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MEMORANDUM OF PRESIDENTIAL HANDWRITING

FILE CODE

DATE: 12/19/74

SUBJECT: Meeting with Roy Ash, 12/20/74, to hear and decide appeals from previous Presidential FY 76 budget decisions by Departments of Labor, HUD, and by EPA and NASA

LETTER	MEMO	RECOMMENDED
		PHONE CALL
NEWS SUMMARY		NEWS CLIPPING
OTHER	BRIEFING PAPER	



TO: THE PRESIDENT

FROM: ROY ASH

NOTE: Above removed from Special Files Box #4

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THE WHITE HOUSE

WASHINGTON

December 19, 1974

MEETING WITH ROY L. ASH

Friday, December 20, 1974

2:00 p.m. (60 minutes)

Oval Office

From: Roy L. Ash

I. PURPOSE

To hear and decide appeals from previous Presidential FY 76 budget decisions by the Departments of Labor, and Housing and Urban Development, and by EPA and NASA.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: The FY 76 budget submissions of the Departments of Labor and Housing and Urban Development and of EPA and NASA have been considered by the President and initial Presidential decisions on the key issues have been reached. This meeting will provide the affected Cabinet Officers and Agency Heads to appeal these previous Presidential determinations.

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

2:00 p.m. - Secretary Brennan

2:15 p.m. - Secretary Lynn

2:30 p.m. - Administrator Train & Frank Zarb

2:45 p.m. - Administrator Fletcher & Frank Zarb

C. Press Plan: David Kennerly photo

III. TALKING POINTS

A. Secretary Brennan, what is the first issue you would like to raise as a part of your appeal?

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- B. Secretary Lynn, would you begin with the first matter you would like to appeal?
- C. Administrator Train, would you begin by describing the substance of your appeal for us?
- D. Administrator Fletcher, what is the first issue we should review in considering your appeal?



Dept.

THE WHITE HOUSE

WASHINGTON

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: DOL Appeal of 1976 Presidential Decisions

The Department of Labor has appealed three of your initial 1976 budget decisions:

1. Comprehensive Manpower Assistance, for which DOL recommends continuation of the 1974 BA level of 2.4 billion in 1976, regardless of the outcome of other temporary jobs legislation. OMB recommends a return to the original 1975 budgeted level of \$2.05 billion, arguing that temporary job legislation, not this account, should be used to handle unemployment increases. You had delayed your initial decision until Congress had acted on pending jobs legislation.
2. Grants to States for Unemployment Insurance and Employment Services. You initially decided to include \$1,060 million each for 1975 and 1976. DOL has appealed for \$1,334 million for 1976 to handle expected cost increases and an average unemployment rate of 6.5%. Since the appeal, OMB and DOL have agreed to seek a 1975 supplemental of \$200 to \$250 million, to be available through 1976, to cover the pending emergency unemployment compensation bills and other workload increases. OMB believes this will be sufficient with the \$1,060 million we recommend to cover legitimate needs through 1976. If not, additional supplementals could be sought in 1976.
3. Occupational Safety and Health Administration (OSHA). You initially decided not to include in DOL's personnel ceiling the 180 compliance officers added by the Congress in 1975. DOL appeals this decision primarily on political grounds, - that it was part of a compromise that avoided restrictions on OSHA inspections of small business. OMB recommends not allowing the 180 until DOL develops an integrated Federal/State enforcement system. A deferral or rescission will be necessary.



Section III of the appeal letter discusses some lesser problems DOL has with the initial decisions. We understand DOL agrees that these problems can be settled between DOL and OMB.

Attachment A is a summary table comparing your initial decisions, the DOL appeal, and the current OMB recommendation. It also includes our current joint recommendation on financing pending legislation. The estimate for uncontrollables will be substantially higher when unemployment assumptions are set. Attachment B is a brief summary of the items at issue. Attachment C is DOL's full appeal.



1976 Budget -- Summary Table

Department of Labor

(In millions of dollars)

Program		Actual	1975			1976		
			Initial Decision	DOL Appeal	OMB Recm.	Initial Decision	DOL Appeal	OMB Recm.
UI and Other	BA	8,005	8,340	8,340	8,340	8,701	8,701	8,701
<u>Uncontrollables</u> ^{1/}	BO	5,710	8,536	8,536	8,536	8,722	8,722	8,722
<u>Pending Legislation</u>								
Public Jobs and Unemployment Compensation	BA	-	2,700	4,000	4,000	-	-	-
	BO	-	1,211	1,850 ^{1/}	1,850 ^{1/}	1,549	2,150 ^{1/}	2,150 ^{1/}
<u>Controllable Programs</u>								
Comprehensive Non-power Assistance	BA	2,266	2,394	2,394	2,394	2,050 ^{2/}	2,400	2,050
	BO	1,450	2,799	2,790	2,790	2,512 ^{2/}	2,687	2,512
Grants to States for Unemployment Insurance and Employment Services	BA	64	64	64	64	71	89	71
	BO	892	1,060	1,051 ^{3/}	1,051 ^{3/}	1,060	1,334	1,060
Occupational Safety and Health Administration	BA	70	101	102	101	102	105	102
	BO	69	101	102	101	102	105	102
All Other	BA	576	470	470	470	605	605	605
	BO	1,185	661	661	661	614	614	614
Total	BA	10,981	14,129	15,370	15,369	11,529	11,900	11,529
	BO	9,306	14,350	14,990	14,989	14,559	15,612	15,160

1/ Initial estimates. Will be revised substantially when unemployment rate assumptions are set.

2/ Pending action on NEAA

3/ (Bracket)



1976 Budget

Department of Labor

Comprehensive Manpower Assistance
(In millions of dollars)

	1974 <u>Actual</u>	1975 <u>Decisions</u>	1976		
			<u>Initial Decisions</u>	<u>DOL Appeal</u>	<u>OMB Recom.</u>
BA	2,266	2,400	2,050	2,400	2,050
O	1,450	2,790	2,512	2,687	2,512

Initial Decision

This account finances training and employment programs under the Comprehensive Employment and Training Act (CETA). The initial decision was based on three factors: (1) the major program resources for combating the effects of high unemployment is to be NEAA type legislation; (2) there is no evidence on program impact to warrant increases for CETA; and (3) the delays in start-up in 1975 indicate substantial carryover to 1976 that has the effect of preventing sharp declines in program levels despite the BA reduction.

DOL Appeal

The Secretary believes it is politically unwise to reduce BA in this account. The Congress and the public could view it as failing to respond to worsening economic conditions, particularly for youth, minorities, and the disadvantaged, regardless of the NEAA type programs.

OMB Recommendation

There are no new programmatic grounds for increasing BA. Outlay estimates as well as enrollments continue to run well below the 1975 plan, indicating that carry forward into 1976 may be even higher than current projections. Additional funds could not significantly increase the volume of service provided until late 1976 or early 1977. OMB and DOL are both recommending \$1 billion for the public jobs bill expected to be passed by Congress for the remainder of fiscal year 1975. This or a similar program will indubitably be extended if unemployment remains high next year.



The \$2.05 billion level should be retained for the FY 76 budget. The Secretary should direct congressional attention to the actual program level as reflected in the outlay estimates. The NEAA approach should continue to be the primary resource for offsetting the impact of high unemployment.



1976 Budget

Department of Labor

Grants to States for Employment and
Unemployment Insurance Services
(In millions of dollars)

	1974 <u>Actual</u>	1975 <u>Initial Decision</u> *	1976		
			<u>Initial Decision</u>	<u>DOL Appeal</u>	<u>OMB Recommendation</u>
Obl./O	892	1,060	1,060	1,334	1,060

Initial Decision

The initial Presidential Decision provided for a level program for FY 75 and FY 76 and requested a modest diversion of the Employment Service staff to unemployment insurance claims processing - the traditional practice.

DOL Appeal

The Department of Labor accepted the FY 75 funding level including diversion and requests an additional \$274 million in FY 76 based on an unemployment rate of 6.5% and a 12% increase in costs.

OMB Recommendation

OMB recommends a program level for both FY 75 and FY 76 to meet anticipated claims loads with a 7% mandatory cost increase rather than the 12% requested. OMB and DOL both recommend a \$200 million supplemental for 1975, to remain available through 1976, both to handle the special unemployment compensation programs expected to be enacted by Congress and to serve as a contingency against other workload increases which cannot be handled by the regular 1975 and 1976 appropriations. These amounts should be adequate, but if not, further supplementals can be requested in 1976.



1976 Budget

Department of Labor

Occupational Safety and Health Administration
(In millions of dollars)

	1974 Actual	1975			1976		
		Initial Decision	DOL Appeal	OMB Recom.	Initial Decision	DOL Appeal	OMB Recom.
BA	\$70.1	\$100.8	\$102.0	\$100.8	\$102.2	\$105.2	\$102.0
O	\$69.3	\$100.8	\$101.6	\$101.6	\$102.2	\$105.2	\$102.0
EOY							
Pers.	1596	1705	1885	1705	1677	1857	1677

Initial Decision

Continue 1975 budgeted Federal program level with some overhead reductions and expand the amount available for State grants.

L Appeal

Accept the 1975 congressional increase of 180 additional compliance officers (making a total of 1,100), and continue at this level through 1976. DOL argues that acceptance of the 180 is needed to block congressional attempts to exclude small business from OSH Act coverage. DOL also claims that initial decision provides insufficient BA to finance approved program level.

OMB Recommendation

Retain previous allowance for personnel (920 compliance officers) pending DOL development of an integrated Federal/State system to use OSHA enforcement resources to achieve maximum reduction in accidents and illnesses. This will require submission of a rescission or deferral to the Congress of approximately \$2 million. Retain 1976 BA allowance for now, but we will adjust as necessary as soon as DOL is ready to show us how the allowance is insufficient.

If DOL insists that an increase in the budgeted compliance officer level is absolutely necessary to avoid opening the OSH Act to unwanted amendments, a small increase of approximately 30 compliance officer positions could be allowed.



U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

December 10, 1974

MEMORANDUM FOR THE PRESIDENT

Subject: Department of Labor 1976 Budget

The Department of Labor's appeal from some of the many decisions made on its FY 1976 budget is in three parts, the first dealing with employment and counter-cyclical economic programs; the second with labor standards; and the third with how we manage the Department. Before getting into the specifics, I want to emphasize that these appeals are made in recognition of the need for budgetary restraint. In fact, we have not appealed many items even though they have great merit. However, we do need additional resources to deal with unemployment and some of the problems that have arisen under OSHA. We also need greater flexibility in managing the resources of the Department.

I. Employment and Counter-cyclical Economic Programs:

Decisions on the funding of CETA have been deferred, apparently on the theory that if NEAA or some other public service employment program is enacted, CETA funding can be reduced. Given the present economic situation and the projections for calendar 1975 and beyond, such a reduction appears not only unwise politically, but, more importantly, would constrain our ability under Title I of CETA to deal with specific State and local problems that are sure to arise, particularly as they relate to the needs of youth, minorities and disadvantaged. Therefore, the Department requests that CETA be funded at at least \$2.4 billion in FY 1976, the same as for 1975.



Additional authorizations for emergency public employment programs should not be made at the expense of this base training and employment program.

The tentative decisions would also require a diversion of resources from the Employment Service into the handling of unemployment insurance claims. Such an action reflects a misconception of the role and function of the Employment Service. The notion that the Employment Service is purely for job placement and that its role disappears when jobs are scarce is not only wrong but also is destructive of the Department's ability to provide needed services to workers in hard times. The result of this decision would be to reduce drastically efforts to match the unemployed with available jobs. The importance of the Employment Service, particularly in hard times, has been highlighted by a recent consent decree filed in the D.C. Federal District Court which will require the Employment Service to expend additional millions of dollars on a full range of services for migrant workers. This decree resulted from a conclusion by the Court that the Employment Service had not provided those services to which all segments of the population, including migrants, are entitled as a matter of law. Very candidly, a diversion of existing resources, without supplementation, will make the Department vulnerable to additional such legal actions.

In short, we feel that we need a total of \$1,057 million for ES and UI grants in FY 1975 and \$1,334 for 1976 based on a 6.5 percent unemployment rate, and more if the rate becomes significantly higher. This funding level should tie directly to the insured unemployment level projected in your Economic Report.

