The original documents are located in Box C6, folder "Presidential Handwriting, 11/12/74 (2)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE PRESIDENT HAS SEEN...

THE WHITE HOUSE

WASHINGTON

November 12, 1974

MEETING WITH CABINET OFFICERS AND AGENCY HEADS ON FY 1975 BUDGET REDUCTION APPEALS

Wednesday, November 13, 1974
10:00 a.m. (90 minutes); 2:00 p.m. (90 minutes)
The Oval Office

From: Roy L. Ash

I. PURPOSE

To discuss appeals of FY 1975 budget reductions by Cabinet officers and agency heads.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: Decisions about reductions in the FY 1975 budget have been made and discussed with the appropriate Cabinet Officers and agency heads. Certain of these reductions have been appealed to the Office of Management and Budget. A satisfactory agreement has been reached as to some of these appeals between OMB and the Cabinet Officers and agency heads. Other appeals have not been negotiated satisfactorily or are considered to be of such significance that they require a Presidential decision. These appeals will be taken up in the two appeals meetings.

B. Participants:

	Time	Participants	Appeal Issues
1.	10:00 - 10:45	Secretary Weinberger Under Sec. Carlucci Roy L. Ash Paul H. O'Neill	See Tab A (various HEW issues)

	Time	Participants	Appeal Issues
~~2.~~	10:50 - 11:10	Chairman Hampton Roy L. Ash Paul H. O'Neill	See Tab B (Government promotion freeze)
~~3.~~	11:15 - 11:30	Chairman Hanks Roy L. Ash Paul H. O'Neill	See Tab C (National Foundation for the Arts and Humanities)

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4.	2:00 - 2:30	Secretary Lynn Under Sec. Mitchell Roy L. Ash Paul H. O'Neill	See Tab D (Hud planning program)
5.	2:35 - 3:00	Secretary Brennan Under Sec. Schubert Roy L. Ash Paul H. O'Neill	See Tab E (various Labor Dept. issues)
6.	3:05 - 3:30	Under Sec. Campbell Asst. Sec. Feltner Roy L. Ash Paul H. O'Neill	See Tab F (Food stamp program)

C. Press Plan: David Kennerly photos.

III. TALKING POINTS

Talking points for each appeal issue are provided at Tabs A through F.

THE WHITE HOUSE

WASHINGTON

November 12, 1974

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

My apologies for being late with such a large package. If you do not have time to get over this tonight it will unfold well during the appeals process. Or, if you would like the opportunity to go over it tomorrow, you may choose to spend 30 minutes reading it at 10:00 A.M. We could adjust our schedule during the remainder of the time accordingly.

A

THE WHITE HOUSE

WASHINGTON

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: HEW Appeal of 1975 Budget Reductions

We have reviewed the HEW memorandum appealing your initial decisions on 1975 budget reductions. Your initial decisions would provide HEW with 1975 outlays of $108,619 million, a net reduction of $2,024 million below the 1975 budget request excluding the Work Incentives Program which is counted in the Labor Department totals. In addition, you identified $670 million as possible further savings through a lower Federal Medicaid matching and increasing Medicare cost-sharing by beneficiaries. HEW has recommended strongly that these measures not be proposed.

Attachment A compares your initial decisions, the HEW appeal, and the OMB recommendation. Attachment B is a brief analysis of the proposals at issue. HEW's appeal memorandum is at Attachment C.

HEW has agreed to all other reductions except $99 million and has proposed substitute reductions to equal that amount. We recommend that you reaffirm a number of your initial decisions--including the Medicare and Medicaid savings--and reject HEW's new proposals for the reasons discussed in Attachment B. Under our recommendation, the HEW 1975 outlay total would be $107,927 million, a net reduction of $2,716 million below the 1975 budget request.

Attachments

Attachment A

Department of Health, Education, and Welfare
Appeal on 1975 Budget Reductions

	Initial Presidential Decisions	HEW Appeal	Change	OMB Recommendation
I. Appeals				
Consolidated State Formula Grant	-77	-11	(+66)	-81
Health Manpower Capitation	-15	--	(+15)	-15
Bonus Pay Absorption ..	-18	--	(+18)	-13
Subtotal I ..			(+99)	
II. Offsetting Reductions				
SMI Dynamic Deductible.	(-16)*	-16	(-16)	(-16)*
National Health Service Corps Scholarship	--	-10	(-10)	--
Health R and D	-33	-51	(-18)	-51
Vocational Education Basic Grants	--	- 5	(- 5)	- 5
III. New Proposals				
Hill-Burton Deprecia-tion Payments	--	-35	(-35)	--
Profit Allowances for Proprietary Health Facilities............	--	-15	(-15)	--
(Subtotal, II and III).....	--	--	(-99)	--
Subtotal, I, II, and III	-143	-143	--	-165
IV. Contingency Proposals				
Medicare Cost Sharing..	(-370)	--	--	-370
Medicaid Federal Matching Share.................	(-300)	--	--	-300
Subtotal, IV....	(-670)	--	--	-670
Total	-813	-143	--	-835

* Included in Medicare cost sharing.

November 12, 1974

Attachment B

1975 Outlay Reductions

Analysis of HEW Proposals

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

Consolidated Health Service Grants

Initial Presidential Decision	HEW Appeal	OMB Recommendation
-73	-11	-77

Although HEW acknowledges that "consolidation is desirable," it requests your reconsideration because it sees "no way to persuade Congress to accept it." HEW also argues against a 20% funding reduction on the grounds that the beneficiaries of the programs are "the groups we most want to protect as we attempt to reduce the budget for overall fiscal policy purposes."

The new Coalition has expressed an interest in blocking up narrow categorical programs into State formula grants. We recommend that the Administration propose a consolidated health services formula grant for the following reasons:

- the Federal Government already has established financing programs, e.g., Medicare and Medicaid, to finance health services for the low-income and the aging. These narrow categorical programs duplicate Medicare and Medicaid;

- these projects have, in effect, inequitably singled out a few selected communities for special Federal subsidies for the direct delivery of health services; and

- an expanded State formula grant would be an opportunity to encourage greater State roles in the direct delivery of health services.

During our consideration of the HEW 1976 budget, we identified two additional project activities for inclusion in the State health service formula grant--venereal disease and immunizations. The higher outlay savings (-$4 million) reflects the addition of these two programs.

November 12, 1974

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

Health Manpower Capitation Grants

Initial Presidential Decision	HEW Appeal	OMB Recommendation
-15	--	-15

HEW states that elimination of health manpower capitation grants is "sound in concept." Nevertheless, HEW opposes trying to eliminate capitation at one stroke because this would "destroy any chance of securing a phase-down and would probably snuff out the last remaining chance of getting any manpower legislation passed this year." HEW also notes that this action would require the Congress to make a major program reduction for relatively small outlay savings in 1975.

We recommend reaffirming your initial decision. Neither the Senate nor the House have shown any inclination of accepting the Administration's 1975 Budget proposals to phase down capitation grants for most health professions schools, and to eliminate such grants to the essentially undergraduate fields of nursing and pharmacy. Pending bills, initiated in Congress, would retain capitation subsidies at current levels and extend these subsidies to schools of public health and health care administration. Thus, there would be little to lose--in terms of phasing down Federal capitation expenditures--from proposing their elimination. The 93rd Congress is not likely to complete action on health manpower legislation in any event. Moreover, the Department already has indicated to the Congress that it would be inclined to recommend veto of a bill along the lines of the Senate bill, because of unrealistically high appropriations authorizations and numerous undesirable program features.

HEW is correct in indicating that eliminating the $150 million in capitation grant funds would yield only about $15 million in 1975 outlay savings. The 1976 outlay savings, however, would amount to $105-120 million, with additional savings of $15-30 million in 1977. Moreover, based upon a review of HEW's 1976 budget request, OMB is recommending continuing the elimination of capitation subsidies in 1976.

November 12, 1976

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

Physician Pay Bonus

Initial Presidential Decision	HEW Appeal	OMB Recommendation
-18	--	-13

HEW argues that absorption of the costs for the recently enacted physician bonus would "jeopardize services to patients in the Indian Health Service or PHS hospitals and the management of grants and contracts." HEW believes that absorption would be particularly difficult since it would come on top of an already agreed upon $30 million reduction in administrative overhead expenses for the health agencies.

