The original documents are located in Box 10, folder "FY 1977 - Fifty Issues (2)" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

FY 1977 BUDGET
Environmental Protection Agency

Budget Summary

	Outlays ($ Millions)				
	FY 76		FY 77		
	$	Percent of Total	$	Percent of Total	Percent Change
Sewage Treatment Construction	2,350	74	3,770	84	+60%
Grants to State and local planning agencies	92	3	70	2	-24%
Regulation development enforcement and technical assistance	386	12	314	7	-19%
Research and Development	297	9	280	6	- 6%
General Agency Management and Regional Administration	68	2	66	1	- 3%
	3,193	100%	4,500	100%	+41%

Budget Policy Highlights

- Continue to make progress in cleaning our lakes and streams by emphasizing expenditures for sewage treatment plants.
- Propose amendments to the Federal Water Pollution Control Act which place a greater priority on catching up on the backlog of sewage treatment plants needed to solve the more immediate and widespread water quality problems and reduce Federal commitments for projects of marginal effectiveness.
- Provide additional resources to the States for the implementation of the Safe Drinking Water Act in order to assist them in assuming primary enforcement responsibility.

- Include new funds for water quality planning on the few remaining high priority areas which have not received financial assistance.

- Continue to assist State and local pollution abatement agencies to meet their environmental goals by funding these programs at the obligational level recommended in the FY 1976 Budget.

Specific Budget Decisions

1. Construction Grants

(a) FY 1977 outlays. Expenditures will increase 60%, from $2.35 billion in FY 1976 to $3.8 billion in FY 1977. The FY 1977 outlay level represents a 94% increase relative to FY 1975.

(b) FY 1977 obligations. The total value of new grants will increase from $4.5 billion in FY 1976 to $6.1 billion in FY 1977 -- over a 35% increase. The Federal Water Pollution Control Act Amendments of 1972 provided $18 billion for the construction of municipal waste treatment grants. Beginning in FY 1977, over $6 billion will still be available for obligation. These unobligated funds will be sufficient to fund the majority of projects in most States and consequently it will not be necessary to request additional budget authority in FY 1977. Recommendations for funding beyond the funds presently available will be made subsequent to Congressional consideration of the Administration's legislative reform proposals for this program.

Budget Constraints

(a) Reimbursable Projects. Previously, $1.9 billion has been appropriated to reimburse municipalities for projects constructed prior to the passage of the Federal Water Pollution Control Act Amendments of 1972 (P.L. 92-500). The FY 1977 budget contains no additional funds for this purpose.

(b) Reform Legislation. Amendments to the Federal Water Pollution Control Act Amendments of 1972 are being proposed which would reduce Federal liability from $333 billion to a program level in the neighborhood of $30 to $60 billion and therefore would bring the potential Federal funding requirements in line with the projected availability of funds. These amendments would:

- Give priority to the backlog of construction needed to provide existing communities with sewage treatment facilities. This would be accomplished by requiring that the construction of sewage treatment facilities for future community growth be the financial responsibility of local and State governments.

- Leave to local governments the responsibility for raising funds for those projects, such as collector sewers, whose cost can be, and traditionally has been, borne directly by the user.

- Limit Federal funding to the provision of secondary treatment except where the grant applicant demonstrates that the water quality benefits to be achieved from higher treatment levels are commensurate with their cost.

- Encourage the adoption of inexpensive non-structural measures to treat episodic pollution problems associated with storm water.

2. Program and Planning Grants to State and Local Agencies

Funds are provided to State and local pollution abatement agencies to implement the Safe Drinking Water Act, The Clean Air Act and the Federal Water Pollution Control Act.

Federal support of State water supply programs is proposed at a level of $20 million - a doubling of the FY 1976 level. This funding will assist States in assuming the primary enforcement responsibilities for public water systems under the Safe Drinking Water Act.

Budget Constraints. Air control agency grants will decrease from the FY 1976 obligational level of $55.5 million to an obligational level of $51.5 million in FY 1977. The initial schedules for complying with the requirements of the Clean Air Act have, for the most part, been completed. The amount requested in FY 1977, which is identical to the FY 1976 request will provide for the necessary modifications to the schedules and for other high priority State activities.

Water control agency grants will decrease from an obligational level of $50 million in FY 1976 to an obligational level of $40 million in FY 1977. Although the program is reduced $10 million below the 1976 appropriation, the 77 level is the same as the 1976 Presidential request, which will support the continuance of high priority State program activities. The remainder of the cost of meeting the State responsibilities in this area is provided by State governments.

Section 208 water quality planning grants will decrease from $53 million to $15 million in FY 1977. Previous to FY 1977, more than $200 million has been provided to local and State planning agencies to conduct areawide waste management planning. The amounts provided in the FY 1977 budget include sufficient funds for the few remaining high priority study areas.

3. Regulatory Program. FY 1977 outlays will decrease 19% relative to FY 1976. This reduction reflects an expected decrease in expenditures for contract support initiated in previous years for the development of the vast majority of regulations which are now being implemented. Outlays of $314 million are adequate to make the appropriate revisions in regulations and to provide resources to the State and local government for their implementation. It should be noted that outlays do not provide a complete representation of the level of activity in this area since the FY 1977 budget provides $369 million in budget authority, approximately the same program level as provided in FY 1976.

AGRICULTURE HIGHLIGHTS

Farm Income Stabilization Programs

Farm income stabilization programs for farmers provide: credit on reasonable terms, income protection against low market prices for grains and other commodities and against natural disasters adversely affecting crop production. This is accomplished by providing price supports, direct payments, and crop insurance to farmers.

- Outlays for farm income stabilization (price supports, direct payments) will decline by $630 million in 1977, largely due to:

  - The sale for unrestricted use of stocks of peanut oil accumulated under the peanut price support program, and the offering of surplus peanuts for sale to crushers. This is necessary because of the substantial inventories that have been accumulated by the Government. Oil sales should total about 375 million pounds, and will be carried out in a way that will not disrupt the vegetable oil market. In the absence of reform legislation, it is likely that peanut production will exceed consumption.

  - A 15 percent reduction in marketing quotas for the 1976 crop of flue-cured tobacco. This action is necessary to bring supplies in line with demand and thus avoid costly surpluses which must be paid for by the Federal Government. Price support loans will be reduced by $255 million.

  - An anticipated reduction in the need for credit (loans) extended to foreign nations to encourage purchase of our agricultural commodities, from $900 million in 1976 to $450 million in 1977. This reduction is based on the strong foreign demand for grains.

Heirs

The death of an owner of a small business or farm can create major financial problems for the heirs, particularly if they wish the business to remain in the family. Unless sufficient liquid assets are available (or become available upon the death of the owner) to pay the estate tax liability, heirs may be compelled to sell the business.

The Administration will seek legislation permitting heirs of owners of small farms to defer the first payment of estate taxes for five years and amortize the balance over 20 years at 4 percent simple interest. This will ease significantly the current problem faced by heirs of being forced to sell farms that have been in a family for years in order to pay estate taxes.

Research

- Production Efficiency Research

  A $21 million increase is proposed for new fundamental research efforts in the agricultural sciences, 5.5 percent above research outlays in FY 1976. This work is aimed at improving the efficiency of our agricultural production by reducing the amount of petroleum-based fertilizer or other inputs, or increasing output by breeding for greater resistance. Much of the research beginning in FY 1977 will be of the most basic nature, in an attempt to further an understanding of biological processes. Subjects receiving special attention will be: (1) increasing understanding of the process by which plants convert light to energy; (2) increasing understanding of the process by which plants convert and use nitrogen as nutrients; (3) broadening the genetic base of plants to maintain high yields with greater resistance to pests, diseases, and weather.

- Trial Boll Weevil Eradication and Pest Management Program

  $4.3 million of Federal funds will be used in FY 1977 to begin a 3-year trial program: (1) to eradicate the boll weevil from

Virginia, North Carolina, and South Carolina; and (2) to operate a concurrent program in another part of the South, as yet undetermined, to reduce the boll weevil to economically manageable proportions. The strategies of eradication and pest management form the two major alternatives for insect control. During and at the conclusion of the 3-year program, evaluations will be made to determine comparative cost/benefit relationships, the efficacy of regulatory measures, the willingness of affected growers to cooperate, and other factors. The President and the Secretary of Agriculture will then determine the best strategy for dealing with the boll weevil throughout the entire South.

The boll weevil is our nation's worst agricultural insect, causing approximately $300 million worth of damage each year in lost cotton, as well as requiring over one-third of the pesticide applied to our crops nationwide each year ($75 million worth). A sustained effort needs to be made to reduce both economic damage and environmental costs.

