and appeal do not propose to the Congress a structural change in the Federal role in these controllable programs. The HEW proposals merely offer an alternative funding level higher than the allowance but lower than Congress is likely to accept. I do not think that is a sound posture for the Executive Branch. Moreover, in the past it has not given us an adequate basis for resisting additional appropriations. The Congress can always be the high bidder when there is no conceptual limit to the Federal responsibility. We may not succeed in persuading the Congress to limit the Federal role, but we will have reasonable grounds for our position.

2. Protecting the Controllable Programs Against Inflation.

The other basic difference between the OMB allowance and the HEW appeal is that the allowance attempts wherever possible to hold the controllable programs at the 1975 revised level. HEW maintains that this ignores the impact of projected inflation and could result for instance in a 10 to 15 percent reduction in health research activity if anticipated inflation occurs.

To provide increases as a cushion against future inflation would, if applied government-wide, raise the 1976 Budget totals to unacceptable levels and would, in itself, contribute to even higher inflationary pressures. It would also have the effect of indexing the discretionary programs to price and wage increases and, to that extent, making these programs uncontrollable.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE ^{1/}

1976 Budget

BUDGET AUTHORITY

(\$ in Millions)

	<u>1974 actual</u>	<u>1975 estimate</u>	<u>Agency request</u>	<u>1976 OMB Recom.</u>	<u>HEW Appeal</u>
Health Agencies	5,304	4,563	5,161	4,341	4,969
Education Division	6,126	5,868	6,120	5,704	5,989
Social and Rehabilitation Service	12,629	14,019	14,083	14,001	14,169
Social Security Administration	75,504	88,882	98,849	98,849	98,849
(Social Security trust funds)	(72,190)	(83,184)	(92,673)	(92,673)	(92,673)
Special Institutions	85	119	139	124	124
Office of Human Development	695	732	784	735	756
Office of the Secretary	113	125	178	163	165
Subtotal	100,456	114,308	125,314	123,917	125,021
Receipts and audit recoveries	-16	-134	-134	-134	-134
Total	100,440	114,174	125,180	123,783	124,887

^{1/} Except Work Incentive Program, which is in Department of Labor totals.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE ^{1/}

1976 Budget

OUTLAYS

(\$ in Millions)

	<u>1974 actual</u>	<u>1975 estimate</u>	<u>Agency request</u>	<u>1976 OMB Recom.</u>	<u>HEW Appeal</u>
Health Agencies	4,427	5,293	5,224	4,952	5,171
Education Division	4,903	5,791	6,246	5,899	6,087
Social and Rehabilitation Service	13,845	14,049	14,153	14,081	14,241
Social Security Administration (Social Security trust funds)	69,515 (66,258)	82,304 (76,732)	93,791 (87,624)	93,791 (87,624)	93,791 (87,624)
Special Institutions	113	131	118	115	115
Office of Human Development	411	535	733	704	720
Office of the Secretary	81	155	156	153	153
Subtotal	93,296	108,258	120,420	119,694	120,280
Receipts and audit recoveries	-16	-134	-134	-134	-134
Total	93,280	108,124	120,286	119,560	120,146

^{1/} Except Work Incentives Program, which is in Department of Labor totals.





THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

DEC 30 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Fiscal Year 1976 Budget

I have received from OMB their mark-up of my budget request for 1976. I understand that Roy Ash wants to present my reactions to the OMB recommendations when you consider the HEW budget for the first time, and I applaud this procedure.

The Department's detailed comments, I am told, will be incorporated into the individual issue papers which you will be considering. In this memorandum, I would like to call your attention to certain broader considerations and implications raised by the OMB proposals.

You should first consider what has happened to the Department's 1976 budget estimates during the past several months. I have attached a table which records those events (Attachment A, Table I). I have said and deeply believe that HEW must do its share in reaching prudent fiscal totals, and our recommendations have followed that conviction. Inflation, however, is eating us alive, and the prospective economic downturn and rising unemployment will bring us more customers and further increase costs of our programs. The message conveyed by the attached table is the following:

- . We estimated last summer that a normal 1976 budget, without any new initiatives, would be priced at \$123-124 billion in outlays.
- . We were asked by OMB to submit a \$118.5 billion outlay budget, and we came in below this target. This involved substantial reductions in the normal rate of program cost increases (actually less than half the normal rate of budget growth).

- . By the time appropriate inflation assumptions and the results of the President's decisions on the 1975 budget were included, our \$118.4 billion submission became \$120.6 billion without any increase in real program output. Trust fund receipts, however, have also risen by \$2.5 billion so that the net effect of the revisions to the HEW budget was to reduce the FY 1976 Federal budget deficit by \$300 million.
- . OMB now proposes a reduction of \$1.4 billion in budget authority and \$700 million in outlays for the Department's controllable programs. They do so in a very uneven way with the heaviest reductions coming in health and education. (See Attachment A, Tables II and III.)

I fully agree with the need for fiscal prudence. I am afraid that the OMB recommendations are programmatically unbalanced and politically not possible of achievement. Thus you would be hurt by asking for things which will not be agreed to. The results would be the worst of two worlds: You absorb all the political heat with no hope of budgetary constraint.

- . You and I have both stated publicly our intention to preserve programs which actually help the poor. The OMB recommendations break that commitment.
- . Virtually every program in the education area targeted to special groups was severely reduced (Indians, blacks, spanish speaking and asians) and programs for the handicapped were cut across-the-board. Health programs serving the poor and migrants were heavily reduced. Progress in expanding health services for Indians would be halted.

- . Educational program reductions were concentrated in the elementary and secondary area as opposed to higher education and research. Health program cuts fall heavily in services which are particularly troublesome since we have said publicly that these service programs should be retained until comprehensive health insurance is in place.
- . Many of the cuts seem predicated on the notion that State and local governments can shoulder a larger share of the burden. While last year's figures lent credence to such an argument, this year's economic picture removes that argument. State and local treasuries as well as ours are in substantial trouble. The State and local budget surpluses of the past several years are turning into substantial deficits for 1974 and 1975; by some estimates, over \$7 and \$11 billion respectively.
- . The policy of holding program budgets to the 1975 revised level actually makes major reductions in 1976 since the budget assumptions ignore the impact of inflation. Thus, a level budget proposed for the National Institutes of Health really means a 10 to 15 percent reduction in health research activity.
- . The proposed budget reductions in controllable programs failed to take into account any of the Department's overall strategy of program reform. They ignore our planning and thus destroy our ability to operate within reasonable budget levels--the various program pieces no longer add-up to any coherent whole. As a result, Agency Heads and others in key leadership positions are left to carry out fiscal reduction decisions which both ignore and block their planning for the future.

- . The proposed allowance would again have us seek program reforms from Congress while at the same time cutting the budget. For example, consolidation of the several vocational education programs is still proposed, but with substantially less funds than previously allocated to each of the pieces of the consolidation. This approach has repeatedly been rejected by Congress. It defeats consolidation before being seriously considered by the Congress, and we see no point in trying it again in fiscal year 1976.
- . I am, as you know, loath to increase Federal personnel. Nevertheless, I must point out that many of the OMB actions fail to recognize the need to administer programs effectively we are mandated by statute to run. If we fail to administer properly the programs assigned us, we can hardly expect favorable treatment by the Congress of the reforms we seek.

A budget of the kind OMB recommends is a prescription for failure.

While I can accept a portion of the reduction which OMB recommends, I am asking you to restore \$465 million* of the \$730 million in outlays cut by OMB, and 2,286 positions of the 3,467 cut. The personnel appeal is exclusive of the Social Security Administration, St. Elizabeth's Hospital, and the Office of the Secretary.

The principal areas where we are seeking restorations are as follows:

- Approximately \$200 million for restoring programs aimed at the poor and disadvantaged. These programs include neighborhood health centers, maternal and child health, Indian health and education, bilingual education, and alcoholism programs. I emphasize that except for alcoholism, these programs help only the poor and disadvantaged, and at least a large portion of the alcoholism funds help the same groups.

*\$85 million could be offset in your budget submission by again seeking legislation to cease operating Public Health Service hospitals.



- An additional \$65 million for programs aiding the handicapped including vocational rehabilitation grants to States, education for the handicapped, and the extension of head start services to handicapped children.
- An additional \$95 million for the National Institutes of Health and health research activities to maintain a balanced effort in 1976.
- \$65 million to carry out the Department's proposed vocational education legislation which would consolidate existing programs and focus additional aid on vocational training for the disadvantaged.
- An additional \$20 million to maintain the preventive health and consumer protection programs of the Food and Drug Administration and the Center for Disease Control.

We also ask that you reject the OMB proposal to submit legislation decreasing Federal matching for social services under Public Assistance to 65 percent in 1976 and 50 percent in 1977. This proposal would destroy the progress made thus far in working out compromise legislation with Congress to reform this program. Less than two weeks ago, the Department testified before the House Ways and Means Committee that this matching rate would remain at 75 percent. The Committee responded by unanimously approving our compromise. In addition, I do not believe that we can justify further shifts of costs to States and localities in light of their sharply deteriorating fiscal position. The additional funds required by this revision could be made within the total proposed by OMB for Public Assistance programs.


Secretary

Enclosures

Table I: The Development of the HEW Budget

	<u>Outlay in billions</u>
Preliminary HEW budget projection*.....	\$ 123.5
OMB planning ceiling.....	118.5
HEW budget request, September 30, 1974.....	118.4
Budget Revisions:	
New OMB economic assumptions.....	+3.7
Impact of 1975 Presidential decisions.....	-1.7
Other revisions.....	+2.2
Revised budget.....	120.6
Outlay increase over September 30 budget.....	+2.2
Additional trust fund income.....	+2.5
Net effect of revisions on Federal deficit.....	-0.3

Table II: Non-controllables vs. Controllables

	(in billions)		
	<u>HEW</u>	<u>OMB</u>	<u>Difference</u>
Non-controllable programs:			
Budget authority.....	112.9	113.0	+1
Outlays.....	107.8	107.9	+1
Controllable programs:			
Budget authority.....	12.6	11.2	-1.4
Outlays.....	12.8	12.1	-.7

Table III: Reductions in Controllables

	(1976 budget authority in millions)		
	<u>HEW</u>	<u>OMB</u>	<u>Difference</u>
Health agencies.....	5,116	4,287	-829
Education Division.....	5,605	5,182	-423
Human Development/Social and Rehabilitation Service.....	1,770	1,638	-132
Total reductions.....			1,384

* Based on continuing all programs existing in July 1974.

1976 Presidential Determinations

Department of Health, Education, and Welfare

Food and Drug Administration
(\$ in millions)

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
BA	165	196	225	196	218	196
0	165	189	209	195	200	195

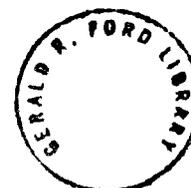
Allowance: The allowance held FDA to its 1975 level.

HEW Appeal: HEW appeals for restoration of its entire original request, excluding \$7 million to be requested subsequently for legislation if enacted. The HEW appeal is for a \$22 million increase over 1975. The Secretary's letter refers to FDA as one of the five "principal areas where we are seeking restorations." HEW maintains that the OMB allowance would:

- require absorption of \$2 million in mandatory expenses
- not permit any expansion of FDA's activities."

The Department's original request for FY 1976, on the other hand, "would support expansion of the agency's scientific and regulatory activities, including:

- inspection of an additional 2,400 food establishments (for a total of 35,400), thus reducing the average time between inspections from 2.4 to 2.3 years
- more than doubling the number of retail food samples examined (to 56,000 samples)
- inspection of an additional 500 drug firms (for a total of 3,500)
- timely review of 90 percent of new animal drug applications (an increase of 500 applications for a total of 2,700)



- inspection of an additional 300 manufacturers of medical devices and diagnostic products (for a total of 1,500) and the publication of 10 proposals for medical device standards (double the number to be published in FY 1975)
- more than doubling the number of diagnostic X-ray installations inspected to reduce unnecessary patient exposure (for a total of 5,000)
- expansion of the agency's legal staff by 20 in order to increase the rate at which legal action can be taken against violators of the food and drug law."

OMB Recommendation: We recommend affirming the original allowance, on the grounds that decisions on program levels in FDA cannot be definitively related to degrees of consumer health and safety. There is, for example, no objectively "right" inspection rate or level. Moreover, necessary program initiatives or expansions can probably be provided through reallocations from lower priority program areas. Finally, as compared to other areas (e.g., occupational cancer research), we believe FDA is relatively well-funded at the allowance level.