We recommend your reaffirming your initial decision that the health agencies absorb the bulk of the $18 million bonus costs within the almost $5 billion available for health programs. Nevertheless, we recommend allowing $5 million for the physician bonus costs in the Indian Health Service (IHS). Unlike those of most other health agencies, the IHS account is almost entirely for salaries and expenses and lacks significant reprogramming flexibility. We believe HEW can absorb the rest of the physician bonus costs ($13 million) through reprogramming without jeopardizing its management ability or reducing services to primary beneficiaries in PHS hospitals.

November 12, 1974

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

National Health Service Corps Scholarships

Initial Presidential Decision	HEW Appeal	OMB Recommendation
--	-10	--

This HEW proposal reflects HEW's assessment that the program "is relatively overfunded," rather than a low priority area. The remaining program level after the HEW reduction would support about 1,250 upperclass medical students, which HEW believes "adequate to meet the needs of the Public Health Service and the National Health Service Corps." HEW further states that a higher funding level would involve giving scholarships to freshmen students, who "have a smaller chance of completing their training ...."

We recommend not accepting the HEW proposal. We understand that this proposed reduction is not based upon any anticipated difficulty in obtaining applicants to accept scholarships in return for public service (DoD's comparable service scholarship program currently supports approximately 4,500 health professions students). The figure of 1,250 medical students is tailored to HEW's current estimate of its long-term physician needs for those PHS programs involved in the direct delivery of health services, i.e., the Indian Health Service, the PHS hospitals, and the National Health Service Corps. The current funding level, in contrast, would permit HEW to support health professions students in other needed disciplines, i.e., dentistry, optometry, pharmacy, and nursing, as well as a level of physician manpower sufficient to assure meeting the potential needs of other PHS agencies, such as the Food and Drug Administration, the Center for Disease Control, and the National Institutes of Health.

The provision of generous funding for National Health Service Corps Scholarships in return for service is an integral part of the strategy for phasing down capitation grants and general non-service scholarships.

The intense competition leading up to the entry upon medical education and the high qualifications and strong motivation of medical students result in a low attrition rate (less than 2% in medical schools during 1971-72). To the extent that financial obstacles enter into students' decisions to withdraw, scholarship support under this program would further diminish the already low attrition rates. Finally, we believe it would be in HEW's best interest to capture the future services of health professions students for as long a time period as possible. This argues for scholarships to freshmen and sophomores as well as to juniors and seniors.

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

SMI Dynamic Deductible

Initial Presidential Decision	HEW Appeal	OMB Recommendation
-16	-16	-16

HEW has proposed legislation so that the Medicare deductible for physician services--which is now set by law at $60--would rise with Social Security cash benefits. This proposal is also included in the cost-sharing reform legislative package that is being developed on a contingency basis. HEW argues that extensive cost-sharing reform would be unacceptable to the Congress, but that this more limited proposal could be justified as consistent with the dynamic deductible for hospital services now in Medicare law.

In our view, the political and substantive considerations are the same for the SMI dynamic deductible proposal as for the cost-sharing reform package of which it is a part. We recommend that the SMI deductible proposal be accepted or rejected as part of the cost-sharing reforms.

November 12, 1974

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

Health Research and Development

Initial Presidential Decision	HEW Appeal	OMB Recommendation
-33	-51	-51

HEW requests reconsideration of its initial proposals to reduce continuation grants by 5% and to include the National Cancer Institute (NCI) in the overall 25% reduction in new grants. HEW argues convincingly for reducing continuation in a tight budget situation, in view of the fact that continuation grants may actually be for research of a lower priority than the new research grants that are being reduced.

In addition, HEW believes that NCI should not be exempted from all reductions, but that reductions should be made across disease categories. We believe that HEW's rationale for reducing NCI along with other research areas is sound, especially in view of the fact that NCI -- even after a pro-rata reduction -- will have relatively more new funds. Because NCI initially had relatively more generous funding, a percentage reduction would still leave them in a position of relative priority funding. Moreover, basic research funded by NCI is virtually indistinguishable from other basic research funded by NIH. The research breakthroughs essential to understanding the cancer process may just as well come from research supported by other NIH institutes as from NCI. In fact, some of the most important cancer related research has been supported by other NIH institutes. The close similarity of basic research supports the HEW recommendation to reduce NCI along with the other NIH research institutes.

November 12, 1974

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

Vocational Education Basic Grants

Initial Presidential Decision	HEW Appeal	OMB Recommendation
--	-5	-5

HEW asks reconsideration of its earlier proposal to restrain this program to the 1974 funding level. HEW argues that this action would simply postpone program expansion until 1976 when proposed vocational education consolidation is implemented.

We recommend that you accept the HEW proposal. A draft GAO study (soon to be released) charges that Federal funds have failed in their objective of bringing about increased State and local funding of vocational education. The GAO report indicates that, "funds have often been used to pay administrative costs or support traditional programs." In view of this, we concur with HEW that no expansion should be allowed in 1975 until new 1976 legislation to correct these problems is implemented.

November 12, 1974

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

Depreciation Payments for Hill-Burton Facilities

Initial Presidential Decision	HEW Appeal	OMB Recommendation
--	-35	--

HEW recommends legislation to discontinue Federal depreciation payments for health facilities that were constructed with Federal Hill-Burton funds. The rationale for this proposal is that payment both for the facilities and for their modernization and replacement by depreciation reimbursement is a "double payment" burden on taxpayers.

We recommend rejecting this proposed legislation. In testimony on reform of the Hill-Burton program, the Administration has argued strongly that reimbursement for depreciation--including Federal reimbursement--should be the primary source for financing modernization and replacement of health facilities. The HEW proposal goes in the opposite direction from this policy and would compel facilities that had received Hill-Burton funds to rely on continued public grant programs for modernization and replacement capital. Moreover, our review of HEW savings estimate indicate that they are overstated by at least $15 million--a revised estimate that was concurred in by the HEW staff that developed the estimates.

November 12, 1974

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

Profit Allowance for Proprietary Facilities

Initial Presidential Decision	HEW Appeal	OMB Recommendation
--	-16	--

Medicare reimbursement of for-profit health facilities includes a profit allowance equal to 150% of the prevailing interest rate on long-term Treasury bonds. HEW has proposed legislation to reduce this profit allowance to the Treasury bond rate in light of current high interest rates.

We recommend against your accepting this HEW proposal. Some reform of the profit allowance may be in order, but the HEW proposal is too restrictive. If an investor can obtain no higher rate of return by investing in hospitals and nursing homes than by investing in Treasury bonds, there would be little incentive for assuming the added risks of such investment. For-profit facilities--which have had a major role in meeting the needs for additional nursing homes--would eventually cease to have a significant role in the health system. HEW advises us that their estimate of $16 million is highly speculative. Their present data will support savings estimates of only $2 million. Contrary to the statement in the HEW memorandum, legislation would not be required to effect the HEW proposals.

November 12, 1974

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

Contingency Proposals

	Initial Presidential Decision	HEW Appeal	OMB Recommendation
Medicare/Cost-Sharing Reforms	-370	--	-370
Medicaid Matching Formula Reforms	-300	--	-300
	-670	--	-670

HEW recommends against submission of legislation to reform Medicare cost-sharing and to reduce the average Federal matching share in Medicaid from 55% to 50%. In HEW's view, both are undesirable in putting the Administration in the position of recommending reductions in programs that benefit the aged and the poor. Moreover, HEW does not believe that the proposals will be adopted by the Congress.

While we concur in HEW's assessment of how these proposals would be viewed by the public and the Congress, we recommend these reforms as necessary to achieve major reductions in Medicare and Medicaid spending. Substantive arguments for these reductions can be made, e.g., reformed Medicare cost-sharing to reduce excessive utilization and place upper limits on total cost-sharing pending enactment of CHIP and requiring higher income States--who generally have higher eligibility and benefits--to bear a larger share of the burden of their Medicaid programs. Nevertheless, the proposals would leave the Administration in the awkward position of proposing in the CHIP legislation: (a) $6 billion in additional Federal spending for the aged and the poor and; (b) an increase in Federal matching to 75%, while advocating reduced spending and matching rates for 1975 and 1976 budgets.

November 12, 1974

Attachment C

HEW Appeal Memorandum on 1975 Outlay Reductions

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

NOV 11 1974

MEMORANDUM TO THE PRESIDENT

Subject: Fiscal Year 1975 Budget Reductions

Last Wednesday, we received word of your decision on reductions in the HEW budget for 1975. At the outset, I would like to express my appreciation for the careful and thoughtful review which you made of our proposals and other ideas advanced by the Office of Management and Budget.