Grain Inspection

Because of recent abuses in the Federally supervised national grain inspection system, the credibility of the current public/private system in the United States is being seriously questioned here and abroad. A basic defect in the current public/private system is the inherent conflict of interest in the private inspection agencies and the lack of authority for the Department of Agriculture to supervise adequately the private activities.

To strengthen the system and restore confidence in the grain quality, the Administration has proposed amendments to the U.S. Grain Standards Act that include: (1) authority to require official inspection agencies to meet criteria to qualify for designation; (2) authority to suspend and to revoke designations of official inspection agencies for specified causes and for the Department to perform original inspections on a temporary basis if the service is not otherwise available; (3) elimination of conflicts of interest by official inspection agencies; (4) increasing penalties for certain violations of the Act from misdemeanors to felonies; and (5) authority for the Secretary to require installation of monitoring equipment in grain elevators as a condition of eligibility for official inspection. No major expenditures or increases in Federal employment should result from this proposal.

Reform of Agricultural Conservation Program (ACP)

Legislation will be proposed to the Congress to reform the agricultural conservation programs by eliminating payments to farmers for carrying out farming practices which are a normal part of their operations, and by emphasizing long-term conservation practices which are of national concern and achieve desirable land-use adjustments. This will reduce the cost of the program from $175 million annually to $90 million.

Forestry

Program levels for recreation use, wildlife habit management, rangeland improvement, and several other national forest activities will increase by $26 million and about 8 percent. Research will be increased by $4 million and 5 percent, primarily for improvement of information and analytical procedures for the next cycle under the Forest and Rangeland Renewable Resources Planning Act of 1974. Total outlays will decline because payments to States, based on 25 percent of national forest receipts in the transition quarter, will decline by $54 million and because 1977 fire-fighting costs are included in the allowance for contingencies, rather than in the estimate for Forest Service. These additional costs, largely unpredictable, have averaged about $100 million in recent years.

Rural Housing and Community Development

Housing assistance is provided in rural areas by direct Federal loans and grants. The loans are for the purchase of single and multiple-family housing units, as well as for repair and rehabilitation of existing units. The budget proposes about $2.7 billion in loan funds in 1976 and 1977, compared with $2.2 billion in 1975.

Some small housing programs have been proposed for termination during FY 1976 because they are ineffective - high relative cost, small number of families taking advantage of the programs - and because other assistance programs are available; e.g., the home ownership subsidized loan program, the rental assistance program, and HUD's Section 8 program. The programs proposed for termination are:

- Farm labor housing loans and grants (loans - $10 M; grants - $8 M).
- Mutual and self-help housing grants ($9 M).
- Self-help housing land development fund loans ($1 M).

Small businesses

In recognition of the difficulties which many small businesses face in obtaining needed financing in commercial markets, the Small Business Administration's major loan guarantee program which will help about 22,000 businesses in 1976 will be increased by 33% to $2 billion in 1977, thereby providing assistance to an additional 6,000 firms. By careful management, SBA will be able to operate this program at no cost to the taxpayers.

During 1976 and 1977, particular emphasis will be given to increasing the success rate of firms receiving loan assistance from the Small Business Administration, thereby enhancing the benefits to small firms and reducing costs to taxpayers. Actions by SBA will include improved criteria for selecting applications for loan assistance, additional funds for technical assistance to firms receiving loans, and additional staff to more effectively manage its portfolio of existing loans.

The total amount of SBA direct loans will be reduced slightly from $350 million in 1976 to $315 million in 1977, primarily because it is expected that there will be a decrease in demand to assist firms faced with energy shortages.

The Lease Guarantee program, which is operating at a $35 million level in FY 1976 and which is expected to serve only about 100 businesses during the year, will be phased out with no new commitments in 1977. A recent General Accounting Office report found that the program is not being operated on an actuarially sound basis, even though Congress intended that it should be self-sustaining. The GAO estimated that net losses would be about $17 million on policies issued through fiscal year 1974.

to $45 million in 1977, pending an evaluation of the effectiveness of these programs which were proposed by the Administration in 1974.

The President's budget also proposes a rescission of the $4 million Congress added for 1976 and the transition quarter to fund additional economic development planning districts. It would be inappropriate to expand the share of EDA funds going for this planning and administrative infrastructure when the available resources should be used to implement existing redevelopment plans and more effectively utilize the capabilities of established districts. The 1977 budget includes funds for those districts now being financed by the Economic Development Administration.

Minority enterprise

The 1977 Budget reflects the Administration's continued strong support of efforts to expand minority participation in private enterprise. The Office of Minority Business Enterprise in the Commerce Department provides financial assistance to States and local organizations to support efforts to create and expand business ownership opportunities for minorities and to provide management and technical assistance for these businesses. This assistance is being continued at the 1976 level of $50 million, and OMBE will direct more of its efforts to stimulating private, State and local initiatives. The Small Business Administration will expand its programs for assistance to minority businesses, with an additional $3 million for technical and management assistance to minority firms participating in its loan programs and in its 8(a) procurement program. SBA expects to provide over $465 million in loans and loan guarantees to about 8,600 minority businesses in 1977.

Postal Service

The President's Budget continues the policy of moving toward a postal system in which the mail users will pay the cost of the services, and the burden on the taxpayers will be reduced. In 1977, the public must continue to carry a large share of the postal costs, as the subsidies are gradually reduced to allow adequate time for the users to assume responsibility for these costs.

The Postal Reorganization Act of 1970 established an independent Postal Service based on the principle that ultimately it would be virtually self-sustaining, with the costs of providing postal service being borne by those who use the mails. The 1970 Act authorized certain interim subsidies to bring about this transition to independent status. The Budget requests $1.5 billion for this purpose in 1977, in contrast to the Postal Service's request for $1.8 billion. From the beginning of the Postal Service, through 1977, over $9.5 billion will have been provided for this transition subsidy.

Recent legislative changes have authorized an extension of the time period granted mailers of second, third, and fourth class matter to adjust to higher full cost recovery postage rates. The President's Budget does not recommend appropriation of the additional $307 million requested by the Postal Service to finance this extension. Such subsidy payments would place an unfair burden on the taxpayer and constitute a direct windfall benefit, in the form of subsidized lower rates, to certain classes of mail users. The President proposes to restrain Federal outlays by $307 million by not requesting the additional subsidies. This action will not appreciably impact the Postal Service's financial position as these revenues can be made up through higher postage rates on the affected classes of mail.

The Postal Service continues to face serious difficulties in achieving a balance between its costs and revenues. Like most businesses, it has experienced strong inflationary pressures, and postage rate increases have been necessary to cover rising costs. The Postal Service is urgently exploring ways to control costs through such steps as closing small post offices, reducing overtime, and transferring employees from overstaffed operations to fill vacancies elsewhere. A number of other cost saving proposals are under review. It also may be necessary to find ways to accelerate the process of adjusting postage rates to reflect cost changes.

Transportation

Highways

Proposed highway outlays for 1977 and 1978 will be the highest in history. In 1976 outlays will be $6.6 billion, in 1977 $7.0 billion and in 1978 almost $7.4 billion. In the 1976 budget, the Administration proposed a $4.6 billion Federal-Aid Highway program level for 1975 and $5.2 billion for 1976. In order to stimulate employment in the construction industry and the economy, the President released $2 billion in additional funds in 1975. Congressional action added another $1.1 billion to the 1975 program. For 1976 and the Transition Quarter, the 1976 Appropriations Act imposed an obligation ceiling at a $9.0 billion level for the 15-month period. The 1977 budget recommends the continuation of a statutory obligation ceiling in the Appropriations Act and proposes a $6.7 billion program level for 1977, which is consistent with earlier Administration legislative proposals, but lower than the unusually high 1975 and 1976 levels.

The Administration continues to urge the Congress to enact substantial highway funding reform proposals. Authorizations should be at responsible levels and the fiscal operations of the highway program should be brought into conformance with the procedures of the Congressional Budget Act of 1974. The maze of 35-plus non-Interstate categorial grants should be consolidated into three broad programs to permit maximum state and local flexibility in use of funds. Federal expenditures for completion of the Interstate Highway System should be directed toward completing key links necessary to connect the national system. Because the Congress has chosen not to address the financial restructuring recommended by the Administration, the proposal to permit state preemption of 1¢ of the gas tax which would have yielded $1 billion to the states is not reflected in this budget. Therefore, the funding level of the Highway Assistance Programs reflected in this budget is $1 billion above levels contained in the Administration's proposed legislation for 1977.