December 2, 1974

1976 Presidential Determinations

Department of Health, Education, and Welfare
(Budget Authority in millions of \$)

Food and Drug Administration

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
Foods	66.5	63.8	69.5	63.8	68.0	63.8
Drugs	63.2	76.5	90.2	76.5	85.4	76.5
Radiological Products	14.9	16.5	18.1	16.5	18.1	16.5
National Center for Toxicological Research	9.0	10.9	16.0	10.9	16.0	10.9
Program Management .	11.3	27.7	27.9	27.7	27.9	27.7
Buildings and Facilities	--	<u>1.0</u>	<u>3.0</u>	<u>1.0</u>	<u>3.0</u>	<u>1.0</u>
Total	164.9	196.4	224.7	196.4	218.4	196.4



1976 Presidential Determinations

Department of Health, Education, and Welfare

Health Services Administration

(\$ in millions)

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
BA	1,216	1,129	1,261	972	1,240	982
0	907	1,098	1,216	1,052	1,200	1,055

Allowance: The allowance included a 20% reduction in the narrow categorical health service delivery programs with a requirement that grant recipients match 20%. These programs would be phased-out over a four-year period at 20% a year with funding responsibility shifted to grantees. Other HSA programs will generally be funded at the 1975 level. This policy action reflects the existence of over \$22 billion in Medicare and Medicaid to finance services to the aged and low-income. The allowance also provided \$40 million rather than \$84 million for PSRO's and held other programs at the 1975 level.

HEW Appeal: HEW appeals all of the items in the allowance -- except \$20 million of the \$40 million PSRO reduction and the lower emergency medical services program level -- and requests an additional \$5 million for the National Health Service Corps. The HEW appeal is based upon a concern that grantees, especially State and local governments, cannot assume the 20% non-Federal match that the proposed phase-out calls for and that, as a result, services to beneficiary groups will be reduced.

HEW also believes a higher PSRO funding level is necessary to maintain momentum and that the health maintenance organization and emergency medical services programs should be expanded and perpetuated beyond their current expectations. Detailed HEW comments are attached behind the table.

OMB Recommendation: We recommend affirming the allowance on a gradual phasing-out of narrow categorical health service delivery programs in light of the Federal Government's \$22 billion in financing programs -- Medicare and Medicaid. Such a strategy stressed a Federal role limited -- in the area of health services -- to financing through national programs rather than a series of project grants to a few favored grantees who fortuitously receive grants while citizens of other communities are limited to the more uniform financial assistance available under Medicare and Medicaid.

On PSRO's we recommend allowing a \$50 million program with policy guidance that HEW fund evaluations during the current year that will determine the effectiveness of PSRO's for consideration in 1977.

In other program areas -- Indian Health Service, National Health Service Corps, Health Maintenance Organizations, and PHS hospitals -- we recommend holding to the 1975 program levels only recently approved by the President. In Indian health, the current funding levels result in a force of 8,000 Federal employees for 500,000 beneficiaries and roughly \$576 per Indian or over \$2,300 annually for an Indian family of four. The current funding levels for National Health Service Corps and Health Maintenance Organizations reflect a demonstration responsibility of the Federal Government rather than a strategy of national "wall-to-wall" grants. We also recommend holding PHS hospitals to the current level of activities rather than expanding their outreach activities for non-eligible community beneficiaries.

HEW also proposes extending the authorities for the Health Maintenance Organizations and Emergency Medical Services programs which do not expire until 1977 and 1976, respectively. We recommend against expanding those programs on the grounds that the existing authorization periods allow a five-year period during which an ample number of Health Maintenance Organizations and Emergency Medical Services demonstrations will have been funded at Federal expense.

December 2, 1974

1976 Presidential Determinations
 Department of Health, Education, and Welfare
 (Budget Authority in millions of \$)
Health Services Administration

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
<u>Health Services:</u>						
1. Community health services						
(a) Grants to States	90	45	--	--	--	--
(b) Neighborhood health centers	205	200	207	160	207	160
(c) Maternal and child health	266	265	289	213	289	213
(d) Family Planning	101	100	97	80	97	80
(e) Migrant health	24	24	34	19	34	19
(f) Health maintenance organizations	61	19	50	18	50	18
(g) National health service corps	9	9	23	9	28	9
Subtotal	756	662	700	500	704	500
2. Quality Assurance						
(a) Medical care standards.	6	6	12	6	12	6 ✓
(b) PSRO's	33	37	84	40	60	50 ✓
Subtotal	39	43	96	46	72	56
3. Patient care and special health services	105	108	118	109	117	109 ✓
4. Emergency medical services	27	27	34	27	27	27
5. Buildings & Facilities ..	21	1	--	--	--	--
6. Program management	34	32	38	28	36	28 ✓
Less trust fund transfer	-22	-33	-55	-25	-42	-25
<u>Indian Health Service</u>	250	288	330	288	326	288 ✓
Emergency health	6	--	--	--	--	--
Total HSA ... BA	1,216	1,129	1,261	972	1,240	982
	O 907	1,098	1,216	1,052	1,200	1,055

HEW Comments

- "... OMB allowance means a 20% reduction below 1974 budget of \$1.2 billion for programs primarily serving the poor and others with limited geographic access to care.
- ... The Department is asking for \$267 million and _____ related positions above the OMB allowance to proceed with the proposed 1976 program efforts.
- ... Reduction is premised on incorrect assumption, i.e., State and local governments can assume greater share of the cost.
- ... Where possible, the Department's request had already assumed maximum support of health services by third party resources such as Medicare and Medicaid and fees assessed to participants rather than increases in direct appropriations.
- ... Services reduced by this allowance include those provided through community health centers, maternal and child health centers, migrants and Indians, family planning services, and placement of physicians in health manpower shortage areas. This would mean a:
 - 27% reduction in the estimated 9 million preventive health services provided to mothers and children in 1975.
 - 17% reduction in the 1.6 million women receiving care at HEW family planning centers in 1975.
 - 30% reduction in the 200 health manpower shortage areas staffed in 1975.
- ... Further reductions in care to Indians and migrants, who already rank as the groups with the poorest health status compared to other Americans. Indians, for example, have a death rate 1.2 times that of the other Americans."

Professional Standards Review Organizations

- "... The OMB allowance reduced the Department's request of \$84 million to \$40 million. The Department is requesting a restoration of \$20 million.
- ... In the 1975 budget the Administration stated its objective of establishing PSRO's in all 203 areas designated throughout the country by 1977.
- ... The Department feels this program is clearly cost-effective; PSRO's have already shown evidence that they can decrease hospital stays.
- ... The 1975 budget would have established 77 operating grants, most of which had previously been funded as planning grants, but Congress cut this back to 49 operating grants.

- (... The OMB allowance would only add 10 operating grants to the 49 appropriated in 1975 and further requires termination of 46 planning grants which are ready to move into operating status in 1976.
- ... The Department's appeal would permit 39 new operating grants and require termination of 17 planning grants."

Legislation: Health Maintenance Organizations and Emergency Medical Services

- "... The allowance also recommends that the Department not be allowed to seek extension of the legislation for the Health Maintenance Organization (HMO) and Emergency Medical Services Programs (EMS).
- ... EMS was enacted at end of calendar year 1973, and has just gotten underway. Department intends to continue it through 1977.
 - To terminate EMS prematurely would waste already expended funds, and not allow newly initiated EMS systems to be completed.
- ... HMO legislation also enacted at the end of calendar year 1973, and initial grant awards are just now being made.
 - HMO's were publicized in FY 1975 as a major Presidential initiative to improve the distribution of health and control rising health costs.
 - Termination would be counter-productive to the strategy of improving health care and lowering costs."

Stumb

1976 Presidential Determinations

Department of Health, Education, and Welfare

Center for Disease Control

(\$ in millions)

	<u>1974 Actual</u>	<u>1975 President's Decisions</u>	<u>1976</u>			<u>OMB Recom.</u>
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	
BA	142	137	160	124	146	128
0	131	136	165	143	158	144

Allowance: The allowance requires a reduction of 20% in venereal disease and immunization project grant funding to be made up by a 20% match on the part of grant recipients. It also reduces disease surveillance activities by \$1 million. Otherwise, it holds CDC programs to their 1975 level or the HEW 1976 request level.

HEW Appeal: HEW appeals the allowance on the basis that it would:

- require a 20% reduction (and eventual termination) of federal efforts to assist States in control of venereal and vaccine-preventable diseases, thus breaking the momentum of the national campaign against epidemic levels of venereal disease (which is just beginning to show results) and reducing resources available to address low levels of immunity against such diseases as measles, polio, and whooping cough among pre-school age children, particularly in inner city and rural areas;
- not permit intensification of effort to identify, prevent, and reduce cancer of occupational origin (which accounts for a major portion of the estimated 600,000 new cancers developed annually and the 350,000 cancer deaths annually);
- not permit contracts to demonstrate the potential of influenza immunization and of surveillance and diagnosis of birth defects by State health department laboratories for reducing national medical care costs;
- not permit re-orientation of federal health education efforts, as recommended by the President's Committee on Health Education; and



- not permit new efforts to ensure that 30,000-50,000 clinical laboratories based in physicians' offices (and not subject to Federal licensure) have available to them the latest knowledge of diagnostic methods and materials."

Nevertheless, it should be noted that HEW is appealing only the first two components of the allowance--the 20% project grant reduction and the occupational cancer program.

OMB Recommendation: We recommend:

- affirming the allowance to reduce venereal disease and immunization project grant funding by 20% and require a 20% grantee match on the grounds that (a) it encourages tighter management on the part of grantees and more vigorous evaluation of program worth; (b) the Federal Government supports venereal disease and immunization activities primarily--and in substantially greater amounts than with project grants--through Medicaid; and (c) direct Federal project grant funding represents only a tiny portion of total State and local resources devoted to venereal disease and immunization activities; and
- allowing \$4 million of the requested \$8 million increase to mount a new program in occupational cancer research, since this has been an area of heightened concern over the past year (the detection of vinyl chloride as a carcinogen, etc.). The entire requested increase is not necessary given the existing funding for related work in the National Cancer Institute.

December 2, 1974

1976 Presidential Determinations

Department of Health, Education, and Welfare
(Budget Authority in millions of \$)

Center for Disease Control

	<u>1974 Actual</u>	<u>1975 President's Decisions</u>	<u>1976</u>			<u>OMB Recommendation</u>
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	
Disease Control:						
(a) Project grants:						
(1) Venereal disease	24.8	24.8	24.8	19.8	24.8	19.8
(2) Immunizations	6.2	6.2	6.2	5.0	6.2	5.0
(3) Rat control	13.1	13.1	10.1	10.1	10.1	10.1
(4) Lead paint poisoning.	9.0	6.5	3.5	3.5	3.5	3.5
(b) Laboratory improvement ..	8.5	8.6	10.3	8.6	9.1	8.6
(c) Health education	1.7	3.0	4.6	3.0	3.0	3.0
(d) Disease surveillance	40.7	38.3	46.0	37.3	42.1	37.3
Occupational health	29.1	27.4	36.4	27.4	36.1	31.4
Program direction	6.6	8.8	14.6	8.8	11.1	8.8
Buildings and Facilities	<u>2.0</u>	<u>--</u>	<u>3.0</u>	<u>--</u>	<u>--</u>	<u>--</u>
TOTAL	141.7	136.7	159.5	123.5	145.8	127.5

1976 Presidential Determinations

Department of Health, Education, and Welfare

National Institutes of Health
(\$ in millions)

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
BA	1,785	1,725	1,984	1,725	1,893	1,725 1,749
(HEW- NCI)	(527)	(566)	(617)	(566)	(590)	(566)
(NCI Appeal)	--	--	(899)	--	(899)	--
O	1,603	1,852	1,854	1,742	1,817	1,742

Allowance: The OMB allowance held NIH at the 1975 overall funding level in 1976. Within the total allowance, research training funds were limited to support for 1,000 new postdoctoral fellowships. For the National Cancer Institute, the 1975 level would also be carried into 1976.

HEW Appeal: HEW has appealed for increases of \$168 million over the allowance, stating that the level of new research and training funds would be too low compared with 1974 and 1975 funding. HEW argues that it could not effectively implement new legislation, such as the new National Institute of Aging, within the allowance.

HEW has also appealed the allowance for research training. HEW proposes to increase the amount for training in 1975 and to reallocate training funds in 1975 and 1976 to provide for predoctoral training and institutional training support "to meet congressional intent as expressed in the National Research Service Act."

The HEW appeal includes increased funds for an uninterruptible power source, additional positions, and physicians bonus pay--all of which would have been allowed by OMB within the total allowance.

NCI Appeal: The National Cancer Institute, in a separate appeal, has stated that it should be returned to its originally-requested level of \$899 million. NCI argues that its program has been a success, and therefore should be continued at the maximum rate possible. NCI states that it would accept an intermediate level of \$786 million, if the full request is not possible. HEW's appeal for NCI is \$590 million.