Your decisions would provide the Department with a 1975 outlay budget of $108.6 billion, a net reduction of $2 billion below the President's budget submitted last February. We are not asking you to increase this total. All items which we would like to have restored are offset by reductions elsewhere in the budget. Overall, we are asking you to make restorations of $99 million offset by an equal reduction. A list of these items is at Tab A.

Proposed Restorations

Consolidated Health Services Grants

I am asking you to reconsider your decision to submit legislation which would consolidate most HEW health service programs--including neighborhood health centers, family planning services, maternal and child health, comprehensive health formula grants, and migrant health services--and, at the same time, reduce the proposed budget for these activities by 20 percent. This, together with the lower costs of administering a consolidated program, would save $77 million in 1975 outlays. We object to this proposal on two grounds. First, while we believe that consolidation is desirable, we see no way to persuade Congress to accept it. We have tried various types of consolidation in each of the last two years. They have been rejected both times. While there are objectionable features in the health service bills now being considered in Congress, we believe that we still can achieve many of the Administration's programmatic goals in this area. To reintroduce the question of consolidation when it has recently been so roundly rejected would simply not be credible.

Secondly, we oppose an across-the-board budget reduction for this group of programs since they are directed primarily at providing health services to the poor and other disadvantaged groups in the population. These are the groups which we most want to protect as we attempt to reduce the budget for overall fiscal policy purposes. I feel quite strongly that these services should be continued until they can be replaced by a comprehensive health insurance plan.

Our list of proposed budget reductions did, however, include a 25 percent reduction in the second half of the fiscal year in the program of comprehensive health services grants to the State health departments which was incorporated in the overall health services item above. This specific program has showed limited effectiveness over the years and could be reduced without jeopardizing services to the poor and disadvantaged. Although we oppose the consolidated health services legislation proposal, we are still willing to submit a rescission for this item which would make a reduction of approximately $11 million in 1975 outlays. The net effect of the action to drop the consolidation proposal and accept this budget reduction would be to restore $66 million in outlays.

Health Manpower Capitation

I am also asking you to reconsider your proposal to submit legislation eliminating health manpower capitation payments. While sound in concept, we also oppose this proposal on the grounds that it would damage progress toward this end which Congress has already made. Because of the crowded legislative calendar, the chances of getting any health manpower legislation enacted by this Congress are very slim. Up to this point, we have advocated--and this Congress has, in some measure, accepted--a gradual phase-down of capitation support. To try to eliminate capitation at one stroke would destroy any chance of securing a phase-down and would probably snuff out the last remaining chance of getting any manpower legislation passed this year. In addition, this proposal would save only $15 million in 1975 outlays, although it would require a reduction of $150 million in budget authority. Thus, this item would require Congress to make a major reduction in the health manpower budget for a relatively small savings in 1975 outlays.

Bonus Pay for Physicians

We understand that you also decided that the Public Health Service should absorb the full cost of the recently enacted bonus pay bill for physicians. This would come on top of a $30 million reduction we have already proposed in administrative costs for the Department's health agencies. This absorption would go beyond the reduction in administrative operations that can be made without jeopardizing services to patients in the Indian Health or PHS hospitals and the management of grants and contracts. Thus, we are asking that funding be allowed for the $18 million cost of the bonus pay provision in 1975.

Offsetting Reductions

To make room for the proposed restorations I am asking you to reconsider four items proposed on our list of reductions which you rejected and accept two new items. These actions would reduce 1975 outlays by $99 million.

SMI Dynamic Deductible

Our reduction proposals included a legislative provision which would change the deductible for Supplemental Medical Insurance under Medicare. The current deductible is fixed by law at $60. While we believe a major increase in cost sharing in Medicare is infeasible and unwise now, we believe that making the SMI deductible change with the cost of living and Social Security benefits is programmatically justified and should be proposed to Congress. The deductible for Hospital Insurance is set at the average cost of one day's hospitalization and changes as the cost of hospital care increases. We believe that the Supplemental Medical Insurance deductible should be placed on a similar basis. Our proposal would be to link the deductible with the increases authorized for Social Security benefits, thus assuring that beneficiaries would not be required to pay a higher portion of their income for this deductible. This action would reduce 1975 outlays by $16 million.

National Health Service Corps Scholarships

Our list of reductions included a $10 million cut in outlays for National Health Service Corps Scholarships, a program designed to attract medical students to served and under-served areas. We proposed this decrease not because we believe that this is a low-priority program but rather that it is relatively overfunded. With a budget of $12.5 million in 1975, we could provide scholarships to 1,250 second, third, and fourth year medical students. This, in our judgement, would be adequate to meet the needs of the Public Health Service and the National Health Service Corps. To go beyond this would include making awards to freshman students who have a smaller chance of completing their training than students further along.

Reduction in Health Research and Demonstration Projects

Our list of reductions included a 25 percent reduction in new starts, a 5 percent reduction in continuations for research and demonstration projects in the health agencies, primarily NIH, and a deferral of $22 million in construction obligations planned by the National Cancer Institute. In reacting to this proposal you decided against making any reductions against continuations and completely exempted the National Cancer Institute from any cuts. We ask you to reconsider this decision.

We believe that a reduction can be made against continuation grants without causing any project to be terminated. This would be done by making a review of current grantee budgets to make some limited reductions in their spending plans. This, we believe, is a valid action in a tight budget situation. In addition, we believe that exempting the Cancer Institute from all reductions is not warranted. Despite the reduction, the budget would still provide a $45 million increase and a continued high priority for cancer research. As a matter of science policy, a balanced biomedical research program must be pursued if we are to find new ways of curing and preventing diseases. It is impossible to predict in which areas of research the most important discoveries for the cure and treatment of cancer or any other specific disease will come. Therefore, we believe that if a reduction in research effort must be made, it should be applied across-the-board to all disease categories.

Vocational Education Basic Grants

Our earlier list recommended a $10 million reduction in budget authority for vocational education basic grants which would save $5 million in 1975 outlays. I am asking you to reconsider this item. It would have the effect of restraining this program to the 1974 funding level. It would simply postpone expansion until the proposed vocational education consolidation legislation is implemented in fiscal year 1976.

Depreciation Payments for Hill-Burton Facilities

Currently all hospitals, nursing homes and other health facilities eligible for reimbursement under Medicare and Medicaid receive the same standard allowance for depreciation of their facilities. For facilities which have been built with Hill-Burton construction grants, this depreciation allowance constitutes a double payment for the facility on the part of the Federal Government. We believe that this practice should be discontinued and are recommending that legislation with an effective date of January 1, 1975 be submitted to Congress. This new policy would save $20 million in Medicare and $15 million in Medicaid outlays.

Profit Allowance for Proprietary Facilities

Currently the Medicare cost reimbursement formula includes a profit allowance for proprietary health facilities equal to one and one-half times the prevailing interest rate on Treasury bills. We are proposing a legislative amendment which would reduce the profit allowance to no more than the Treasury bill rate. In light of the rapid increase in interest rates since current policy was established, this revision should still provide an adequate return on their invested capital. Assuming the legislation is effective January 1, it would save about $16 million in Medicare outlays.

Contingency Proposals

We have been asked by OMB to prepare two legislative proposals, if you later decide to use them. These proposals would substantially increase cost sharing in Medicare and decrease average Federal matching under Medicaid to 50 percent rather than the current level of 55 percent. We will, as OMB requested, prepare the necessary bills for these two items.

While it is true that, if these proposals are accepted by the Congress, we would realize significant savings, there are substantial disadvantages in putting them forward. Up to this point we have done our best to protect the poor and the elderly while proposing major cuts in the HEW budget. To support massive reductions in health programs would be to abandon that policy and its corresponding credible public posture.

The Medicare cost sharing idea was put forward by the Administration in 1972 and was flatly rejected by Congress. It was impossible to find a member even to introduce the bill. It is my judgement that this proposal would fare no better in 1974. In addition, in proposing it you would be attacked by the press for reducing programs that aid the poor and the elderly.

To propose a 5 percent across-the-board reduction in Medicaid matching, would subject you to the same criticism. If the current level of services is to be maintained, it would require States to increase their spending by $300 million in 1975 and $700 million in 1976. While the States have been in a relatively better fiscal position than the Federal Government, the current inflation is rapidly eroding their resources. A shift of this magnitude would in all probability, therefore, cause a reduction in health benefits for the poor. Certainly, it will be played this way in the press.