Transportation

Mass Transit

Federal assistance for transit is projected to grow from $69 million in 1965 to a planned level of $2.5 billion in 1977. About $575 million of the 1977 amount will come from transfer of funds from unwanted Interstate highway projects. Transit aid includes major assistance for rapid transit system construction, purchase of buses and subway cars, lately, operating subsidies and research and development.

The Urban Mass Transportation Administration will provide $650 million in contract authority to an estimated 278 metropolitan areas through its formula grant program. This amount compares with $500 million in 1976. However, in fiscal 1977, the budget proposes a limit on the use of Federal funds to pay operating subsidies to 50% of the formula-allocated funds. This limitation will help foster fundamental, long-term improvements at the local level in the financial management and operations of transit systems. The Administration is concerned that Federal subsidies for operating costs perpetuate high-cost transit operations and archaic fare structures. Without needed capital improvements and operational innovations, public assistance to transit simply becomes costlier, and eventually requires cutbacks in service and increased fares. This budget proposal will insure that necessary capital equipment is replaced and use of the Federal funds almost entirely for operating subsidies is avoided.

While both the 1976 and 1977 budgets include funding allowances to enable the Federal Government to participate in the initiation of a selected number of new rapid transit systems, Department of Transportation policy and practice will continue to insist that applications for such new projects reflect a careful and rigorous analysis of transit alternatives to assure that lower-cost, but equally effective, options are considered.

Transportation

Washington, D.C., METRO

Between 1969 and 1975 the Federal Government committed $1.0 billion of direct Federal aid and guaranteed $1.0 billion of local bonds toward construction of the Washington, D.C., metropolitan area subway system. Local governments committed $600 million in the same period. This mass transit system, which was estimated in 1969 to cost $2.5 billion, is now estimated to cost over $4.6 billion.

The 1977 budget includes $90 million of Federal funding for METRO construction under this project's separate 1969 legislation, and an estimate of $400 million for the amount of Interstate highway funds which local jurisdictions are expected to apply toward METRO construction in 1977. Including local matching funds, approximately $700 million could be invested in METRO in fiscal 1976 and about $645 million in 1977. These amounts in fiscal 1976 and 1977 will add an additional 25-30 miles to the almost 50 miles of system under construction as of January 1976. Initial rail rapid transit service is now scheduled to begin on a 4.6 mile downtown stretch in mid-1976.

While current funding continues investment in the relatively more productive parts of the METRO system, concerns about rising capital costs and unanticipated operating deficits have prompted the Federal Government to urge a careful review of future fiscal and construction planning for METRO. It is essential that local governments join with the Department of Transportation in subjecting this project to further analysis in order to get control over escalating construction and operating costs. Meanwhile, the 1976 and 1977 funds will be targeted to construct operational segments of METRO at the earliest possible dates.

Transportation

Rail Freight System in the Northeast (ConRail)

Since 1970, nine railroads in the Northeast and Midwest have declared bankruptcy. In order to prevent serious economic problems in the region, legislation has been proposed for Federal assistance to permit the reorganization of seven of these railroads into a new corporation, ConRail. The nation's largest railroad, Penn Central, will be included in this new system.

The Federal Government, acting through the U.S. Railway Association (a new agency, not part of the Department of Transportation), will provide a total of $2.1 billion to ConRail over five years. This money will be used to fix the worn-out track and other facilities, as well as pay for initial operating losses. To protect the taxpayers' interest, all of these funds are to be repaid when ConRail becomes profitable.

About 5000 miles of rail lines owned by the bankrupts will not become part of ConRail. Federal programs are available to help state and local interests subsidize, buy, and improve these facilities, wherever continued rail service is found to be necessary.

Transportation

Northeast Corridor

The corridor between Boston and Washington, D.C., is the most densely populated and heavily travelled one in the country. Rail passenger service plays an important transportation role in this corridor, with over 9 million trips being taken on AMTRAK trains there each year. The Administration has proposed a six-year, $1.2 billion program to bring the railroad passenger service in this corridor to the highest level it has ever experienced. The request for 1977 is $125 million. The program would extend electrification beyond New Haven to Boston, replace and improve much of the track, ties and associated right-of-way and make various station improvements. This investment would improve service between Boston, New York City and Washington, D.C., to provide a reliable, comfortable ride with improved energy efficiency which should result in higher ridership levels. The Administration is currently discussing this proposal with the Congress in negotiations being conducted on the omnibus rail legislation.

Transportation

Passenger Service

AMTRAK was created in 1970 as a for-profit, private corporation to revitalize rail passenger service. Since then it has been given over $1 billion in Federal assistance for capital improvements and an additional $1 billion in operating grants. Its performance has been mixed -- while ridership has increased substantially from 11 million in 1972 to 17 million in 1975, losses have risen at an even greater rate from $153 million in 1972 to $299 million in 1975. The Congress refused to allow reduction of lightly patronized, inefficient service during this time while adding other routes with little transportation value. On trains outside the Northeast Corridor, AMTRAK passengers have an average of over a $30 per trip subsidy, compared to an average fare of less than $24. The Administration in 1977 proposes to allow AMTRAK operating grants of $378 million, an increase of $49 million over 1976. Since this is about $51 million short of what would be needed to retain all present routes, some service cuts will be required. AMTRAK will determine specific routes to be eliminated as allowed in legislation passed recently which permits service cuts to be made according to newly developed criteria.

Transportation

Aviation

The aviation program in the Department of Transportation will increase by $100 million to $2.4 billion in 1977. Federal grants to airports rose from $50 million in 1970 to nearly $350 million in 1975 and will be maintained at $350 million in 1976 and 1977. When serious airport congestion arose in 1969-70, Federal aid for improving and upgrading airports was greatly increased, and new taxes (primarily passenger ticket tax of 8%) on aviation users were levied. Meanwhile, airport congestion problems lessened, and are now considerably less than the 1969-70 levels.

The Administration has proposed legislation which would spread the aviation tax burden more equitably and require those who benefit from the system to pay for it. Specifically, taxes on air carrier passengers would be reduced while general aviation taxes would be raised to reflect the public assistance they receive. This legislation proposes to use revenues from aviation users to pay certain costs ($476 million in 1977) directly associated with maintaining the air traffic control and navigational aid systems. At present the general taxpayer rather than the user pays for all operating costs of $1.6 billion annually associated with the National Airspace System.

As in previous years the budget provides for an increase of 519 to 29,083 in the number of air traffic controllers so that safety is assured in connection with the forecasted growth in aviation activity. A modest increase in system maintenance personnel is also planned. These FAA employment level increases will be offset in part by reallocation of positions from other activities.

Transportation

Waterway User Charges

During calender year 1976, the Administration plans to submit a legislative proposal that would impose charges for the use of waterway facilities. It will aim at recovering $80 million in 1977 which is a portion of the Federal costs of providing those facilities. Details of the proposal are being worked out by DOT and other interested Federal agencies. Waterway carriers, mainly barge operators, have never been charged for the use of waterways facilities, all of which have been financed by the Federal Government. This Federal subsidy has given waterway carriers a competitive advantage over railroads particularly, and is not fair to the general taxpayer. This user charge proposal will be a start toward remedying this situation.

Merchant ship construction and operations

To remove the cost disparity between U.S. and foreign shipbuilders, the Maritime Administration of the Commerce Department pays construction differential subsidies for U.S.-built ships intended for use in the U.S. foreign trades. Oversupply of certain ship types, especially oil tankers, has led to a slowdown in demand for merchant ship construction. Whereas the program has been maintained at approximately a $250 million level since 1970, decreased demand for subsidies in 1975 led to a $101 million program level in that year. Recovery of ship construction demand is projected for 1976 and 1977, with respective budget levels of $200 million and $247 million. Contracts in 1976-1977 will add approximately 770,000 deadweight tons to U.S. shipyard production totals. No new budget authority is required to support a $247 million program level in 1977 because of unused funds carried into 1977 from prior years.

The Maritime Administration also pays U.S. ship operators an operating differential subsidy to offset the higher cost of operating a ship under the U.S. flag rather than under a foreign flag. An appropriation increase from $316 million in 1976 to $404 million in 1977 is proposed for this purpose.

Community Development Grants

On August 22, 1974, President Ford signed into law a bill establishing a new program of community development block grants to States and local governments. The Budget provides for a significant increase in block grant commitments under the program, with funding in 1977 proposed at $3.2 billion.