The texts of the HEW and NCI appeals are shown in the attachment behind the table.

OMB Recommendation: We recommend staying at the allowance level for NIH research. Although the allowance for NIH research is admittedly a tight one, NIH would still be able to maintain a substantial amount of research begun in previous years. A limited amount of high priority new research would also be permitted under the allowance. A tight allowance provides incentives for NIH to initiate administrative reforms to free-up additional funds for new research.

Consistent with the 1975 reduction exercise, cancer research funding should be treated like other NIH research based on the close similarity of the research supported. Basic research funded by NCI is virtually indistinguishable from other basic research funded by NIH and the research breakthroughs in cancer may just as well come from other NIH research. At the allowance level of \$566 million, the NCI budget reflects an expanded research effort that has grown by 143% since 1971, when the priority research initiative was announced. By comparison, NIH research, as a whole, has grown by 42%.

We also recommend reaffirming the policy announced in the 1975 budget of limiting NIH training to postdoctoral awards. The HEW appeal includes funding for new research pre-and postdoctoral and training awards in 1975, and an increase in 1976 for predoctoral and postdoctoral training. HEW believes this implements the "intent of Congress" under the new National Research Service Award authority. The Administration's announced policy has been to limit new research training to postdoctoral fellowships on the rationale that predoctoral support is available through other sources, especially the general student support programs of the Office of Education and because there is no acceptable basis for singling out "life sciences" students for special Federal subsidies. NIH proposes to provide funds for more trainees than the number of new scientists it supports annually in its research programs. This excess of trained researchers is one reason for the seemingly insatiable demand for research funds.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(Budget Authority in millions of \$)

National Institutes of Health

	<u>1974</u>	<u>1975</u>	<u>1976</u>			
	<u>Actual</u>	<u>President's</u>	<u>HEW</u>	<u>Allowance</u>	<u>HEW</u>	<u>OMB</u>
		<u>Decisions</u>	<u>Request</u>		<u>Appeal</u>	<u>Recommendation</u>
National Cancer						
InstituteBA	527	566	617	566	590	566
O	423	553	607	569	580	569
(NCI Recommendation).BA			(899)		(899)	
O			(746)		(746)	
Other Research						
InstitutesBA	1,211	1,112	1,315	1,112	1,253	1,112
(Research Training)..BA	(128)	(128)	(143)	(124)	(142)	(124)
Other NIHBA	47	47	52	47	50	47
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	
Total, NIHBA	1,785	1,725	1,984	1,725	1,893	1,725
O	1,603	1,852	1,854	1,742	1,817	1,742
(NCI Recommendation).BA			(2,266)		(2,202)	
O			(2,037)		(1,983)	

HEW Appeal

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The 1976 allowance would hold research institutes and divisions to the 1975 revised budget totals, a reduction of \$60 million below 1974 and \$365 million below the 1975 Conference Committee action.

- New research program grant awards would be reduced to less than 13 percent of the total program, as compared with 26 percent in 1975 and 36 percent in 1974.
- New research initiatives embodied in new legislation (e.g., the new National Institute on Aging) could not be effectively funded.
- The number of new trainees in biomedical research would be cut by 50 percent, thus making it impossible to honor the three year funding program announced by the administration in 1974.

The Department requests an increase of \$168 million over the OMB allowance to be distributed as follows:

- \$140 million for new research grants, contracts and intramural research principally in order to expand research efforts in areas of basic research such as immunology, virology, genetics, endocrinology and the molecular biology of disease.
- OMB's suggestions regarding savings to be achieved through administrative reforms appear to have some merit and deserve further study, however, we would point out that such reforms should be considered and if found desirable, applied on a Government-wide basis.
- \$18 million for research training that would include a minimum of predoctoral and institutional awards to enable us to meet Congressional intent as expressed in the new National Research Service Act; and
- \$9.4 million for an uninterrupted power source for the clinical center, the cost of the bonus pay for NIH/PHS physicians, and the cost of the 200 additional staff also requested, principally, to maintain the level of effort proposed and for the intramural laboratory and clinical research programs."

NCI Appeal

"The requested \$898.5 million level for 1976 represents the resources necessary to exploit the available science base and continue the momentum that has been developed within the National Cancer Program. However, recognizing the other demands on the Federal Budget, a minimum of \$786 million would allow the program to progress in an orderly fashion. To reduce the level below \$786 million would seriously impede the achievement of objectives of the National Cancer Program as called



for in the National Cancer Act. Additionally, the proposed Budget Authority for the National Cancer Program for FY 1975 of \$566.5 million is \$14.6 million below that obligated in FY 1974, and \$125.2 million below the Congressional Appropriation. Of all diseases, the American people fear cancer the most, unfortunately with good reasons. This new program was begun in 1972. It is a bona fide success and is already saving and ensuring good lives. Americans and others know and very much appreciate this. The program will more than pay for itself through better health and through tax revenues of people returned to work. The impact of this cut will be a severe reduction in new research projects that can be supported and the termination and/or cutback of existing high priority projects, resulting in a certain increase in the number of patients and families exposed to the ravages of cancer."

1976 Presidential Determinations

Department of Health, Education, and Welfare

Alcohol, Drug Abuse, and Mental Health Administration
(\$ in millions)

	1974 Actual	1975 President's Decisions	1976			
			HEW Request	Allowance	HEW Appeal	OMB Recom.
BA	833	718	789	686	749	686
0	632	862	810	774	791	774

Allowance: The allowance reflects maintaining the Alcohol, Drug Abuse, and Mental Health Administration's (ADAMHA) research at the 1975 level. The phase-out of training would be continued and support for 100 new postdoctoral research fellowships would be allowed. The community mental health centers (CMHC) would continue to be phased out. No new multi-year commitments for alcoholism projects would be made. The period of support for alcoholism projects currently eligible for their second or third and last year of Federal support would be expanded to four years but an increasing non-Federal match would be required so that generally the non-Federal match for projects in their first, second, third, and fourth year is at least 20%, 40%, 60% and 80%, respectively. There would be no new awards for drug abuse demonstration projects, but by decreasing the Federal match about 10% below the current 80% Federal match the allowance would support the present federally-funded treatment capacity of 95,000 slots. The funded slots would continue to be targeted primarily for heroin abusers. Support for direct operations and program management was reduced in proportion to overall program decreases and also reflects elimination of lower priority management and information activities.

St. Elizabeths Hospital would be proposed for transfer and funds for renovation and new construction would be requested after transfer. Funding for St. Elizabeth's operating costs, however, is already included in the allowance.

HEW Appeal: The HEW appeal on these programs states:

"Mental Health

Research - Allowance would halt new research in schizophrenia, depression, aging. Appeal will allow \$16 million in new starts in these areas.

Drug Abuse

Research - Appeal would restore new starts in such areas as new treatment methods, marijuana research.

Community Projects - Appeal would permit support of the 95,000 treatment slots mandated for the drug program.

Alcohol

Research - Appeal permits new research in diagnosis, biological effects, and treatment and restores a \$1.3 million cut into the commitment base.

Community Projects - Appeal would permit new starts in research covering high risk populations (Indians, poverty).

St. Elizabeths - Buildings and Facilities - Allowance eliminates funds which were entirely directed to badly needed repairs to existing plant. Proposal to transfer St. Elizabeths to D.C. has little chance unless St. Elizabeths facilities are improved."

OMB Recommendation: We recommend affirming the allowance which allowed about \$12 million for new research starts which, although tight, would still allow support for promising and important new research in many areas including those described as being "halted." The allowance provided adequate support for 95,000 drug abuse treatment slots but it requires HEW to maximize the non-Federal match wherever possible. This is consistent with the original objectives of the Federal drug abuse initiative. Moreover, of the current utilized capacity, only 2/3 is devoted to the priority target group, i.e., heroin addicts. The allowance for alcoholism projects would fund all existing program commitments at a 80% Federal match and reflects a policy of phasing out Federal support for categorical project grants. In 1976, HEW will still be supporting over 300 alcohol community projects that more than adequately research and demonstrate the provision of care for alcoholism to -- among others -- high risk populations. In fact, only \$3 million of the HEW appeal is for new starts for high risk populations and the Secretary, in his letter, points out that only some alcoholism programs help the poor and disadvantaged.

While we recommend seeking all funds necessary for St. Elizabeths facility repairs, we believe these should be sought once the hospital has been transferred as part of an effort to bring about the transfer.

December 2, 1974

1976 Presidential Determinations

Department of Health, Education, and Welfare
(Budget Authority in millions of \$)

Alcohol, Drug Abuse and Mental Health Administration

	1974 Actual	1975 President's Decisions	1976			
			HEW Request	Allowance	HEW Appeal	OMB Recommendation
<u>General Mental Health:</u>						
Research	90	81	91	81	88	81
Training	100	64	48	45	45	45
Construction	14	--	--	--	--	--
Staffing grants	156	172	142	135	135	135
Children's services	19	27	26	25	25	25
Management & Information ..	23	19	21	18	20	18
Subtotal	<u>402</u>	<u>363</u>	<u>329</u>	<u>305</u>	<u>314</u>	<u>305</u>
<u>Drug Abuse:</u>						
Research	37	32	38	32	36	32
Training	15	10	7	3	3	3
Projects	161	121	138	127	138	127
State grants	15	35	40	35	35	35
Management & Information ..	16	13	16	14	14	14
Subtotal	<u>243</u>	<u>211</u>	<u>238</u>	<u>211</u>	<u>226</u>	<u>211</u>
<u>Alcoholism:</u>						
Research	8	9	20	9	15	9
Training	7	2	7	7	7	7
Projects	67	25	66	45	66	45
State grants	46	46	46	46	46	46
Management & Information ..	10	9	10	7	7	7
Subtotal	<u>138</u>	<u>90</u>	<u>148</u>	<u>114</u>	<u>140</u>	<u>114</u>
<u>Buildings and Facilities</u> ...	--	--	12	--	12	--
<u>Program Direction</u>	9	10	12	10	12	10
<u>St. Elizabeths Hospital</u>	40	44	50	46	46	46
Total	833	718	789	686	749	686
O	632	862	810	774	791	774

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1976 Presidential Determinations

Department of Health, Education, and Welfare

Health Resources Administration
(\$ in millions)

	<u>1974 Actual</u>	<u>1975 President's Decisions</u>	<u>1976</u>			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
BA	1,110	594	664	556	654	556
0	956	1,092	888	960	925	960

Allowance: The phase out of health manpower capitation grants is continued, and there would be no "new starts" in health manpower special project activities. Funding for National Health Service Corps scholarships is increased by \$10 million. The allowance includes \$75 million for the new health resources planning legislation, and \$100 million--as in 1975--for hospital modernization project grants. Health statistics receives \$25 million and health services research \$26 million in the allowance. No funds are included in either 1975 or 1976 for the proposed new pre-doctoral health services research training program. HRA program management would be held to \$40 million.

HEW Appeal: The HEW appeal goes back to the amounts in the original request for health statistics and health manpower special projects, and would increase health services research by \$20 million above the allowance. Program management would be restored to a level consistent with the revised 1975 request, including the salaries and expenses associated with health resources planning.

In sum, HEW maintains that the OMB allowance:

- "virtually halts all initiatives associated with preparation for comprehensive health care financing system";
- "prevents acquisition of essential data on which to determine gaps in resources and services and base decisions on appropriate regulatory and legislative proposals"; and
- "eliminates possibilities of strengthening primary care resource capacity. Family medicine, nurse practitioner, and physician assistant training reduced sharply."

OMB Recommendation: Remain at the allowance levels. The HEW appeal is couched in very general terms, which do not clarify what opportunities would be foregone by adoption of the OMB allowance levels. With reference specifically to the above-quoted HEW position on the allowance:

- it is unclear which HRA activities are deemed to be "initiatives associated with preparation for comprehensive health care financing...." If this is meant to refer broadly to health services research, the allowance provides for a level of "new starts" that is approximately the same as in 1975, some of which would be associated with health care financing issues. Moreover, "preparation for comprehensive health care financing" is an ongoing concern of other parts of HEW, as well as of HRA;
- the allowance does not prevent acquisition of needed data, but in fact would provide a \$3.5 million increase over the 1975 level for further development of the cooperative health statistics system's vital statistics, manpower, and facilities components; and
- the allowance neither "eliminates" capacity building in primary care, nor sharply reduces support for family medicine, nurse practitioner, and physician assistant training. The allowance permits funding of the continuation costs for such activities that are currently being supported.