Caspar Weinberger
Secretary

Enclosure

ATTACHMENT A

SUMMARY OF PRESIDENTIAL APPEAL

	Outlays in Millions
Proposed restorations:	
Consolidated health service grants..........	+66
Health manpower capitation..................	+15
Bonus pay for physicians....................	+18
Total, restorations..............	+99
Offsetting reductions:	
Reconsideration of previous proposals:	
SMI dynamic deductible...................	-16
National Health Service Corps scholarships...........................	-10
Reductions in health research and demonstration projects..................	-18
Hold vocational education basic grants to 1974 level.........................	-5
Subtotal........................	-49
New proposals:	
Do not pay depreciation on facilities built with Hill-Burton grants...........	-35
Restrict profit allowance for proprietary health facilities to interest rate of Treasury bills.........................	-15
Subtotal........................	-50
Total, reductions......................	-99

B

THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: Proposed 90-day government-wide promotion freeze--civilian and uniformed services personnel

I. BACKGROUND

As a part of the FY 1975 budget cutback package, we proposed a 90-day promotion freeze applicable to all Federal personnel, except those in the Postal Service. The outlay saving would total $40 million dollars, $27M for military and $13M for civilian personnel. The Defense share of the total is estimated to be $33 million. The media has carried stories recently stating that this proposal is under consideration.

A freeze on military promotions was originally identified by the Department of Defense as one way to obtain spending reductions. OMB suggested that the freeze apply to all agencies for reasons of equity.

The $40 million saving amounts to only .07% of the $59.4 billion estimated for civilian and military compensation and benefits in the 1975 Budget.

II. OPTIONS

A. Abandon Proposal. Chairman Hampton of the Civil Service Commission argues (see his memorandum, attached), that the proposal should be abandoned. Briefly stated, some of his concerns are:

1. Anticipated strong opposition from the employee unions which may result in increased militancy.

2. The inequity in that an agency could not promote from within to fill a vacancy, but could hire from outside, discriminating against tenured employees.

3. The Civil Service classification rules will be violated and could result in employee grievance actions.

B. Proceed with the promotion freeze. The action will demonstrate that the government is tightening its own belt. There are two variations to this option:

1. Do it immediately. This would preclude agencies from "jumping the gun" on promotions, having been forewarned by the news coverage.

2. Do it later, about November 25, in conjunction with the 1975 outlay cutback package now in preparation.

C. Require absorption. Ask the larger agencies to absorb an equivalent percentage reduction in 1975 outlays in administrative expenses, thereby giving the agency head a choice on how to reduce.

The amounts involved would be very small when related to the total budget for each agency, but would probably require individual deferral or rescission messages under the Impoundment Control Act.

III. RECOMMENDATION

That a promotion freeze for both civilian and military personnel be put into effect immediately (Option B.2.).

Option A - Abandon /__/

Option B - Promotion freeze

1. Immediately /__/

2. Together with other 1975 cutbacks /__/

Option C - Absorption /__/

Attachment

UNITED STATES CIVIL SERVICE COMMISSION
WASHINGTON, D.C. 20415

CHAIRMAN

November 12, 1974

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Proposed Freeze on Promotions for Civilian Employees

OMB informed the Civil Service Commission yesterday that one of the actions being considered to reduce outlays in 1975 is a 90 day freeze on all promotions - civilian and military. The estimated savings from the freeze on civilian promotions is $15 million.

The Commission strongly urges that there be no freeze on promotions of civilians and instead the $15 million reduction be allocated among the agencies to be absorbed within their managerial discretion. We believe a freeze on civilian promotions is highly inadvisable for the following reasons:

1. The classification law will be violated in thousands of cases because employees will be selected under merit promotion procedures to perform higher grade duties that must be performed, but they would be prohibited from receiving the grade and pay appropriate to those duties.

2. In many other instances new hires would fill vacancies that could not be filled from within because of the ban on promotions; this would result in costly employee dissatisfaction and grievances based on what employees and their union representatives perceived as an unfair policy.

3. Over 1800 contracts negotiated between agencies and unions, affecting more than 750,000 employees, contain provisions on merit promotion procedures that in many instances would be set aside by a Presidentially imposed freeze. This would give further impetus to the strong union effort to obtain a statutory basis for labor relations in the Federal government to make it impossible for the President to take this and many other actions.

4. The argument that it would be unfair to impose a freeze on promotions in the military (should this action be deemed necessary) without a similar freeze on the civil service is not persuasive because the personnel system for the military is based on a "rank in the man" concept rather than the "duties of the position" concept in the civil service.

I would welcome the opportunity to discuss this matter with you if this would be helpful to you.

In addition, you will be interested to know that we are working intensely on a number of initiatives to achieve cost reduction through effective personnel management. We will have specific proposals to you in the near future where your personal support will help assure meaningful cost reductions.

Robert Hampton

Robert E. Hampton
Chairman

C

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

~~235~~
195 | 164
173 | 156
156 | 132

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: Appeal of the National Foundation on the Arts and the Humanities of the proposed FY 1975 reduction

In a joint memorandum to you, the Chairmen of both the National Endowment for the Arts and the National Endowment for the Humanities have appealed the entire 10% reduction in their respective operating and administrative levels in FY 1975. They have not agreed that any part of the proposed reduction should be taken. Their arguments and our comments are as follows:

Foundation Argument:

-- In FY 1975, the Administration requested $195 million for the Foundation. The Congress cut this request to $173 million, a reduction of $22 million. The proposed additional reduction of $17.3 million would further reduce this level to $155.7 million. This level is $39.3 million or 20% below the original FY 1975 request. These combined Congressional and Executive Branch reductions are "disproportionately heavy" and will harm the Foundation's programs.

Comment:

-- The requested levels of support for the Arts and Humanities Endowments have been supported at a very generous and increasing rate: from $18.7 million in

1970 to $155.7 million at the proposed reduced 1975 level. Although the Chairmen correctly point out that the FY 1975 reduced level of nearly $156 million would be $39 million below that originally requested, it is still $24 million above the FY 1974 level of $132 million. We believe this almost 20% increase is a sufficient annual increment to indicate a commitment of strong Federal support.

<u>Foundation Argument</u>:

-- Reducing the Federal amount of support will inhibit other, non-Federal, sources of cultural support.

<u>Comment</u>:

-- We believe this argument to be unsubstantiated. While the Foundation has maintained this argument, the basis for it appears anecdotal, rather than analytical.

<u>Foundation Argument</u>:

-- A reduction in support will have a demoralizing effect both on the artistic and humanistic communities and erode "... the spirit of the nation and respect for it abroad." All of this will occur, although there will be "no appreciable effect on the total Federal budget."

<u>Comment</u>:

-- We have no basis for commenting on this argument.

<u>Foundation Argument</u>:

-- They indicate that, as a result of the proposed cut, "... neither the Arts nor the Humanities Endowments can continue to be viewed as making any substantial contribution to the Bicentennial."

Comment:

-- The Foundation had originally planned to provide $43 million to support the Bicentennial. Even with an overall $17.3 million reduction, the Foundation can and should continue to provide substantial support to the Bicentennial. It is not necessary for the Foundation to distribute the reduction so that it, in effect, eliminates its Bicentennial role or funding.

Foundation Argument:

-- A reduction in administrative funding will impair the Foundation's ability to process the increasing amount of applications for awards that it receives. They estimate an increase from 20,332 applications received in FY 1974 to an estimated FY 1975 total of 28,000 applications. In addition, they cite the "commitment" on the part of the respective Endowments and their Councils to a greater technical assistance role for Foundation staff to cultural organizations, in lieu of program appropriations.

Comment:

-- The President's FY 1975 Budget contained an increase of 107 positions in full-time permanent staff for the Foundation that increased them from an FY 1974 ceiling of 290 to a new FY 1975 ceiling in full-time permanent staff of 397; an increase of nearly 37%. However, this increase of 107 was subsequently reduced to 97 in the overall Federal personnel reduction exercise and still represents an increase of more than 33%. We believe that this increase has amply provided for any anticipated increase in program load.

Further, we do not believe that the Endowments or their Councils are able to extend "commitments" that, in effect, hinder the flexibility of the Administration in its budgetary deliberations, whether these "commitments" be for funding or for technical assistance.

We recommend that the proposed reductions go forward as planned.