II. Labor Standards:

Congress provided 180 new positions for compliance activities for FY 1975 under the Occupational Safety



and Health Act, and allowed \$5 million of existing funds to be spent through the States to provide consultation services to small businesses. The present decisions would not provide any employment ceiling for the 180 positions this fiscal year (\$3.2 million). Only our agreement with the Congress to provide such services forestalled efforts this year to exempt small firms employing millions of workers. In addition, while we are able to finance consultation services this year, it can only be done next year at the expense of providing funds to the States to meet their developmental commitments under approved plans. Without these funds and personnel ceiling, it will be impossible to meet our commitment to the States, the Congress, and Workers.

In an effort to cooperate in holding the line, we are foregoing, for the moment, three other important labor standards thrusts: a slight expansion in the older workers program under the Age Discrimination in Employment Act; a supplemental to meet the heavy workloads under the recent amendments to the Fair Labor Standards Act; and more training and consultation services under OSHA designed to meet Congressional criticism. However, you should be apprised that the need for services in these areas may become so acute as to force us to come back on one or more of these items in the near future.

III. Management of the Department:

We do have some management problems which we have been trying to work out with OMB. It seems only reasonable that the overall personnel ceiling for the Department can be spread as we deem necessary and that adequate funds to support our distribution will be granted in the appropriate program areas. Also, we are assuming that OMB will help obtain a speedy resolution of the apparent conflict with the



Departments of Agriculture and Interior over 350 positions formerly supporting the Job Corps. Unfortunately, some of OMB's proposed decisions will impinge upon our ability to run the Department in an efficient and effective manner.

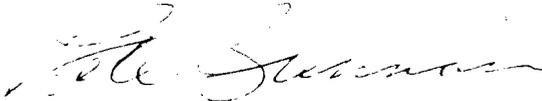
For example, the Pension Benefit Guaranty Corporation has been subsumed within the Department of Labor for budgetary purposes. Congressional intent is clear that the Corporation should be independent, with equal participation on the Policy Board by the Secretaries of Labor, Commerce, and Treasury. This tentative decision would make the Corporation subject to budgetary acts visited generally on the Department of Labor. The other members of the Policy Board join me in conveying their strong feeling that the Corporation should be shown in the independent offices' section of the budget.

It is also proposed to pay a greater than warranted share of Departmental expenses from one of the accounts of the unemployment insurance trust fund in order to save general revenues. Although we are exploring this with OMB, the condition of the fund is such that very little diversion is possible.

Finally, we believe it important to have our Solicitor's Office as a separate appropriation account rather than being lumped into Departmental management. The Department of Labor is the second largest law enforcement body in the Executive Branch. The Solicitor's Office is absolutely crucial to the success of the law enforcement efforts of the Department. Both the Administration and the Congress ought to have the benefit of being able to identify clearly the law enforcement implications and consequences of their budget decisions by direct reference to the Solicitor's Office, rather than indirectly by considering the Solicitor's Office under the general "management overhead" umbrella.



I look forward to discussing these items with you so that you can better understand why I feel it necessary to appeal the decisions discussed above.


Secretary of Labor

HUD



THE WHITE HOUSE

WASHINGTON

DEC 13 1974

ACTION

MEMORANDUM FOR: THE PRESIDENT
FROM: ROY L. ASH 151
SUBJECT: SUBSIDIZED HOUSING PROGRAM LEVEL

The Department of Housing and Urban Development is recommending that the 1976 Budget include 406,000 units of subsidized housing. The 1975 Budget authorized 400,000 units in FY 1975; however, HUD currently estimates that no more than 200,000 units will be approved.

The attached memorandum and supporting table have been jointly prepared by OMB and HUD staff setting forth the major considerations which affect the issue.

In summary, Secretary Lynn believes authorization for 406,000 units is necessary in the interest of "continuing an acceptable climate on the Hill" so that the Administration can continue to achieve progress on other desired programs, and to avoid the risks of having Congress mandate higher expenditures under the Section 8 program or use of the old subsidy programs. I recommend that the number of units approved should be as low as politically feasible, and in no case greater than 200,000 units. My recommendation is based on the belief that any level of activity will be criticized as inadequate in some quarters, but that political support for the program cannot be linked to any particular commitment level. I believe that the estimated direct Federal costs of the Section 8 program (annual --\$1,093 for existing housing and \$2,044 for new construction; lifetime--\$8 billion per 100,000 units) are excessive and would seriously limit your ability to phase in welfare reform, such as HEW's proposed Income Supplementation plan. These costs coupled with other program defects outweigh any political advantages of a high level of activity. Your decision on this issue should be made within the broader context of where does the Administration go with respect to Income Assistance across the board.

Attachment



DEC 16 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn
Secretary of Housing and Urban Development

Roy L. Ash
Director, Office of Management and Budget

SUBJECT: Subsidized Housing Program Level

Statement of Issue

How many units of subsidized housing should HUD be authorized to approve under the Section 8 (Lower Income Assistance) program in fiscal years 1975 and 1976?

Background

The 1975 Budget proposed the approval of subsidies for 300,000 units under the revised leasing program, recently superseded by the Section 8 Lower-Income Housing Assistance Program. The Budget, as printed, provided only "for an additional 200,000 units" for FY 1975. Between the time the Budget was printed and the figures were announced, President Nixon decided to provide for an additional 100,000 units for FY 1975. This decision was based, in large part, upon the necessity of providing assistance for lower income families at a level, as informally communicated by key Majority Members, acceptable to the Congress. Indeed, there was a tacit understanding that if the Administration showed its good faith at the 300,000-unit level, key Majority Members would do all in their power to see that the housing program design and community development block grant program followed the general lines of the Administration proposal. Those Members fulfilled their promise.

In addition to the 300,000 units for FY 1975, 116,000 units under the revised leasing program originally budgeted for FY 1974, but not approved, were carried over into FY 1975, for a total FY 1975 authorization of 416,000 units. The contract



authority needed for the 416,000-unit production level was provided by the Congress pursuant to an Administration request in the Housing and Community Development Act of 1974. Finally, 108,000 units representing the balance of units for bona fide commitments under the suspended housing programs were carried into FY 1975.

Units actually approved under HUD subsidized housing programs in recent years follow:

<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
393,900	400,900	426,900	105,500	30,100

The lower levels of commitment in fiscal years 1973 and 1974 have resulted in runout cost reductions in the range of about \$18.5 billion.

Alternatives

1. Continue the 400,000 authorized unit level under the Section 3 program in FY 1976, requiring an additional 200,000 units of authorization in view of an estimated 200,000-unit carryover from FY 1975, and provide an additional 6,000 units for Indian housing under the Conventional Public Housing Program (HUD recommendation).
2. Reduce the authorized unit level in 1975 to the lowest level politically feasible, but in no case more than 200,000 units (excluding bona fide commitments) for all programs and maintain it at that level in 1976 (OMB recommendation).

The budget impact of each alternative is shown in Attachment A.

Program Analysis

Alternative levels of subsidized housing approvals can be analyzed from four different standpoints: (1) the housing needs of low-income families, (2) supply and demand conditions in the homebuilding industry, (3) costs of Section 8 units, and (4) political realities.

(1) Consumer Needs

Estimates of "housing needs" of lower income families range from 4 million units (the number of occupied units lacking complete plumbing) to over 11 million units. Clearly, a gap in



units required cannot be met in the near future at either of the alternative production levels.

HUD and OMB agree that inadequate housing is basically an income problem, rather than a supply problem. However, the Department believes that housing subsidies are warranted, pending a policy decision on a better solution.

HUD argues that--as a bridge, both theoretically and politically, to direct cash assistance--the new Section 8 program is an improvement over the suspended subsidy programs (albeit certainly no panacea):

- The role of private owners is expanded to include management and maintenance of units.
- Tenants are able to select the unit in which they choose to live.
- The term of the subsidy payment is limited to 20 years for private owners.
- The program permits more emphasis on use of existing housing stock rather than on new construction, substantially decreasing costs and eliminating tax preferences associated with new construction.
- The program can encourage economic integration.
- Benefits are more directly related to need.
- State and local government participation is increased.
- The program permits more flexible financing since housing may be financed conventionally, by public bodies or under FHA mortgage insurance programs.
- The program encourages direct competition between private developers and local housing authorities so that better site selection and lower development costs will result.
- Subsidy requirements are limited to fair market rent in any area, rather than being open ended as they were in the suspended programs.

OMB believes in-kind subsidies are an inefficient means for addressing the problems of low-income families, since they



limit choices between housing and other goods. Moreover, a HUD-commissioned opinion survey found that even though poor housing conditions were found to be "serious" by 35% of low-income families and 51% of minorities, such conditions ranked lower on the low-income population's list of serious neighborhood problems, than such problems as drug addiction, transportation, and crime. In addition, OMB believes the Section 8 program represents only a small improvement over the previous subsidy programs that have been suspended since January, 1973, and will have these defects:

- Benefits would be distributed inequitably in that only a small fraction of eligible families (at 400,000 units, only 1.5% of the approximately 23 million families with qualifying incomes) will receive benefits.
- The costs of the program will be substantial relative to the benefits perceived by the assisted family. In fact, under the rent supplement program, to which the new construction feature of Section 8 bears a strong resemblance, HUD found that only 43% of Federal expenditures were perceived as a direct benefit by the low-income recipient.
- To the extent new construction is emphasized, low-income families will not have freedom to choose their own unit.

(2) Stimulation of the Housing Market

The production of new subsidized housing units can be rationalized in terms of the need to offset depressed housing market conditions.

HUD and OMB agree that some portion of federally subsidized housing units come at the expense of unsubsidized units, so that the net addition to total starts is less than the number of units subsidized. (The Federal Home Loan Bank Board staff estimated that, during a period when mortgage money was reasonably available, only 14 out of every 100 subsidized starts represent a net addition to total starts.)

To the extent that Section 8 does stimulate additional activity in the housing sector, actual construction will not begin for some time. For instance, construction on units approved during FY 1975 will begin, at the earliest, in the Spring, 1976. Similarly, actual construction on units approved



limit choices between housing and other goods. Moreover, a HUD-commissioned opinion survey found that even though poor housing conditions were found to be "serious" by 35% of low-income families and 51% of minorities, such conditions ranked lower on the low-income population's list of serious neighborhood problems, than such problems as drug addiction, transportation, and crime. In addition, OMB believes the Section 8 program represents only a small improvement over the previous subsidy programs that have been suspended since January, 1973, and will have these defects:

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in FY 1976 will begin later in FY 1976, at the earliest. However, most industry members have taken the position publicly that the decrease in total starts is attributable in large part to the decrease in units approved in Federal subsidized programs.

Although the housing market is currently depressed, the Troika forecasts a natural upturn in housing starts to a level of 2 million units by mid-1976. A high level of approvals during FY 1975 and 1976 could possibly contribute to overstimulation of the market by the time of actual construction, as it did in CY 1972.

(3) Costs of Section 8 Units

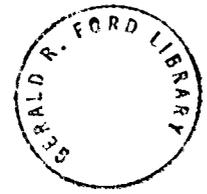
Costs under the Section 8 program can be looked at from three standpoints:

a. On a per unit basis

The existing component of the Section 8 program is a less costly alternative than the new construction component, and comes closer to the goal of minimizing the role of the Federal Government in the operation of local programs. On the other hand, the more expensive new construction component continues HUD's involvement in review and approval of plans, as under the suspended housing programs. A comparison of per unit cost for both existing and new Section 8 units, as well as HUD's experimental housing allowance program and an earlier program, are shown below:

Comparison of Annual Per Unit Housing Assistance Costs

	<u>Total Annual Rent Payment</u>	<u>Local Agency Administrative Costs</u>	<u>Tenant Contrib. (family(4); \$5,000 annual income)</u>	<u>Shopping Incentive Savings</u>	<u>Direct Cost to Govt.</u>
Direct Cash Assistance	\$2,067	\$203	\$1,250	\$106	\$ 914
Sec. 8 - Existing	\$2,067	\$223	\$1,100	\$ 97	\$1,083
New	\$3,144	Fee may be allowed, but not yet determined	\$1,100	n/a	\$2,044
Sec. 236 with Rent Supplement	\$3,144	n/a	\$1,038	n/a	\$2,106



b. Short-term budget impact

Attachment A illustrates the budget impact of alternative levels of subsidized housing approvals.

