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OMB Appeals Meeting w/President
Monday, December 15, 1975
2:00 p.m. - 4:00 p.m.

Oval Office

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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn

SUBJECT: Major Differences on HEW 1977
Budget

The attached papers which we have prepared jointly with the Department of Health, Education, and Welfare outline the differences between HEW and OMB on your initial 1977 Budget decisions for the Department. These will be discussed in our joint meeting with you on Monday, December 15.

Attachment

Summary of HEW Appeal

	<u>1976</u>		<u>1977</u>	
	<u>BA</u>	<u>Outlays</u>	<u>BA</u>	<u>Outlays</u>
<u>Initial decision</u>	124,168	126,245	137,508	135,719
	<u>Base (BA)</u>	<u>Change</u>	<u>Base (BA)</u>	<u>Change</u>
<u>Health Services Admin.</u>	(1,007)		(532)	
Professional Standards				
Review Organizations	50	+37	50	+111
National Health Service Corps		---	18	+11
Indian health			330	+38
<u>Health Resources Admin.</u>			(431)	
Health planning			(66)	+70
Health manpower			305	+40
<u>Center for Disease Control</u> ...			(99)	
Occupational health and laboratory improvement			42	+27
<u>National Institutes of Health</u>			2,166	-78
(National Cancer Institute independent appeal)			(695)	(+95)
<u>Education programs</u>				
Guaranteed student loan subsidies			---	+46
College work study			180	+160
Education bloc grant			2,954	+430
<u>Medicare reimbursement limits</u>			NA	---
<u>Staffing</u>				
Social Security				(+12)
All other HEW				+45
TOTAL Appeal ^{1/}	124,205	126,245	138,411	136,015

^{1/} Subject to adjustment for changing economic assumptions, GSA rental charges, pay act increase changes, etc.

SUMMARY OF THE HEW APPEAL

- Under current law, HEW outlays in 1977 would be \$146.6 billion.
 - . An increase of \$18.5 billion over 1976.
- HEW requested \$143.8 billion.
- The Presidential allowance was \$135.7 billion.
 - . A reduction of \$7.9 billion.
- HEW did provide suggestions for achieving the \$7.9 billion reduction.
- OMB - HEW are in general agreement on the ways of achieving the \$7.9 billion reduction. Any significant differences will be covered in the discussion of specific issues.
- HEW appeal.
 - . +\$300 million outlays
 - . \$ 900 million in budget authority
- The specific issues covered in the appeal are:

Health

- Health systems reform and cost control:
 - . Professional Standards Review Organizations
 - . Health planning
 - . Medicare reimbursement limits
 - . Health Manpower
- Preventive health:
 - . Occupational Health and Laboratory Improvement
- Overcoming maldistribution of health personnel:
 - . Indian Health
 - . National Health Service Corps

Education

- . Funding level for Bloc Grant
- . College Work Study
- . Guaranteed Student Loan Subsidies

HEW Staffing

SUMMARY OF HEW APPEAL

	(in millions)	
<u>Health</u>	<u>BA</u>	<u>Outlays</u>
Professional Standards Review		
Organizations.....	+111	+50*
Health planning.....	+70	+21
Medicare.....	---	+100
Health manpower.....	+40	+12
Occupational health and laboratory improvement.....	+27	+10
Indian health.....	+38	+12
National Health Service Corps.....	+14	+11
NIH offset.....	-78	-22
Subtotal.....	+222	+194
<u>Education</u>		
Bloc grant.....	+430	---
Work-study.....	+160	---
Loan subsidies.....	+46	+46
Subtotal.....	+636	+46
<u>Staffing</u>		
Social Security Administration.....	(12)	12
All other HEW.....	+45	+43
Subtotal.....	+45	+55
Total HEW Appeal to the President.....	+903	+295

*Includes outlays from requested 1976 supplemental.

Health

Background

HEW views:

- . The specific detailed reductions in the health budget results in pieces that lack a coherent framework for defense of the Administration's approach to health.
- . HEW feels its approach to national health problems has both a short term and long term focus on:
 - Containment of health costs
 - Correction of the current maldistribution of health personnel
 - Preventive health measures.
- . Returning health decisions to the individual and to their State and local agencies is critical, but if done as the allowances imply, the public will perceive the effort as a lack of interest and understanding on the part of the Federal government.
- . HEW contends that with any level of Federal allowances for health more credence should be given to the Department's proposed mix than as shown in the individual allowances.
- . A major thrust of the HEW position is that quality health services--medical care in particular--is just one part of a sound approach to better health.
- . Available data on public perceptions show American public is less receptive to cuts in health expenditures.
- . HEW would partially reduce the imbalances in the allowance by shifting \$78 million from the allowance for biomedical research to the priorities identified above. This would provide the National Institutes of Health with \$2,088 million in 1977, \$108 million above the President's new allowance for 1976 and \$283 million above the February budget.