December 2, 1974

1976 Presidential Determinations

Department of Health, Education, and Welfare
(Budget Authority in millions of \$)

Health Resources Administration

	1974 Actual	1975 President's Decisions	1976			
			HEW Request	Allowance	HEW Appeal	OMB Recommendation
Health Statistics	19	22	39	25	39	25 ✓
Health Services Research	70 ^{1/}	36	53	26	46	26 ✓
Health Manpower:						
. Capitation Grants	220	125	101	101	101 ✓	101
. "Special Projects"	128	128	155	97	155 ✓	97
. NHSC Scholarships	-- ^{2/}	13	13	23	23	23
. Other Student Assistance	122	67	52	45	45	45
. Other	<u>86</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>15</u>
Subtotal	556	348	336	281	339 ✓	281 ✓
HRA Program Management	40	40 ^{3/}	52	40	46	40 ✓
All other HRA	<u>425</u>	<u>148</u>	<u>184</u>	<u>184</u>	<u>184</u>	<u>184</u>
TOTAL, BA	1,110	594	664	556	654	556
Outlays	956	1,092	888	960	925	960

- 1/ Includes \$27 million for EMS grants, transferred to the Health Services Administration
2/ Excludes \$3 million for this activity transferred from the Health Services Administration.
3/ Excludes \$6.6 million in salaries and expenses covered under "health resources planning" activity.



December 2, 1974

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1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Bilingual Education

	1974 <u>Actual</u>	1975 President's <u>Decisions</u>	1976			
			<u>HEW</u> <u>Request</u>	<u>Allowance</u>	<u>HEW</u> <u>Appeal</u>	<u>OMB</u> <u>Recommendation</u>
BA	58	70	70	55	70 ✓	55 ✓
O	35	44	61	61	61	61

Allowance:

This program has provided support to local education agencies for programs of classroom activities, inservice teacher training and materials development. The allowance reflects the following changes from the FY 1976 requested amount:

- Termination of the materials development portion of the program.
- No new starts in the project grant portion of the program.
- No increase in teacher training.
- Phase-out Federal support by 1978.

HEW Comment:

- Department requests restoration of \$15 million cut by OMB allowance, bringing total for bilingual education to \$70 million.
- Reduction is inconsistent with Administration testimony in response to Lau Supreme Court decision. In that testimony the Federal role was stressed for developing varied models for programs to impart competence in English.
- OMB allowance of \$38.9 million for projects would provide for no new model building; would support 239 continuation projects serving about 167,000 students. Restoring \$7.3 million would provide for 45 new demonstrations serving an estimated 30,000 additional students.



- HEW request of \$16.7 million for training would serve about 9,000 inservice trainees at approximately \$900 each; 1,400 preservice scholarships at about \$3,500 each; 100 fellowships at \$6,000 each; and 20 projects averaging \$150,000 at institutions of higher education. Reduction of \$730,000 by OMB would be felt in inservice training since the allowance would provide for fewer classroom projects. Some 800 fewer teachers, aides, and other personnel would be trained at this program level.
- Recommend restoration of \$7 million included in original request for materials development. As part of capacity building effort in bilingual education, request would support about 10 centers in 1976. The only curricula developed to date have been in Spanish and now, because of the Lau decision, materials need to be developed in several other languages.

OMB Recommendation:

change from the allowance. Since the program is forward funded, the effect of the FY 1976 reduction will not be felt in outlays until FY 1977. Given the requirements of the Lau decision, we believe local educational agencies should be working, on their own, toward compliance by FY 1976. Hence, we see no need for new Federally supported projects beyond FY 1976. We see no justification to increase teacher training above the FY 1975 level. We also believe that, given the broad requirements of Lau, sufficient demand for new textbooks will cause an adequate response from the private sector to develop sufficient curriculum materials.

An open-ended Federal commitment at a higher level of funding will invite:

- Additional unrequested funding by the Congress.
- Inflated but unfilled expectations on the part of bilingual citizens, since no one is proposing that the Federal budget meet all of the need.
- School districts awaiting Federal assistance instead of assuming their financial, program and legal responsibilities.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Indian Education

	1974 <u>Actual</u>	1975 President's <u>Decisions</u>	1976			
			<u>HEW</u> <u>Request</u>	<u>Allowance</u>	<u>HEW</u> <u>Appeal</u>	<u>OMB</u> <u>Recommendation</u>
BA	40	2	46	--	40 ✓	--
O	18	39	43	4	43	4

Allowance:

The allowance reflects the decision to seek termination of the program through a rescission of \$40 million, the forward-funded component, in the FY 1975 appropriation. Two million dollars would be provided in FY 1975 for administration. In FY 1976, no new funds would be requested. This recommendation is based upon the view that this program does not add anything of special programmatic value and is duplicative of other existing educational authorities which are better able to serve Indian citizens.

HEW Comment:

- Appeals FY 1975 rescission of \$40 million and \$43 million of \$46 million included in original 1976 HEW request. (1975 rescission was not included in November 26 package transmitted to Congress).
- Terminating this program would affect more than 220,000 Indian students benefitting from grants to local educational agencies to meet the special educational needs of Indian children, and more than 1,200 school districts in both 1975 and 1976.
- Although OMB and the Department felt at the onset of this program in FY 1973 that this target group was reached directly or indirectly by other education programs, preliminary reports we have received on the joint Office of Education-Bureau of Indian Affairs study indicate that such

Reflects rescission of \$40 million in Budget Authority in FY 1975.

is not the case. This program is the only one which provides for extensive Indian involvement in allocating funds to meet specific educational needs of Indians. The program has strong Indian support.

OMB Recommendation:

No change from the allowance. OMB recommends that the program be terminated through rescission in FY 1975 and no funding requested in FY 1976. Although the study cited may well indicate that certain groups of Indians are not being served through existing authorities, we do not believe this is sufficient reason to maintain new, duplicative authorities. Rather, we believe that deficiencies in existing authorities should be improved. Further, changes can also be made in existing educational authorities (ESEA Title I, Impact Aid, Johnson-O'Malley) to provide for increased involvement of citizens in the allocation of funds. Funding for Indian education from the Bureau of Indian Affairs above is \$221 million in FY 1975. This is augmented by funds from other existing Federal authorities such as Impact Aid and Title I funds.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Education for the Handicapped

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	147	147	182	150	175	150
O	122	125	154	125	147	135

Allowance:

The allowance provides an increase for "capacity building" assistance to State and local education agencies in areas such as innovation, research and demonstration and decreases the Federal operational service support role. Reduces the 100% Federal funding to a 50/50 match for the operational program. Redistributes \$25 million of the FY 1976 HEW request of \$50 million for the State Grant program to the capacity building programs which are recommended for funding at \$25 million -- an increase of \$25 million.

HEW Appeal:

- The Department appeals \$25 million of the \$32 million reduction. This restores the State Grant program to its present level of support.
- Increased cost sharing by States at a time when State and local budgets for the education of the handicapped are under great strain is not politically realistic.
- The HEW request reflects a strategy of emphasizing the Federal capacity building role both through research and demonstration and assistance to States in gearing up to meet equal opportunity commitments.
- The OMB reduction would deprive the Administration of this alternative to Congressional pressures for Federal aid based on cost of services to the handicapped -- a far more expensive approach.



OMB Recommendation:

No change from the allowance. We continue to believe that newly court-mandated State responsibilities do not require an increased Federal role in operational assistance. Rather, the Federal Government's role should move toward innovative capacity building programs and be decreased through increased matching requirements under the State Grant programs which support ongoing operations.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Occupational, Vocational
and Adult Education

	1974 Actual	1975 President's Decisions	1976			
			HEW Request	Allowance	HEW Appeal	OMB Recommendation
BA	595	593	666	528	637	531
O	568	631	672	565	643	565

Allowance:

This program now provides general operational support for vocational and adult education (\$559 million) and funding for projects of research and innovation (\$38 million). The allowance retains the operational support program at a lower level (\$369 million) and allows HEW to increase its capacity building efforts in the innovative projects area to \$160 million. The Federal role is moved to one of limited grants (3 years) for research, innovation and dissemination and away from financing a portion of service delivery. The allowance for the operational support Basic Grant program provides a 60/40 State-Federal matching requirement and decreases the Federal share to zero by 1980. A 50/50 match would be required for innovative grants -- down from 80 to 90%. Sixty-five (\$65 million) dollars are allowed for Adult Education to meet H.R. 69 hold-harmless provisions.

HEW Appeal:

- The Department appeals restoration of \$106 million of the cut of \$138 million for vocational education, for a total of \$570.3 million.
- The key issue is consolidation. If we are to achieve it, Congress has made clear that we must increase total funding. If we no longer consider consolidation a priority matter, restoration of funds is not necessary.
- In addition, the OMB reduction would eliminate support for more than one million students who are disadvantaged or handicapped and who are not receiving special services through State efforts.



- A secondary issue relates to the distribution of funds. The OMB allowance would shift \$122 million from formula grants to project grants.
- The shift in funds would increase project grant activities by more than four times the amount included in the HEW request. Yet no guidelines have been given as to how this expanded program will be conducted and no additional positions are allowed to meet increased administrative responsibilities.
- The Department is appealing the OMB redistribution as follows:
 - \$323 million - basic grants
 - \$205 million - grants for special needs
 - \$4.3 million - State advisory councils
 - \$38 million - innovation

HEW Comment - Adult Education

- An additional \$2.7 million is required for adult education since a total of \$67.4 million is needed to meet the hold-harmless provisions of the Education Amendments of 1974 which must be met to trigger consolidation fought for by the Administration.

OMB Recommendation:

Allow an increase in Adult Education of \$2.7 million but no restoration of the overall funding. We do not understand that achievement of consolidation of the categorical programs requires additional funds as HEW contends. The allowance does not eliminate support for the disadvantaged or the handicapped since these funds were included in the proposed innovative projects area. Also, the total Federal funding level in 1975 provides only 16% of total funding for vocational and adult education.

While the allowance would increase funds in the innovative area by fourfold, the greatest change is in emphasis. Programs proposed for inclusion under the HEW special needs category could be funded under innovation, however, they would require innovative or capacity building approaches, problems would be identified, solutions proposed and a limited (3-year) life for the project would be planned + the outset.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Higher Education: State Student
Incentive Grants (SSIG)

	1974 <u>Actual</u>	1975 President's <u>Decisions</u>	1976			
			<u>HEW</u> <u>Request</u>	<u>Allowance</u>	<u>HEW</u> <u>Appeal</u>	<u>OMB</u> <u>Recommendation</u>
BA	19	20*	44	--	44	--
O	--	19	20	--	20	--
<u>Allowance:</u>						

The State Student Incentive Grants program matches State student aid grants with equal Federal grants. The allowance would rescind \$20 million in FY 1975 BA and allow no funds in FY 1976.

HEW Appeal:

- Restore 1975 rescission and 1976 request (1975 rescission was not included in the November 26 package sent to Congress).
- State Student Incentive Grant program is the only authorized student aid program that provides the States with a positive incentive to join the Federal government in a student aid strategy. Fifty percent matching requirement makes Federal funds go farther. Allocation of State funds for scholarship purposes rather than institutional aid helps redress public-private imbalance.
- Allowance eliminates 80,000 scholarship awards in FY 1975 (60,000 continuing awards and 20,000 new awards) and 176,000 awards in FY 1976 (66,800 continuing awards and 109,200 new awards). Average Federal funds per award: \$250 - OMB insert.

OMB Recommendation:

No change from the allowance. Authorizing legislation currently permits States to operate widely varying programs. Most States do not permit students to use these funds at schools out of State, thus limiting school choice. Some States make grants only to students

* Level of FY 1975 HEW-Labor Appropriations Conference Bill.

at public colleges; others only to students at private colleges. Assessment of financial need of students varies widely between the States. Some States apply academic merit screening process before a student may be an award candidate. Few States permit grants to be used at proprietary vocational schools. We do not believe the goal of equal educational opportunity is enhanced by this program as currently designed.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Higher Education: Developing
Institutions

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	100	110	90	52	52	110 ✓ 52
O	38	64	84	82	82	82

Allowance:

Allowance provides \$52 million limited to the basic program of grants to small (largely minority) colleges. It would suspend funding of larger one-time grants (\$1 - \$2 million). Given the number of schools already funded (through FY 1975) in the advanced (larger grant) program, further funding for that program should not be sought until its effect and success can be evaluated.

Appeal:

The Developing Institutions program provides developmental assistance to colleges (primarily black colleges) which are "out of the mainstream of American higher education." The program is administered in two parts: (1) a basic program which awards annual grants for improvement of curriculum, faculty, administration, and student services; (2) an advanced program which awards multi-year (3-5 years) grants to accelerate development among relatively highly developed colleges. (The basic grants average \$250k per year -- the advanced grants average \$1 to \$2 million - OMB insert).

Allowance eliminates the advanced program which included new awards for 18 colleges; supplemental awards for 21 colleges.