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

WASHINGTON, D.C. 20506

November 9, 1974

MEMORANDUM FOR THE PRESIDENT

FROM: Nancy Hanks, Chairman, National Endowment for the Arts
Ronald Berman, Chairman, National Endowment for the Humanities

SUBJECT: National Foundation on the Arts and the Humanities Suggested Reduction in 1975 Appropriations Level

We appreciate the problems you face in overall budget reductions. We understand the urgent need to reduce Federal expenditures; and we plan to do our part in ensuring that public money is not spent on projects which could better wait for other years. We understand that the approximately $8 million for which rescission is proposed from each of these Endowments is only a negligible part of the total Federal savings you seek; yet, your fiscal goals must be achieved by an accumulation of both minor and major economies. Nonetheless, rescission of $17.3 million is a desperately large sum in the early life of this Foundation; and we believe there are substantive considerations, uniquely applicable to these developing agencies, that merit your consideration

Mindful of the foregoing and after the most searching reflection, we represent the following to you as a fact: further reduction in the Endowments' budgets threatens the life of programs already underway and the investment already made in them. It will undermine one of the most successful initiatives of Republican administrations, in which you personally took an active role. And, it will dangerously impair the only nationwide Federal encouragement of the nation's cultural and intellectual life at the very time when such encouragement may be most needed.

Wisely, the Administration is making distinctions in the reductions applied to agencies and is not making an across the board cut. We therefore believe it our responsibility immediately to bring before you the severe implications that another budget reduction of ten percent would hold for this Foundation.

-- Every time the Endowments' budgets have been cut this year, the cut has been described as "just a small one." However, the cumulative result could be 33.8 percent below authorized levels, as noted in Attachment A. A year ago, the Foundation presented, through the Office of Management and Budget, a minimum request for funds already 6.4 percent below the authorized level; the Administration subsequently requested appropriations 17.1 percent below the authorized level; the Congress ultimately appropriated funds 26.5 percent below the authorized level. If the rescission now proposed is effected, the cumulative result will be a budget 33.8 percent below authorized levels and 20.2 percent below the Administration's own request. Such a cut seems disproportionately heavy; and while so damaging to the two Endowments, the $17.3 million saved will represent only a negligible three-tenths of one percent of the $5 billion to be recovered from the overall federal budget.

-- The vitality of the cultural activity of the country is proof that the people themselves realize the importance of the goals of the two Endowments. However, as you know personally from your own leadership in building the programs in Congress, funding sources for the arts and humanities in this country have to be painstakingly brought into existence. Our considered judgment is that a further reduction in the Foundation's very small monies at this particular time will have a critically serious withdrawal effect on all sources of support, individual, corporate, foundation, state and local.

-- If the reduction is made, this action will demoralize rather than encourage initiatives contributing to the sense of unity and healthy morale of the country -- those of strengthening community spirit, of seeking a better environment, of searching for understanding. And, it will be doing so with no appreciable effect on the total federal budget.

-- If the reduction is made, there will be damage to what are acknowledged to be -- by rich and poor, by working people and intellectuals, by rural and urban dwellers -- two highly successful programs of the federal government. They are responsive to people's needs, they build on the traditions of volunteerism and private initiative, they are geared to stimulating creativity for the benefit of the nation. Their potential for improving the quality of this nation cannot be overestimated.

-- If the reduction is sustained, we must advise you that neither the Arts nor the Humanities Endowments can continue to be viewed as making any substantial contribution to the bicentennial. The often stated expectations and the statutory mandate that we should be lead agencies -- along with the Smithsonian, Park Service and several others -- will have to be dismissed.

For these reasons, we respectfully request reconsideration of the $16 million <u>program</u> cut. Attachments B and C given brief descriptions of specific programmatic effects on both agencies if the proposed reduction is sustained.

Our request for restoration of the 10 percent reduction in administrative funds is born of desperation. Paradoxically, with the continuing decrease in what we believed to be a reasonable and needed level of program monies, adequate administrative funds are even more vital if we are to remain agencies of quality and credit to the federal government. Federal reductions in monies supplied do not stop either need or demand. Applications in the Arts Endowment alone jumped from 6,000 to 19,000 in two years and its present budget (without the reduction) will meet only 18% of the requests, a proportion far smaller than two years ago. A comparable situation exists in the Humanities. By law, all of these applications have to be reviewed and handled. By commitment, if funding grows smaller in proportion to need, technical assistance to the constituencies is ever more important. (Attachment D describes briefly the administrative effects upon the Foundation if the proposed reduction is sustained.)

Finally, we wish to note that unless the federal government begins to expend significantly greater sums in the fields of our concerns in the immediate future we will begin to see further erosion of the spirit of the nation and respect for it abroad. We would, therefore, also hope that very serious attention will be given by the Administration in consideration of the 1976 budget and the re-authorization. Assuredly, as we attempt to deal with overall fiscal problems, we must also give attention to emerging priorities and opportunities.

Nancy Hanks, Chairman, National Endowment for the Arts	Ronald Berman, Chairman, National Endowment for the Humanities

Attachments

NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES

FISCAL YEAR 1975

	Authorization	Agency Request	Administration Request	Appropriation (Obligational Authority)	Proposed Rescission Levels
Arts Endowment	$ 110,000,000	$ 102,500,000	$ 92,000,000	$ 82,250,000	$ 74,025,000
Humanities Endowment	110,000,000	102,500,000	92,000,000	80,250,000	72,225,000
NFAH Administrative	"As necessary" 15,222,000	15,222,000	11,000,000	10,500,000	9,450,000
TOTALS	$ 235,222,000	$ 220,222,000	$ 195,000,000	$ 173,000,000	$ 155,700,000

November 9, 1974

Attachment A

NATIONAL ENDOWMENT FOR THE ARTS

Our budget allocations, as reduced in light of Congressional appropriations cuts, were reviewed and approved by the National Council on the Arts in September 1974. These allocations were then given to OMB and to the House and Senate as requested.

The additional reduction now proposed would affect (subject to Council review):

- -- the programs that by schedule are due to go to the Council in February and May, arbitrarily penalizing them for no reason other than time.

- -- the bicentennial City Spirit program which was announced by the Council in September. ($500,000 is already committed under this program in grants to 6 pilot cities and in contracts for technical assistance. $300,000 would be tentatively retained in the reduced budget enabling grants to be made to 12 cities instead of the 75 anticipated in Fiscal 1975. Based on the experience with our City Options program, some 700 applications are expected during the time frame of the program which covers the two fiscal years of the bicentennial.)

- -- a second major bicentennial initiative in the area of film and television. The script for the 90 minute television special on America Through Song has been written by Academy Award winner Allan Miller and paid for; the production contract of $300,000 has not yet been actually obligated. In addition, 25 state films were planned in each of the two years of the bicentennial portraying the cultural-artistic roots of the states. The reduced budget would permit only 10 films to be made. And the 90 minute special on the arts and the bicentennial would be scrubbed, as would the television and radio spots.

- -- the folk art program started at the Endowment in connection with the bicentennial. The budget for this program would have to be cut drastically, funding only projects already under way, and retreating from the Endowment's commitment to develop a vigorous folk art program.

-- Works of Art in Public Places projects, and the preservation programs for American museums, designated by the White House as bicentennial, would be reduced.

-- the new program in support of arts centers and festivals would be deferred. The program has been announced in the trade journals and at a meeting of the centers, but specific deadlines have not been released.

-- interdisciplinary programs would be cut back. This category includes the highly successful Artrain. The contract for the redesign of the Artrain for the bicentennial has already been let.

-- the residency program, translating to other art forms the successful experience in making dance companies available all over the country, would be crippled.

-- the proposed American Center for Dance and certain research projects recommended by the Council but not contracted for would be cut.

Attachment C

NATIONAL ENDOWMENT FOR THE HUMANITIES

For the Humanities Endowment the effect of the proposed rescission will be similar. Some basic programs concerned with the production of knowledge--research and fellowships--will not be affected because, being tied to contractual arrangements, they have already been completed for FY 1975. But, obligations of Endowment funds can be made only following the Council meetings four times during each year and this means that any cut in budget authority will be felt disproportionately by programs which have not already been addressed this year. Primarily the proposed cut would occasion reductions in funding for public programs and for programs directed at educational institutions.

Over the past four years, at the urging of the Executive Branch and the Congress, the Humanities Endowment has been developing State-based Programs regranting federal money from the Endowment within each state. Forty-two such programs were in place at the start of the present fiscal year; commitments to operate in the remaining eight states were made for Fiscal 1975. An inescapable effect of reduction in budget at this stage will occasion the postponement of all funding for the last six states--Alabama, Arkansas, California, Massachusetts, New York, and Utah. In parallel fashion, the Endowment will not proceed with the new program, "Great Issues," designed for five major metropolitan areas across the country. This program, providing $200,000 to each city, was to have been the Endowment's first program for the general public in urban areas, and commenced appropriately for the Bicentennial.