Background

OMB Views:

- . The proposed health budget reflects a coherent and consistent approach to Federal, State, and private sector roles in the health care system.
 - The Federal role: funding of biomedical research, regulation of food and drugs, direct provision of services to native Americans, alleviation of the maldistribution of health professionals, health professions capitation and scholarships.
 - States and localities: provision of appropriate health services to individuals determined to be in greatest financial need by local communities; cost regulation of health care facilities and providers within the States; health planning to achieve State and local health objectives; facilities construction.
 - Private sector: delivery of health services; training of health professionals and paraprofessionals; facilities construction.
- . The initial Presidential decision addresses HEW's major priorities:
 - Containment of health costs by limiting Medicare hospital reimbursement increases to 7% and physician fees to 4% and by encouraging States to control health care costs within the State health bloc grant program.
 - Correction of the current maldistribution of health personnel through support for the National Health Service Corps, medical school capitation grants, and scholarships with service commitments.
 - Improvement of health service financing and delivery to underserved populations through the consolidated health bloc grant to the States which would provide an average of \$400 per poor person or \$1,600 per low-income family of four.
 - Preventive health measures through increased funding of National Institutes of Health (NIH) research into the cause and prevention of disease and Food and Drug Administration's (FDA) regulation of food, drugs, and medical devices.

- . The State health bloc grant proposal will allow States and localities broad flexibility to design programs to meet health needs of their low-income population. The bloc grant proposal will thus demonstrate the Federal Government's commitment--even within current tight fiscal resources--to allocate Federal funds more equitably for health services to the poverty population in various States. Through the bloc grant formula, funding for health services for the poor will be more equitably provided than under the present Medicaid program and narrow categorical project grants. The State bloc grant has also been designed to encourage States to control rising health care costs which are of great concern to the public. Stressing the advantages of the bloc grant by HEW will assist in making the public perception of the transfer of responsibility to States and local governments to be positive.
- . HEW's mix proposes increases to the allowances and--with the exception of an NIH and NCI reduction--does not attempt to reallocate individual allowances within the total. The off-sets proposed for biomedical research conflict with HEW's previous claims that "knowledge development" is one of its highest priorities.
- . HEW's major thrust to assure quality care is that the Professional Standards Review Organization Program (PSRO) be fully expanded into a nationwide system in 1978. We recommend that a solid evaluation should be undertaken of the PSROs now in operation before deciding to expand this program. In any event, assuring quality health services through PSROs is just one program for improving quality. The emphasis on biomedical research, consumer protection, and health care cost regulation in the initial Presidential decision also contributes to the quality of health care.
- . Generally, public opinion polls present inconsistent data on attitudes since they are greatly influenced by the way in which questions are asked. For example, when the Harris poll queried the public about the "2-3 biggest problems the government should do something about," only 5% of the respondents in 1972 cited health care, 3% in 1973, and 2% in 1974.

- . The initial Presidential mark for the National Institutes of Health (NIH) of \$2,166 million in 1977 reflects the appropriateness of the Federal role in funding biomedical research. HEW's proposed reduction would be used to fund narrow categorical health service activities and expand the Federal role in activities which the Administration has repeatedly attempted to limit. HEW would reduce the National Cancer Institute (NCI) more than \$50 million below its 1975 appropriation level of \$692 million. The attached NCI appeal states that \$98 million more than the 1975 budget is necessary to avoid a "substantial contraction in its operating level of the program." We recommend holding to the initial Presidential decision level for NIH and NCI.

Attachment

MEMORANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
PUBLIC HEALTH SERVICE
NATIONAL INSTITUTES OF HEALTH

TO : Director, Office of Management and Budget

DATE: December 5, 1975

FROM : Director, National Cancer Program, NCI

SUBJECT: 1977 Budget Appeal

I have been informed by Mr. Victor Zafra, OMB, that the proposed President's Budget for 1977 contains \$695 million for the National Cancer Institute. The NCI 1977 Budget Estimate to OMB totalled \$948 million and 2,211 positions. This budget was developed with the assistance of the National Cancer Advisory Board and President's Cancer Panel, and has their full support. I feel that I must appeal the proposed budget in light of its substantial discrepancy with the NCI's request.

Cancer results in an economic loss to the American people of more than \$15 billion per year, and the number of people and families affected are increasing. It is the disease that American people fear most. Cancer spares no age group, sex, race or locality. It is vital to the program that the impetus given to cancer research and control by the Administration and the Congress be continued. Because of this impetus, the scientific community has attained an unsurpassed level of awareness, responsiveness and momentum in its willingness and ability to respond to the cancer problem.

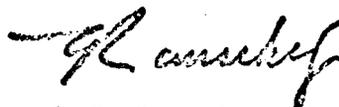
The proposed budget for 1977 actually represents a substantial contraction in the operating level of the program and would cause a severe cutback in new research efforts as well as existing high priority projects in all aspects of the National Cancer Program.

The opportunities for exploration and advancement in the Cancer Program have never been greater. My budget request of \$948 million for 1977 represents the resources necessary to exploit the available science base and continue the momentum that has been generated within the National Cancer Program. Considering the current economic circumstances of the country and the enormous demands on the limited Federal dollar, I feel that a minimum level of \$790 million is necessary to sustain the program. A budget below this level will have a serious detrimental effect on the entire Cancer Program.

There are three issues that I feel merit special attention: (1) The proposal to allow no new grant awards in 1976; (2) the policy limiting our use of construction funds; and (3) the absence of an allotment of positions for 1977 directly from OMB. New grant awards represent our

investment in the future and must be funded if we are to support the best research. I know of your concern on new construction and I share that concern. However, there are special cases where new construction is needed as a very essential part of the overall program. We would like to have the authority to fund new construction projects in exceptional cases. Also, I feel that positions are an integral part of the total budget, and as such should be provided directly to NCI, rather than through Departmental channels. In general, I believe the OMB should allow the Director of the National Cancer Program more latitude in the use of these funds in order to achieve maximum progress in the Program.