The block grant program has brought about major changes in the way Federal community development assistance is provided:

-- We now have a single program which can provide funding for community development activities, instead of the separate programs that existed until 1974 for such things as sewer lines, neighborhood centers, municipal parks, and urban renewal.

-- Funding for individual community development projects now depends on local needs and priorities, rather than on the whim of Federal officials or the luck of the draw, as it did under the old system.

-- There is now a formula for allocating Federal aid on the basis of relative need, instead of the old approval system that put a premium on having expensive consultants and influential spokesmen. (This means that while some communities may get less in the future than they got in the past, no community gets less than its fair share of total funding.)

-- Chief executives of large cities and counties now have a pretty good idea of how much Federal community development assistance they can expect to receive, and can plan accordingly; the old system usually kept them in the dark as to what they could expect in Federal aid until the awards were made.

In recognition of these improvements, the President's Budget provides $3.2 billion for block grants in 1977-- about $450 million more than in 1976. In percentage terms, the increase is nearly three times as large as

Community and Regional Development

Public works programs to combat unemployment

The 1977 Budget includes $291 million for the programs of the Economic Development Administration and the Regional Action Planning Commissions in the Department of Commerce. These programs are to be focused on developing permanent employment opportunities for residents of economically depressed areas of the country. In 1977 these agencies will once again turn their full attention to assisting the chronically depressed areas, after devoting considerable attention in 1975 and 1976 to creating temporary jobs for the unemployed. The $42 million requested for the Regional Commissions will provide for the same level of program activity recommended in the 1976 Budget and is an increase over the 1975 level.

The $249 million requested for EDA's public works and business development projects and related programs is considered to be the amount that can be used in an effective manner to stimulate long-term economic development in economically depressed areas in 1977. While the appropriation request for EDA and the Commissions is being reduced, outlays from the economic development programs will increase from $505 million in 1976 to $530 million in 1977.

The 1977 Budget does not request further funding for the Job Opportunities program or to continue the 1976 expansion of the regular job programs of EDA and the Commissions. In the 1976 appropriations, Congress added $92 million to these agencies for their ongoing programs, plus $375 million for the Job Opportunities program. The Job Opportunities program is very difficult to administer effectively, and is an undesirable means of allocating funds among agencies. Under this program, Commerce allocates the funds among the Federal agencies based on a minimum amount of information on the proposed use of the funds. This system avoids the normal budgetary and appropriation process for allocating funds to agencies and does not permit either the Congress or the President to assure that the funds are allocated effectively.

In addition to ending funding for temporary jobs, the 1977 budget proposes other restraints in the EDA programs. In particular, the new program of formula grants to states which provided $20 million in 1976 is being suspended, and the new block grant program is being reduced from $77 million in 1976

HUD Comprehensive Planning Assistance (701) Program

The Federal Government helps public and private agencies plan for the future through more than 45 different programs. The best known of these--HUD's 701 program (named after the section of the law that created it)--has been distributing grants for 22 years, and has provided funding to numerous public planning agencies throughout the country.

With the community development block grant program now in full swing, there is less of a need to tie Federal grants directly to planning activities. Accordingly, the Budget provides for phasing down the 701 program from $75 million in 1976 to $25 million in 1977.

The community development grant program provides State and local governments with Federal money that may be used for a wide array of activities, including planning. Under the program, recipients are free to decide how much Federal aid should be used for planning and how much should be used to implement the plans. There is another advantage to funding planning and implementation from a single pot: The closer these activities are linked, the more effective Federal community development assistance will be.

Federal planning assistance will continue to be available under other Federal programs, many of which are linked to functions of national interest. And, HUD will continue to provide planning assistance under the 701 program for activities which might not otherwise qualify for assistance.

Higher Education

The President's budget provides $2 billion for higher education in FY 1977. This will provide assistance to approximately 2.4 million students enrolled in colleges, universities and other postsecondary institutions across the country. There are two principles that have guided the Administration in the formulation of this budget. First, no student should be denied access to a postsecondary education because of financial barriers. Those in need should receive grants; others with higher family incomes should be helped to borrow to meet the costs. Second, in most cases, aid should be provided to individuals rather than to institutions. In this way, the student -- who is the ultimate consumer in the education process -- can exercise choice, not on the basis of the aid that a school receives, but on the basis of the kind of education the student wants. Aid to institutions should be limited to carefully defined objectives or supplementary to direct student aid.

In accordance with these principles, the Administration is proposing the following actions:

-- A request of $1.1 billion for the Basic Opportunity Grant program.

-- A funding level of $44 million for the State Student Incentive Grant program.

-- $400 million in subsidies for loans made under the Guaranteed Student Loan program.

-- $250 million for the College Work-Study program.

-- $110 million for the Developing Institutions program.

-- $60 million for Special Programs for the Disadvantaged.

-- Elimination of the Supplemental Education Opportunity Grant program.

- -- No new capital contributions for the National Direct Student Loan program.
- -- Elimination of the Veterans Cost of Instruction program.
- -- Elimination of the University Community Services program.
- -- Elimination of the Postsecondary Education Commission program.
- -- Elimination of the Personnel Development program.

Basic Opportunity Grants

The Basic Opportunity Grant program provides aid to needy students and can be used at any college or university selected by the student. The amount of the grant is based upon the student's ability to pay, and is adjusted to the cost of the institution to be attended.

The Administration is requesting full funding for this program in 1977. Every needy student may receive up to $1,400 per year but no more than one-half of need. The student's need is determined after taking into account the contribution the family is expected to make. This expected family contribution varies with income and family size. Under the formulas used, no grants are now made to students with family income above $12,000. 1.3 million students will receive an average award of $854 under this program. The amounts provided by the Administration will provide $400 million more to serve 214 thousand more students than Congress provided for 1976 and $100 million more than was appropriated for <u>all</u> student grant programs in 1976.

Supplemental Education Opportunity Grants

Because the Administration is requesting full funding for the Basic Grant program, it is proposing to eliminate the Supplemental Grant program. This program is administered by the colleges and they determine who receives a grant without any Federal restriction on standards of need, as well as, the size of the grant (up to $1,500 a year). The appropriation made by Congress for 1976 (which the Administration has asked be rescinded) would provide an average of $530 each to 445,000 students.

Work-Study Programs

In recognition of the fact that many college students, including those who get a basic opportunity grant, need a job to provide enough income to stay in school, the Federal Government provides grant funds to colleges and universities to create jobs for students. Federally funded work-study programs pay 80% of the wages to a working student employed by a school or by an off-campus nonprofit institution.

The Administration proposes to provide $250 million in 1977. This will provide 652,000 jobs in school year 1977-78. The Administration is proposing that the Federal share of wages be reduced to 70% next year and down to 50% by school year 1979-1980. This will allow more students to share the Federal funds.

Guaranteed Student Loan Program

The Federal Government guarantees the repayment of student aid loans made by others -- most typically banks or the schools themselves. In addition to this direct guarantee, the Federal Government will re-insure States which offer their own loan guarantees by agreeing to pick up 80¢ out of every dollar of a defaulted loan. One million students will obtain $1,276 million in loans in these loans in FY 1977.

The maximum interest rate is now 10%, of which the Government pays any in excess of 7% for the life of the loan. In addition, the Government pays all of the interest while the student is in school. The maximum loan amount is up to $2,500 per year, up to $7,500 total while an undergraduate, and up to $10,000 total if a graduate student. The loans are available to almost any student, regardless of family income, and can be used to attend the school the student chooses. In order to assure an adequate supply of private capital for student loans, legislation is proposed to increase the maximum interest rate charged by banks from 10% to 11%, with the Government paying the increase for outstanding loans, and students paying the increase on new loans.

National Direct Student Loans

The National Direct Student Loan program has, since 1958, provided $3 billion to colleges and universities. Colleges and universities have used these funds to provide 3% interest rate loans to students. Funds are provided to colleges and universities, who in turn determine which students meet their own definition of need and then can receive these loans. Unlike other Federal loans, however, this money is not returned to the Government, but is repaid to colleges. This program was enacted well before the current programs of direct grants to students meeting a national definition of need, and of guaranteed loans. In view of these new programs, no further capital contribution to college loan funds are proposed. However, colleges will have over $225 million available for relending in school year 1977-1978.

Institutional Assistance

The 1977 budget proposes the elimination of most programs which provide aid directly to colleges or universities. The largest institutional aid program that will be funded in 1977 is the developing institutions program. Under this program, $110 million is being provided to schools with high percentages of black and other minority students to enable them to enter the mainstream of American higher education. In addition, the budget provides $60.3 million for institutions to assist students who are disadvantaged.