HEW agrees with the Office of Management and Budget allowance in terms that the special program has now funded most, if not all, of the black colleges which are ready to move from developing to developed status. Therefore, the Department is not appealing the allowance.

However, the President should be aware that his predecessor gave high priority to this program and made a commitment to the black college community which this allowance would not honor.

OMB Recommendation:

No change from the allowance. Sixty percent (60%) of the funds would continue to go to black colleges as in the past. Outlays for Developing Institutions are estimated to increase to \$82 million in FY 1976. There will have been 82 schools awarded the advanced grants through 1975. It can be reasonably maintained that the commitment has been honored and that a suspension pending evaluation is warranted. However, the schools affected may interpret the previous commitment as being to the \$120 million level in the 1975 President's Budget. (The Congress deleted \$10 million).

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Educational Support and
Innovation

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	173	124	173	133	173	133
O	157	151	204	184	204	184

Allowance:

The proposed allowance is a projection into 1976 of the funding level associated with the 1975 decision to discontinue Federal grants of \$39 million for Assistance to State Departments of Education. This is the only difference between the allowance and the HEW appeal. The allowance is in conflict with the requirement in the new Elementary and Secondary Education Act to meet certain funding levels before limited consolidation of grant programs can take place.

HEW Comment:

- The OMB allowance provides \$133 million for Support and Innovation, a decrease of \$39 million from the original request of \$172 million. The proposal includes appropriation language that would eliminate the trigger in P.L 93-380 which requires the 1974 level or the 1975 level, whichever is higher, to be maintained before consolidation can take place.
- HEW believes that an appeal must be made to restore the original request of \$172,888,000 to maintain the commitment to consolidation that has repeatedly been made by the Administration to the Congress. This is the minimum level that would trigger the consolidation.
- The OMB proposal to ask for legislation to repeal the trigger is not only unrealistic but also represents a break in commitments made to the interest groups, the Congress

and the public. Additionally, if our appeal is not allowed, the Administration will have effectively abandoned what has been its primary innovative concept in elementary and secondary education over the past three years.

OMB Recommendation:

No change from the allowance. The Administration requested termination of this program as part of the FY 1975 reduction exercise because it is a low priority use of Federal funds to provide general operating support to State administrative agencies. However, if States so choose, they would be able, under consolidation, to continue this activity. The reduced amount will require States to choose their priorities more carefully. Finally, we believe that substantive legislation is the most effective way of achieving elimination of the mandated funding levels currently required to "trigger" consolidation.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Fund for the Improvement of
Postsecondary Education

	1974 <u>Actual</u>	1975 <u>President's Decisions</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	10.0	11.5	20.0	11.5	17.5 ✓	11.5
O	--	10.0	14.9	11.0	12.0	11.0

Allowance:

Holds program to 1975 level. Fund supports projects of innovation and reform in postsecondary education through grants to schools, other institutions and individuals.

HEW Appeal:

- Appeals \$6 million, for a total of \$17.5 million.
- Allowance provides \$9.2 million for the continuation of existing projects, but reduces allocation of money for new projects from \$10.8 million to \$2.3 million.
- The purpose of the Fund is to increase the effectiveness of postsecondary education by supporting activities and projects which have the potential for achieving needed reforms and improvements in the field of postsecondary education.
- The proposed cut of \$8.5 million would leave the Fund with insignificant resources to conduct the following priority programs in 1976:
 - . Initiate major new starts in competency-based learning, a program which already has had major impact upon Department-wide strategies in education and work.



- . Initiate efforts to improve system-wide practices in postsecondary education, such as accreditation and licensing practices; and
- . Conduct major evaluation and dissemination efforts to obtain maximum benefits from the Fund's first three years.

OMB Recommendation:

No change from the allowance. Although grants made by the Fund have been well received by the academic community, there is no compelling necessity to increase its resources in a tight budget year. The HEW appeal is based on a high cost of continuation grants which leaves limited funds for new starts within the allowance. The Fund precipitated this situation by disregarding suggestions that projects be multi-year funded at the outset, so that continuation costs would not occur.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Child Development

	1974 <u>Actual</u>	1975 <u>President's Decision</u>	1976			
			<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	392	430	450	430	450 ✓	430
O	387	412	439	439	439	439

Allowance:

Head Start provides educational and development services to disadvantaged pre-school children.

The allowance provides continuation of the current level.

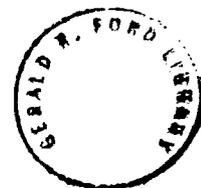
HEW Appeal:

The Head Start request included an additional \$20 million to serve handicapped children. Congress has explicitly stated that it wants Head Start to serve severely handicapped children. This will require \$20 million since it requires special equipment and highly trained teachers.

OMB Recommendation:

No change from the allowance for Head Start. The program has been serving handicapped children since its inception. The requirement that 10% of the children served be handicapped has been in the basic legislation since 1972. It is true that the costs of serving the more severely handicapped are higher and that there has been Congressional pressure to enroll more of the seriously handicapped.

We believe this should be done under the existing program level even if it forces decreases in overall enrollment. There is no assurance that the \$20 million increase is adequate as an add-on or that it will deter even greater increases by the Congress. This decision should be reached with the understanding that the Head Start program in total does not reach anywhere near the eligible population.



1976 Presidential Determinations

Department of Health, Education, and Welfare

Program: Public Assistance - Social Services

	1974 Actual	1975 President's Decisions	1976			
			HEW Request	Allowance	HEW Appeal	OMB Recommendation
BA	1,345	1,829	1,850	1,300	1,921	1,300 ✓
O	1,392	1,806	1,850	1,300	1,921	1,300

Allowance:

This program provides 75% Federal matching funds for social services such as child care, homemaker, visiting nurses, and counselling services to welfare recipients and other disadvantaged persons but without a strict income test. The allowance would reduce the matching rate from 75% to 65% in 1976, and to 50% for 1977 and thereafter. (Requires a legislative change).

HEW Appeal:

The OMB mark of \$1.3 billion was based upon a legislative proposal to reduce the matching rate from 75% to 65% (and to 50% for each subsequent year).

We are appealing for a restoration of \$621 million to our latest estimate of \$1.921 billion based on current legislation. The higher estimate is based on the latest state estimates for Social Services expenditures. A commitment has been made by the Administration to support new Social Services legislation. It would be inconsistent and inappropriate to recommend such a dramatic departure from the provisions of this bill which has been negotiated with the Governors and reported out without change by the House Ways and Means Committee. This HEW appeal amount over the OMB allowance is more than made up for by HEW suggested reductions from the OMB allowance in Cash Assistance and Medicaid.

OMB Recommendation:

Retain the proposed allowance. The OMB allowance would be a departure from current policy. It rests on the principle that a heavier sharing of the costs of these services by state and local governments will encourage improved administration and a more rigorous evaluation of the worth of these services at the local level. This incentive is consistent with the proposed new legislation which allows more management discretion at the local level. While the Administration has not officially endorsed the current Federal matching rate, reducing it will probably result in criticism from Congress and the interest groups as renegeing on an implied commitment. However, seeking a greater degree of financial participation concomitant with more flexibility by state and local governments is a reasonable proposition -- especially in a program area which has never been able to demonstrate hard program accomplishment.

1976 Presidential Determinations

Department of Health, Education, and Welfare
(\$ in millions)

Program: Vocational Rehabilitation

	1974	1975	1976			
	<u>Actual</u>	<u>President's Decisions</u>	<u>HEW Request</u>	<u>Allowance</u>	<u>HEW Appeal</u>	<u>OMB Recommendation</u>
BA	734	725	777	736	776	736 ✓
O	727	762	785	751	785	751

Allowance:

The allowance assumes no increase for vocational rehabilitation (VR) activities from 1975 to 1976.

HEW Appeal:

HEW is appealing for a restoration of OMB's \$40 million cut.

Section 110(c) of the Rehabilitation Act contains a mandatory reallocation provision. Since the States have reported aggregate spending plans which would require Federal matching over the authorization level of \$720 million, a lower level would require point-of-order language in the FY 1976 Appropriations language. The chances of getting such language successfully through the appropriations process are most remote.

OMB Recommendation:

Propose point-of-order language in the 1976 appropriations bill to eliminate the mandatory spending requirement of the VR bill. This proposal is consistent with the stringent 1976 budget guidelines and would return to the appropriations committees the control of funding levels. In addition, there are serious concerns about inadequacies in the administration of this program which militate against substantial increases at this time.

This recommendation can be expected to raise considerable opposition from the VR interest groups.

Labor

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: 1976 Budget Decisions: Department of Labor

The agency request and my recommendations with respect to the 1976 budget amounts for the Department of Labor are presented in the tabulation attached (Tab A). The Secretary's letter appealing my initial allowance is attached as Tab B. Summaries of the principal differences between the Secretary and myself are attached as Tab C.

The Secretary also maintains that the initial OMB allowance does not include sufficient resources to support the program levels allowed. These costing problems can be worked out between the Department and ourselves with no significant effect on overall budget totals. In addition, the amounts to be included in the 1976 budget for unemployment insurance benefits and your proposed National Employment Assistance Act will have to be determined later when final economic assumptions are decided upon. In the meantime, we have included these programs in the tabulation (Tab A) at the Department's request. It is probable that the final figures will be significantly higher.

Four key issues have been identified for your consideration. More detail on the first three of them is included in Tab C.

I. Comprehensive Manpower Assistance.

DOL recommends \$2.4 billion (equal to the congressional enactment for 1975 which you have agreed to accept) to assure that our commitment to reducing unemployment is adequately addressed. However, it requests that the final amount be left open to permit a higher level based on latest unemployment data.

OMB recommends returning to the \$2.05 billion, equal to the amount initially proposed for 1975. There is no programmatic reason for relating the appropriation level for this program to

economic conditions. There is no information on program accomplishment to justify exceeding the level proposed for 1975. It appears that State and local sponsors will not fully utilize the 1975 amounts, carrying substantial authority into 1976. Actual training and public employment in 1976 will therefore be only slightly less than in 1975, even with the OMB recommended appropriation.

Decision: Approve agency recommendation _____
 Approve OMB recommendation _____
 See me _____

II. Grants to States for Unemployment Insurance and Employment Services

The Department recommends \$1,087 million for 1975 and \$1,222 million for 1976 in order to (a) fully fund State Unemployment Insurance Services (UIS) for a 4.6% unemployment rate assuming the same production rates achieved when unemployment is under 4%, (b) keep basic Employment Service (ES) employment at the November 1974 level as directed by the Congress, (c) increase the employment service by \$75 million in 1976 to comply with a court decision relating to services to migrants, and (d) allow for a 12% cost increase.

OMB recommends \$1,051 million for 1975 and \$1,060 million for 1976. This would be sufficient to meet the expected UIS workload since experience shows productivity increases as unemployment rises and if ES staff (which has fewer opportunities to find jobs for people when unemployment is high) is diverted to UIS claims processing. A 7% cost increase should be sufficient. No justification for a 15% ES increase to serve such a minor proportion of the total population as the migrants has been received. The increases proposed by DOL would require increases in the Federal Unemployment Tax, and interim advances of General Revenues to the Unemployment Trust Fund.

Decision: Approve agency recommendation _____
 Approve OMB recommendation _____
 See me _____

III. Personnel Ceiling

DOL recommends an end of year ceiling on full-time employees in permanent positions of 13,470 in 1975 and 13,632 in 1976, compared to a current ceiling of 12,492. The increases are primarily for (a) carrying out the new private pension reform law, (b) the Manpower Administration (MA), reflecting congressional add-ons

for apprenticeship programs and the court decision on migrants, and (c) the Occupational Safety and Health Administration (OSHA) reflecting congressional increases in safety and health inspectors.

OMB recommends end-of-year ceiling of 13,091 for 1975 and 13,101 for 1976, including 350 which DOL was informed last February would be allowed if it reduced its demand on other agencies for Job Corps operations by that amount. The actual portion of the 350 to be included depends on how much DOL has actually decreased other agency personnel requirements. OMB and DOL agree on initial Pension Reform staffing. OMB is convinced that DOL's Manpower Administration is overstaffed to carry out the revenue sharing type program provided by the Comprehensive Employment and Training Act and that additional staff is not needed to apply any new standards required by the migrant decision. Additional OSHA inspectors should await analysis of State by State needs and accident reductions achieved by inspectors.

Decision: Approve agency recommendation _____
 Approve OMB recommendation _____
 See me _____

IV. Work Incentive Program

DOL and OMB agree in recommending sufficient budget authority to maintain the Work Incentive Program in 1976 at the program level agreed to for 1975. Although evidence seems to indicate that the program is not effective in getting people off welfare or achieving welfare savings, you decided that the program should not be reduced in 1975 while unemployment rates remained high.