I would appreciate the opportunity to discuss the proposed President's Budget with you at any time.



Frank J. Rauscher, Jr., Ph.D.

Copies furnished:

Secretary, HEW
Asst. Secretary for Health, HEW
Director, NIH
Members, President's Cancer Panel
Chairman, National Cancer Advisory Board

Professional Standards Review Organizations

Issue:

Should a national network of Professional Standards Review Organizations (PSRO's) be completed, or should the authorizing legislation be amended to convert the program to a demonstration effort in selected communities?

Background:

PSRO's were authorized in the 1972 Social Security Act Amendments to replace existing methods of reviewing the utilization of hospital services under Medicare and Medicaid. These amendments required the Department to designate PSRO areas throughout the country and to give the local Medical Associations first claim at establishing functioning PSRO's. 203 areas were designated on March 18, 1974. To date, there are 65 PSRO's authorized to conduct utilization review on approximately 3.6 million Medicare and Medicaid patients. In addition, 55 PSRO's are in various stages of planning.

The allowance would provide the PSRO program with \$50 million in 1977, the same funding level as requested in the 1976 President's budget. The Department requests a supplemental of \$37 million in 1976 and an additional \$111 million in 1977 - adding \$51 million to 1977 outlays.

Department Position:

- PSRO's are critical to containing health costs in the long run. It is in the process of becoming the single Federally approved method of reviewing utilization of Medicare and Medicaid services. The costs of these services are the fastest growing component (15% rate of increase) and the second largest dollar increase in the HEW's budget - an additional \$6.3 billion from 1976 to 1977.
- Limited early experience with this approach shows it can help to reduce over-utilization and improve quality of medical care. Initial data indicate that average hospital length of stay can be reduced by up to 1/2 day.
- If PSRO's are successfully implemented, its methods will very likely be adopted by private health insurers. It could, therefore, lead to more effective cost controls throughout the health care system.

- Initially the organized medical community actively resisted PSRO's. At present, a majority of doctors appear to be willing to give PSRO's a fair trial. If the Administration fails to implement the program as originally conceived, the support of the medical community could be dissipated.
- With the allowance, a total of 73 PSRO's would be conducting review 48 would have completed planning but would be unable to begin review activities; 82 areas would be unable to start the planning process.
- The appeal would support full-scale review by the end of fiscal year 1977 for 181 PSRO's and planning in the remaining 22 areas.

OMB Position:

- Solid evaluation data of PSROs is not yet available. The Administration should have such data before implementing PSROs as a nationwide system as the single federally approved method of reviewing Medicare and Medicaid services.
- PSRO decisions will be legally binding on the payment of over \$30 billion of Federal and State outlays. There are no incentives to assure that PSROs--which are physician-sponsored organizations--will, in fact, have any concern for control of these costs. Some persons believe that PSROs will eventually raise costs by defining "quality" standards that are too high.
- The state-of-art of medical review is not well developed. PSRO costs exceed \$12 per admission, and about 98% of requested admissions and lengths of stay are approved. There is room for program expansion within the current budget from development of more efficient review methods.
- The Congress has consistently reduced the Administration request for PSRO funding.
- Approval of the HEW appeal will require increased Federal employment of 100 in 1976 and 1977.
- The 1977 allowance of \$50 million is the same as requested in the 1976 budget--but \$2.5 million more than in the 1976 Labor-HEW bill--and would permit funding of 73 PSROs. This should be adequate to demonstrate the viability of the PSRO concept, if it is viable.

Health Planning

Issue:

The allowance maintains the 1976 budget level for health planning. HEW recommends that \$70 million in budget authority and \$21 million in outlays be added to the allowance. The Department further recommends that the higher funding level be shown under existing law and also be included in the total for the health bloc grant.

Background:

After two years of debate the Congress, with Administration support, passed a health planning bill which replaced three earlier programs. The new legislation authorizes the creation of a network of local organizations called Health Systems Agencies. These agencies will have veto power over proposals to construct new hospitals and purchase major capital equipment and authority to plan for the most effective use of health resources. The law stipulates that health providers, consumers, and State and local governments be represented on each of the Health Systems Agencies.

Department Position:

- Control over capital investments in health facilities is critical to the control of health costs. The current cost control approaches are jerry rigged and stop-gap measures at best.
- The new health planning legislation--with all its problems--is all we have going to control future capital investments in health.
- To stop what has just gotten started and change direction will cause confusion and frustration in the State and local health resource planning process.
- Effective control over health investments can best be maintained if States are not given the option of revising the new system or of simply abandoning the whole effort.
- 211 areas have been designated to be served by Health Systems Agencies. The Department's appeal would permit 150 of these agencies to be fully operational during fiscal year 1977.
- The allowance, outside the bloc grant, would not permit any of these organizations to begin operations in 1977. The momentum built up behind the implementation of the new law would simply be thrown away.

OMB Position:

- While control over capital investments is a critical element in the control of health care costs, it can only be done at the State and

local level. The health bloc grant you tentatively approved could require States to mount such efforts.