Financial Assistance for Elementary
and Secondary Education

In the area of Federal support for elementary and secondary education, the Administration is proposing to group 27 separate programs into one, unified program with a FY 1977 funding level that would total $3.3 billion.

The bulk of Federal support for elementary and secondary education funding is distributed through States to local educational agencies through mechanisms that take into account such factors as school-age populations, income levels of the students' families, etc. These different types of support have various objectives which may not correspond to the State or local educational agencies' most pressing need.

In order to eliminate administrative difficulties and to provide greater freedom to educational agencies in using Federal monies, the Administration is proposing to combine these programs into one broad funding authority. The programs included in the proposal are listed in the attachment.

Programs Included in the Financial Assistance for Elementary and Secondary Education Act

Present Elementary and Secondary Education Act

- -- Education of the Disadvantaged: This program provides support for compensatory educational activities aimed at insuring equality of educational opportunity for disadvantaged students. Support is provided to States and then to local educational agencies based on a formula. In addition, support is provided to States for the children of migrant workers and for handicapped, neglected and delinquent students who are residents in State maintained institutions.

- -- Educational Support and Innovation: This program assists educational agencies in improving the techniques and methods employed in education. Funds are distributed to States on a formula basis and selected projects are then funded within each State.

Education for the Handicapped

State Grant Program

Formula grants are made to States to assist in the provision of educational services to handicapped children at the preschool, elementary and secondary levels. Funds are allocated to the States based upon the number of all children aged three to twenty-one inclusive in the States.

Severely Handicapped Projects

Project grants are made for the development of demonstration models that are easily replicable in schools. This program is designed to make severely handicapped children as independent as possible through specialized services.

Specific Learning Disabilities

Grants and contracts are made with institutions of higher education, State, local and private agencies to provide comprehensive services for all children with specific learning disabilities. These activities are achieved through the funding of model demonstration and related programs.

Early Childhood Education

Grants and contracts are made on a matching basis (90% Federal/10% local) to stimulate the development of comprehensive educational services for handicapped children from birth up to 8 years.

Regional Education Programs

Grants and contracts are made with institutions of higher education, including junior and community colleges and other appropriate educational agencies for the development and operation, on a regional basis, of specifically designed programs of vocational, technical, postsecondary or adult education for handicapped persons.

Innovation and Development

Grants and contracts are made with institutions of higher education, educational and other public and private non-profit agencies. This activity attempts to improve the effectiveness of educational systems for the handicapped through the verification and packaging of educational models.

Media Services and Captioned Films

This program provides the handicapped learner with specific materials to increase educational achievement. This is achieved through a National Center for Educational Media and Materials for the Handicapped.

Regional Resource Centers

Project grants and contracts are made with institutions of higher education, State educational agencies, or non-profit private organizations to establish and operate regional centers, whose purpose is to increase the development and application of programs for handicapped children.

Recruitment and Information

This program provides for grants or contracts with institutions of higher education, State and local educational agencies to maintain information and referral services for parents and their handicapped children. Additionally, the program supports projects to interest people in the career of special education.

Personnel Development

This program provides grants to institutions of higher education, State and local educational agencies and other non-profit agencies to prepare teachers, supervisors and other educators, researchers, speech correctionists and other special service personnel to more effectively educate handicapped children.

Vocational and Adult Education

Basic Grants to States

Formula grants are made to States to assist them in conducting vocational education and training programs. States are required to set aside 15% for vocational education for the disadvantaged; 15% for postsecondary programs; and 10% for the handicapped. Funds may be used for construction of area vocational education facilities. States are required to match one dollar for every Federal dollar.

Programs for Students with Special Needs

Grants are made to States by formula, with no matching required to provide support for programs and services for persons who are unable to succeed in regular vocational programs. Programs are concentrated in communities where there is a high incidence of youth unemployment and high school dropouts. Specially trained staff and instructional materials and equipment best suited to the students' needs and abilities are provided.

Consumer and Homemaking Education

This program provides formula grants to States for programs in Consumer and Homemaking Education. For most of the programs, States must match the Federal grant dollar for dollar. States must use one-third of the Federal funds allocated for programs in economically depressed areas or areas with high rates of unemployment where matching is 90% Federal and 10% State and local.

Work-Study

Formula grants are allocated to the States for work-study programs to assist economically disadvantaged, full-time vocational students, ages 15-20, to remain in school. The program provides part-time employment with public employers. Priority is given to areas having high dropout rates and high youth unemployment. Funds are allocated on a matching basis -- 80% Federal and 20% State and local.

Cooperative Education

Formula grants are made to the States to support programs which involve an arrangement between schools and employers which enable students to receive vocational instruction in the school and related on-the-job training through part-time employment. Priority is given to areas where there is high incidence of student dropouts and youth unemployment. Students must be at least 14 years old and are paid by the employer either a minimum wage or a student-learner rate established by the Department of Labor.

State Advisory Councils

Any State receiving a grant for vocational education activities must establish a State advisory council, which is appointed by the Governor. Of the State's allotment, 1% is earmarked for support of the council. The councils assist in the development of the State plans and provide technical assistance to program administrators.

Innovation

Formula grants are awarded to the States for stimulating new ways of creating bridges between school and employment for young people, who: (a) are still in school, (b) have left school either by graduation or by dropping out, or (c) are in postsecondary programs of vocational preparation. Fifty percent of the appropriation is reserved for allocation by U.S. Commissioner of Education for discretionary grants or contracts to the States. The remaining 50% is allocated to the State Boards of vocational education for similar activities.

Curriculum Development

The Commissioner makes grants or contracts with colleges and universities, State Boards of vocational education, and other public or nonprofit private agencies and institutions for curriculum development in vocational and technical education. No matching funds are required. This program provides for the development, testing, and dissemination of vocational education curriculum materials for use in teaching occupational subjects, including those covering new and changing occupational fields.

Research

This program provides support to State Boards of vocational education to foster research efforts designed to improve the effectiveness of vocational education. Fifty percent of these funds are, with the approval of the State Board, expended by the U.S. Commissioner of Education. The remaining 50% are provided directly to the State Boards.

Adult Education

This program is operated through formula grants made to States for the education of adults. The program is directed toward adults who are 16 years of age or older and who have not achieved the 12th grade level of education. The purpose is to enable them to become more employable, productive, and responsible citizens. Local school districts submit plans and proposals to the State education agency which makes the funding decisions. Ten percent of the total cost of any program must be paid by the State and/or local education agency, with up to 90% paid by Federal funds allocated to the State.

Libraries and Instructional Resources

Public Library Services

This program provides support to States through matching formula grants to assist them in providing library services to areas without such services or with inadequate services and to assist in improving the overall quality of information services throughout the nation.

College Library Resources

This program authorizes grants to institutions of higher education to assist them in the acquisition of library resources. Since the program's inception in 1966, approximately 2,200 institutions have participated annually resulting in the acquisition of over 10 million library volumes.

Library Training and Demonstrations

Library training grants are provided to institutions of higher education and other nonprofit library organizations to support librarian and information scientist training. Demonstration grants and contracts are also awarded to fund demonstrations of library delivery systems. Emphasis is placed on improving both access to library services and the operating efficiency of the library and resource sharing.

School Library Resources

Schools are provided library resources, textbooks and other instructional materials for the use of children and teachers in public and private elementary and secondary schools. To receive funds, a plan must be approved assuring need for assistance, equitable treatment of the private school sector and local effort to provide services.

Undergraduate Instructional Equipment

This program provides grants to institutions of higher education on a matching basis for the acquisition of instructional equipment, materials and other minor remodeling. States receive funds via formula based on enrollment in higher education institutions and per capita income.

Impact Aid

In the 1977 President's Budget, the Administration is proposing to reform the Impact Aid program by making payments only to school districts that are adversely affected by Federal activities in the area. If this is done, the program costs would be $395 million in 1977. The Impact Aid program should make sure that the Federal Government pays its share of local school costs when families living and working on Federally owned property send children to the local schools. These families do not pay property taxes. The program, however, is not expanded beyond this legitimate aim.

There are three categories of children for whom the Federal Government makes impact aid payments to local schools. If program levels provided in the FY 1976 appropriations bill were to be continued, payments for the entire program would total $680 million in 1977.

-- "a" category: those children whose parents both live and work on Federal property (and they do not pay property taxes). The overwhelming majority of these children are the dependents of military personnel. 1977 payments for these students would be $247 million, 42% of the total.

-- "b" category: those children whose parents either live or work on Federal property. Support for these students is provided without respect to whether the student's parent works or lives in the same school district as that in which the child is attending school. In 1977, unless the program is changed, $285 million would be spent for this category, 48% of the total.