Decision: Agree _____
 Disagree _____
 See me _____

Attachments

A

1976 Presidential Determinations

Department of Labor

Summary Tabulations
(\$ in millions)

		1974 Actual	1975		DOL Request	1976		OMB Recom.
			Allow- ance	DOL Appeal		Allow- ance	DOL Appeal	
<u>Uncontrollable Programs</u>								
UI Benefits	BA	7,539	7,722	7,722	7,969	7,969	7,969	7,969
	BO	5,239	7,916	7,916	7,990	7,990	7,990	7,990
Federal Unemployment Benefits	BA	365	453	453	1,040	530	530	530
	BO	362	453	453	1,011	530	530	530
Special Benefits	BA	138	165	165	201	201	201	201
	BO	107	165	165	201	201	201	201
Other	BA	-37	0	0	-198	0	0	0
	BO	2	2	2	2	2	2	2
Total Uncontrollable	BA	8,005	8,340	8,340	9,012	8,701	8,701	8,701
	BO	5,710	8,536	8,536	9,202	8,722	8,722	8,722
<u>Legislation</u>								
NEAA	BA	0	2,760	2,760	0	0	0	0
	BO	0	1,211	1,211	1,549	1,549	1,549	1,549
Job Security Act	BA	0	0	0	2,395	0 ^{1/}	0 ^{1/}	0 ^{1/}
	BO	0	0	0	2,395	0 ^{1/}	0 ^{1/}	0 ^{1/}
<u>Controllable Programs</u>								
Comprehensive Manpower Assistance	BA	2,266	2,394	2,394	2,265	2,050	2,394	2,050
	BO	1,450	2,790	2,790	2,433	2,512	2,687	2,512
Work Incentive Program	BA	340	210	210	363	330	330	330
	BO	340	316	316	360	315	315	315
Grants to States for Unemployment Insurance & Employment Services	BA	64	64	64	81	71	81	71
	BO	892	1,051	1,087	1,285	1,060	1,222	1,060
Other ^{2/}	BA	306	361	365	448	377	413	377
	BO	914	446	450	470	401	437	401
Total DOL	BA	10,981	14,129	14,133	14,564	11,529	11,919	11,529
	BO	9,306	14,350	14,390	17,694	14,559	14,932	14,559

^{1/} Pending receipt of DOL legislative program.

^{2/} Subject to costing adjustments in 1975 and 1976.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

NOV 27 1974

Honorable Roy L. Ash
Director
Office of Management
and Budget
Washington, D.C. 20503

Dear Mr. Ash:

Outlined below is the Department of Labor's reaction and appeal from the recommendations of the Office of Management and Budget relating to resource allowances and policy directions for Fiscal Years 1975 and 1976. I want to state initially, that this reaction to the tentative OMB budget allowance is based on our desire to do the best possible job for the American worker under the policy set by President Ford at the beginning of his Administration--the authority for policy direction falls upon the responsible Cabinet Officer.

Before addressing the specific issues as they relate to each program account, it should be noted that our review of the recommendations concludes that major adjustments will be allowed: (1) to reflect current economic assumptions at the time the budget is submitted--in both the areas of uncontrollable budget authority for unemployment insurance and the proposed National Employment Assistance Act and controllable budget authority related to administration of the Comprehensive Employment and Training Act, (2) to provide additional resources for agreed upon new legislation which may be enacted in this session of Congress or will be submitted to the first session of the 94th Congress, and (3) to reconcile what appear to be significant pricing or costing problems that will necessitate actual reductions in on-board personnel over and above those suggested in your recommendations.

Beyond these general issues, the Department is appealing the specific resource allowances and policy directives under the following program accounts.

MANPOWER ADMINISTRATION PROGRAM ADMINISTRATION

The Department appeals the ceiling reductions of 350 related to Job Corps Center reductions in the Departments of Agriculture and Interior, 100 for economies related to the implementation of CETA, 75 for the anticipated Congress directed expansion of the Apprenticeship staff, and 8 for the National Commission on Manpower Policy. The restoration of these reductions would provide for a base ceiling of 3,153 for 1975 and 1976. The budget authority for 1976 would be increased to \$101,351,000. Additional ceiling of 116 and funds of \$1,483,000 in 1975 and \$3,004,000 in 1976 will be required for implementation of Judge Richey's court order discussed later under this account.

The OMB allowance is predicated upon the assumption that further economies can be made in moving from categorical programs to CETA and any increases authorized by the Congress for BAT can be accommodated by reallocation among manpower programs. This assumption is rejected for two fundamental reasons:

1. The Manpower Administration has already made all the economies that can be made in the movement from categorical programs to CETA.
2. The present economic posture requires that the Manpower Administration exert all its reduced staff resources to ensure that the manpower systems--the Employment Service, Unemployment Insurance and CETA prime sponsors move with dispatch to use the program and funds to lessen the severity of the economic situation.

Over the past 2 years the Manpower employment ceiling has been reduced from 4,201 in Fiscal Year 1973 to an adjusted 1975 ceiling of 3,379, a reduction of 822 or 20 percent. In addition to this net staff reduction, the Manpower Administration has absorbed or will absorb a total of 181 additional positions for additional Veteran's Employment Representative (68), the OEO Migrant and R&D Programs (64), Indian Program (40), and the Rural Development Program (9). These absorptions, when added to the net staff reductions, equate to a total reduction of 1,002 or about 25 percent from the 1973 employment level.

The experience under CETA demonstrates that prime sponsors are only now aware of the dimensions of their responsibilities under the Act and now are requesting Federal assistance far in excess of anything contemplated. Reporting is only one such area. Only about 50 percent of prime sponsors, as of mid-November, had yet submitted their first quarter reports and are requesting Federal assistance in preparing reports and establishing reporting systems. In addition, Federal staff must assist prime sponsors to speed up the employment under the Title II and EEA programs if these programs are to respond to the current economic crisis. For these reasons the further 100 position reduction and the absorption of the expansion of BAT cannot be accommodated.

With respect to the question of the ceiling reduction of 350 positions until concomitant reductions in the Departments of Agriculture and Interior Job Corps Centers are made, the Department believes adequate reductions have already been made in those Departments to merit being given these ceilings. These Departments have indicated that reductions of 350 have been made below their Fiscal Year 1974 operating levels, that funding has been reduced to reflect such levels, and that the February 5, 1974, OMB allowance letters for Fiscal Year 1975 imposed cuts even beyond the 350 reduced from the operating levels. Though the Departments of Agriculture and Interior have not formally agreed to reduce their ceilings by 350, the Department of Labor does not believe that it should be penalized for the failure of the approach outlined in the OMB Fiscal Year 1975 allowance letter. The Department requests that this ceiling reduction be restored.

The National Commission on Manpower Policy had been proposed to be funded under the CMA national account since it is authorized by Title V of CETA. The allowance indicated that its costs should be absorbed from Program Administration. The National Commission is a Presidential Commission not related to carrying out the Secretary's responsibilities under the Act. It should be separately funded either within this account or more appropriately under the CMA appropriation.

Pursuant to a suit filed in the U.S. District Court for the District of Columbia by the NAACP, Western Region, et al. versus Peter J. Brennan, a decision was issued by Charles R. Richey, U.S. District Judge, dated August 9, 1974, setting various requirements upon the Employment Service in its provision of services to migrants and seasonal farmworkers. Briefly these require the provision of

qualitatively equivalent and quantitatively proportionate manpower services to rural areas. If the Department is to be in compliance, the following additional resources are needed. These resources have been included under the two individual accounts involved.

<u>Account</u>	<u>Fiscal 1975</u>	<u>Fiscal 1976</u>
Program Administration	\$1,483,000	\$3,004,000
Grants to States	27,000,000	75,400,000

Comprehensive Manpower Assistance

The appeal for FY 1976 is based on the anticipated continued high level of unemployment into FY 1976. Unemployment which has risen from 5.2% in July to 6% in October is not expected to peak until late this fiscal year or early next fiscal year. To counteract this trend, the Department has accepted the Conference level of \$2.4 billion for the CMA appropriation in FY 1975 and has already released \$970,000,000 of public employment funds this year. The appeal assumes that sufficient funds should be made available in Fiscal Year 1976 to assure that our commitment to reducing unemployment is adequately addressed. Therefore, the Department proposes to maintain funding at the Fiscal Year 1975 level of \$2,394,400,000 authorized by the Conference.

The need to provide sufficient assistance will be affected by both unemployment and other economic factors. However, the same reasons that prompted the President to accept the Congressional level in 1975 are still extant. It is, therefore, proposed that this matter be discussed again after Congressional action on the current legislative package, especially as pertains to the National Employment Assistance Act.

GRANTS TO STATES FOR EMPLOYMENT SERVICES
AND UNEMPLOYMENT INSURANCE

Fiscal Year 1975

The OMB allowance provides \$1,051,009,000, \$582,609,000 for the Unemployment Insurance activity and \$468,400,000 for the Employment Services activity. The OMB allowance would require reprogramming of \$35,500,000 between ES and UI. In light of the need to retain \$27,000,000 to comply with the Judge Richey decision, it will be necessary to request a supplemental in the amount of \$35,500,000 to process the anticipated UI claims workload.

To attempt to absorb these increased costs would require an 11 percent reduction in regular ES services during the last half of the Fiscal Year. In light of Congressional intent to maintain ES staffing levels at the November 1974 staffing level, and the increased need for employment services during periods of rising unemployment, absorption is not a feasible option. The only other alternative, if these resources are not provided, would be non-compliance with the court order, pending legal appeal.

Fiscal Year 1976

The OMB allowance provides \$585,000,000 for UI Grants administration, of which \$60,000,000 is earmarked for UI contingency workload and \$5,600,000 for additional cost model maintenance. The remaining \$519,400,000 is available to finance the base UI workload. However, during Fiscal Year 1976, \$560,700,000 is needed to fund a base workload averaging 1,500,000 UI claims per week. The \$560,700,000 needed to fund the base UI operations was computed by applying 95 percent of the cost model time factors to the base workload, thereby imposing a 5 percent productivity assessment.

The OMB allowance indicated that the Department should phase-in the amounts needed to fully fund tax activities in an effort to reduce the base requirements. The 1976 net increase over the 1975 allocated man-years is 388 man-years nationwide. The savings which would accrue on a phased-in basis would be minimal and certainly would be outweighed in terms of lost tax revenues. Any effort less than maximum at a time when unemployment is causing drains on Trust Fund revenues is inconsistent with sound fiscal policy.

In view of the above, the Department feels that it must fund the base UI requirements at the \$560,700,000 level, which would leave \$18,700,000 for UI contingency workload above the 1,500,000 claims per week. This amount would finance 11 percent of the anticipated UI workload above the base, or a total unemployment rate of 4.2 percent. With unemployment estimates ranging above 7 percent for calendar year 1975, we believe the reductions applied against this activity to be totally unacceptable. Therefore, it is necessary to restore \$41,300,000 to the UI workload contingency in order to provide a minimum of \$60,000,000, which will provide for a 4.6 percent unemployment rate. The final amount needed, however, will be determined by the rate of insured unemployment realized.

The OMB allowance of \$475,000,000 for ES would provide 26,200 man-years during 1976. This would result in a reduction of 2,600 man-years or 9 percent from the November 1974 staffing level. Full-year costs of complying with the Richey decision would require \$75,400,000. The absorption of these costs would result in a further reduction of 11 percent, or 4,100 man-years, in regular ES services during the year. This absorption plus the reduction in the OMB allowance would effectively reduce needed employment services to the Nation's unemployed by 20 percent.

The Department appeals the OMB allowance since it will not even maintain the November 1974 State employment service staffing level during a climbing workload period and is, therefore, in conflict with expressed Congressional intent. Further, we request an additional \$75,400,000 required to comply with the Richey decision.



The OMB proposal to take ES reductions only in poorly performing States is not an acceptable approach to budget reduction and, therefore, is appealed. Our rationale is based on the assumption that the 11 States which would fall into this category (Connecticut, New Jersey, New York, Pennsylvania, Illinois, Michigan, Kansas, Colorado, Massachusetts, Maryland, and Minnesota) are highly industrialized States and would suffer a substantial staffing cut at a time when unemployment is rising in these areas. We strongly believe that such action would be counterproductive and is not a feasible solution to the Administration's economic strategy.

The Department's request for UI-ES Grants administration included an 11.4 percent increase for State administrative costs above the 1975 level. The request includes 6.0 percent for Statewide salary increases, 1.7 percent for salary increments (State within-grades), 1.8 percent for related personnel benefits, 1.2 percent for supplies, rents and utilities, and .7 percent for postage. The postage increase reflects the 25 percent increase which was effective March 1974. We have reviewed the mandatory cost increases with respect to the OMB allowance of 7 percent, and believe that the request is modest in view of the rate of cost increases the nation is currently experiencing. The reduction of mandatory costs to the 7 percent level is appealed.