Existing units approved for subsidy result in outlays more quickly than newly constructed units, despite the lower average annual subsidy per existing unit.

The attachment also shows the cost per 100,000 units, using different mixes of new and existing units.

c. Lifetime costs

Each 100,000 units approved under the Section 8 program are estimated to cost approximately \$8 billion over the life of the contracts (assuming approvals are split 75% new/25% existing, and that the average contract runs 26.25 years). In addition, Section 8 units can be insured under certain FHA and other Federal mortgage insurance programs, thus increasing the contingent Federal liability.

d. Political Realities

HUD believes that, Administration promises having been made to key Members of the Congress, they ought to be kept--certainly for FY 1975 and, because the new Section 8 program will not get rolling until FY 1976, through that year as well. Failure to keep our word, combined with the present low level of housing starts will, in HUD's view, result in a mandating of the Section 8 program, or the old suspended programs, or both. During the current year, serious attempts were made to mandate these programs in the Housing and Community Development Act of 1974, HUD's basic appropriation and the supplemental appropriation needed to fund the Community Development Block Grant Program. In each instance, the ability of the Administration to have the mandating provision deleted was based upon its "good faith" to move ahead on the Section 8 program at the budget levels it had promised.

OMB acknowledges that the subsidized housing programs enjoy substantial political support, but believes that this support cannot be linked to any particular commitment level. Any level will be criticized as inadequate in some quarters. An individual builder, on the other hand, is only interested in

how many units he gets approved, not the national total. While his chances are greater at a higher level of commitments than a lower level, this is equally true at 100,000, 200,000, or 400,000 units.

Secretary Lynn's Recommendation: Alternative #1. The Secretary's request is based largely on "continuing an acceptable climate on the Hill" so that continued progress can be made toward programs, such as direct income assistance, desired by the Administration and so that the risks of mandated higher expenditures and mandated use of the old subsidy programs or Section 8 can be avoided. Given the depressed state of the housing industry and the drastically reduced subsidized housing commitment level in FY 1975 and most of FY 1974, he believes such mandating is not just possible but very probable. Further, Secretary Lynn believes that our programmed level of over 400,000 units for FY 1975 was in substantial part responsible for the passage of the 1974 Housing and Community Development Act in acceptable form and that, particularly since we will not commit anywhere near that figure in 1975, a reduction from 400,000 as the authorized level for FY 1976 would be construed as bad faith in the Congress. He proposes to move to what he calls an "inventory" concept in budgeting for the Section 8 program for FY 1976. Under this concept, the request for new budget authority would be for only 200,000 additional units but the text of the Budget would make it clear that this is to permit an approval level of approximately 400,000 units inasmuch as it is estimated that about 200,000 units of the FY 1975 authorization will carry over. In his judgment, the passage of additional time from the date of suspension of the old programs and enactment of the new Act, decisions on direct cash assistance and, most importantly, assuming, as expected, that housing starts are recovering reasonably well in calendar 1975--particularly in the last half, a much better climate for logical decision-making on the FY 1977 budget will prevail.

Director Ash's Recommendation: OMB believes that the number of units approved should be as low as politically feasible, and in no case should exceed 200,000 units. Given the anticipated 200,000 carryover from FY 1975 this would mean no request for new authority for FY 1976. The program defects identified above, coupled with the high cost, argue for a low level of activity under this program. A low level of authorized units would also promote quality processing, assuming personnel



levels were not reduced proportionately, and preserve the Administration's flexibility to set future year unit approval levels, based on existing conditions in a given year. In the short term, Secretary Lynn's inventory concept is not necessarily unreasonable, since HUD lacks the capacity to meet the 400,000 unit goal during 1975, and perhaps in 1976 as well. However, effectively by FY 1977, a real base of 400,000 units will be established. Once established, this level will be difficult to withdraw from, even if a "demand" (income assistance) approach is eventually implemented. The demand from the construction industry for production assistance will not be satisfied by income assistance to eligible consumers, so any production level may become a future floor.

Attachment

- Decision: Approve HUD recommendation _____
- Approve OMB recommendation _____
- Other (see me) _____



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DATE: December 16, 1974
 BY TO
 FROM: CVA:Housing Branch
 SUBJECT: The HUD Appeal

- Mr. O'Neill

Secretary Lynn has appealed the decisions on seven items included in his 1976 Budget estimates. The amounts at issue in 1976 are shown below:

	Obligations			Outlays		
	Pres. Mark	HUD Appeal	CVAD Recom.	Pres. Mark	HUD Appeal	CVAD Recom.
	(in millions of dollars)					
New Communities	N/A	N/A	N/A	-1	-1	-1
Research and Technology	65	75	65	58	71	58
Community Development Loan Guarantees (OMB Est.)	N/A	N/A	N/A	--	10	--
Comprehensive Planning	50	Open	Open	60	Open	Open
Counseling	--	2	--	--	2	--
Mortgage Insurance Premiums	N/A	N/A	N/A	-18	--	-18
Staffing:						
Amount	167	177	172	167	177	172
FTP's	14,829	15,559	15,287			

Each of the items is discussed in a separate issue paper attached to this memorandum. The issues are summarized below.

New Communities

The Secretary believes HUD should have the authority to make additional guarantee commitments so it can:

- Honor moral commitments.
- Avoid defaults on existing projects.
- Forestall a congressionally mandated program.



CVAD continues to believe an immediate suspension is warranted in order to avoid increasing the contingent liability further until it can be shown that there is some advantage to doing so.

Research and Technology

The Secretary argues for the original \$75 million program on the grounds that:

- Ongoing projects, coupled with congressionally mandated and OMB-requested studies, would consume an excessive portion of the \$65 million mark.
- Congress will cut the request further, and HUD's Research program already has suffered more than research programs in other agencies.

CVAD believes that \$65 million can cover the ongoing and requested studies and still leave \$12 million for new initiatives.

Community Development Loans

Secretary Lynn believes HUD should have the authority to guarantee loans because failure to implement this provision would:

- Damage the Administration's credibility.
- Create enormous political problems.
- Produce no real advantage since the program is unattractive enough to keep most recipients away.

CVAD continues to see no programmatic justification for loan guarantees.

Comprehensive Planning Grants

The Secretary and CVAD agree that a final decision on "701" funding should await a Presidential decision on land use and planning consolidation. In the event a decision is delayed beyond the point where the budget must be locked up, CVAD recommends straight lining the program at \$50 million.

Counseling

The Secretary believes that a HUD evaluation study demonstrates the cost-effectiveness of counseling, and this, coupled with a congressional mandate, warrants a \$2 million Counseling program in 1976.

CVAD recommends against a separate appropriation for Counseling on the grounds that:

- The HUD study does not provide anything approaching a reliable basis for concluding that counseling is cost-effective (a view shared by many at HUD).
- Federally funded counseling will make a new group of agencies dependent on Federal money, thus creating yet another lobby for ever-increasing amounts of Federal institutional support.



Mortgage Insurance Premiums

The Secretary recommends against any increase in premiums because:

- . There has not been sufficient staff work to permit a defense of higher premiums.
- . The adverse impact on low-income families would bring political costs which exceed the relatively small outlay savings.

CVAD believes that enough staff analysis has already been done to justify higher premiums, and that, from a tactical standpoint, increases must be coupled with revision of the basic 203(b) premium which is presently in the works.

Staffing

The Secretary is seeking an end-of-year employment ceiling of 15,559 in 1976.

CVAD recommends a 1976 ceiling of 15,287. The difference between this level and the Secretary's request results from:

- . Our belief that temporaries, rather than FTP's, should be relied upon to handle the defect claims resulting from the new legislation.
- . Our programmatic judgment that staffing requested for the environmental area can be reduced by simplifying HUD's environmental policies.
- . HUD's failure to justify the sharp increases in workload projected for 1976 in the equal opportunity area.

New Communities Program

ND

Budget Impact (\$ in millions)	1975		1976		1977	
	Bonds	0	Bonds	0	Bonds	0
Presidential Allowance.....	369	.8	389	-1	389	-2
HUD Appeal.....	369	.8	474	-1	559	-2
OMB Recommendation.....	369	.8	389	-1	389	-2

Presidential Allowance: Temporarily suspend new approvals under the New Communities Program during 1976, and allow additional guarantee commitments for existing projects only after strict criteria have been developed and approved.

HUD Appeal: Show up to two new approvals in the 1976 Budget.

HUD Arguments

- Suspension may cause legal problems as well as moral ones since applicants have invested significant amounts in planning costs in expectation of participating in the HUD program and in relying on HUD's preliminary reviews and approvals.
- A suspension would probably be construed as a forerunner of termination, and would hinder the Department's efforts to negotiate with developers and financial institutions to provide additional financial assistance to existing projects.
- The pipeline has been reduced substantially due to stringent review criteria recently implemented. This administrative tightening should reduce the number of guarantee applications that will be received during 1976, and achieve much the same results as a suspension.
- A suspension, rather than administrative tightening, is more likely to generate mandating since important members of Congress support the New Communities Program.

OMB Staff Comments

- Existing new community projects are in serious financial difficulty. In part, this is due to approval of certain marginal projects because the applicants had invested significant amounts in planning costs, and implicit commitments had been made to developers by HUD staff.
- There may be moral problems created from a suspension resulting from implicit commitments given to developers by HUD staff; however, there is no basis for legal problems if such implicit commitments are not fulfilled.



- . Tightening of administrative requirements may reduce the demand for new projects and could possibly achieve the same goal as a suspension, if enforced strictly by the Department. However, management of existing projects remains the key problem in the program, and New Community staff time should be devoted to devising work-out solutions for existing projects.

OMB Recommendation: OMB staff believe the financial status of existing projects is serious enough to warrant temporary suspension of the New Communities Program. The review that is required on these projects in order to determine whether additional guarantee commitments should be made is sufficient to justify an announced suspension of new activity. HUD's argument that the same goal could be achieved administratively has some merit. However, historical experience argues against the probable success of this approach. An open door for inquiries about the program has consistently led to implicit commitments by HUD staff to applicants of future approval.



ND

Research and Technology

(in millions of dollars)

<u>Budget Impact</u> <u>Obligations/Outlays</u>	1975		1976		1977	
	<u>Oblig.</u>	<u>0</u>	<u>Oblig.</u>	<u>0</u>	<u>Oblig.</u>	<u>0</u>
Presidential Allowance.....	57	56	65	58	65	60
HUD Appeal.....	57	56	75	71	75	74
OMB Recommendation.....	57	56	65	58	65	60

Presidential Allowance: Increase the 1976 program level to \$65 million.

HUD Appeal: Increase the 1976 program level to \$75 million.

HUD Arguments

- . Additional studies requested by OMB when added to ongoing research needs and, coupled with studies that the Secretary wants to do, and certain studies that Congress has mandated, may be excessive requirements within the \$65 million level.
- . Congress has traditionally reduced the Administration's budget requests for research activities, and there is no reason to expect a change in FY 1976.
- . HUD's Research program has been reduced disproportionately as compared to similar social research programs in other agencies.

OMB Comments

- . Rough estimates of HUD's minimum research requirements in 1976 breakdown as follows:

(\$ in millions)

Ongoing Research (base).....	48.5
(includes all congressionally mandated studies)	
Secretarial Studies.....	3.3
OMB Requested Studies.....	1.0
Total.....	<u>52.8</u>

- . A brief look at HUD's Research program, as compared with other domestic agency research programs, on a percentage basis:

	<u>1974 and 1975</u>	<u>1975 and 1976</u>
HUD.....	-12%	+14%
HEW.....	-9	+1
EPA.....	-25	+7
Agriculture.....	--	+2
Transportation.....	-26	+19
National Science Foundation.....	+3	+8

OMB Recommendation: OMB staff believe that a \$65 million program level is sufficient to permit HUD to meet all prior year commitments, congressionally mandated studies and special studies initiated by the Secretary and OMB. These needs are roughly estimated at approximately \$53 million.