-- "c" category students: those whose parents either live or work in low cost public housing. This support is provided without regard to any Federal impact. In 1977, unless the program is changed, $58 million would be spent for this category, 10% of the total.

Under the President's proposals, the 1977 budget would provide support only for the "a" category children, those whose parents both live and work on Federal property. The Administration believes that the Federal Government has a responsibility to pay the cost of educating these children.

In the case of the "b" category students, more than 99% of these children reside on private, taxable land that is a source of revenue for the school district. Where there is a Federal installation or building within the same school district, there is, obviously an accompanying loss of revenue. The presence of the Federal Government as an employer adds to the economic, and therefore the tax base, of the community. Payrolls, sales taxes, retail and commercial activities all are increased. While these activities do not provide direct support to school districts, they are factors that enrich the community and place it in a better position to support its educational system. If communities did not believe this, they would not compete for new Federal activities or protest when facilities are closed.

For example, Fairfax County, Virginia and Montgomery County, Maryland, where the average per capita income in 1973 was 29% and 56% higher than the national average, are school districts that could receive substantial amounts of this aid.

In the case of the "c" category children, the Federal responsibility is also very tenuous. Here, due to the presence of low cost public housing within a school district, the Federal Government is required to provide educational support for children who reside in this housing. This property is not owned by the Federal Government, but by local authorities. Although the Federal Government subsidizes this housing, it was built at the free choice of the community to help its people. Public housing projects make payments in lieu of taxes up to 10% of rental receipts.

The Administration is proposing to continue the following activities as well:

-- Support for local educational agencies that experience sudden, unpredictable changes in Federal activities.

-- Provision of support for direct educational services to some Federal dependents.

-- Support for the construction of school facilities in districts heavily impacted by Federal activity or on Federal bases.

In proposing these changes, the Administration anticipates a saving of some $285 million in FY 1977, from the $680 million otherwise would be spent

Programs for the Unemployed

The Budget reduces the size of the major programs for the unemployed in 1977 to correspond to improvements in the economy. Unemployment benefits are reduced by $2.5 billion; temporary employment assistance (public service jobs) is reduced by $1.2 billion.

New initiatives were undertaken in both areas at the start of the recession, and additional efforts are now proposed to bring the programs into line with the projected economic conditions.

Other important programs for the unemployed also discussed below are the regular employment and training programs authorized by the Comprehensive Employment and Training Act (CETA), and the summer youth employment program.

Unemployment Compensation

The most important program for the unemployed is the regular Unemployment Insurance (UI) system. Unemployment insurance serves as a first line of defense in the national economy during periods of high unemployment. The program restores part of wages lost, helps maintain purchasing power, and thus helps to maintain the economic well-being of both the unemployed worker and the community as a whole. The program operates through a Federal-State partnership in which the expenses of administration of State unemployment compensation laws are borne by the Federal Government and benefit payments are made largely from tax receipts collected from employers at rates established by the State. Except for limited standards in the Federal laws, the States develop their own programs and have wide latitude in their administration.

The Federal Government currently collects a tax of 0.5% on the first $4,200 of wages paid each covered employee. In addition to Federal and State administrative costs, the Federal tax pays one half the cost of extended benefits (State unemployment taxes pay the other half), which provide up to an additional 13 weeks of benefits during periods of high unemployment. The combination of regular and extended benefits provides up to 39 weeks of compensation.

Types of employment covered by the program have been gradually expanded over the past forty years as experience has indicated the need; average weekly benefits have also risen. About 85% of the work force is covered by regular UI.

In the fall of 1974, the Administration and the Congress began work to make temporary adjustments in recognition of the worsening employment situation. The initial set of measures were enacted in December 1974. They provided:

-- A temporary extension of unemployment insurance benefits beyond the 39 weeks of maximum duration up to 52 weeks, financed by the Federal unemployment tax.

-- Creation of a special unemployment assistance program, financed from general revenues, for workers not covered under the regular program (about 12 million), or those without adequate work history in the base period used by many States to determine eligibility for the regular UI programs, to provide for them a total of up to 26 weeks of benefits.

Later in 1975, amendments extended the maximum number of weeks of benefits available for those covered by the regular program to 65 and the maximum number of weeks for the others to 39.

These actions were stop gap. A two-stage effort has been proposed by the President to make more permanent improvements in unemployment compensation. On July 14, 1975, the Secretary of Labor transmitted to the Congress a bill which would:

-- Expand coverage under the regular UI program to 92% of the work force by including:

  . Agricultural workers (about 710,000 who work for larger employers - about two-thirds of all agricultural workers).

  . Domestic workers (about 400,000 who work for employers who pay $500 or more in quarterly wages).

  . State and local hospital employees and elementary and secondary school employees (about 4.8 million workers).

-- Increase benefit levels by requiring each State to provide each eligible claimant with a weekly benefit amount equal to at least 50% of his pre-tax average weekly wage. States could place a limit on the amount of benefits payable to any individual equal to at least two-thirds of the State-wide average weekly wage for covered workers.

-- Strengthen the financing of the UI system by permanently increasing the wages subject to tax from $4,200 to $6,000 a year and by temporarily increasing the net Federal tax rate from 0.5% to 0.65% until the general funds used to finance extended benefits during the recession have been repaid.

-- Increase the system's responsiveness to changes in the economy which determine when extended benefits will be paid under the regular UI program.

-- Establish a National Commission on Unemployment Compensation which will undertake a thorough and comprehensive examination of the present unemployment compensation system and proposed changes, and make recommendations for further improvements. The Commission will study the appropriate objectives for UI, including railroad UI, and the appropriate role of UI in income maintenance and its relationship to other social insurance and income maintenance programs. The Commission will examine the relationship between UI and training and employment programs, and will study the relationship of UI to the economy, with a focus on the long range UI funding needs. In addition, the Commission will explore eligibility requirements, disqualification provisions, and factors to consider in determining appropriate benefit amounts and duration.

Because of these proposals and anticipated improved economic conditions, no proposal is made to extend legislative authority for the two emergency temporary unemployment assistance programs which will expire in 1977. These programs were conceived to provide additional support during the worst period of the recession. The extension of benefits to 65 weeks under the regular program is now being phased down under the temporary law on a State-by-State basis as unemployment rates decline. Many workers now benefiting from the temporary special unemployment assistance program will be taken into the regular program under expanded coverage proposed to take effect January 1, 1977.

In FY 1977, it is estimated that some $14.8 billion of unemployment insurance will be paid to approximately 8.9 million beneficiaries under the regular UI program, the temporary extension to 65 weeks and the proposed legislation. In addition, some 700 thousand people will be paid an estimated $.9 billion under Federal programs which provide unemployment benefits to former Federal personnel, to workers qualifying under the temporary special unemployment assistance program, and workers qualifying for trade adjustment assistance.

Employment and Training Services

The principal Federal programs providing employment and training services to the unemployed are authorized by the Comprehensive Employment and Training Act of 1973 (CETA). CETA makes available a broad range of employment and training activity primarily through grants to States and localities. Under the major program, Title I, about $1.6 billion is proposed for 1977. These funds will permit more than 430 prime sponsors (states, counties, cities with populations of 100,000 or more, or voluntary combinations of local governments) to serve an estimated 1.3 million economically disadvantaged, unemployed, and underemployed persons in various training and employment programs. With the expected improvements in the economy by 1977, more emphasis is expected to be placed on training programs aimed primarily at serving the economically disadvantaged, and less emphasis on work experience.

Other parts of CETA offer nationally directed programs for Indians, Migrants and Seasonal Farmworkers, severely disadvantaged youth, and other groups.

The President's Budget also includes a special program of summer jobs in 1976 and 1977 for disadvantaged youth. The precise funding level for this program will be determined after a careful review of unemployment rates and other economic indicators each year. Supplemental budget requests will be submitted as soon as projections for the summer months are available (generally in March).

Finally, CETA authorizes public service employment both as a transitional employment device for the disadvantaged who may need work experience or a period of stable employment before moving into regular jobs, and as a temporary employment device for some of the workers who lost jobs in the economic downturn.

Total 1977 outlays for CETA programs, excluding temporary employment assistance, are estimated at $2.8 billion.

One of the programs enacted in December 1974, with the unemployment compensation revisions, was Temporary Employment Assistance (TEA).

TEA authorized public service employment (PSE) similar to the existing CETA programs. Here, however, the emphasis was on rapid hiring for one-year jobs, rather than on individual development and transition to regular jobs.