While restraint in these programs would accommodate approximately one-third of the proposed funding rescission, the remainder would be taken from the Institutional Programs of the Endowment's Division of Education Programs, which had been budgeted for $7.8 million. The Endowment would restrain these programs only with great regret, because they are multi-year sequences to which not only has the Endowment made commitments, but the institutions themselves have budgeted their own and anticipated private funds. The impact of reduction, too, would be most untimely since these institutions, which now with Endowment assistance are replanning curricula and retraining faculty, are at the moment most desperately hit by the impact of economic crisis in the private sector.

ADMINISTRATIVE FUNDS

Although economies can and should first be made in the Federal operating expenses, or "overhead," such economies literally cannot presently be made in the administrative expenses of this Foundation: We, therefore, most urgently request that the appropriation of $10.5 million for the administration of this agency remain.

Operating no formula programs through which funds may be systematically disbursed on the basis of specific guidelines, this agency, uniquely, provides Federal support only through grants awarded on the basis of competition. We are required by law to process all applications received, through series of independent and panel reviews (employing on a per diem basis personnel not otherwise associated with the Federal government) to the National Councils on the Arts and Humanities. Applications to the Foundation in Fiscal 1974 numbered 20,332; and 28,000 are expected during the course of the present year. No change in program funds can thus effectively reduce the administrative costs.

Apart from the costs of full-time, temporary and consultant personnel, and the travel involved in the review process, the agency must also accommodate customary fixed costs of telephone, equipment and space--augmented this year by the relocation of the entire Endowment for the Arts necessitated by the usurpation of its space by the Office of the Special Prosecutor. The recent increase in Federal salaries has already forced us to reduce part-time personnel, causing accumulation of a backlog which we fear may only be addressed should a supplementary appropriation be made to cover increases in permanent personnel compensation.

It is a special characteristic of the two Endowments that our administrative expenses are not merely "overhead" costs of managing programs. "Administrative" funds in fact support the leadership and technical assistance efforts of our talented professional staff working with cultural groups throughout the country. This effort is absolutely essential to our basic goals, including the expansion of non-federal funding for cultural programs.

The Foundation's administrative budget has for three years been inadequate to the real needs of the agency, and we have only been able to maintain its efficient level of operation by utilizing to the full that special legislative provision which enables us to use three percentum of program funds for program development and evaluation. Any reduction in program funds will reduce the amounts which may be legally so used and leave us no new resources with which to secure the operation of the Foundation. We have explored carefully all administrative object classes and we do not see how an agency this small, and which is required to address a volume of applications over which it has no control, can sustain another reduction in its administrative budget or in those "program development and evaluation" expenditures which are fixed at 3% of its total appropriation.

D

THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: Suspension of the Comprehensive Planning Grant Program

Attached is a memorandum from Jim Lynn appealing the cuts in HUD's 1975 Budget which you approved last week. I am confident we can reach agreement with HUD on two of the three items addressed in the memorandum. Your meeting on Wednesday will cover only the suspension of the "701" program (comprehensive planning grants). The relevant portion of the Secretary's memorandum is marked.

Suspension of the "701" program would produce outlay savings of $20 million in 1975 and $90 million in 1976. OMB recommended this action for two reasons:

- After 20 years and $600 million in planning grants, there is little hard evidence of program benefit (although "701" does keep many planners and planning agencies in business).

- Since any benefits from improved planning and management are captured primarily at the State and local levels, and with increased responsibility and discretion for using Federal funds lodged there as well, the case for Federal categorical support of these activities is not very compelling.

Neither point is addressed in the appeal.

Our rejoinder to the points made by the Secretary are as follows:

- Virtually all "701" recipients have been funded through FY 1975 with funds committed in FY 1974. Thus, all specified work programs could continue for at least the next seven months.

- Suspension of the program will not diminish the availability of block grants. Alternative sources of funds (including the block grant program itself) can be tapped for preparing applications. In fact, with 2,200 applications expected for only $375 million in discretionary funds, HUD's problem is likely to be a glut rather than a shortage of applications.

- While areawide planning agencies will have less money available for A-95 reviews, this would not affect processing of block grant applications significantly.

- A land use planning program is a separate problem which can be handled without an on-going "701" program.

We agree with HUD that, from a tactical standpoint, it would not be wise to cite the block grant program as the replacement for "701" (although, for many "701" recipients, it could be). We also agree that suspension would be unpopular in many quarters, including the Indian community.

<u>Recommendation</u>

I recommend suspending the "701" program in 1975. A $25 million cutback, which the Secretary urges, would come mainly at the expense of management activities, since the preparations of housing and land use plans are mandatory. And, the political reaction would not be all that much less than what suspension would bring. Finally, a $25 million cutback would reduce the outlay savings from $20 million to $4 million in 1975, and from $90 million to $20 million in 1976.

Attachment

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

November 7, 1974

MEMORANDUM FOR: Roy L. Ash
Director, Office of Management and Budget

From: James T. Lynn

Subject: FY 1975 Budget Cuts

Paul O'Neill has advised of the proposed changes affecting 1975 outlays in the Department's operations.

We can increase the interest rate in the FHA/VA tandem program on mortgages under $33,000 to an effective rate of over 9% -- but, if any change is appropriate, I suggest doing it in a way which I believe is more desirable than simply raising the face rate.

Under the GNMA/FNMA Conventional Home Mortgage Program, the rate is currently 8-1/2%, plus points, for an effective rate of over 9%. I would recommend that the change in the FHA/VA program be to the same face rate, 8-1/2%, with points, for an effective rate of over 9%. Otherwise, we will be in the anomalous position of having a higher face rate on the more restrictive -- equal opportunity requirements, environmental requirements, etc. -- FHA/VA program than on the less restrictive conventional program. This will still put us in the embarrassing position of a lower conventional rate than the FHA/VA rate if the conventional tandem is extended into December at a lower rate -- and this may very well happen based upon current applicable Treasury yields.

I strongly urge that any increase in the FHA/VA rate be deferred until the President's decision on what we are going to do with respect to a December conventional program if we haven't used up the $3 billion. I should point out that there will really be very little outlay savings in 1975 -- whether we handle the program in this manner or the way which was suggested. Based on our current projections, the savings are most likely to fall in FY 1976.

I seriously question the advisability of suspending the 701 Comprehensive Planning Program. There are a number of factors to consider:

-- Suspension will disrupt on-going planning processes where individuals have been hired to carry out specified work programs.

-- Many smaller communities which expected to use 701 planning funds to prepare applications for the new Community Development Block Grant Program will see the suspension as an attempt to diminish the availability of that program.

-- A-95 procedures are currently financed in considerable part through 701 planning funding, and the new Community Development Block Grant Program will require substantially increased use of these procedures.

-- It will be impossible to argue that communities can replace lost 701 monies through the new Community Development Block Grant Program funds because we have stated publicly, time and again, that the new program would not replace 701 -- only certain other categorical programs such as urban renewal and model cities; indeed, we can expect to be charged, as in general revenue sharing, with giving with the right hand and taking with the left hand.

-- The 701 program, as recently amended, now has a significant land use element which, you will recall, we had planned to use as a way of avoiding a separate categorical land use planning program of the type which nearly passed the Congress this session.

-- The 701 program has been highly popular with a number of Indian groups whom the President is planning to address informally in Phoenix next week.

-- For all of the above problems, the effect of the suspension on outlays would be quite small -- $10 million to $20 million in FY 1975.

On balance, I think you will find that total suspension of this program would be counterproductive. I urge, instead, a cut to $75 million -- which was last year's funding level.

With respect to the cut in Policy Development and Research funds, I had understood that the cut was to be $8 million in budget authority -- an amount we can live with. But I learned late last evening that it was to be $20 million in budget authority with an $8 million FY 1975 outlay effect. I frankly do not know what precise effect this cut would have, but I suspect it would involve termination of a number of contracts and/or cut-backs in (a) research that is part of my Presidential MBO's and (b) funds we were looking to to carry us through FY 1975 on certain new laws without supplementals, e.g., the National Institute of Building Science, solar heating in housing, etc. I have asked for a report from my staff and will get back to you on Monday.

cc:
Ken Cole
William Seidman

E

The Proposal

The Section 701 comprehensive planning program should be suspended, effective immediately, for an indefinite period of time. An appropriate notice, deferral or recission, would be sent to the Congress.