OK

Community Development Loan Guarantees

Budget Impact (\$ in millions)	1974		1975		1976		July 1 - Sept. 30, 1976	
	BA	0	BA	0	BA	0	BA	0
Presidential Allowance.....	-	-	-	-	-	-	-	-
HUD Appeal:								
HUD Estimate.....	-	-	-	-	-	-	-	-
OMB Estimate.....	-	-	-	-	10	10	2	2
OMB Recommendation.....	-	-	-	-	-	-	-	-

Presidential Allowance: No loan guarantees should be issued under the Community Development Block Grant Program.

HUD Appeal: Loan guarantees should be approved, but without any marketing assistance from HUD.

HUD Arguments

- . The guarantee provision is unattractive enough that few will be applied for and a minimal staff effort will be required.
- . No budget savings would result from suspension of the guarantee provision, since the required safeguards are sufficient to prevent outlays in the case of defaults (which HUD does not expect).
- . HUD, with OMB's consent, agreed to a loan guarantee program in order to secure legislative support for the Community Development Block Grant Program from the U.S. Conference of Mayors/League of Cities.
- . Suspension would constitute a failure to keep our word, and may tempt Congress to mandate a loan guarantee provision with greater outlay potential than the HUD proposed provision with its safeguards.

OMB Staff Comments

- . CVAD staff finds no programmatic justification for assisting localities in avoiding State-imposed debt ceilings. Loan guarantees would further divert capital from other sectors of the economy to a sector supported by \$2.5 billion in Federal grants. The HUD appeal does not address these programmatic considerations.
- . The HUD argument that there are "no budget savings" to be realized is based either on no defaults occurring or repayments being realized before the end of the fiscal year. If a default occurs near the end of a fiscal year, it will show up as an outlay, even though the collateral requirements insure repayment to HUD in future years.

- . The HUD arguments addressing budget impact do not take into account staffing. There will have to be outlays for staff expenses if the guarantee provision is implemented.
- . The HUD appeal position does not involve direct loans and marketing assistance resulting in less outlay potential than with direct loans and marketing assistance.

CVAD Recommendation: On programmatic grounds, we recommend maintaining the Presidential allowance. CVAD staff is not in a position to judge the accuracy of the Secretary's political analysis. The political price for suspending the guarantee provision may indeed be too much for the small outlay saving.



\$ 50

Comprehensive Planning Grants (Section 701)

Budget Impact (\$ in millions)	1974		1975		1976		July 1 - Sept. 30, 1976	
	NC	O	NC	O	NC	O	NC	O
Presidential Allowance.....	75	101	50	110	50	60	-	12
HUD Appeal.....	-	-	-	-	-Open-		-	Open
OMB Proposal.....	-	-	-	-	-Open-		-	Open

Presidential Allowance: Reduce the 1975 program level to \$50 million and maintain that level in 1976.

HUD Appeal: The Department proposes that the 1976 program level remain open pending Presidential decisions on Federal land-use policy and consolidation of Federal planning assistance programs.

HUD Arguments

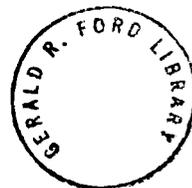
- HUD expects decisions to be made on land-use policy and planning assistance consolidation prior to submission of the Budget, and these decisions could have important implications for 701 funding.
- Continuation at the \$50 million level in 1976 will contradict previous Administration statements that the 701 program would be in addition to the Community Development Block Grant Program. This would open the Administration to the argument that it gives with one hand and takes with the other.
- The reduced level would require cutbacks in activities dealing with Federal base closings, planning for energy conservation, and improving State and local management.

OMB Staff Comments

- Presidential decisions on land-use policy and planning assistance consolidation could change the scope of the 701 planning program (either expanded or contracted).
- If decisions on these two pending issues do come before the Budget submission, CVAD will have time to change the Budget to reflect the Presidential decisions.
- The decisions may not come before the Budget is presented to Congress. In that case, the Budget will have to be transmitted without reflecting the pending Presidential decisions.

- . Because of the uncertainty of Presidential decisions, CVAD staff will postpone a response to HUD's programmatic arguments. There will probably be disagreement between HUD and OMB staff analyses even after Presidential decisions, however.

CVAD Recommendation: We recommend leaving the 701 program budget decisions open until the point the Budget must be locked up. If that point is reached before the Presidential decisions on land-use policy and planning assistance consolidation are made, we recommend presenting the 701 Budget on the basis of the Presidential allowance.



Mortgage Insurance Premiums

*higher - 1977
for 1977*

Budget Impact (\$ in millions)	1975		1976		1977	
	BA	BO	BA	BO	BA	BO
Presidential Allowance.....	750	750	550	550	400	400
HUD Appeal.....		+ 0	+18	+18	+26	+26
OMB Recommendation.....		+ 0	+ 0	+ 0	+ 0	+ 0

Presidential Allowance

Change all mortgage insurance premiums to make each insurance program actuarially-sound.

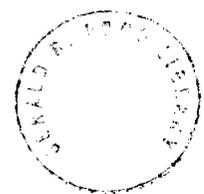
HUD Appeal: Allow the premiums on the profitmaking programs to be revised but do not change the premiums on the actuarially-unsound programs.

HUD Arguments

- . It would be highly premature to change premiums under the unsound programs and reflect this in the Budget prior to completion of HUD studies, now underway, to determine actuarially-sound premiums by program. HUD could not defend premium changes in public.
- . Legislation may be necessary to make some programs actuarially-sound.
- . The proposed policy would have an adverse social impact, since poor families would be required to pay higher premiums.
- . Announcement should be made outside the budget and after careful review with interested private parties and Congress.
- . Savings would be nil in 1975, and relatively minor in 1976.

OMB Staff Comments

- . HUD staff acknowledges that the studies of single family programs have been conducted, and that staff estimates of actuarially-sound premiums are available by major program. Less firm estimates of actuarially-sound premiums are available for the complicated multifamily programs. A major study of premiums will be completed this year.
- . Annual premiums can be raised to 1% without statutory change.
- . It is clear that the 1/2 percent premium is inadequate in many programs and would have to be raised to make the programs actuarially-sound regardless of whether or not definitive studies exist. Premiums could always be re-adjusted later based on more data or better analyses.



- Since new "front-loaded" premiums are soon going to be implemented for the basic homeownership program and a new coinsurance program, it would be consistent to raise premiums under the deficit programs now. If the unprofitable program premiums are not changed with the profitable program premiums, changing them later on would be far more difficult.
- The complex implementation issue--raising premiums under programs that aid lower income families--involves political, not programmatic considerations. Terminating this indirect subsidy is consistent with recent policy to emphasize cash, rather than in-kind assistance for the poor. The costs and benefits of those insurance programs are also being studied by HUD.

OMB Staff Recommendations

CVAD staff continues to recommend that each major insurance program be made actuarially-sound. We recommend doing so, however, only to the extent permitted by existing law (that is, up to 1%); we would not recommend seeking new legislation. The issue is as much a resource allocation problem as the funding level for block grants. The announcement should be made in the context of the Federal Budget where budget trade-offs are clearly visible and where this action can be best justified. Moreover, from a tactical standpoint, an increase in premiums should be linked with revisions in the basic premium rather than be announced separately. Technical implementation issues could be resolved soon after budget delivery. Implementation issues could be carefully reviewed with interested parties and Congress. HUD would announce all premium levels at one time before FY 1976 began.

MD/HCA staff recommends that insurance written by FHA be "financially sound" beginning in FY 1976. Require HUD to submit, prior to FY 1976, a detailed options paper that addresses a full range of remedial actions including premium revision. Actions to be considered in the HUD review would include: underwriting, events insured against, premium rates and structure, reserves and rebate policies, the grouping of programs within insurance funds, and risk grouping within programs:

- Raising premiums is not the only nor necessarily the best way to make FHA programs financially sound. Other actions, such as raising underwriting standards, changing the premium structure, and intensifying mortgagee surveillance may have equal or greater significance in achieving financial soundness on a program by program basis. Also, raising premiums on future insurance written could have less immediate budgetary impact than taking effective remedial steps to reduce defaults and losses related to existing insurance in force.
- Raising insurance premiums to actuarially-sound rates in many of the unsound programs would exceed statutory limits. Without legislation, several programs would have to be terminated if an actuarially-sound test were applied. Even with legislation, higher rates could make these programs uneconomic for owners and sponsors. In such cases, we may want to face directly the possibility of terminating programs.
- No decision, such as increasing premiums, should be announced now in a way that would preclude consideration of subsidizing insurance programs with capital contributions (appropriations) or grouping unsound programs with presently sound programs.



- According to David DeWilde (Acting Commissioner) FHA is not prepared to implement actuarially-sound premium rates. FHA's study of premiums, as well as HUD's study of the unsubsidized insurance programs, will not be completed until the end of the fiscal year.

Staffing

15,200

Budget Impact (numbers of positions)	1975			1976		
	FTP	Other	Total	FTP	Other	Other
HUD Request.....	15,356	2,121	17,477	15,656	1,874	17,530
Presidential Allowance.	14,829	2,121	16,950	14,829	1,874	16,703
HUD Appeal	15,214	2,121	17,335	15,559	1,874	17,433
OMB Recommendation #1..	14,829	2,221	17,050	15,287	1,974	17,261
OMB Recommendation #2..	15,021	2,121	17,142	15,287	1,974	17,261

Presidential Allowance: Set a FTP staffing ceiling of 14,829 in 1975 and 1976 reflecting CVAD estimates of HUD workload in 1975. The 1975 level was set at 14,829, even though workload estimates indicated a lower level for 1975, to prevent a "sawtooth" effect in staffing levels.

HUD Appeal: On the basis of reestimates of workload and a new estimate for processing claims for property defects not included in the original HUD request, FTP levels of 15,214 and 15,559 are requested for 1975 and 1976 respectively.

HPMC-FHA Staffing

- HUD has revised its estimate of mortgage insurance activity indicating a reduction of 200 positions from its original HPMC requests for 1975 and 1976.
- HUD's current annualized rate of mortgage insurance activity will put the Department closer to OMB estimates for the end of 1975 than HUD estimates.
- The original request, however, did not include staff estimates for processing defects claims, a workload resulting from new authorizing legislation. HUD estimates 110,000 defect claims in 1976. The HUD estimate is for 200 FTP positions, offsetting the drop in mortgage processing activity.
- CVAD staff finds the defect claims workload estimate to be excessive.
- The processing of defects claims will not be an ongoing activity.
- The Administration strongly opposed the defects provision and accepted a limited authorization as a compromise. Extensive staffing would encourage maximum use of the provision.



OMB Staff Recommendation - We recommend accepting HUD's revised estimate for mortgage insurance processing with the reduction of 200 FTP positions. We do not recommend substituting the 200 FTP positions for defects claims processing. We recommend 100 temporary positions for that activity in 1975 and 1976 because it will not be an ongoing activity.

CPD Staffing

- HUD is appealing for its original 1976 request for Relocation, Environmental, and Planning Management staffs which were cut by the Presidential allowance.

- . HUD argues the staff is necessary to properly implement the new block grant program and the 701 planning program, even though categorical activity is declining. HUD also identifies non-community development responsibilities for the Relocation and Environmental staffs.
- . Using HUD estimates of workload and productivity the staffing requests for CPD are justified.
- . However, the workload is based on maximum estimates of block grant applications, which CVAD staff does not concur with. Also, HUD estimates do not take into account reduced program levels for 701 planning in 1976.
- . Pending policy decisions on land use and planning assistance consolidation could dictate changes in 701 staffing in the future.

OMB Staff Recommendation - On the basis of better information, we recommend restoring 45 FTP positions cut by the Presidential allowance but not the full 90 positions as proposed by HUD.

FHEO Staffing

- . HUD is appealing for its full 1976 request for FHEO staff.
- . HUD's claim is based on a workload estimate from current annualized activity.
- . Information from the same period in 1974 would have overestimated actual 1974 activity by 25%.
- . HUD and CVAD staff can find no agreement on 1976 workload estimates for FHEO activity.