A total of $2.5 billion was appropriated for TEA to enable some 260,000 jobs to be created through the end of 1976. Another 50,000 jobs are being financed under the regular CETA programs.

Because of the uncertainty of the economic situation last spring, no decisions could be made on TEA beyond 1976.

By the fall of 1975, however, it was clear that the worst of the recession was over and that the economy generally was improving. It is also known that the job creating impact for PSE programs dissipates rapidly after the first year. Increasingly, States and localities substitute these Federal funds for expenditures they would have made from their own resources.

It was, therefore, necessary to consider how to phase out the TEA program. The pattern of economic recovery is likely to be uneven across the country. It is also likely that improvement in employment will lag somewhat behind improvement in other economic indicators.

The President is therefore proposing:

- Maintenance of the regular CETA PSE program for 1977 at a level of $400 million for about 50,000 jobs;

- Funding of regular State and local CETA programs at $1.6 billion to provide 466,000 training and employment opportunities which will serve approximately 1.3 million new enrollees;

- Maintenance of CETA national programs for 1977 at a level of $414 million;

. Funding of the CETA summer youth employment program at about $400 million to provide 672,000 jobs (subject to change based on 1977 data);

. Continued funding into 1977 for the 243,000 TEA jobs that are in areas of substantial unemployment, at which time a 9-month phase out will begin, so that by the end of FY 1977, the TEA program can be completed.

. Providing some discretionary funds to areas with lower unemployment rates (which now have about 17,000 TEA jobs) so they can phase out their prograns earlier since their economices provide greater unsubsidized job opportunities.

To simplify planning for States and localities, both the continuation and subsequent phase out funding for the Temporary Employment Assistance Program are requested in FY 1976 as one supplemental for $1.7 billion.

The new funding will only be available to pay a Federal contribution to salaries of up to $7,000 per year. This provision intended to discourage further substitution of Federal funds for local resources and to encourage transition of enrollees into unsubsidized employment. The average wage for most PSE enrollees is now slightly below $7,000.

Summer Youth Employment Program

A program to provide jobs for economically disadvantaged youth aged 14 to 21 during the summer months is included in the President's budget request for 1976 and 1977. Eligible youth are generally those from families whose income is below the Federal poverty line ($5,050 for a family of four). A preliminary estimate of $440.3 million for the 1976 program will support approximately 740,000 9-week part-time summer jobs at the minimum wage This proposed level is equivalent to the level of effort provided in the summer of 1975, allowing for an improvement in the unemployment rate for youth. The preliminary estimate for the 1977 summer program is $400 million, which would provide 672,000 jobs.

This program provides part-time summer jobs in various organizations, including schools, hospitals, libraries, community service organizations and private nonprofit agencies. Traditionally, these summer jobs are in such fields as clerical, summer camp aides, school maintenance aides, library aides, day care aides, and ecology pollsters.

Supplemental budget requests for funds for this program will be formally transmitted to the Congress this year and in 1977 as soon as data on the projected level of youth unemployment and other relevant economic factors for the summers of 1976 and 1977 become available (approimately early March, each year). These funds will be distributed through the more than 430 State, county and other local prime sponsors of the Comprehensive Employment and Training Act.

Financial Assistance for Community Services

The present social services program, as authorixed under Title XX of the Social Security Act, provides grants to the States on a population basis for the delivery of a wide range of social services to individuals and families. Federal funds are provided in a three-to-one ratio to required State matching funds.

The Administration is proposing new legislation for Financial Assistance for Community Services to enhance and amplify the State's discretion in the provision of services, and eliminate undue Federal regulation and restrictions on providers. The main features of Financial Assistance for Community Services are:

(1) Eliminate the requirement of State matching funds.

(2) Distribute $2.5 billion as a block grant to the States based on population. About 30 States will receive higher funding in 1977 than 1975.

(3) Eliminate most Federal requirements and prohibitions on the use of Federal funds.

(4) Emphasize services to low-income Americans; focus Federal funds on those whose incomes fall below the poverty income guidelines.

(5) Require public review and comment on State planning, evaluation, and reporting processes.

The Federal Government would retain the role of evaluating the overall operation of this program and of providing a clearinghouse for the dissemination and exchange of information among the States on effective services.

The Administration-proposed program of Financial Assistance for Community Services will provide States the latitude to use this source of funding more productively to meet their greatest service needs unencumbered by excessive Federal administrative and reporting demands.

Department of Labor

The overall budget for the Department of Labor declines \$4.3 billion in outlays to a total of \$22.1 billion, compared to \$26.4 billion in 1976. The reduction primarily reflects improvements in the economy which lead to lower amounts for unemployment compensation and permit the phase out of the temporary public jobs program.

(in millions)

	1975	1976	1977
Unemployment rate	7.3%	8.1%	7.1%
Unemployment benefits (Outlays)............	\$12,792	\$18,402	\$15,893
Temporary Employment Assistance	\$ 319	\$ 2,331	\$ 1,065
Average employment ..	44,200	274,200	125,300

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MEDICARE IMPROVEMENTS OF 1976

HIGHLIGHTS. The President's Medicare proposals will:

- Provide catastrophic protection for 25 million aged and disabled persons by limiting an individual's payments to $500 per year for hospital and nursing home care and $250 annually for doctor's fees. The proposal will reduce cost-sharing under proposed law for 3 million persons.

- Slow health cost inflation by limiting increases in Medicare payment rates in 1977 and 1978 to 7% per day for hospitals and 4% for physician services.

- Require that patients pay 10% of hospital and nursing home charges after the first day, until they reach the $500 maximum, and increase the existing deductible from $60 to $77 annually for physicians' services, relating it to increases in social security cash benefits

The President is requesting Medicare outlays of $19.6 billion in 1977, a $2.2 billion increase over 1976. The budgetary impact of the reform proposals--the "Medicare Improvements of 1976"--are shown in Attachment A.

BACKGROUND. There are two components to the Medicare program:

1. Hospital Insurance (HI) pays for inpatient hospital care and subsequent skilled nursing home and home health benefits. HI is financed through a 1.8% payroll tax (half paid by each the employee and employer) collected along with the regular social security retirement and disability tax.

2. Supplementary Medical Insurance (SMI) pays for physicians and other outpatient services. SMI is financed by premiums collected from the elderly and disabled wishing coverage, and by general tax revenues. Currently about 60% of the funds come from the Federal contribution.

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For both hospital and physicians services, the elderly are expected to pay some initial costs--a "deductible"--and to share a certain portion of the other costs. Medicare, in turn, pays the remaining medical costs for covered services. Medicare will reimburse hospitals for all reasonable costs and pays physicians and other suppliers of medical services according to schedules of customary and prevailing charges for particular services in each geographic area.

The inflation of health costs has been particularly rapid since the enactment of Medicare in 1965. In that period, hospital costs have risen by 220%, from $40 per day in 1965 to $128 per day in 1975. Physicians have raised their fees by 85% over the decade.

The need to protect the aged and disabled faced with extraordinary medical bills--in the light of these increases and the added costs of modern medical care--is of major concern. Present benefit limits need to be removed and "caps" placed on required cost-sharing. At the same time, cost-sharing provisions are needed to encourage economical use of services for short hospital stays and routine physician care. The President's proposals address both these problems.

The medical care field is unique from most other sectors of the economy in that 2/3 of all costs are paid not by the user, or patient, but by a third-party--normally private insurance or the government. As a result, there has been too little incentive for the providers of medical care to keep costs as low as possible and to run efficient, economical operations.

Although recognizing that many of the cost increases which have resulted in higher charges for medical care were unavoidable, the Administration believes that its Medicare policy of reimbursing hospitals and physicians for nearly all increases merely serves to reinforce inflationary pressures in this area. Consequently, the President is also proposing that Medicare reimbursement rates be limited to discourage--rather than reward--excessive inflation.

Attachment A

Medicare Improvements of 1976

(in $ millions)

	Outlays 1976	1977	1978
Catastrophic insurance			
Hospital insurance ($500 limit)....	+15	+330	+420
Supplementary medical insurance ($250 limit).....................	--	+208	+634
Subtotal.......................	+15	+538	+1,054
Cost-sharing reforms			
Hospital insurance (10% coinsurance)	-330	-1,730	-2,020
Supplementary medical insurance			
-- dynamic deductible ($77 on 1/1/77)..............	--	-111	-255
-- 10% coinsurance hospital-based services.....................	--	-19	-38
Subtotal.......................	-330	-1,860	-2,313
Reimbursement limits			
Hospital insurance (7% per diem)...	--	-730	-1,905
Supplementary medical insurance (4% charges)....................	--	-179	-301
Subtotal.......................	--	-909	-2,206
Total..........................	-315	-2,231	-3,465

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FINANCIAL ASSISTANCE FOR HEALTH CARE

In 1977, the Administration is proposing the Financial Assistance for Health Care program. The proposal consolidates 16 separate health programs, including Medicaid, into a single block grant of $10 billion in 1977 and $10.5 billion in 1978. The proposal would give States greater discretion, make States responsible for health services for their low-income populations, and distribute Federal funds more equitably.