The Budget Benefits

	1974	1975	1976
	(dollars in millions)		
Administration Budget Request	$110.0	$110.0	$150.0*
Congressional Appropriation	75.0	100.0	n.a.
Outlays			
- Present situation: obligation of full appropriation	101.3	120.0	115.0
- Option 1: Suspension during 1975 and 1976................		100.0	15.0
(savings).....................		(20.0)	(100.0)
- Option 2: Cut to $75 million in 1975 and $100 million in 1976......................		115.0	87.5
(savings)....................		(5.0)	(27.5)
- Additional savings of Option 1 over Option 2		15.0	72.5

* Represents Department's proposal to the Office of Management and Budget

The Effects of a Total Suspension

1. Should it be decided to eliminate and consolidate one or more of the more than thirty federal, categorical planning grant programs which aggregate more than $750 million annually, the Section 701 comprehensive planning program is probably the only federal planning grant program of a sufficiently comprehensive nature -- indeed it's the only program directed toward elected State and local government -- to form the core of a single consolidated program. At the direction of the President, the Department is presently undertaking an interagency review of all these planning programs to see if such consolidation is possible and desirable. To suspend what could very well become the core program will make it extremely difficult to argue in the future for such a consolidation: the Administration cannot be trusted, it will be argued, to do anything constructive about planning grants because of its track record of suspension.

2. The Section 701 comprehensive planning grant authority was amended in this year's comprehensive Housing and Community Development Act to include a land use planning element. Accordingly, if funded and operative, the program can be used as a principal Administration argument against a separate land use planning grant program with a much heavier environmental aspect. In contrast, the 701 land use program would be under the jurisdiction of the Banking and Currency committees -- not the environment committees -- and would be administered by HUD in concert with Interior, not Interior alone. Secretary Lynn has been consulting with Secretary Morton, and a joint staff effort is under way to assess this very real possibility. If this effort is successful, it will avoid the kind of Udall-Steiger fight over land use planning that we had last year with the Administration in the middle. But if the program is suspended, we nust fight off not only reinstatement, but also a separate land use bill.

3. 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 applications under the new Community Development Block Grant program. To suspend the program 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.

4. Suspension of the program will obviously disrupt the planning processes of numerous grantees. It is estimated that several thousand local and state employees would be involved and the use of 701 to support the A-95 review process would be largely curtailed.

For the foregoing reasons, Secretary Lynn strongly opposes total suspension of the program. Rather, a cutback to $75 million is recommended. This would indicate an appreciation for the program as well as for fiscal restraint. He is confident that compensating dollar budget benefits can be achieved to offset the additional savings of Option 1 over Option 2, by reductions in fiscal 1976 Community Development Block Grant outlays and other technical changes, such as a $13 million reduction in Federal Insurance Administration outlays for fiscal 1975.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: FY 75 Reductions in Comprehensive Manpower Assistance: DOL Request for Reconsideration

Background

Your initial decision on the 1975 level for Comprehensive Manpower Assistance (CMA) was to request the Conference on Labor-HEW to refrain from adding any amounts over the pending request, and rely on your proposed National Employment Assistance Act (NEAA) to meet the needs of workers hurt by inflation and high unemployment. This account finances manpower training and public service jobs authorized under the Comprehensive Employment and Training Act (CETA). The Secretary of Labor has asked that you reconsider and accept the expected enactment level of $2,400 million. His general rationale, specific issues and OMB review and recommendations are noted below. The Secretary's letter is attached as Tab A.

($ in Millions)

	Pending request	Expected enactment	Initial Pres. decision	DOL request	Possible Alternative
FY 75 BA	2,050	2,400	2,050	2,400	2,200
O	2,615	2,790	2,615	2,790	2,690

1. Impact on Administration Credibility and Chances for Passage of NEAA:

DOL: To request any amount below what the Congress wishes to enact for CMA would refute your expressed concern for the impact of inflation and unemployment on workers. It would also be viewed by Congress as an attempt to offset amounts requested under NEAA. This would jeopardize chances for enactment of NEAA.

OMB: The Administration cannot be justly accused of reducing the CMA appropriation to cover part of the cost of NEAA. In all formal statements, the Administration position has been that NEAA provides the necessary increases over the budget in response to worsening economic conditions. The $2,050 million request for CMA has been clearly referenced as the manpower program base to which NEAA is to be added.

It is realistic to expect some Congressmen to attempt to increase CMA in part to justify not accepting the Community Improvement Corps component of NEAA. However, appropriations for CMA cannot begin to have the impact of NEAA in aiding large numbers of workers in the most equitable manner. In addition, a CMA increase would build in an unrealistic program base difficult to cut when conditions improve. Acceptance of the concept that increases in the CMA appropriation are a proper response to rising unemployment must weaken chances for NEAA.

Recommendation: Retain a sharp distinction between the goals and methods of the CMA funded CETA and NEAA.

2. 90% Hold Harmless: $280 million

DOL: The Congress intended all CETA Title I sponsors to be held at no less than 90% of prior year funding. A pledge was made during CETA negotiations to accept this policy. Further, by accepting the enacted 1974 level last spring, the Administration made an implicit commitment to seek a higher level in 1975.

OMB: Our records of CETA negotiations do not reveal any DOL or congressional request for a commitment to the 90% "hold harmless" concept. It is possible that the Department gave some assurances on its own initiative, assuming appropriations for manpower would continue to increase. There was an express decision to leave the allocation formula strictly up to the Congress. The Title I amount in the 1975 budget request was equal to the planned 1974 level for categorical programs. Any formula chosen that strived for equity had to cause major fund shifts, since almost all categorical manpower programs focused on the large cities. We do not believe the Administration should accept a position whereby, regardless of budget stringencies or program evaluation, successive years' appropriations for Title I could be no less than 90% of prior year funding level.

When the higher 1974 appropriation was accepted it included only $97 million more for Title I type programs. This (a) was all for a summer youth employment program, (b) was not all used for that purpose, and (c) was not used well. No commitment was made to increase the 1975 request proportionately. The 1975 level was also discussed when DOL requested permission in July to let stand $280 million of the $400 million House add-on without appeal. DOL was instructed to appeal. However, DOL staff, in response to a congressional query, had already indicated that the increase was acceptable.

As Tab B indicates, the formula and the pending request do leave 64 out of 403 sponsors more than $1 million below the 90% level. Most of the heavy losers are large cities. While DOL requests $280 million, their analysis indicates that in fact only $166 million is needed with special one-time language exempting this amount from the normal distribution pattern. Other discretionary funds can be used to cover part of this amount.

Recommendation: Reaffirm the initial decision. However, if the reading of the pressures from the Congress and the cities does in fact indicate that the chances for NEAA are endangered by this approach, we recommend as a fall back asking for $150 million with special appropriation language to make it available only to meet the hold harmless levels this year.

3. Title II, Public Service Jobs: $50 million

DOL: The Conference wants to add $50 million for public service jobs. Since unemployment is higher now than at the time of the original submission, this figure should be accepted.

OMB: The Administration has never accepted a direct causal linkage between shifts in the unemployment rate and amounts for public service jobs. There is no programmatic reason to do so. The $350 million requested level was a legislative compromise without regard to unemployment levels at the time or projected.

Recommendation: Ask the Congress not to add this amount.

4. Balance of Expected Enactment: $20 million

DOL: The difference between the sum of the above two items and expected enactment is not large enough to warrant requesting Congress to change.

OMB: There is no justification for this request.

Recommendation: Ask the Congress not to add this amount.

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

TAB A

NOV 8 1974

MEMORANDUM FOR THE PRESIDENT

The purpose of this memorandum is to appeal the tentative decision to rescind the amounts in the FY 1975 Congressional appropriations for manpower programs above the level originally included in the President's budget request. We anticipate that Congress will appropriate $2.4 billion for implementation of the Comprehensive Employment and Training Act of 1973 (CETA), if the amount currently pending before the Conference Committee is sustained. The proposed rescission would limit the Department to the original President's FY 1975 budget request of $2,050 million.

We in the Department are endeavoring to bend all our efforts to implement your economic program to combat inflation. However, it is our firm conviction that, for the reasons set forth below, this proposed reduction will be counterproductive in that effort, principally by undermining public confidence in your assertion that this Administration will not let the impact of anti-inflation measures fall disproportionately on those Americans least able to bear the costs.