The Department pursued a diversion policy for several years in which State employment security agencies were permitted to divert employment service staff to UI activities during periods of sudden and substantial increases in claims and related UI activities after all efforts had been made to accomplish the added workloads with existing UI resources. It became evident, however, that this practice of diverting employment service staff resulted not only in substantial reductions in the ability of State agencies to provide adequate services to those workers and employers seeking assistance but also resulted in quality deterioration in important UI functions. Further, accomplishing increases in UI workloads through the diversion of ES staff was more costly than providing direct funding for UI temporaries through an adequate UI workload contingency fund.

The OMB allowance indicates that an active diversion policy should be pursued so that ES staff is utilized in the UI claims workload processing as needed. The Department feels there is no justification for changing the present diversion policy, and therefore, the OMB position on diversion is appealed. The Department does, however, feel that its current policy of applying savings realized through normal budgetary adjustments to accomplish added UI claims workloads as necessary is effective.

The total funds needed for 1975 are \$1,086,509,000, which is \$35,500,000 above the allowance and for 1976 \$1,222,100,000, which is \$162,100,000 above the allowance.

Work Incentives

The Department is not appealing the 1976 OMB allowance of \$330,000,000 in budget authority and \$315,000,000 in outlays. The workload statistics provided with the mark, however, do not appear viable at these levels. Current estimates are that On-the-Job Training, Public Service Employment and Work Experience man-years will be reduced in 1976 by about 4,000 to a total level of about 21,100. The 1975 man-years for these programs are also expected to be lower by about 3,000 man-years of service.

Expanded Use of Unemployment Trust Fund

The Department appeals any OMB action to expand usage of the Unemployment Trust Fund to replace Federal funds. Current estimates indicate that \$1,290,300,000 will be available in FY 1976 for UTF administrative costs. The current amount for Grants to States, as appealed, is \$1,151,000,000, and the Federal administrative level is projected at \$75,200,000, leaving only \$64,100,000 in unused funds, a minimal amount. Further, Grants to States funding is only provided to process a workload of approximately 1,900,000 average claims per week. Given current trends toward higher unemployment, it is felt that this is an inappropriate time to put an increased burden on an already minimum difference between expected fund usage and availability.

Labor-Management Services Administration

Salaries and Expenses

The allowance for the Labor-Management Services Administration recommends a 12 position reduction in the Veterans Re-employment Rights and Federal Labor Management Relations-program support areas, coupled with a reduction of \$1,440 thousand. To accommodate this dollar reduction, would require further staff reductions of 40-45 positions. Pending amendment to the executive order relating to Federal Labor-Management relations, together with current workloads and backlog levels in basic programs, militate against any reduction in operating staff. Appeal is made for a 1976 allowance at the standstill level of \$29,305,000.

Pension Reform (Employee Retirement Income Security Act)

No appeal is being made at this time to restore the request for a second supplemental for the pension reform program. However, it is understood that as demand materializes for resources for these activities, a request will be submitted for a supplemental at some later date for additional resources. Workload is currently increasing in this area and is expected to continue increasing substantially during the course of the fiscal year. The request will be made with the understanding that the Department will not be able to offer any offsetting decreases in other program areas.

Employment Standards Administration

The Fiscal Year 1976 request for the Employment Standards Administration included an increase of 40 positions and \$840,000 for strengthened enforcement of the Age Discrimination in Employment Act. The request included development of a new approach designed to expand the legal base for the enforcement program. Over the last several years, Congress has urged a stronger ADEA effort, including attempts to add more resources to the Department's request. The Administration has publically committed the Department to an active and vigorous enforcement effort. Moreover, organizations and agencies such as the U.S. Civil Rights Commission are becoming increasingly vocal on the Department's administration of the Act.

The issue of age discrimination becomes more important under the current economic conditions. As layoffs and plant closings increase, so does the probability of discriminatory actions related to a worker's age. We have also received complaints alleging a number of incidents of discriminatory practices related to the new Pension Reform as employers purge older workers before the vesting provisions take place.

As our initial justification pointed out, there are needs for legal precedents and cases with high impact and visibility. These needs cannot be met within existing resources.

The Department's submission to OMB included \$3,548,000 in FY 1976 including annualization, for the 150 positions to be sought in a January 1975 supplemental. This was to be the second installment of the commitment to ESA approved by OMB to provide resources to meet increasing workload mandated by law. It is now my opinion that this item should be deferred until action on the first supplemental is completed and the impact of these resources has been determined.

Occupational Safety and Health Administration

For fiscal year 1975, the Department is requesting personnel ceiling for the 180 additional compliance officer positions included in the 1975 Department of Labor Appropriation, commensurate with the budget and program authority allowance. These new compliance officer positions will be utilized to expand federal safety and health enforcement.

For fiscal year 1976 restoration or allowance for the following items is requested:

An amount of \$3.2 million to pay for the full-year costs of positions authorized by Congress in 1975, but funded for only part of the year. This appeal includes funds for annualization of positions for which ceiling has been allowed and the additional positions placed in the 1975 appropriation for which employment ceiling has been requested above.

Restoration of \$3 million in State grant funds. This appeal is cognizant of the recommendation to disapprove \$1 million in research activities presently performed under State grants, and does not include funds for this purpose. Unless States which presently have approved plans but lack

enabling legislation drop out, reductions in developmental State programs will have to be assumed proportionately by all participating States. This in turn will have serious implications concerning the integrity of State safety programs efforts as a working example of "New Federalism", and could result in a loss of State confidence concerning the level of future support with concomitant losses of State Legislative and appropriation support.

A request for \$5 million in grant funds to continue the funding of 7(c)(1) agreements with non-plan States to conduct consultation programs for small employers. In 1975, Congress authorized the transfer of up to \$5 million in State grant funds for this purpose. Additional funds will be needed in FY 1976 to continue this.

Provision of funds is requested to cover the costs of the FY 1975 pay raise which will be initially absorbed by a transfer of funds from State grants, but which cannot be financed in the 1976 base program without reducing State programs.

Bureau of Labor Statistics

CPI Revision - Neither the Fiscal Year 1975 nor the Fiscal Year 1976 allowance includes the proposed Fiscal Year 1975 amendment for the CPI Revision currently before Congress (\$600,000). It should be noted that the Conference Committee is currently considering this item and a Senate reduction of \$300,000. Regardless of final Congressional action, the Department will require the full \$600,000 in Fiscal Year 1976 if we are to meet the BLS-DOL commitment to produce the Urban Wage Earner and Clerical Worker CPI as well as the Urban Population CPI as planned.

General Wage Index - The Department's plan for further development of the General Wage Index reflects the priority that the Economic Policy Board attached to the development of a total measure of compensation. The OMB recommendation with respect to the GWI reflects a different set of priorities. The Department's position is that the Seever's Committee recommendation should be followed, and that the funds provided should be used to do so.

PATC Survey - Discussions are currently under way between the Bureau of Labor Statistics, OMB and CSC on expanding the scope of the Bureau's PATC survey and on collecting bonus information. In a letter of November 22 to you and Chairman Hampton, we agreed to conduct a Fiscal Year 1975 pilot test work with current funds for PATC improvement (quality and training) but indicated that in order to carry on the Fiscal Year 1976 full and expanded survey, additional resources would be needed. Therefore, the BLS allowance of \$60,973,000 for Fiscal Year 1976 will have to be increased by the amount necessary to carry on the PATC survey at the indicated expanded level once that number is known. An estimate will be available shortly.

Personnel Ceiling Positions

In our FY 1976 request, the Department provided a breakdown of BLS requirements for "Other" ceiling in Fiscal Year 1975 and Fiscal Year 1976. No mention was made in the OMB allowance of a decision on the request. I must reiterate the critical need for the additional ceiling requested. If the ceiling is not received the BLS will be unable to conduct several important programs planned for Fiscal Years 1975 and 1976 that require the increased ceiling.

Impact Statement

OMB staff have advised the Department that the Fiscal Year 1976 allowance of \$60,973,000 included \$1,500,000 for the SIC Conversion Program.

The SIC amount, plus the \$3,250,000 for new programs recommended by the SeEVERS Committee, amounts in total to \$4,750,000. OMB proposed that BLS offset some of the increases by reducing its base program by \$2,088,000. While we are not appealing the amount of the base reduction, we plan a different array of decreases to meet the required decrease of \$2,088,000 (Attachment A).



DEPARTMENT MANAGEMENT

It has been my goal for some time to reduce Departmental "overhead" and the actions I propose would achieve that goal while giving me the maximum flexibility to array and manage my resources. Specifically I propose the following actions:

a. Appropriation Structure.

1. Solicitor--It is vital that we have a separate appropriation account for the Office of the Solicitor. This function is so closely tied to the operations of our programs (as opposed to direction of them) that a separate account has become vitally necessary to the conduct of the Department's business.

2. EEO. This important program has never been properly budgeted in spite of our efforts to do so on two previous occasions. I propose to transfer these positions from the Consolidated Working Fund to Departmental Management, S&E in 1976 and to reduce the budgets of the agencies that are supporting it proportionately.

b. Overall Management

The Condoliated Working Fund has properly been the subject of much criticism over recent years. Starting now and ending in FY 1976 I propose to cut its use drastically and forego most of the functions that are now funded by this device. By the end of fiscal year 1976, the Consolidated Working Fund will have been reduced by a total of 49 positions and \$1,838,000. I would remind you that in preparing the 1974 budget we made a similar proposal. In the course of budget decisions the agency contributions to the Consolidated Working Fund were reduced but we were directed to continue to "find" funds for the activities covered. In view of this it would be a grievous error to once again reduce the agencies' budgets as an offset.

I accept the dollar reduction to the Working Capital Fund and staff is now preparing options for achieving this \$2.5 million cut.

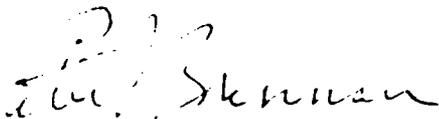
In view of these sizeable reductions to the more controversial elements of our management resources I must register a strong appeal for restoration of pay increase supplement and for restoration of proposed transfers out of the appropriation. In other words the Departmental Management account and Office of the Solicitor should be set at the 1975 conference level as adjusted for (a) the recent supplemental and (b) full pay costs. We will absorb any increase in travel costs. For 1976 these accounts must be held at a standstill level--that is 1975 base dollars plus 1976 mandatory costs.

PENSION BENEFIT GUARANTY CORPORATION

The allowance for the Department of Labor reflects 75 positions and related funds for the Pension Benefit Guaranty Corporation in fiscal year 1975. As I have noted in an earlier communication to you regarding this program, I and other members of the Board of Directors of the Corporation believe it is inappropriate to include allowances for the Corporation's resources in the Labor Department budget totals particularly, since the provisos of the Employee Retirement Income Security Act established this organization as a separate entity of the U.S. Government. As Chairman of the Board of Directors I am in the near future transmitting to you a separate Corporation budget for additional resources for fiscal years 1975 and 1976. Consequently, I assume that resources levels for the Corporation will be discussed as a separate issue that is unrelated to or unconnected with resource allowances for the Department of Labor.

This letter of course does not cover the great amount of detail that support its conclusions. As final decisions evolve, further discussions will be necessary. Given the utmost importance of these programs, I urge your favorable consideration of these appeals.

Sincerely

Handwritten signature of J. Edgar Hoover in cursive script.

Secretary of Labor

SUMMARY TABLE OF PROPOSED REDUCTIONS

	<u>OMB Suggestion</u>	<u>BLS Plan</u>
Pilot 790 (Hours and Earnings of Nonproduction or Supervisory Workers).....	\$345,000	\$345,000
BEA Contract.....	300,000	300,000
Travel.....	116,000	---
Reduction in BLS Regional Offices.....	200,000	---
Productivity Technological Studies.....	217,000	75,000
Wages and Industrial Relations.	410,000	---
Increase in Export and Import Prices.....	---	300,000
Economic Growth.....	---	100,000
Census Bureau - CPS.....	---	125,000
SIC Conversion Program (New Program).....	---	200,000
Executive Direction.....	<u>500,000</u>	<u>643,000</u>
Total.....	<u>2,088,000</u>	<u>2,088,000</u>

1976 Presidential Determinations

Department of Labor

Comprehensive Manpower Assistance
(\$ in millions)

	<u>1974 Actual</u>	<u>1975 President's Decisions</u>	<u>1976</u>			
			<u>DOL Request</u>	<u>Allowance</u>	<u>DOL Appeal</u>	<u>OMB Recom.</u>
BA	2,266	2,394	2,265	2,050	2,394	2,050
O	1,450	2,790	2,433	2,512	2,687	2,512

Allowance:

This account finances manpower training and public service jobs under the Comprehensive Employment and Training Act (CETA). The 1975 Presidential decision accepted the congressional level of \$2,400 million BA, \$350 million over the request of \$2,050M. Within the 1975 level, over \$1 billion is available for public service jobs. Presidential guidance given the Department on the FY 75 level expressly rejected tying the level to variations in the unemployment rate. The primary emphasis was to be placed on gaining congressional acceptance of the National Employment Assistance Act (NEAA). The FY 76 allowance of \$2,050 million BA, the same as the 1975 request, is based on the lack of evidence of impact on participants or the economy.