OMB Staff Recommendation - We recommend 465 FTP positions for FHEO, 5 above the Presidential allowance, 27 below the HUD appeal.

HM and PDR Staffing

- . HUD did not make specific appeals of the Presidential allowances for these two areas, which were below the original 1976 HUD requests.

Departmental Summary

CVAD staff analysis of the HUD appeal yields an FTP level of 14,829 and 2,221 other positions for a total of 17,050 in 1975. HUD FTP staffing is currently very close to this 1975 level. This would be an addition of 100 temporary positions over the Presidential allowance for 1975. Analysis of the appeal yields 15,287 FTP and 1,974 other positions for a total of 17,261 in 1976. This would be 458 FTP positions and 100 temporary positions above the Presidential allowance. These are the staffing estimates resulting from CVAD workload estimates.

These estimates would lead to a sawtooth effect in FTP levels for HUD, however--15,021 on board at the end of 1974, a 14,829 ceiling in 1975, and a 15,287 ceiling in 1976. This effect is bad for HUD staff morale and is opposed by the Secretary. An alternative to eliminate this effect would be to maintain an FTP ceiling of 15,021 in 1975 and eliminate the 100 temporary positions added. The result would be an FTP of 15,021 and 2,121 other positions for a total of 17,142 in 1975. This alternative level would allow HUD to hire around 200 more FTP staff than is currently on board.



NO

Counseling Services

<u>Budget Impact</u>	<u>1974</u>		<u>1975</u>		<u>1976</u>	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Presidential Allowance.....	--	--	--	--	--	--
HUD Appeal.....	--	--	2	.5	2	2.5
OMB Recommendation.....	--	--	--	--	--	--

Presidential Allowance: Do not initiate a new Counseling program, but continue an experimental counseling activity in the Research program.

HUD Appeal: Initiate a \$2 million Counseling program in 1976.

HUD Arguments

- . The 1974 Housing Act mandates counseling services for Section 235 homebuyers.
- . A HUD evaluation study provides data which concludes that default and delinquency counseling is cost-effective. HUD estimates that foreclosures under the FHA Fund could be reduced by some \$36.5 million in the long term.
- . Increasing defaults in the Section 235 program, because of current economic conditions, may cause congressional pressure for this program to grow.

OMB Comments

- . A description of the proposed Counseling program has never been provided to OMB.
- . Counseling services required to meet the congressional mandate can be met within the Experimental Research Program.
- . The same HUD evaluation study cited by the Secretary indicates that counseling is not cost-effective from the Treasury's standpoint if authority is not rolled over (Note: Authority to use recaptured authority will lapse during the second month of FY 1976.).
- . In any event, the evaluation study does not provide reliable evidence of counseling's efficacy; in fact, the study itself states that the conclusions "should be viewed with caution."
 - Although the findings are statistically significant at the 90% level of confidence, the sample included only four cities and, thus, was not representative of a national universe;
 - Moreover, in two of the four cities, no positive benefits resulting from counseling could be found;
 - The study measured only the kind of counseling provided in those four cities for a short span of time;



-- Persons who refused counseling, or could not be reached, were more successful in overcoming defaults than those counseled (in other words, the study may tell us more about the referral process than it does about counseling itself).

- . For the very reasons cited by the Secretary, the Congress is likely to increase any Administration budget request for Counseling.
- . Initiation of a HUD-funded identifiable Counseling program (regardless of whether or not it is a new categorical or part of "235") will make a new group of agencies dependent upon Federal money. Weaning them will be as successful as it has been in 701, Public Housing, and social services.

OMB Recommendation: OMB staff believes that the findings of the evaluation study can only be applied to those cities (in fact, only two of the four cities) included in that study. HUD recognizes the weaknesses of that effort and has initiated an extended study to improve the reliability of the data. Even if this study had been conclusive, history would argue against the initiation of a new program to meet a very limited, short-term need. Once started, Federal programs tend to grow and be maintained long after the original purpose has been met. We recommend that HUD design the Experimental Counseling Program in a fashion that fulfills the congressional mandate.





THE SECRETARY OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D. C. 20410

DEC 11 1974

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Consistent with the direction you have given on a number of occasions, and in keeping with my own role as a participant in the events leading to our recent Conference on Inflation, this Department's 1976 budget request was developed with one overriding constraint in mind: that outlays and staffing must be and will be held to an absolute minimum.

To a great extent the passage of the Housing and Community Development Act of 1974 and certain other steps that are being taken to revitalize the nation's badly depressed housing industry create strong pressures that tend to move us in the opposite direction. Nevertheless, in my judgment we were largely successful in striking a sound balance between program stability and political viability on one hand, and budgetary restraint on the other.

We have now been advised by representatives from the Office of Management and Budget of the outcome of their discussions with you relative to our budget request. Because I believe so strongly in the importance of our mutual goal of controlling federal expenditures, I will not appeal the largest and perhaps the most sensitive cut made in this budget - a further reduction of \$150 million in our \$2.7 billion request for community development block grants in fiscal year 1976. As you know, the legislation you signed in August authorized a funding level of \$3.0 billion for the second year. As you also know, our communities and states are having their own severe budget problems. However, I believe the Administration can handle the predictable adverse Congressional reaction on the grounds of fiscal responsibility. In short, there is a significant benefit that makes this battle worthwhile.

On the other hand, a number of issues remain that are relatively insignificant in terms of our 1976 budget request--\$21 million in total above the OMB recommendations--but extremely significant from a programmatic point of view. I am sure you will be able to handle these issues in a way that is consistent with your overall policy.



2

OMB runs an unacceptably high risk of provoking Congressional action which will mandate much higher program levels than would otherwise have been acceptable, thereby turning a relatively minor item into a major budgetary problem. Thus I have no choice but to appeal such items directly to you.

The individual items are described in more detail in the attachments to this letter.

Respectfully,



James E. Lynn

Attachments:

- A. Staffing
- B. New Communities Guarantees
- C. Research and Technology
- D. Community Development Loan Guarantees
- E. Comprehensive Planning Grants (Section 701)
- F. Counseling Services
- G. Actuarial Soundness of FHA Mortgage Insurance Programs



Staffing

OMB Proposal

OMB has recommended a cut in HUD staffing in both 1975 and 1976:

	<u>Budget Submission</u>	<u>OMB Reduction</u>	<u>OMB Reduction In Budget</u>	
			<u>Authority</u>	<u>Outlays</u>
<u>(dollars in millions)</u>				
1975.....	15,356	-527	...	\$ -1.9
1976.....	15,656	-827	\$-2.7	- 12.2

Department Appeal

The OMB reductions are based, primarily, on OMB re-estimates of the Department's workload. The data are as follows:

1. FHA Applications. The staff numbers are based substantially upon workload resulting from the receipt of FHA insurance applications. From a peak of over 1,490,000 applications in 1971, the volume of work declined substantially. HUD has attempted to adjust its overall staff levels to reflect this declining volume. In fact, in the current budget submission alone, a further cut of 425 positions was made from the FY75 level submitted to Congress. Reductions below this level will give further support to those who argue that FHA is being undermined and ought to be made a separate agency outside of HUD. The data on unit application receipts follow:

	<u>1975</u>	<u>1976</u>
OMB Re-estimate.....	550,000	800,000
Current HUD estimate.....	640,000 1	833,000 1

1. Exclusive of property deficiency claims.

The levels estimated by the OMB were developed based upon activity in July and August prior to the increase in FHA mortgage amounts effective August 22, 1974. Those data are clearly out of date. The current annualized rate of activity is only slightly below the current estimate of full year activity for 1975, verifying HUD's 1975 estimate. HUD's current 1976 estimate is based on a conservative economic analysis of likely activity.

Although HUD's current estimate of FHA applications is lower than the original estimate and would dictate a staffing reduction of about 200 positions, HUD's estimate is based on including workload resulting from applications received in the past year, including the processing of applications of HUD's current fiscal year 1975. This will require about 200 additional positions and is not the Federal estimate in



2. Equal Opportunity. Staffing in this area is based on the number of complaints processed and reviews initiated. OMB does not dispute the HUD workload factor per complaint and review. The data follow:

	<u>OMB</u> <u>Re-Estimate</u>	<u>Current</u> <u>HUD</u> <u>Estimate</u>
Complaints:		
Executive Order 11246.....	150	235
Title VIII.....	2,872	3,835
Title VI.....	250	500
Total Complaints.....	<u>3,272</u>	<u>4,570</u>
Affirmative Marketing Reviews	NA	300

OMB does not dispute HUD's estimate of a 140 percent increase in the number of complaints to be processed in 1976. The HUD projections for 1976 would have us dealing with 10,000 complaints annually, a figure below the current rate. The increase over the current rate projected by HUD for 1976 is based upon historical trends.

OMB did not indicate what level of affirmative marketing reviews they felt was proper--only that the estimated level--a 140 percent increase over 1974--was too high. The reviews, however, would cover, on a spot-check basis, less than 10 percent of approved plans--a minimal level of enforcement in fair housing.

3. Community Planning and Development. The issue revolves around workload in three areas--environmental reviews, planning and management, and relocation. OMB, while not presenting their re-estimates, questions the need for continuing the current staffing levels.

	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>Environment</u>			
Special clearances and environmental impact statements (EIS).....	2,670	3,082	2,702
Abbreviated application reviews under new Block Grant program.....	...	3,200	3,450
Grantees assisted and programs monitored under new Block Grant program.....	-	375	1,000
Total Workload.....	<u>2,670</u>	<u>6,657</u>	<u>7,152</u>



Planned Administration Modifications

Number of applications, programs monitored, and projects completed.....	2,314	2,466	2,546
--	-------	-------	-------

Relatives to

Review actions.....	1,000	3,500	3,450
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Cities monitored.....*	1,623	1,373	2,648
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It is essential that the administration of the new Block Grant program be carried out properly or it will lose support. The above figures show that workload will increase substantially in the areas cited by OMB. This is one of the factors that led to our appeal last September for an even higher level than that currently set forth in our final report. To further reduce the level would seriously erode the confidence of our constituents and endanger the confidence in the program.



New Community Program

OMB Proposal

The budget would expressly provide that approval of additional new community guarantee commitments is being suspended during 1976.

Budget Impact

The levels of guarantee commitments under consideration are:

	Actual 1974	Estimated 1975	1976 Estimate	1977 Estimate	Range of Current Funds
(Dollars in Millions)					
New Guarantee Commitments:					
Authorized number.....	1	...	2	...	0-1
Amount.....	\$32.0	...	\$85.0	...	\$0-\$50.6
Amended Commitments.....	\$11.0	\$32.0	\$20.0	\$20.0	\$20.0
Outlays.....	*	*	*	*	*

*There are no direct budget outlay impacts from the guarantee commitments. Future outlay impacts are difficult to estimate. Although the rules provide that the guarantee is to be covered by 110% in asset value, it is impossible to know what potential losses would be.

Department Appeal

1. There will be significant legal problems, in addition to moral ones, in suspending the program when applicants have invested significant sums--ranging from \$500,000 to \$1,000,000 in planning costs, exclusive of land assembly costs--in expectation of participation in the HUD program and in reliance on HUD's preliminary reviews and approvals. We believe that the Federal government could avoid the potential charges of reneging or bad faith by preserving the possibility for up to two new approvals in the budget.

2. The action would probably be construed as a "suspension"--and the forerunner of termination. Such action would severely hinder current actions of the Department to negotiate with owners, developers and financial institutions to provide additional financial assistance to projects having severe financial difficulties. Banks and potential investors would believe that HUD was "backing out" of the program and thus be reluctant to invest in HUD projects. This would be a serious setback to HUD's efforts to provide financial assistance to HUD projects.



a suspension would materially increase the federal government's financial risk of loss with respect to the work that \$337 million.

3. Over the past eighteen months or so, the Department has taken action to subject applications to more stringent and rigorous criteria. The six projects remaining in the application pipeline remain after a major purging of the pipeline during 1974. These remaining projects will be subjected to a continuing, rigorous review and refinement process to insure financial viability, management capability and potential to achieve the statutory and regulatory objectives. As a result of this tightening, no new received no full applications over the last 18 months, and it has been clearly that any

4. A total suspension, rather than an indicative tightening with concurrent reductions in activity, is more likely to generate mandating since such important members of Congress as Reps. Horton, Conable, Mahon and Ashley and Sens. Doughtrey, Tait, Tower and McClellan consider this program to be a key part of HUD activity.