- Some States and localities have already undertaken steps to control costs prior to any Federal planning effort. It is not clear that the categorical health planning approach is "all we have going to control" costs, particularly if States are required to take steps to control costs as part of a health bloc grant. Under the bloc grant, States can determine the best implementation pace and funding level for their respective needs.
- No health systems agencies are in place yet. The evidence is not in on whether "effective control over health investments can best be maintained" by Federal funding of health planning mechanisms.
- The initial Presidential decision maintaining health planning at the 1976 level provides for a slower implementation rate than HEW proposes. There appears to be some doubt as to what effective planning methodologies are and no models are in place to be evaluated. It seems a bit premature to establish health systems agencies "wall-to-wall" across the country, let alone to finally designate 2/3 of them in 1977. The 1977 proposed allowance level does not preclude the operation of any planning agencies in 1977.
- The "momentum built up behind the implementation" of the new planning legislation is partially offset by strong opposition from the Governors who feel their role in health planning is not being adequately recognized and provided for under the categorical health planning legislation.
- The categorical health planning legislation, as passed by Congress, contains a much more extensive Federal role than was proposed by the Administration.



Medicare Reimbursement Limits

ISSUE:

Should Medicare hospital reimbursement limits be lowered below the levels required by current regulations?

Background:

The allowance would require HEW to issue new Medicare regulations which would lower the maximum limit on hospital costs recognized as reasonable for a given geographic area. Current regulations define this limit as the 80th percentile plus 10 percent of the median for comparable facilities in a given geographic area. The allowance would change this to the 75th percentile with no weight given to the median. OMB estimates that it would save \$100 million in 1977 outlays. HEW is requesting that this regulatory change not be made.

Department Position:

-- This constraint on Medicare reimbursement would be in addition to other proposals in the allowance to hold down Medicare spending. Legislation to increase cost sharing by Medicare beneficiaries (estimated 1977 savings: \$1.7 billion) and limit year-to-year cost increases to 7 percent for hospitals and 4 percent for physicians (estimated 1977 savings: \$988 million).

This multiple approach increases what is already occurring:

- Pass on of costs to that segment of the public least able to pay.
- Withdrawal of providers from the programs.
- In the last 5 years there has been a drop from 60 percent to 50 percent of bills on which MD's accept Medicare payment determination.

The regulatory change proposed would:

- Effect 1,600 hospitals--25 percent of all short-term hospitals-- currently about 13 percent hospitals are subject to receiving reimbursement below their costs.
- Exceed statutory intent of authorizing provision--to eliminate reimbursement luxury services and gross inefficiency in the limited number of hospitals where it occurs.

- The current regulations which reduce the reimbursement limit from the 90th percentile plus 10 percent of the median to the 80th percentile plus 10 percent of the median are being challenged in court for providing an arbitrary reduction. A new change in the regulations in the direction proposed by OMB, while the current proposal is under litigation, will weaken the Administration's case. Losing the case could cost the \$80 million in savings already budgeted.

OMB Position:

- The present hospital reimbursement limits are not effective in preventing Medicare payment of unreasonable hospital costs. Savings of only \$80 million are estimated from hospital payments of over \$14 billion.
- We recommend--as a compromise--that HEW be directed to develop more equitable cost screens that will achieve the \$100 million savings.

Health Manpower

Issue:

Allowance provides \$305 million for Health Manpower programs, including nurse training. HEW seeks a funding level of \$345 million, an increase of \$40 million over the allowance.

Department Position:

- The allowance does not follow through on commitments in the 1976 President's budget and the new Health Manpower bill submitted by the Administration last month.
- The Department's appeal would fund the 1977 authorization in the Administration's Manpower Bill (\$309 million) and maintain the 1976 budget request for nurse training (\$36 million).
- The Department's appeal is \$256 million less than the 1975 appropriation for health manpower which was \$601 million.

OMB Position:

- The new Health Manpower bill sent to Congress before initial 1977 Presidential decisions were made contained a total authorization limited to the 1976 budget request. No funding commitments were made to maintain the 1976 level of funding into 1977. HEW proposes to initiate new activities in 1977, using the funds "freed-up" by programs that would phase-out, i.e., Federal capital contributions to student loan funds.
- The initial Presidential decision provides \$120 million for capitation subsidies and \$150 million for special project grants--an adequate level to continue commitments at the 1976 budget level which includes nursing programs.
- In 1975, Congress appropriated \$234 million over the President's Budget request of \$367 million for health manpower and nursing. The 1976 budget proposed phase-out of some programs funded in 1975, i.e., Federal capital contributions to student loan funds and Veterinary, Optometry, and Podiatry capitation grants. The 1977 initial decision level continues program phase-outs proposed in the 1976 budget.



Occupational Health and Laboratory Improvement

Issue:

Funding level for Occupational Health and Laboratory Improvement programs. Allowance would hold both to 1976 budget level. HEW is appealing an increase of \$27 million in budget authority and \$10 million in outlays.

Department Position:

The 1977 budget should show some tangible progress in addressing the problems of occupational health hazards and unreliable laboratory tests.