DOL Appeal:

DOL requests tentatively continuing the 1975 BA level in 1976. DOL states the expectation that the account will be increased if economic conditions worsen, without regard to enactment of NEAA. The Secretary believes it is unrealistic to expect the public to comprehend a reduction in BA (which the public will equate to a reduction in public service jobs) while seeking increases for NEAA (also interpreted by the public as public service jobs).

OMB Recommendation:

There is no program evidence presented to support a direct relation between changes in the level of CMA funds and economic conditions. Should analysis of program performance over the coming years demonstrate grounds for different levels, there will be ample opportunity to develop funding patterns to reflect this new knowledge. In addition, current spending information indicates that States and localities will be unable to use all funds available in 1975, and will carry them over to 1976. Training and employment will therefore be only slightly lower than in 1975 even with the OMB recommendation. Emergency programs, like the NEAA, should be the primary method for combating worsening economic conditions.

December 2, 1974

1976 Presidential Determinations

Department of Labor

Grants to States for Unemployment Insurance (UIS)
and Employment Services (ES)
(\$ in millions)

	1974 <u>Actual</u>	1975		1976			
		<u>Allow- ance</u>	<u>Appeal</u>	<u>DOL Request</u>	<u>Allowance</u>	<u>DOL Appeal</u>	<u>OMB Recom.</u>
Obl./O	892	1,051	1,087	1,285	1,060	1,222	1,060 ✓

Allowance:

To fund added unemployment insurance (UI) claims processing, we allowed a \$100M increase in FY 75, in part by diverting Employment Services (ES) staff to UI work -- the method used in past economic downturns. In FY 76, cost increases of 7% were assumed rather than the 12% requested and reductions of \$25M were recommended for the ES, to be taken in States with high costs and low production. Sufficient funding was allowed to process the anticipated FY 76 UI workload, recognizing that past experience shows productivity increases as workload increases.

DOL Appeal:

DOL states "this practice of diverting employment service staff resulted not only in substantial reductions in the ability of State agencies to provide adequate services...but also resulted in quality deterioration in important UI functions." DOL believes it must enhance the UI function in FY 76 and "[t]herefore it is necessary to restore \$41.3 million...which will provide for a 4.6 percent unemployment rate. The final amount, however, will be determined by the rate of insured unemployment." For FY 75 ES services to migrants and seasonal farmworkers, DOL needs "to retain \$27 million," and in FY 76 "we request an additional \$75.4 million required to comply with the Richey [Court] decisions."

OMB Recommendation:

Additional program evidence from DOL to support large staff increases has not been made available. The DOL request will deplete revenues earmarked for administrative costs, necessitating a proposal to increase the Federal Unemployment Tax in FY 76 meanwhile seeking advances from general revenues. DOL arguments against seeking higher productivity of existing UI staff and diversion of ES staff to UI workload when unemployment rises -- reduced services lower quality -- do not address the primary arguments. In the past, productivity has increased

December 2, 1974

as unemployment rose. Moreover, the ES staff cannot find people jobs when unemployment is high and thus could perform as well as new hires in handling UI claims, without increasing cash requirements. We recommend limiting the UI increases over FY 74 (\$462 million) to \$120 million in FY 75 and \$125 million in FY 76, with modest diversion from the 30,000 ES staff. Additional services for migrants pursuant to the Court order should not require the 15% increase in the allowance sought by DOL. Additional justification is needed, including the relationship of the added ES services to other DOL programs for which an overall policy is being prepared.

1976 Presidential Determinations

Department of Labor

Personnel Ceiling

(Full-time Employment in Permanent Positions at End of Year)

	1974	1975			1976				
	<u>Actual</u>	<u>DOL</u> <u>Req.</u>	<u>2/</u> <u>Allow.</u>	<u>DOL</u> <u>Appeal</u>	<u>OMB</u> <u>Rec.</u>	<u>DOL</u> <u>Req.</u>	<u>2/</u> <u>Allow.</u>	<u>DOL</u> <u>Appeal</u>	<u>OMB</u> <u>Rec.</u>
<u>1/</u> MA	3,200	3,211	3,070	3,269	3,070	3,211	2,970	3,269	2,970
Other	8,856	11,891	10,171	10,201	10,021	11,654	10,131	10,363	10,131
Total	12,418	15,102	13,241	13,470	13,091	14,865	13,101	13,632	13,101

1/ See next determination paper.

2/ Includes 350 subject to negotiation, as described in next determination paper.

Allowance:

The current DOL ceiling is 12,492 plus 350 if it reduces its demand on other agencies by an equal amount.

DOL was exempted from its share of the 40,000 August personnel cut in order to allow it to hire 300 more to enforce the amendments to the minimum wage and related laws. The allowance for 1975 includes 399 above the current ceiling to administer the new private pension reform law. The 1976 allowance included a 140 reduction: 100 for the Manpower Administration (see next determination paper) and 40 to reflect reduced workload in the Labor-Management Services Administration (LMSA) (12) and apparent excessive overhead staffing in the Occupational Safety and Health Administration (OSHA) (28). Requirements for NEAA are not included pending DOL justification of needs.

DOL Appeal:

DOL is now requesting increases in the 1975 allowance of 199 for the Manpower Administration (see next determination paper) and 180 for OSHA to reflect the increase provided by the 1975 appropriation conference committee for additional safety and health inspectors. DOL, however, now recommends deferral of half of the staff increase for the minimum wage law perhaps until 1976. For 1976, it is requesting in addition

December 2, 1974

restoration of the 12 in LMSA because of pending amendments to the executive order relating to Federal labor-management relations (FLMR) and workloads and backlogs in other programs and 40 to mount a new, intensive enforcement of the Age Discrimination in Employment Act (ADEA).

OMB Recommendation

OMB recommends accepting the proposed deferral of 150 of the minimum wage increase until 1976, but to accept none of the increases over the allowances proposed. The rationale for the Manpower Administration is explained in the next determination paper. Amendments to the FLMR executive order have not yet been fully developed and it is not known whether they will result in additional workload; DOL justification materials do not show workload or backlog problems in other LMSA programs. If a more effective approach to ADEA enforcement is desired, redirection of the existing staff (approximately 84, including the supplemental pending in Congress) is the appropriate way to accomplish it. OSHA has not yet effected a rationale for allocating existing inspection staff among States without their own programs and States with OSHA-approved programs. 180 provided by Congress is in addition to a 150 increase proposed in the 1975 budget. OMB believes further increases should await a more thorough analysis of needs and accomplishments (i.e., reduction of occupational accidents and disease). Not allowing the 180 increase will probably require a 1975 deferral or rescission proposal to the Congress.

1976 Presidential Determinations

Department of Labor

Manpower Administration Program Administration
(Full-time Permanent Ceiling)

	1974	1975				1976			
	<u>Actual</u>	<u>Req.</u>	<u>Allow.</u>	<u>Appeal</u>	<u>Rec.</u>	<u>Req.</u>	<u>Allow.</u>	<u>Appeal</u>	<u>Recom.</u>
Base	3,200	3,070	3,070 ^{1/}	3,070	3,070 ^{1/}	3,070	3,070 ^{1/}	3,070	3,070 ^{1/}
Prog.	--	+66	0	+8	0	+66	0	+8	0
Apprent.	--	+75	0	+75	0	+75	0	+75	0
CETA	--	--	--	--	--	--	-100	(+100)	-100
New Req.	--	--	--	+116	0	--	--	+116	0
Total	3,200	3,211	3,070 ^{1/}	3,269	3,070 ^{1/}	3,211	2,970 ^{1/}	3,269	2,970 ^{1/}

^{1/} Reflects congressional reductions of 130. Includes up to 350 subject to negotiation (see below).

Allowance:

Last February, DOL was told it could increase its ceiling by up to 350 if it achieved similar reductions in Agriculture and Interior by reducing Job Corps activity. Agreements with these departments have not been negotiated as directed. The allowance also rejected apprenticeship and other program increases because existing resources are underutilized and took out 100 to reflect continued savings attributable to CETA.

DOL Appeal:

DOL rejects responsibility for negotiations on the 350, requesting full allocation without regard to offsets. It maintains that all economies possible due to decategorization under CETA have been achieved. MA has already come down over 800 positions since 1973. All available resources are needed to make programs work toward "lessening the severity of the economic situation." A new request for 116 is needed to support a plan developed in response to a Federal Court order concerning Employment Services for Migrants.

OMB Recommendation:

DOL failed to initiate appropriate negotiations on the 350. The rejection of responsibility announced in the appeal requires OMB

December 2, 1974

adjudication. Pending review, the allowance should continue the terms of the original agreement. Review will be concluded prior to budget printing.

CETA programs became operational September 1974. Currently DOL has assigned 853 Federal staff positions in the field (2 per sponsor) plus 46 in headquarters. This is very heavy staffing for a revenue sharing type program regardless of legitimate technical assistance needs of new sponsors. Program management should yield continued savings as sponsors gain experience. In addition, periodic Civil Service Commission reviews have consistently found massive overgrading and underutilization of MA staff.

The new request did not include any analysis. MA already has 254 Federal staff positions in the field for monitoring State ES agencies (5 per agency), plus 195 more in headquarters. In the absence of any justification, OMB assumes that this staff is sufficient to explain any new requirements to the State agencies and to monitor compliance.

OFFICE OF MANAGEMENT AND BUDGET
ROUTE SLIP

TO Mr. Paul O'Neill

- Take necessary action
- Approval or signature
- Comment
- Prepare reply
- Discuss with me
- For your information
- See remarks below

FROM G. Phillips Hanna

DATE 12-5-74

REMARKS
UTF/NEAA Outlay Estimates.

cc: Mr. Dale McOmber

Employment Trust
ance Act

NEAA
Continued

5.3
4.7
4.5
3.8
N/A

Request.

10 billion for the UI
assuming a 6.1% average
1975. The President
\$8.9 billion for the

OMB FORM 4
REV AUG 70



Alternative FY 76 Outlay Estimates for Unemployment Trust
Fund and National Employment Assistance Act
(\$ in Billions)

<u>Unemployment Rate</u>	<u>UTF</u>	<u>NEAA Dec. 31, 1975 Cut-off</u>	<u>NEAA Continued</u>
7.3	13.5 ^{1/}	3.4 ^{2/}	5.3
7.1	13.3	2.8	4.7
6.8	12.2	2.8	4.5
6.5	11.5	2.6	3.8
5.8	9.0 ^{3/}	1.5 ^{3/}	N/A

^{1/} Included in control figures.

^{2/} \$3.8B included in control figures.

^{3/} Included in Presidential Materials. Agency Request.

Note: For 1975, the control figures include \$10 billion for the UI Trust Fund and \$1.5 billion for NEAA, assuming a 6.1% average unemployment rate reaching 6.6% in June 1975. The President material includes the Agency Request of \$8.9 billion for the UI Trust Fund and \$1.2 billion for NEAA.

December 5, 1974

Alternative FY 76 Outlay Estimates for Unemployment Trust
Fund and National Employment Assistance Act
(\$ in Billions)

<u>Unemployment Rate</u>	<u>UTF</u>	<u>NEAA Dec. 31, 1975 Cut-off</u>	<u>NEAA Continued</u>
7.3	13.5 <u>1/</u>	3.4 <u>2/</u>	5.3
7.1	13.3	2.8	4.7
6.8	12.2	2.8	4.5
6.5	11.5	2.6	3.8
5.8	9.0 <u>3/</u>	1.5 <u>3/</u>	N/A

1/ Included in control figures.

2/ \$3.8B included in control figures.

3/ Included in Presidential Materials. Agency Request.

Note: For 1975, the control figures include \$10 billion for the UI Trust Fund and \$1.5 billion for NEAA, assuming a 6.1% average unemployment rate reaching 6.6% in June 1975. The President material includes the Agency Request of \$8.9 billion for the UI Trust Fund and \$1.2 billion for NEAA.

December 5, 1974