Research and TechnologyOMB Proposals

The OMB proposed a 1976 program level of \$65 million as opposed to the Department's request of \$75 million. A deferral notice proposing to defer \$8 million of the 1975 appropriation to 1976 has also recently been submitted to the Congress.

Budget Impact

	<u>Actual</u> 1974	<u>Estimate</u> 1975 (out)	<u>Dept.</u> <u>Request</u> 1976 in Thousands	<u>OMB</u> <u>Mark</u> (in)	<u>Appeal</u>
Program level.....	\$59,753	\$57,507 <u>a/</u>	\$75,000	\$65,000	\$75,000
Budget authority..	65,000	65,000	75,000	57,000	67,000 <u>b/</u>
Outlays.....	58,382	56,000	71,000	58,000	66,000

a/ Originally budgeted at \$65,507 prior to the recent decision to defer \$8 million.

b/ Assumes approval of \$8 million deferred from 1975.

Department Appeal

1. The Secretary wishes to do research on:

- Mortgage credit and understanding basic housing production and financing.
- Non-financial assistance for consumers in the housing market.
- Improve management of communities.

OMB has requested research, also, on:

- Operating subsidies for local housing authorities.
- A review of mortgage insurance activities.

The Congress has directed that research be carried out in:

- Lead based paint hazards.
- Mortgage insurance activities.
- Community development.

2

In addition, the Congress has mandated establishment of the National Institute of Building Science (NIBS) and a solar energy research program. To avoid a supplemental appropriation, it may be possible in 1976 to use a relatively small amount of research funds to initiate these activities and still comply with the Congressional mandates.

2. About \$48.5 million would be needed in 1976 just to continue ongoing research programs and carry out the Congressionally mandated research.

The OMB recommendation would leave \$16.5 million to carry out the other research activities described above. The Congress has never allowed the full budget request, and there is no reason to believe that it will not again cut the estimate by \$5 million to \$10 million. Such a reduction from the OMB figure would further leave only \$5-\$10 million for all new items in point 1 above.

3. We have been advised that other agencies with comparable social research programs did not sustain cutbacks as severe as that recommended for HUD. OMB should justify this disproportionate treatment on the basis of cost effectiveness.



Community Development Loan GuaranteesThe Proposal

The legislation authorizing the new Community Development block grant program includes a provision authorizing loan guarantees for land acquisition.

OMB has proposed that the Fiscal Year 1976 Budget reflect an administrative suspension of this provision.

Budget Impact

There are no budget savings resulting from an administrative suspension of the loan guarantee provision.

Department Position

1. Traditionally, the urban renewal program allowed communities to borrow to finance land acquisition under their projects, such borrowings to be repaid through proceeds from land sales and Federal grants.
2. In the shift from the categorical urban renewal program to the new block grant program, legislative support by the U.S. Conference of Mayors/National League of Cities was conditioned upon retention of some direct loan or loan guarantee program.
3. HUD, with OMB's knowledge and consent, negotiated the loan provision in the new legislation with a specially designated representative of the Conference/League. These negotiations achieved a loan provision which minimizes budget outlays because --
 - it is a guarantee program, not a direct loan program.
 - it is likely to be little used because --
 - ... local credit must be pledged.
 - ... Federal appropriations (block grants) must be available, and are made only on an annual basis.
 - ... project financing activity must be carried out by the community, not through HUD as has been the case in the past.
 - ... the Rep. Gonzales provision, prohibiting benefits to private developers, has the practical effect of nullifying the operability of the provision.
4. If the loan guarantee provision is unoperable, we will not have kept our word and Congress will find a way to make the provision operable.

Comprehensive Planning Grants (Section 701)OMB Proposal

OMB proposes a program level of \$50 million for each of fiscal years 1975 and 1976. The 1976 level would be funded utilizing carryover 1975 funds of \$50 million from amounts deferred during the current fiscal year. A deferral message for 1975 has been submitted to the Congress.

Budget Impact

	1974	1975	Dept. Request 1976	OMB Mark	Appeal
	<u>Actual</u>	<u>Estimate</u>	(Dollars in Millions)		
Program level.....	\$75.0	\$50.0*	\$150.0	\$50.0	Open
Budget authority.....	75.0	100.0	150.0	...	Open
Outlays.....	101.3	110.0*	115.0	60.0	Open

*Represents revised program level and outlay estimates based on proposed deferral of \$50 million of FY 1975 budget authority.

Department Appeal

The Department recommends that the 1976 program level remain open pending decisions on Federal land use policy and the consolidation of Federal planning assistance programs.

1. We expect a decision to be made prior to the State of the Union Message and the submission of the Budget to the Congress on either land use policy, planning program consolidations, or both. Since the 701 program can take in land use planning or provide the core for a consolidation, the budget amount should be left open until the policy decisions are made.
2. The Administration has argued that the Section 701 comprehensive planning program would be in addition to the benefits provided under the Community Development Block Grant program of the new 1974 Act. Indeed, the Administration has indicated that 701 funds could be used to prepare applicants for the new Community Development Block Grant program. To show a reduced program level now would open the Administration--and validly so--to the argument that what we give with the right hand, we take away with the left hand--a common criticism with respect to general revenue sharing.
3. The reduction would require cut-backs in planning activities of grantees covering such areas as the dealias with the impact of Federal base closings, state and local planning for energy conservation, and improved state and local government management.

Counseling Services

OMB Proposal

The appropriation to fund default and delinquency counseling services to homeowners subsidized under the Section 235 Homeownership Assistance Program would not be allowed.

Budget Impact

	Actual 1974	Estimate 1975	Request 1976	OMB Mark	Appeal	
	(Dollars in Millions)					
Program level and budget authority..	\$2.0	...	\$2.0	The Department's request would represent potential long term cost savings of \$36.5 million.
Outlay.....	\$1.5	\$.4	.55	

Department Appeal

The Department proposes to implement a small \$2 million program in 1976 pursuant to the HUD Act of 1968 as amended by 1974 legislation which mandates counseling in the Section 235 program.

The benefits of such a program would be:

- A potential cost savings of some \$36.5 million, on the basis of a HUD cost-effectiveness study, since foreclosures under the FHA insurance fund would be reduced.
- A counseling program would serve to reduce or eliminate Congressional criticism for not having a program - the lack of counseling, it is charged, was one of reasons for the failure of the subsidized housing programs.

OMB proposes that the program not be implemented because:

- Information currently available on the effectiveness of counseling is inadequate to justify a new categorical program.
- As no new commitments are being made under Section 235, some alternative means of providing counseling must be developed.

Apart from the problem that we have not been informed what information is inadequate, the Department questions OMB's assumptions and reasons because:

1. The Department's study is not sufficiently reliable to show the cost effectiveness of default and delinquency counseling.
2. The Department is not proposing a categorical program, as suggested by OMB, but, only a small and delinquency counseling as distinguished from program counseling. It is inadvisable to put available housing in a program which would not contain any Section 235 commitments are made.



3. The counseling program deals directly with losses due to foreclosures and payments, which otherwise are uncontrollable. OMB is ignoring its own admonitions to Departments to take steps to deal with the mounting level of uncontrollable outlays.
4. Moreover, Congressional pressure will grow for this program in view of increasing defaults because of current economic conditions.



Actuarially Sound Mortgage Insurance ProgramsOMB Proposal

OMB apparently proposes that the FY 1976 budget reflect a decision that all FHA mortgage insurance programs will be carried out on an actuarially sound basis and that premiums will be adjusted accordingly.

Budget Impact

There would be no impact on budget outlays in FY 1975 and only a relatively minor impact in FY 1976.

Department Appeal

1. The Department is actively pursuing studies to ascertain the potential soundness of an actuarial rate structure on each program in the four FHA funds. We anticipate that the results of these studies would be available by the end of the fiscal year. It is highly premature to insist that such structure be implemented at once and reflected in the 1976 budget.
2. We do not know fully what OMB has in mind. We do know that all the complex issues that would be involved in such a decision have not been assessed as of this point in time. For example, it is quite possible that legislation would be required in some cases since the premium rates could exceed existing statutory limitations.
3. Such an announcement should be made outside of the context of the Federal budget, and then only after it has been carefully reviewed with interested parties in the private sector as well as in Congress.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: EPA Appeals of 1976 Presidential Budget
Decisions

The Environmental Protection Agency has appealed five Presidential decisions on the 1976 Budget. Administrator Train's letter is attached at Tab A. The five issues for your consideration are summarized below.

I. State Control Agency Grants

These grants partially fund the administrative expenses of State pollution control agencies. The initial Presidential decision was to maintain a level of \$91 million for grants to State agencies for both 1975 and 1976. (This would be accomplished by deferring the FY 1975 Congressional increase of \$10 million, and providing \$81 million in new budget authority in FY 1976.)

EPA requests \$109 million for FY 1976, an increase of \$18 million from the FY 1975 President's Budget level of \$91 million, and \$8 million over the anticipated 1975 appropriation of \$101 million. EPA wants to increase the program because it believes the grants will induce States to assume or continue to perform tasks under laws that EPA would otherwise have to perform. There is strong constituent and Congressional support for EPA's position.

The FY 1975 budget decision included a publicly announced plan to begin phasing out the grants in FY 1976 in furtherance of New Federalism principles. Our position has been that direct payments by a Federal agency to its counterparts at the State and local levels bypasses elected officials with the consequence that non-Federal employees become more responsive to the policy control of the Federal Government than they do to the policy control of State and local governments. Your \$300 billion 1975 budget plan proposes to defer the \$10 million Congressional addition for control agency grants. The Presidential



nearly \$2 billion already appropriated for this purpose is sufficient. Funds for reimbursement, as opposed to construction grant allotments, will not provide for new facilities, or contribute to improvement of water quality. On the other hand, if Congress should add funds to the budget OMB would not object.

Agency Recommendation: \$700 million

OMB Recommendation: \$0 (Reaffirm initial Presidential decision)

III. Areawide Waste Treatment Planning Grants

These grants provide 100 percent Federal funding for regional waste management plans. The initial Presidential decision was to provide \$15 million for this program with 50-50 cost sharing. EPA requests \$75 million with retention of 100 percent Federal funding. EPA claims that \$75 million is necessary to provide funds for critical areas, and that 100 percent Federal funding is necessary to induce localities to undertake this planning. \$150 million has already been provided for this program which should be sufficient to fund high priority areas if properly allocated. The benefits of this program are questionable, especially if localities are unwilling to provide any matching funds.

75 / 100
875

Agency Recommendation: \$75 million (100 percent Federal funding)

OMB Recommendation: \$15 million (50-50 cost sharing)
(Reaffirm initial Presidential decision)

IV. Land Use

EPA has indicated that many of its programs have direct implications on land-use. Therefore, the agency feels that it is imperative that EPA establish a small staff office within the Office of the Administrator to coordinate the agency's policies and activities impacting on land use.



The Administration's position has been that, pending the establishment of a national land use policy, a visible Office of Land Use may conflict with the Administration's final position and could affect the ultimate outcome of proposed legislation. Specifically, the creation of the office could be perceived by the Congress, and the public, as an Administration policy of designating EPA as the agency with primary responsibility for land-use. This, in turn, might provide EPA with additional support to impress the Congress and the public with a need to regulate land on the basis of environmental criteria.

Agency Recommendation: Create the Office of Land Use

OMB Recommendation: The Administrator of EPA should be permitted to hire the one individual currently under consideration. However, no additional staff should be permitted and no separate, identifiable Office of Land Use should be established.

V. Water Supply

Administrator Train is seeking commitment for a FY 1975 Supplemental Request and a FY 1976 Budget Amendment for implementation of the new Safe Drinking Water Act. In discussions with Mr. Train, I have emphasized that a FY 1975 Supplemental is unnecessary, as full implementation of the law will take place over a period of several years. An allowance has been made of 30 positions and \$2 million in the FY 1976 budget in addition to the present program of 173 positions and \$8.2 million.