- Approximately 4 billion laboratory tests are conducted annually at a cost of \$11 billion. Available data indicate that 25 percent of these test results are inaccurate - a waste of approximately \$3 billion in test costs alone.
- Inaccurate tests result in possibly wrong diagnoses and treatment, as well as additional health care costs.
- Appeal would put a program in place which would reduce this error rate by 75% within 5 years.
- Annual loss to the GNP caused by environmentally induced diseases is estimated at \$9 billion.
- 70 to 80% of all cancers are estimated to be environmentally caused.
- There are currently 44,000 substances in the workplace thought to be potentially hazardous.
- With allowance, criteria indicating maximum tolerance levels for 18 hazardous substances, such as chlorine and fluorine could be issued. (These criteria require approximately 2 years to research and develop.) Appeal would raise this to 26 with a potential impact on 1.7 million additional workers.

OMB Position:

The 1977 budget will show tangible--and organizationally the most appropriate--progress in addressing the problems of occupational health hazards and unreliable laboratory tests.

- The function of the National Institute of Occupational Safety and Health (NIOSH) in HEW is to provide the research support for the Occupational Safety and Health Administration (OSHA) in the Labor Department, which actually promulgates and enforces occupational health standards. The backlog in addressing occupational health hazards is

in OSHA--not NIOSH, since NIOSH has transmitted 28 proposed standards (criteria) to OSHA but only 3 have been promulgated so far.

- The 1977 budget contains a 7% increase for OSHA of more than \$8 million and 137 people to improve OSHA performance.
- The 1976 budget contained a more than 10% increase for NIOSH over the 1975 request. This is a sufficient demonstration of the Administration's concern for occupational health, taking into account OSHA's backlog of proposed standards.
- HEW's definition of "environmentally induced" cancer is enormously broad, and encompasses all cancers but those transmitted through heredity. For example, it includes cancers caused by life-style (e.g., smoking), diet, and chemicals in the environment--all of which are the subject of extensive National Cancer Institute, other NIH, and EPA research. Cancers caused in the workplace are only one part of those "environmentally induced."
- Far more can be accomplished to improve laboratory tests by consolidating the duplicative efforts of the two HEW organizations regulating laboratories--SSA and the Center for Disease Control--than could be accomplished through the proposed new Federal grant program. HEW committed itself to such a consolidation in September 1975 congressional testimony, but little tangibly or organizationally has yet resulted from that commitment.
- The existing regulatory mechanism and SSA's current funding of State laboratory inspection agencies should be utilized to improve laboratory performance, instead of creating a separate and overlapping new Federal grant program.
- The HEW appeal for \$27 million would require 127 additional personnel in 1977.



Indian Health

Issue:

Allowance would provide \$330 million in 1977. Department is asking that allowance be increased by \$38 million in budget authority and \$12 million in outlays.

Department Position:

- Allowance would provide only some of the built-in cost increases for the operations of the Indian Health Service and would reduce the provision of sanitation facilities from \$39 million in 1976 to \$12 million in 1977.
 - The lack of adequate sanitation facilities contributes to higher incidence diseases related to poor sanitation among Indians. For example, the occurrence of dysentery is 42 percent greater among Indians than among the remainder of the population.
 - Appeal would follow through on commitments to install new sanitation facilities for housing provided by the Bureau of Indian Affairs and Department of Housing and Urban Development.
 - 51 percent of Indian Health Service facilities fail to meet hospital accreditation standards set by the Joint Commission on Hospital Accreditation.
- The appeal would provide staff for a new facility at Claremore, Oklahoma, a replacement for the current facility which could not be brought up to accreditation standards.

OMB Position:

The initial Presidential mark for the Indian Health Service (IHS) held IHS to the 1976 level of \$311 million, but allowed \$7 million more to cover the added cost of providing care through contract services. The initial Presidential decision also transferred \$12 million in Indian alcohol project funding to IHS from the Alcohol, Drug Abuse, and Mental Health Administration.

We recommend holding to the initial Presidential decision for the following reasons:

- The Presidential decision allows for increases for contract medical care consistent with increases for physician services under Medicaid. At \$330 million, the Federal health contribution for Indians amounts to \$647 per beneficiary or \$2,588 for a family of four.
- HEW retains the discretion to allocate funds among its services and facilities accounts to reflect its IHS funding priorities.



- Historically, both BIA and HUD have not met their "commitment" estimate on construction of new Indian housing for which IHS would have to provide sanitation facilities. In any event, BIA and HUD planning should take into account the amounts IHS is willing to allocate to sanitation for housing.

- The relationship between Joint Commission on Hospital Accreditation standards and quality care is not clear. The failure to meet accreditation standards in 26 of the 51 IHS hospitals has not significantly affected the quality of care provided in IHS facilities.

- The Indian Health Service budget has grown substantially over the last six years (175% since 1969). Under the initial Presidential decision, this program increases \$29 million over the 1975 level in 1976 and \$11 million over the 1976 level in 1977.

- The HEW appeal for \$38 million would require 391 additional personnel in 1975.

National Health Service Corps

Issue:

Allowance would retain 1976 budget level. HEW seeks additional \$14 million in budget authority and \$11 million in outlays.

Background:

The National Health Service Corps assigns health care teams to urban and rural areas which have a shortage or total absence of health care personnel. Currently 551 personnel have been assigned to 270 sites.