First, the $2,050 million figure in the original budget is too low to permit us to meet the Act's clear intent that State and local prime sponsors be provided with at least 90 percent of their FY 1974 manpower program allotments. At this level, most of the cities, including all of the major cities, would receive in the range of 40-80 percent of their previous year's allotment. You will recall that the final level of the CETA FY 1974 appropriations, enacted in June 1974, included an additional amount for the summer youth program and substantially exceeded the level anticipated in January when the FY 1975 budget was submitted. Implicit in our acceptance of these increased appropriations for FY 1974 was an acknowledgment that, as a result, an upward adjustment would be required in our FY 1975 budget request.

As you know, this Administration enthusiastically worked for the passage of CETA -- the first legislative application of the principle of special revenue sharing. A key element in our successful negotiations with Congress on this legislation was the pledge not to reduce any State or local Title I allocation more than 10 percent below its FY 1974 level -- a reduction, which by itself, is disturbing to the cities. A minimum FY 1975 budget level of $2,330 million for CETA will be required if we are to meet this "hold harmless" requirement under Title I. In addition, the pending bill appropriates $50 million above the original budget level of $350 million for the conduct of transitional public service employment programs under Title II of CETA. Clearly, the need for such programs now is greater than when the budget was submitted in January and the unemployment picture was far brighter than it is today. This total of $400 million for Title II added to the minimum required to meet our "hold harmless" commitment under Title I is close to the amount of the anticipated Congressional appropriation level of $2.4 billion.

Of equal importance, in my view, is the detrimental effect budget reductions in our basic manpower program will have on the credibility of the Administration's total economic program. If our fiscal policy efforts are to involve cutting the very programs that assist those workers who are the victims of rising unemployment, then we will appear to be insensitive to the human consequences of these anti-inflation policies. The political potential of this argument was made very apparent during my recent testimony on the Administration's proposed National Employment Assistance Act of 1974 (NEAA) before the Senate and House committees. It was suggested that we were engaged in a budgetary "shell game", requesting new funds for a temporary public service employment program while reducing expenditures for existing manpower programs -- thus providing the appearance rather than the reality of increased help for the Nation's unemployed. Adhering to our original proposed budget level for Title II and proposing a Title I level that would not hold major cities "harmless" would cast doubts on our intention to make a substantial net increase in effort under the NEAA program.

Finally, we believe that rescission of a part of the pending FY 1975 appropriation for CETA would jeopardize the chances for enactment of the NEAA. We understand that there is sentiment in the Senate committee for a supplemental appropriation of approximately $1 billion for Title II of CETA, as a stop-gap measure, with substantive legislation deferred until the next session.

We believe that, if the provisions of the Conference Committee's appropriation bill are retained, there are reasonable prospects for passage of an acceptable manpower measure to respond to the unemployment situation.

Pete Brennan

Secretary of Labor

CETA Sponsors $1 Million or More

Below 90% of 1974 Level ($ In Millions)

Sponsors	Am't. below 90%
*Bridgeport, Conn.	1.1
*Hartford, Conn.	1.7
*New Haven, Conn.	1.2
State of Maine	1.2
Boston, Mass.	2.7
Providence, R.I.	1.4
Newark, N.J.	4.3
Trenton, N.J.	1.4
New York City	15.3
*Nassau County, N.Y.	1.3
*Rochester, N.Y.	1.2
Puerto Rico (all sponsors)	2.5
*Baltimore, Md.	3.7
Philadelphia, Pa.	2.5
Pittsburgh, Pa.	3.1
Pennsylvania (bal. of State)	1.3
Virginia (bal. of State)	2.6
West Virginia (bal. of State)	2.3
Washington, D.C.	6.8
Birmingham, Ala.	1.3
Alabama (bal. of State)	2.9
*Miami, Fla.	1.3
*Tampa, Fla.	1.1
Atlanta, Ga.	1.2
Georgia (bal. of State)	2.7
*Louisville, Ky.	1.1
Mississippi (bal. of State)	5.4
North Car. (bal. of State)	4.5
South Car. (Statewide)	4.7
Tennessee (bal. of State)	3.1
Chicago, Ill.	14.2
East St. Louis, Ill.	1.4

Sponsors	Am't. below 90%
Illinois (bal. of State)	1.9
Gary, Ind.	2.6
Detroit, Mich.	4.2
Michigan (bal. of State)	1.4
Minnesota (bal. of State)	1.7
Cinncinnati, Ohio	2
*Columbus, Ohio	1.3
*Cleveland, Ohio	4.7
*Dayton, Ohio	1.5
*Milwaukee, Wisc.	1.3
Wisc. (bal. of State)	1.6
Arkansas (bal. of State)	2.8
Louisiana (bal. of State)	2.6
New Mexico (bal. of State)	1.7
Oklahoma (bal. of State)	2
Dallas, Tex.	1.1
Houston, Tex.	2.3
*San Antonio, Tex.	2.5
Texas (bal. of State)	3.9
*Des Moines, Iowa	1.2
*Kansas City, Mo.	1.9
St. Louis, Mo.	2.7
Missouri (bal. of State)	3
*Omaha, Neb.	1.1
*Denver, Colo.	1.3
*Phoenix, Ariz.	2.1
Arizona (bal. of State)	1.8
Los Angeles, Calif.	3.3
Oakland, Calif.	2
San Francisco, Calif.	1.8
Portland, Oregon	1.2
*Seattle/King County, Wash.	2.2

*Indicates consortium including surrounding jurisdictions. Central city makes up most of the shortfall.

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THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: Proposed Change in USDA 1975 Savings Recommendation

In response to your request for 1975 Budget reductions, the USDA proposed and you accepted a change in the amounts families are required to pay for Food Stamps. The estimated Budget decrease was $325 million. USDA originally believed that this change which would amount to a reduction in Food Stamp benefits could be partially offset by an increase in the benefit levels linked to increases in the Consumer Price Index. The Department proposed that both of these changes be implemented on January 1, 1975.

This week the Department finally advised us that this could not be accomplished by January 1 because:

(1) There is insufficient administrative lead time.

(2) The reduction in benefits would impact small, low income families by as much as $15 for a one person household earning as little as $110 a month with no offsetting benefit increases - a net decrease of over 50% in benefits.

(3) The proposed reform could be modified to soften these impacts on smaller low income families by other more complicated revisions in income definition which cannot be implemented until March or April.

(4) USDA is proposing to substitute other administrative reforms to achieve the same overall 1975 savings. These had not been identified previously.

As an alternative recommendation, USDA is proposing to

- defer until April 1, the increases in the amounts families must pay for Food Stamps and combine them with revised income definitions;

- proceed on January 1 with the increase in benefit levels as required by law; and

- proceed now with the other administrative reforms to make up the lost savings.

USDA staff is uncertain whether the other administrative savings can in fact be realized or defended if challenged by the Congress or public interest groups.

Options:

1. Proceed now to implement the increases in amounts families must pay at the same time that the benefit increases are announced, and press for the other administrative reforms as soon as possible.

    - Offers the best possibility for achieving the proposed $325 million savings plus possible additional savings from other reforms (as much as $160 million).

    - Couples increased payment requirements with January 1 benefit increases.

    - USDA indicates that the administrative complications of trying to implement by January 1 would cause substantial confusion, public protest and delay in achieving savings.

2. Delay until April implementation of the increased payment requirements combined with revised income definitions to soften the impact on small, low income households.

    - Reduces savings by as much as $160 million from the 3 month delay.

- Allows deliberate development of combined reforms to moderate the negative impact.

- Avoids the probable administrative confusion of going in January.

- Principle disadvantage is that it "whipsaws" beneficiaries by providing a benefit increase in January and a larger decrease in April and a subsequent increase in July (next CPI adjustment).

3. Delay all changes except the other administrative reforms until July 1, 1975.

   - Loses $325 million in savings and saves as much as $160 million if the other administrative reforms are effective.

   - Couples reforms and reductions with a projected large increase in benefit levels linked to the August 1974 to February 1975 CPI adjustment.

<u>Recommendation</u>:

Press USDA to demonstrate why they cannot go with their original proposal and the new administrative reforms now.

If they are persuasive delay until July 1 on all but the new administrative reforms.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Date: 11-14

TO: Jerry Jones

FROM: Dennis Wood DWW

ACTION:

Approval/Signature
Comment
Information
File
Draft response for
Roy L. Ash's signature
For your handling ✓

REMARKS:

These are President's papers from 1975 budget appeals meetings – should go to files, etc. Pres. handed them back to Roy –