Agency Recommendation: Commitment for a FY 1975 Supplemental Request

OMB Recommendation: Make no commitment; present resources are sufficient





UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

DEC 18 1974

THE ADMINISTRATOR

Dear Mr. President:

At the forthcoming meeting with you on our FY 1976 budget, I would like to discuss the following five items:

1. State Pollution Control Agency Grants:

State and local agencies bear a major and increasing responsibility for meeting Federally mandated requirements in the air and water pollution control and abatement programs. Recognizing that these are Federal responsibilities, States are unwilling to assume them unless a substantial portion of the cost is defrayed by the Federal Government. If not assumed at the State and local level, the responsibilities by law must be assumed by EPA, in which case the resource requirements of EPA would increase dramatically.

It is my firm conviction that if we are to obtain a standing commitment by the States to assume these Federal responsibilities, the Administration must make an expressed commitment not to phase-out the program. Secondly, I believe an increase of \$18 million in financial support of these agencies is needed. This is only 50% of the increase we believe is fully justified based on workload. Further, it would represent only a very modest increase in budget authority over that provided by the Congress in FY 1975, rather than a decrease of about \$10 million now proposed. While a small increment, it would signal the Administration's support of State efforts and the desire for a productive Federal-State relationship in achieving key environmental goals.

2. Construction Grants:

I believe that the proposal I made for a 5-year \$25 billion waste treatment grant program is realistic and consistent with what Congress is likely to enact. If \$4 billion is made available for FY 1976 only, I believe that program reforms stand little chance for enactment since Congress will want to deal

with both a financing program as well as programmatic changes. Even if program reforms are transmitted this year, I cannot agree with the recommendations made by OMB. We are working closely with the Congressional Committees, State and local governments and other groups to develop program reforms that would reduce the total Federal commitment with minimal disruption. I believe this process can lead to a sensible waste treatment program whether it is submitted this year or next.

Although the recommendation to suspend funding of further reimbursables would not adversely impact EPA's program, communities across the country have been led to believe these funds would be made available soon. It is important that we discuss this action in terms of its impact on State and local governments.

3. Area-wide Waste Treatment Management Planning Grants:

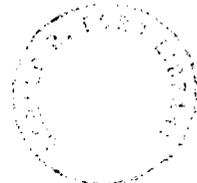
These grants to local agencies are a means of evaluating all sources of water pollution in a given area and developing a cost-effective plan for dealing with the total pollution problem. This program represents the only meaningful tool at our disposal to control non-point sources (e.g. sediment, pesticide run-off). Our currently authorized funds have allowed us to make grants to only about one-third of all areas requiring this type of planning effort, and only fourteen of the 25 largest cities. For FY 1975, the budget provides for a program of \$120 million. I propose \$75 million be allowed for this program in FY 1976 to provide support to an additional 66 areas, including 5 more large cities.

4. Land Use:

I have announced the creation of a small staff office to coordinate Agency policy and plans for those EPA activities impacting on land use. Since many of our programs have direct implications for land use, it is imperative that I be in a position to deal with this issue in an integrated, unified manner. We are not requesting additional funds or positions for this purpose.

5. Water Supply:

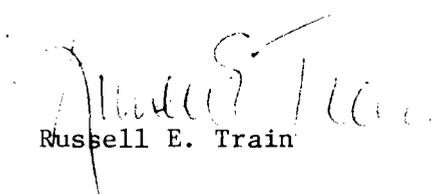
I am most pleased with your signing of the water supply bill. As you know, there is a great deal of interest in this legislation and its implementation. At the present time,



EPA has but token resources available for undertaking this new responsibility and I anticipate the immediate need for substantial increases to permit adequate follow-through at both the Federal and State levels. We will shortly transmit a specific request to OMB, but I want to bring the matter to your attention at this time.

I look forward to meeting with you to discuss the above items in greater detail.

Respectfully,



Russell E. Train

The President
The White House
Washington, D. C. 20500

TALKING POINTS FOR A MEETING WITH
ADMINISTRATOR TRAIN ON THE FY 1976 EPA BUDGET

1. Control Agency Grants

- . FY 1976 level is \$91.5 million (\$10 million to be deferred into FY 1976 from FY 1975 Congressional increase; \$81.5 million new budget authority in FY 1976).
- . The agency wants to increase this by \$36 million.
- . In FY 1975 allowance letter, OMB stated these grants were to begin to be phased-out in FY 1976.
- . The agency states that if these grants are reduced, EPA will not be able to induce State governments to accept increased delegation of administrative tasks.
- . OMB Position: Program grants represent a mechanism to funnel funds from a Federal agency to its counterpart at the local level, bypassing elected officials. If program grants are reduced, some tasks will not be performed. The likelihood of a Federal takeover of local and State functions is minimal.

2. Construction Grants

A. Allotment Level

- . \$4 billion is planned for allotment in FY 1976.
- . \$2, \$3, and \$4 billion was allotted in fiscal years 1973, 1974, and 1975 respectively.
- . The agency wants the FY 1976 allotment increased from \$4 billion to \$5 billion arguing that we need a \$5 billion program as a "sweetener" for legislative program reforms.
- . OMB Position: \$1 billion more in FY 1976 allotment is not the determining factor in getting program reform legislation through the Congress, and probably more than the agency and the pollution abatement construction industry can handle efficiently in any event.

B. Reimbursable Payments

- . \$1.9 billion has been appropriated for reimbursements; this amount would have been sufficient to cover executive branch commitments; however, Congress changed the allocation formula creating new requirements.
- . EPA is requesting an additional \$700 million to provide payments under the new allocation system.
- . OMB Position:
 - With total payments of \$1.9 billion, States and municipalities will not be adversely impacted.
 - Reimbursement payments do not result in new construction activity, nor do they contribute to improvements in water quality.
 - If Congress should add additional appropriations for reimbursements, the Administration would not object.

3. Planning Grants (Section 208 Water Act)

- . The Act authorizes grants to local and State agencies for the purpose of preparing comprehensive plans for the treatment of wastewater generated in contiguous political jurisdictions.
- . In FY 1975, the Act provided \$150 million in contract authority for the development of areawide plans. This amount is in addition to the planning funds provided through the construction grant program.
- . Unlike the contract authority provided for sewage treatment plants, we had no legal basis for withholding these funds. Consequently, planned obligations in FY 1975 are \$120 million with a Federal share of 100 percent, which reduces to 75 percent in FY 1976.



- . The agency wants an additional \$75 million in FY 1976, with retention of 100 percent Federal funding.
- . OMB Position:
 - Nearly \$150 million will have been obligated in fiscal years 1974 and 1975 with 100 percent Federal funding. The most critical areas would be funded if priority system were adopted.
 - EPA already funds wastewater treatment planning with construction grants, and funds statewide non-point source planning through control agency grants.
 - A major thrust of these plans is in land-use planning. The Administration has not yet decided on agency roles in land-use planning.
 - Recommend \$15 million at 50-50 cost sharing to fund any remaining critical areas.

5. Safe Drinking Water

- . \$2 million and 30 positions have been added to the FY 1976 budget request to meet the requirements generated by the new law.
- . The above increase is in addition to EPA base program of 173 positions and \$8.2 million.
- . The agency has stated that it needs a supplemental in FY 1975 and will probably press for a firm commitment to send a supplemental after they have reviewed their resource requirements.
- . OMB Position:
 - No commitment should be made to send supplemental.
 - A strong signal should be given that this is not the year for supplementals, particularly for bills with which we had problems.
 - EPA should also be told that we aren't interested in financing Federal enforcement efforts without first giving local governments time to act.



4. Land-Use

- . Previous to EPA's FY 1976 budget submission, Administrator Train announced that he was establishing a land-use policy office in his immediate office.
- . OMB passback stated that he could hire the one person he was planning to make the head of the office, but (1) he was not to expand the staff and (2) he was not to set up a separate office pending an Administration position on agency roles in land-use planning.
- . Administrator Train believes he needs one central office to coordinate various EPA programs and that OMB is meddling at too low a level.
- . OMB Position: Hire one person if there is an outstanding commitment to do so. Do not set up a land-use office.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: NASA's Appeal of FY 1976 Budget Decision to Defer
the ERTS-C Satellite

Dr. Fletcher has requested that you reconsider your decision to defer for at least a year the initiation of a third Earth Resources Applications satellite (ERTS-C). The satellite was authorized in the FY 1975 budget at the initiative of Congress, but no funds were specifically appropriated for the project. Were ERTS-C to be approved in the FY 1976 budget, NASA would absorb the \$14 million in BA and \$11 million in outlays for ERTS-C within its current 1976 allowance. Future year funding of about \$40 million--over the next two years--would be required to complete the satellite.

The initial decision not to include funds for ERTS-C in the FY 1976 budget was based principally on the view:

- that a convincing case had not been made by NASA to support the need for continuity of data in an experimental earth resources survey program.
- that by accepting ERTS-C in the FY 1976 budget, we would be recognizing de facto the need for data continuity and therefore set the stage for additional larger and more expensive (\$150 million) follow-on satellites in FY 1977 and subsequent years.

Deferring ERTS-C would also provide additional time to better clarify some complex issues related to the appropriateness of the technology being developed by NASA and the needs of potential users of ERTS-type data for both experimental and operational applications. Thus, the major OMB policy concern is to prevent a premature commitment by the United States to the establishment of an operational satellite system for remote-sensing of earth resources data.

NASA's appeal: Dr. Fletcher's attached letter argues that the effect of not including funds for ERTS-C in the FY 1976



budget would be to cancel a project approved by the Congress in the FY 1975 budget. (This point is open to interpretation as discussed below--no funds were specifically appropriated for ERTS-C nor have any funds yet been spent to begin work on the satellite.) He also argues that without ERTS-C, "both experimental and beneficial uses of earth resources satellites would be halted indefinitely after 1977" (OMB also takes issue with this position).

Dr. Fletcher's letter then goes on to argue that:

- ERTS-C should be initiated now because he believes that the economic potential of the ERTS program is very large (particularly in relation to agriculture);
- the technology will be an important international asset for the U.S.;
- congressional support is very strong for the program; and
- continuity of satellite data is considered essential to establish the potential value of remote-sensing technology.

He also makes the point that a commitment to go ahead with ERTS-C would not necessarily commit the Administration to making a decision next year on whether to commit to a future operational system. (We agree but have other concerns--see below)

Analysis: We cannot accept Dr. Fletcher's argument that not including ERTS-C in the FY 1976 budget would have the effect of terminating NASA's experimental development of earth resources technology.

- . It is perhaps a semantic distinction whether we would be "cancelling" or "deferring" ERTS-C by not initiating work on the satellite now.
 - There is no ambiguity about congressional intent that the satellite should be initiated as soon as possible (in FY 1975).
 - There is ground for legal interpretation as to whether funds were actually appropriated for ERTS-C in FY 1975, and whether a decision not to go ahead would require a rescission action (OMB counsel has indicated that no funds have actually been appropriated for ERTS-C).

Dr. Fletcher's statement that without ERTS-C work would be "halted indefinitely" after 1977 is quite misleading in our view:



- NASA has a large on-going program (about \$50 million per year) related to the development of remote-sensing technology and the ground-based activities required to translate satellite data into useful information.
- These activities will be continued even without ERTS-C (and they are considered the most critical developmental aspect of remote-sensing technology).
- Nearly four years of satellite data from the first two ERTS satellites is expected to be available for analysis by 1977.

Although NASA has recently developed some large estimates of potential dollar benefits to be gained from a future operational ERTS-type system, NASA's economic analyses have not been critically reviewed nor have the basic technological demonstrations of satellite capabilities yet been completed. The international benefits claimed may also be promising, but again these capabilities have not yet been demonstrated. Furthermore, it should be emphasized that all of these potential benefits are related to a postulated operational system, and in the context of this longer term issue, it is important that other technologies than ERTS should also be considered.