Department Position:

- With appeal, the National Health Service Corps could assign 826 personnel to 400 locations, providing care to 1.1 million people. This is an increase of 64% above the number provided care in 1976.
- The Corps has proved a successful method of overcoming health manpower maldistribution, particularly in rural areas. By the end of FY 1976, 94 sites will have become financially independent. With the appeal, another 56 sites will be able to operate independently of Federal assistance. Of 350 personnel who have completed a two-year assignment, 54 have chosen to remain where they were assigned.
- Appeal would mean that almost 1/3 of the designated critical health manpower shortage areas would be staffed by the National Health Service Corps in 1977.
- Of \$31 million proposed for NHSC expenditure in 1977, \$4 million would be returned to the U.S. Treasury from payments made by those people served.

OMB Position:

We recommend holding to the initial Presidential decision of \$18 million for the following reasons:

- The initial Presidential decision reflects a view of the National Health Service Corps as a limited demonstration effort rather than a Federal program to place a physician in every health manpower shortage area;
- The HEW appeal would constitute a 72% expansion in this direct Federal program during a period of overall fiscal constraint. The current staffing level of 551 constitutes an adequate Federal demonstration effort to show that physicians can be attracted to physician shortage areas. Its successes can be replicated by States, localities and private organizations-- as the AMA is doing--at their discretion.

- There is no particular program rationale for selecting as a goal, 1/3 of the HEW-designated shortage areas to be Federally-staffed in light of the demonstration approach favored by the Administration.
- At the 1977 level of \$18 million, \$3.1 million will be returned to the Treasury, a difference of \$900,000 from the HEW request.
- The HEW appeal for \$14 million would require 275 additional personnel in 1977.



EDUCATION

Education Bloc Grant

Issue: What should be the funding Level for the proposed block grant?

Background:

You have approved a legislative proposal which would consolidate and simplify administration of over 20 education programs. The programmatic structure of this proposal is being addressed in a separate paper. The issue presented here concerns the funding level to be recommended by the Administration for the programs included in the consolidation.

HEW's appeal is in two parts:

--\$215 million is requested to restore funding for the consolidated programs to the 1976 budget level after rescission.

--\$215 million is requested for an "incentive fund" to help gain acceptance of the proposal and to reward States that participate fully.

--Because programs are advance funded, this would not affect 1977 outlays.

affects authority, but not outlays
HEW Position:

--The achilles heel of earlier consolidation proposals has been the overall funding level. The charge has been consistently leveled that consolidation is just a cover for budget reductions.

--As a result, consolidation proposals before and after the "Better Schools Act" have been successfully shot down on budgetary grounds.

--The limited consolidations authorized in the Education Amendments of 1974 were accepted only with the inclusion of "trigger" mechanisms which required the maintenance of prior year funding levels. The OMB allowance does not contain enough funds to maintain even these consolidations which were won with such great difficulty.

--HEW believes, in addition, that an incentive fund is also necessary:

- First, without an increase, there is nothing to drive the proposal. The authorities affected are not expiring. In fact, most have just been recently reauthorized. Congress has no reason to consider new legislation.
- Secondly, without a carrot, it will be impossible to sell the legislation to the States and the educational constituencies over the opposition of those who stand to benefit from the status quo.



- . Finally, the incentive fund would allow for the contingency that the pending education rescissions will be rejected by the Congress and that we will have to maintain a higher 1976 appropriation level.

OMB Position:

- . OMB agrees that if at all possible, additional monies should be allocated to this block grant proposal. It will, if the final total of your decisions shows a sum less than \$395 billion, present an increase in this area as one of the options for your consideration. However, it also believes that the reductions below the 1976 rescission level proposed for Education for the Disadvantaged (\$100 M), Libraries (\$138 M), Vocational Education (\$56 M), and Support and Innovative Projects (\$12 M) are similar to the reductions you propose in other programs in order to stay within the \$395 billion.



College Work Study

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Issue:

Should current support funds be reduced and should colleges be required to increase substantially their share of program costs?

Background:

Program provides funds to universities to defray part of the cost of employing students to work part-time at the school or in the community. Allowance would provide \$180 million, a reduction of \$190 million from the 1976 President's budget and submit legislation increasing the institutional matching rate from 20 percent to 50 percent. HEW is requesting that \$160 million of this reduction be restored. Because program is advance funded this would not affect 1977 outlays.

45th anniversary

Department Position:

- The Work Study program has proved to be an effective method of maintaining a job market for students while they are in school. It helps them bridge the gap between what they can secure in grants and loans and the full cost of going to school.
- Most institutions will not be able to come up with the additional matching funds; thereby, cutting the number of students who can participate. Appeal level would support the participation of 788,000 students. This would probably drop to about 400,000 under the allowance.

OMB Position:

- The level of employment assistance provided to students by the college work study program is small in comparison to the private sector, which provides more than \$5 billion per year in student employment.
- More than 82% of the work study funds are used for on-campus employment. In many cases, this employment provides important services for on-campus operations. Thus it is unlikely that institutions will not utilize appropriated funds, even at a higher matching rate, for vital campus functions. If institutions use all appropriated funds, then 650,000 students will obtain part-time employment compared to 600,000 under the 1976 rescission level.



Guaranteed Student Loan Subsidies

Issue:

Should the Federal Government continue to subsidize student loans?