With respect to the large potential benefits to agriculture now claimed for ERTS-type satellite, the Department of Agriculture has demurred on what the dollar value of such benefits might actually be, but Agriculture has strongly supported NASA's proposal to conduct a joint experimental test of ERTS capabilities for agricultural forecasting on a world-wide basis. In this latter connection, the Department of Agriculture has taken the position that ERTS-C will be required in 1977 for the completion of the Large Area Crop Inventory Experiment (LACIE). Despite the position taken by Agriculture on this requirement, OMB is not convinced that a strong case has been made to support the launch of ERTS-C in 1977 in order to complete the crop-forecasting experiment.

Congressional support, particularly in NASA's authorizing committees, appears to be strongly favorable to ERTS and may in fact be sufficient to push the Administration to move faster in developing ERTS technology, than we believe is desirable.

On the need for data continuity and the implications for future years of approving ERTS-C now, we continue to disagree with NASA's position. We do not believe that NASA has made a convincing case that a continuous stream of satellite data is necessary to prove the experimental capabilities of ERTS technology; or that major harm to the program would result



from deferring a decision on ERTS-C until the FY 1977 budget. We are concerned, moreover, that by committing to an ERTS-C now we might be establishing a precedent which would have the effect of backing us into a de facto operational ERTS system.

Recommendation: On balance, we believe that deferral of ERTS-C is the appropriate action in FY 1976 and that the Administration should continue to resist congressional pressures which could result in a premature commitment to an operational earth resources satellite system.

Attachment



NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
WASHINGTON, D.C. 20546

12-11

December 5, 1974

OFFICE OF THE ADMINISTRATOR

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

RL
I respectfully urge you to reconsider the policy decision reported to us by OMB to cancel NASA's Earth Resources Survey Satellite (ERTS-C) which was authorized in the FY 1975 legislation.

ERTS-C is NASA's next step for continuing technical development and experimental uses of earth resources satellites. Without ERTS-C, both experimental and beneficial uses of earth resources satellites would be halted indefinitely after 1977, the end of the expected useful life of ERTS-B.

In your reconsideration of this matter, the following points are basic:

1. Benefits. The experimental earth resources survey program holds the greatest promise of any of the many applications of space for direct, major, near-term, economic, and political returns to the U.S. from our R&D investments in space. Measurable benefits to the U.S. economy alone have been estimated to range in the hundreds of millions of dollars per year from the aggressive exploitation of this technology. These benefits stem directly from the better management of the nation's agricultural, rangeland, water, and other terrestrial resources that is made possible by the improved information flow that only space systems can provide technically or economically.

2. International. The ERTS program is creating and maintaining significant international political values for the U.S. We are able to take a leadership role in providing "self help" benefits to the rest of the world. The developing foreign user communities that rely upon a healthy U.S. earth resources program

can also provide valuable leverage in support of U.S. foreign policy. Without the continuity of ERTS-C, these relationships would erode and could be exploited by others.

Four foreign nations have already invested in ERTS data acquisition stations to permit their direct use of ERTS data; two others have indicated they are about to do so very soon; seven others in Asia, Africa, and Europe are likely to do so if ERTS-C is authorized. Each such ground station represents a potential of \$5 million or more for U.S. industrial sales overseas, as well as a source of user charges the U.S. will collect for access to the satellite data.

At the recent Rome Food Conference, Secretary Kissinger announced the experimental interagency program to improve global crop estimates that will begin next January with ERTS-B. If this is as successful as we expect, ERTS-C will allow the U.S. to provide accurate baseline crop information for the world on a continuing basis--a visible, positive contribution to the world-wide food problem.

3. Continuity. These economic and political benefits from an earth resources survey program can come about only if satellite data are available without significant interruption. Some immediate benefits are achieved by direct use of data from experimental satellites like ERTS-C. The greater future benefits depend on enabling those who make the critical natural resource decisions to gain experience with, and confidence in, this new source of management information. The experimental program must have continuity to provide the users of information with the assurance of its long-term availability to warrant their investment in learning how best to employ these unique space capabilities. Without the continuity provided by an ERTS-C, at best there will be a two or more year delay in program progress toward steady-state returns of great value; at worst, the loss of program momentum will leave the earth resources field open to exploitation by other nations with a consequent loss to the U.S. of those benefits.

4. Congressional. Many members of Congress have strongly supported the ERTS program and its continuity. ERTS-C was authorized in the FY 1975 legislation and its termination now would be very difficult to defend and certain to result in

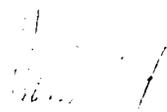


Congressional opposition. Legislation has been introduced by Senator Moss with nine bipartisan cosponsors and by Representative Symington with sixteen bipartisan cosponsors requiring the Administration to provide for continuity of ERTS activity; if ERTS-C is supported in your FY 1976 budget, such legislation becomes moot and no confrontation need arise between the Administration and the Congressional supporters of ERTS.

5. Future Options. A decision to proceed with an experimental ERTS-C now does not commit the Administration to a decision on a future operational system next year. Considerable further experimentation, experience, and demonstration are needed before a decision on any new system could be properly made on the basis of facts. This point is further elaborated in my letter to Mr. Zarb of the OMB, attached.

I request the opportunity of discussing these points more fully with you and answering any questions you may have. I am personally convinced that the \$11 million to be spent on ERTS-C in FY 1976 and the \$40 million in future years are as important as any in the nation's space program. A decision that would have the effect of cutting off a principal area of practical benefits from space warrants the fullest consideration in light of the many implications I have summarized above.

Most respectfully,



James C. Fletcher
Administrator

Enclosure



THE WHITE HOUSE
WASHINGTON

December 20, 1974

MEMORANDUM FOR THE PRESIDENT

This afternoon you will be meeting with Roy Ash and Jim Fletcher of NASA to consider the ERTS-C project which is a satellite program used in agricultural and related purposes and to discuss its impact on the world food situation.

The money involved is \$11 million which NASA says they can fund without having to request an appropriation.

There is very substantial Hill interest in this.



Jack Marsh



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

December 20, 1974

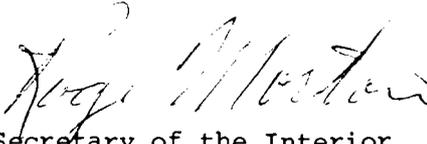
Dear Mr. President:

As you know, the Earth Resources Satellite program, which is jointly conducted by the U.S. Geological Survey and NASA, is of great interest to me. I have recently discussed its future with Jim Fletcher of NASA.

I understand that Roy Ash has recommended that funding for ERTS-C, the third in the series of satellites, should not be included in the FY 1976 NASA budget, though the possibility remains open of funding in later years.

While I do not question Roy's recommendation on the timing of funds for ERTS-C, I would like to emphasize my view that the basic technology of the Earth Resources Technology Satellite is promising, and should continue to be developed. A benefit-cost study we have just completed indicates that remote earth observation can be of real value in both private and public resource management. I therefore hope that we can resume development of the ERTS system as soon as the fiscal situation permits.

Respectfully,


Secretary of the Interior

The President
The White House
Washington, D.C. 20500





National Aeronautics and
Space Administration

Washington, D.C.
20546

Office of the Administrator

December 19, 1974

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

I want to alert you to my special concerns with the decision cancelling the ERTS-C earth resources satellite which will be reconsidered in our meeting with Roy Ash Friday afternoon.

As a nation, we have rightly been bold (and successful) in large-scale "way out" advances in space, such as going to the moon and exploring the planets. I am concerned that we may be overly cautious when it comes to the much smaller efforts needed to follow through to get practical benefits from our large investment in space.

Cancellation or deferral of ERTS-C in the FY 1976 budget would build in a cutoff in the single most promising area of space applications just at the time we are beginning the first large-scale demonstrations in the program. Without ERTS-C we will not be in a position to follow up the success we expect, for example, in the joint NASA-Agriculture crop forecasting experiment which, as Secretary Kissinger reported in Rome, could lead to an accurate method of forecasting major food production on a worldwide basis. Very rewarding experiments of importance to Interior and other Federal and State agencies would also be dead-ended in advance.

This is no longer a budget issue; NASA will absorb the \$11 million needed in FY 1976 and can agree not to advocate a major expansion in the program next year.

ERTS-C has strong bipartisan advocacy in Congress (and in the States). Cancellation would produce an unnecessary confrontation and put NASA and the Administration in a position we could not defend on the merits.

Respectfully,

James C. Fletcher
Administrator





THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

December 20, 1974

*OMB
PMA 1*

MEMORANDUM FOR THE PRESIDENT

SUBJECT: 1976 Budget/Policy Decisions

With one exception, the Department and your Executive Office are now in agreement on the appropriate fiscal year 1976 budget requests for our various activities. This exception -- the Executive Office recommendation to eliminate the Department's research into high speed levitated technology -- is not really a major budget decision (FY 1976 and future annual requirements are under \$10-12 million). Rather, it involves a policy decision to eliminate the United States Government from any effective research into a potentially valuable future technology.

We believe this decision is extremely shortsighted. This technology could provide significant advantages in speed, ride comfort, noise pollution, and maintenance costs over conventional rail systems. However, this technology also has potential payoff for improving our conventional rail systems, especially propulsion systems.

Having significantly reduced the scope and pace of the previously planned Federal effort in this area to reflect the results of Departmental socioeconomic analysis of this program, I believe the remaining program represents a minimal, well-conceived effort. I request approval of this effort for inclusion in the FY 1976 Budget.

With regard to the Northeast Corridor rail upgrading program, the Department will provide a complete proposal to the Executive Office in the near future. Appropriate budget adjustments could be made in concert with an Administration policy decision regarding this important initiative.

Claude S. Brinegar
Claude S. Brinegar



Issue Paper
Department of Transportation
1976 Budget
Issue #4: Tracked Levitated Vehicle Research

OMB

(Dollars in millions)

	1974 Actual	1975		1976			1977		
		DOT Request	OMB Rec.	DOT Request	DOT Allow	DOT Appeal	OMB Rec.	DOT Request	OMB Rec.
PL	8.6	5.9	4.2	10.6	0.1	+10.5	-	11.0	0.1
O	5.2	4.0	2.3	4.5	0.1	+ 4.4	-	8.0	0.1

Statement of Issue

Should we continue to fund Track Levitated Vehicle (TLV) Research)?

Background

- . During the 1975 budget review, a decision was made to terminate TLV. The Secretary appealed, and funding of TLV was approved pending the completion of a study of economic and social effects of implementing such a system.
- . Findings of Study:
 - Economic viability within 20 years is low.
 - Advantages relative to other modes are not demonstrated.
 - Nevertheless, study called for continued program in promising levitation technology.

Alternatives

- #1. Continue the TLV research program. (DOT request)
- #2. Terminate TLV in 1975. \$100K per year to monitor TLV efforts in other countries. (OMB recommendation)

DOT request: Program consists of research on two kinds of TLV systems: "Air Cushion" and "Maglev" (magnetically levitated). Both operate on special guideways.

DOT considers vehicle levitation to be a promising technology, offering potential payoff in high and low speed applications. Expected to reduce maintenance cost because of minimum friction.

Would allow DOT to take advantage of large sunk cost (over \$40 million since 1966). Should keep pace with TLV work in other countries, in case the technology proves useful.



OMB Recommendation

TLV does not offer significant advantage over existing technology.

- In low speed range (0-150 mph) conventional rail is less costly, more energy-efficient, and can operate on existing rights of way. Possibility of lower TLV maintenance cost is more than offset by high initial investment. Germans reportedly are discontinuing TLV research in this speed range.
- In higher speed range (150-300 mph) aviation provides the most viable alternative. Infrastructure is already in place. Wide bodied jets and other improvements expected to provide sufficient capacity for this market in the foreseeable future. Technical problems in the higher speed range are substantial. For instance, entering a tunnel at high speed would lead to sudden deceleration, due to compression of air.
- The only case in which DOT cites potential economic viability for TLV is in the Northeast Corridor, and then under such questionable assumptions as 1) complete replacement of air travel by TLV and 2) saturation of high speed rail line (currently being planned).

TLV investment would be very costly to the Federal Government, both in short and long term:

- \$50M development cost through 1980.
- Pressures for Federal implementation in long term. At least \$3 billion for Northeast Corridor alone (1971 dollars).

Pueblo test center 1976 budget is decreased from \$13 million (DOT request) to \$11 million, to reflect overall effect of TLV termination on the mission of the center.