Background:

Currently the Guaranteed Student Loan Program provides an interest subsidy of 7 percent while students are attending school. In connection with legislation to extend the authority for this program, you have decided to ask Congress to discontinue this subsidy. HEW is appealing for reinstatement of the current policy at a cost of \$46 million in 1977 budget authority and outlays.

HEW Position:

- The purpose of the guaranteed loan program is to assure access of students to the private loan market. This has worked-- \$8 billion of private capital has been made available to 4.5 million students. Repeal of the subsidy could dry up this market or sharply contract it.
- It would also increase the burden on students of financing educational costs.
- Banks would have to make individual billings for interest while the student is in school rather than submitting consolidated billings to the Office of Education.
- Banks are currently reluctant to participate in the program. Some large banking houses are in the process of rethinking their participation in the program. This change could be the excuse they are looking for to drop out altogether.
- Presence of guaranteed loans reduces pressure for funding direct student loan programs.

OMB Position:

- Elimination of the in-school interest subsidy will not impose a significantly increased financial burden upon students. If interest is allowed to accrue during the in-school period, monthly repayments would not be significantly changed. For example, on an assumed student indebtedness of \$3,200 (twice the average level in the program) without an in-school subsidy monthly payments would be \$43.90; with the in-school interest subsidy, monthly payments would be \$37.12.

- Banks would not be required to make individual billings for interest while the student is in school. Banks could either allow interest to accrue, or discount loans when they are made.
- Because banks could discount loans or allow accrual of interest, the elimination of the interest subsidy should not affect banks' willingness to participate in the program.
- The in-school interest subsidy cannot be justified on programmatic grounds. It provides benefits to students from families whose gross incomes, in some instances, exceed \$20,000.
- The elimination of the in-school interest subsidy would free up nearly \$297 million after a 5-year phaseout period.

HEW EMPLOYMENT

HEW EMPLOYMENT

(End-of-year employment)

Background

-- The following table summarizes the allowance and the HEW appeal in terms of FY 1976 and FY 1977 year end employment:

	<u>1976</u>	<u>1977</u>
OMB Allowance.....	134,659	125,726
HEW Appeal.....	135,420	130,999
HEW Appeal if Medicaid is not in Health Bloc...		131,694 (adds 695)

-- Initially there was a difference between the allowance and HEW appeal of 11,000 in FY 1977 end of year employment.

-- This is not the case now.

-- The current difference is:

1976 - 762
1977 - 5,273

-- Proposed staffing level for 1977 is 4,400 below 1976.

The HEW Appeal

1976

-- Restoration of reductions previously approved by the President.....762

- . Medicare fraud.....108
- . Absent parent enforcement.....130
- . Vacancies and base cuts in Health, SRS, and HD..524

1977

- The FY 1976 budget authorized 6,000 two-year term employees for the Social Security Administration. This approach to staffing has proven costly.
 - . Turnover approaches 40 percent
 - . The best one not attracted
 - . Training is ineffective and costly

- The appeal asks that the 3,500 two-year temporaries included in the allowance for 1977 be converted to full-time permanent.
 - . This conversion should begin in 1976
 - . This does not impact year end employment since the terms are already in the allowance

- Additional end of year increases requested are:
 - . SSA-3,000 to 80,000 in total
 - Workload underestimated by OMB..... +1,500
 - Impractical OMB manning assumptions--advance hiring and use of part-timers..... +1,500

 - . Other HEW-2,290 to 51,000 in total
 - Restoration of 1976 base cuts..... 835
 - Indian health, National Health Service Corps, PSRO and Prevention Health appeals..... 865
 - Prevention of Fraud and misuse of funds (student aid and public assistance)..... 300
 - Court ordered and statutory workloads (SSA claims litigation, absent parent program audits and civil rights elementary and secondary actions)..... 275

 - . These appeals would add \$55 million in outlays.

HEW EMPLOYMENT APPEAL
(OMB Position)

	<u>1976</u>	<u>1977</u>
Initial Presidential Allowance	134,659	125,726
HEW Appeal	135,420	131,694

Health Programs. The HEW Appeal is 358 in 1976 and 1,251 in 1977 as follows:

- Alcohol, Drug Abuse, and Mental Health Administration: An increase of 61 in 1976 and 1977 to restore personnel level to the February budget level. Your initial personnel allowance for this agency is within normal attrition levels and consistent with your desire to hold down Federal employment.

- Health Services Administration: An increase of 223 in 1976 (+\$4.8 million) and 989 in 1977. The HEW 1976 appeal seeks to go back to the 1976 Budget level--at levels above the current actual employment level. The HEW 1977 appeal is for program expansions and is discussed in the individual appeal discussions.

- Center for Disease Control: The HEW 1977 appeal is for 127 to expand activities in connection with funding appeal.

- Other: An increase of 74 in 1977 for Parklawn personnel services. There are already 74 positions for Parklawn personnel services in the Office of the Assistant Secretary for Health 1977 initial Presidential mark. These positions are available for transfer to the health agencies. The Office of the Assistant Secretary (personnel) mark was based on the congressional reduction in funding for that Office.

We recommend holding to the initial Presidential decision level on employment.

<u>Social Security Administration</u>	1976		
	<u>Original</u> <u>Mark</u>	<u>HEW</u> <u>Appeal</u>	<u>OMB</u> <u>Recom.</u>
FTP-Regular	72,359	78,359	78,359
FTP-Term	6,000	0	0
FTP-Subtotal	78,359	78,359	78,359
Another	7,276	7,276	7,276
TOTAL	85,635	85,635	85,635

In 1976, HEW is appealing to convert all the term positions to full-time permanent positions, on the basis that turnover approaches 40 percent making term positions a costly and inefficient means of staffing. OMB recommends allowing the conversion, which does not increase the ceiling count of permanent positions, but does allow to discontinue using term employees.

	1977		
	<u>Original Mark</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
FTP-Regular	73,500	80,000	77,010
FTP-Term	<u>3,510</u>	<u>0</u>	<u>0</u>
FTP-Subtotal	77,010	80,000	77,010
Another	<u>7,276</u>	<u>7,276</u>	<u>7,276</u>
TOTAL	84,286	87,276	84,286

In 1977, HEW is appealing for 80,000 in full-time permanent positions (3,500 below their original request). OMB recommends a two-part response to this appeal:

- maintaining the original mark;
- increasing the authorized position level by 1,500 to 2,000 (but not the ceiling).

The SSA budget contains a contingency reserve of \$25 million annually, should additional manpower be needed in 1977. The authorized positions held in reserve could be used to increase the ceiling, with the necessary funds drawn from the \$25 million contingency fund.

Social and Rehabilitation Service

	<u>Original Request</u>	<u>Original Mark</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
1976 FTP	2,295	1,811	2,159	1,811
1977 FTP	2,833	1,095	1,593	1,095

For 1976 and 1977, HEW requests restoration of the 1976 base (110 positions) plus 130 positions for child support enforcement and social services administration and 108 for Medicaid fraud and abuse. HEW is requesting a further 50 positions for child support enforcement and 100 positions for public assistance financial management. The mark for 1976 maintained SRS at the Sept. 30, 1975, level, and reduced SRS in 1977 for fold-in of Medicaid into the comprehensive health grant. The reduced responsibilities in the social services program permit reassignment of personnel to high priority areas and no build-up in Medicaid staffing should be undertaken in view of the decision to merge the Medicaid program into the comprehensive health grant.

Office of Human Development

	<u>Original Request</u>	<u>Original Mark</u>	<u>HEW Appeal</u>	<u>OMB Recom.</u>
1976 FTP	1,504	1,383	1,462	1,383
1977 FTP	1,592	1,391	1,470	1,391

-- HEW is requesting 79 positions for both 1976 and 1977 as restoration of the OHD 1976 budgeted level. OHD believes that as it is a new organization, added personnel are needed to improve management of OHD programs. Since OHD on-board employment has actually declined slightly (by 24 staff) from June 30 to September 30, 1975, and OHD has demonstrated the capability to administer its programs adequately at the current level, OMB recommends holding employment at the Sept. 30 level plus a small increase (28 positions) for administration and the Randolph-Sheppard program. We recommend no increase.

Departmental Management -- The initial Presidential decision set end-of-year employment for Departmental Management at 5,921 in FY 1977. The following items are appealed by HEW:

-- Office for Civil Rights (OCR): The allowance provided for 75 new positions in 1977 in addition to the 60 positions recently authorized by Congress for FY 1976 and the 55 currently vacant positions. HEW requests another 125 end-of-year slots in FY 1977 to meet increased workload caused by court orders on elementary and secondary education. OMB recommends no further increases until OCR has assessed the impact of the unfilled positions available in FY 1976 and the Secretary has made an effort to reallocate positions within Departmental Management to meet his higher workload priorities.

-- General Departmental Management: An increase of 100 end-of-year slots is requested to handle court claims by Social Security beneficiaries. HEW estimates it will only be able to handle 60% of these cases in FY 1977 with its existing General Counsel staff of 423 (163 in the Social Security Division). Although it was recommended in the initial allowance that the Secretary reallocate more positions for this work from his existing staff resources within HEW, the Secretary has not yet addressed the possibility of reallocations to meet changing workload priorities. Therefore, OMB recommends no change to your initial employment allowance.

Office of Education and
Assistance Secretary for Education

	<u>Original</u> <u>Request</u>	<u>Original</u> <u>MARK</u>	<u>HEW</u> <u>Appeal</u>	<u>OMB</u> <u>Recom.</u>
1976 FTP	3,373	3,260	---	3,260
1977 FTP	3,703	3,284	3,560	3,284

- A 2% reduction in FY 77 from the 1976 manpower ceiling will not impair the capability to perform administrative and managerial responsibilities. The reduction is predicated on productivity gains, elimination of positions associated with terminated programs and some reduction in administrative staff not related to programs (executive and planning staffs of the Deputy Commissioners). Full funding of other than permanent positions will further soften reductions in full-time permanent positions.

- The need for effective monitoring of student financial assistance and the Impact Aid program to prevent fraud or administrative abuse is of highest priority. Assistance is required to keep pace with a growing workload and conclude the backlog of unresolved financial claims. Additional automatic data processing funds have been provided to develop program management information system capability. However, personnel demands can be met by shifting resources within the Education Division to these programs in accord with the manpower planning and utilization program substantially completed for the Office of Education and the NIE. The 3383 positions in the Division for FY 1977 provides a substantial base for assignment to priority problems.

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