In 1975, HEW spent $24 billion on health services programs. These Federal funds were distributed through 12 types of non-Federal intermediaries to 25 kinds of providers, and paid for delivery of services to 60 different beneficiary groups. Of this $24 billion, Medicare accounted for $15 billion and Medicaid accounted for $7 billion.

The Financial Assistance for Health Care program will reduce the inequities of current Federal programs and funding and eliminate extensive Federal decision-making as to which communities and categories of groups get special Federal subsidies for health services.

Equity. The present programs are an inequitable way of providing Federal funds to ensure needed health services to the poor.

- States do not receive Federal funds on an equitable basis. Federal funds are distributed largely to States with higher per capita incomes which can afford to meet Federal matching requirements or to communities that are effective at "grantsmanship." The amount of Federal funds States receive per low-income person varies by State from more than $800 to less than $200. States with higher per capita incomes receive more Federal funds because they offer more generous benefits and eligibility standards than States that have greater need.

-- Individuals and families in different States do not receive comparable benefits from Federal funds. A low-income family in one State may receive far greater Federal assistance through Medicaid than would the same family in another State, due to differences in benefit standards and payment schedules. Communities in similar circumstances are treated differently through the project grant award process, e.g., community mental health centers which have been funded in over 600, but not in all communities.

-- Federal health funds do not benefit all of the poor before they are spent on the nonpoor. Recent HEW data indicates that only half of the expenditures from the 15 existing narrow categorical health programs--excluding Medicaid--actually support services to the poor.

In short, Federal funds--under Medicaid as well as under special, narrow categorical legislation--are often distributed on the basis of where a person happens to live, the group of which he is a member, where he gets his health care, and many other factors that are unrelated to need.

Efficiency. The narrow categorical nature of these programs makes program efficiency difficult and coordination nearly impossible. For example:

-- under the current array of Federal laws, specific groups of individuals, e.g., migrants, merchant seamen, mothers or children are eligible for comprehensive services under special programs. Other programs are organized around specific services, e.g., family planning, immunizations, or particular types of providers, e.g., neighborhood health centers or community mental health centers. Some of the existing programs are targeted on specific diseases, e.g., venereal diseases, or health problems, e.g., lead paint poisoning. As a result, it is very difficult for State and local officials to develop comprehensive public health programs; and

-- some federally-funded health centers have been shown to have unusually high costs--more than $80 per visit--and to be less productive than other health care providers. The fact that the Federal Government spends its money in this way undermines State and local capability to develop efficient health care systems.

The proposed Financial Assistance for Health Care Act will not, in and of itself, solve all the health care services problems of this country. But it will help to assure that the money spent for health services by the Federal Government gets distributed more equitably and that States and localities have greater flexibility to apply funds to their health priorities.

The principal advantages of the new program over Medicaid and the 15 current individual categorical programs being consolidated are that it would:

-- allow States discretion to establish comprehensive health services and eligibility standards. In 1975, States and localities spent $16 billion of their own funds for health purposes, much of which supported health services to the low-income population;

-- give States greater flexibility in meeting the health needs of low-income citizens. The needs and problems of these people will vary at the local level, and so should the solutions;

-- provide for a much fairer allocation of money for the States. Federal funds of $10 billion in 1977, $10.5 billion in 1978, and $11 billion in 1979 would be distributed among the States by a formula based primarily on the number of low-income persons in each State. No State matching would be required and no State would receive less in 1977 than it did in 1976. A phase-in period will gradually ease the transition to the more equitable distribution in future years;

-- require the development by the States of health planning and cost control systems. States will be required to develop plans for use of these funds. The fixed Federal payment will increase the incentive of States to control costs; and

-- enable the Federal Government to reduce Federal employment for health grant programs being consolidated by over 2,300 positions in 1977.

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PUBLIC HEALTH SERVICE (PHS) HOSPITALS

The 1977 budget proposes legislation to transfer to community use or close the 8 Public Health Service (PHS) hospitals. Care to primary Federal beneficiaries will continue to be provided, but through contracts with local health providers. The 26 free-standing PHS outpatient clinics and the leprosarium at Carville, Louisiana, will continue to operate. This proposal is consistent with a January 1973 proposal and with other proposals in the 1977 budget designed to reform Federal financing and direct delivery of health care.

The Federal Government provides direct comprehensive health care at no cost to approximately 223,000 primary beneficiaries, most of whom are merchant seamen employed on board American registered private vessels. The Federal Government maintains 8 Public Health Service hospitals and 34 outpatient clinics--as well as contracts with other Federal and non-Federal providers to deliver this health care. In 1921, there were 94 hospitals; all but 8 hospitals have already been turned over to other agencies, converted to community facilities, or closed. The remaining hospitals are located in Boston, Staten Island, Baltimore, Norfolk, New Orleans, Galveston, Seattle, and San Francisco. Over 5,200 Federal employees are required to deliver this care.

In January 1973, the Administration proposed a phase out of the 8 hospitals and to finance the care of primary beneficiaries through contractual arrangements. This proposal reflected an overall effort on the part of the Administration to reduce the Federal Government's role in direct delivery of health care.

P.L. 93-155, the "Department of Defense Appropriation Authorization Act, 1973," however, specifically requires the Secretary of HEW to continue operation of these hospitals at the level of operation on January 1, 1973. These hospitals have, therefore, continued to operate. P.L. 93-155 provided that the HEW Secretary could submit legislation to close or transfer to community use any of these hospitals.

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The continued maintenance of the PHS hospital system primarily to provide health services for one occupational group, i.e.,.merchant seamen, is of questionable equity and program merit.

-- The average occupancy rate of these hospitals by merchant seamen was 32.5% in 1973 and 31% in 1974.

-- The hospitals are located in major metropolitan areas where adequate community facilities are available to care for current PHS hospital patients if the facilities are closed. The increased demands on other community health care facilities would not adversely affect access to care for other citizens.

-- At least 5 of the hospitals (Galveston, Seattle, Baltimore, Boston, and San Francisco) are in areas which have an excess of hospital beds for community needs. Continued operation of these PHS hospitals tends to push up hospital costs in the areas in which they are located.

-- Only 69% of the hospitals' capacity will be used in FY 1976 (even if the hospitals were scheduled to remain open in 1977).

-- For the hospitals to remain operational, substantial capital investment could be required in future years in order to enable them to meet hospital accreditation standards.

The Federal Government first began providing a separate hospital system to serve merchant seamen in 1798, but the need for a separate system can no longer be justified, particularly in light of the excessive number of hospital beds in the nation. Moreover, the primary program purpose for this assistance--to prevent the spread of communicable diseases--no longer exists. Access to health care by merchant seamen is no longer a problem, and most seamen union funds that originally covered only dependents have been extended to cover seamen as well. Other beneficiaries of the PHS hospital system have available health care financing that makes the continued operation of the PHS hospitals for them unnecessary.

Under P.L. 93-155, the closure of the hospitals requires the "written, unqualified approval" of the State health planning and regional health systems agencies as well as approval by Congress. Approval will be sought from the agencies involved and legislation will be submitted to Congress by this spring to transfer to community use or close the 8 hospitals. It is anticipated that transfer or closure can be achieved by the end of January 1977.

Occupational Safety and Health Administration

The 1977 budget for the Department of Labor's Occupational Safety and Health Administration provides an increase to enable it to:

-- Devote more emphasis to job health problems.

-- Provide more help to those, particularly small businesses, who are trying to comply with the letter and spirit of the law.

-- Maintain, but improve, job safety activities.

	Budget Totals (000's)		
	1975	1976	1977
Budget Authority	102,006	117,585	127,970
Outlays	91,086	119,330	124,940

The Occupational Safety and Health Act of 1970 requires the Occupational Safety and Health Administration (OSHA) to regulate job safety and health in most private sector workplaces. The law specifies that this be accomplished through mandatory standards enforced by OSHA through inspections and fines for non-compliance. It also provides for programs of education and training for employers and workers to help them meet the law's requirements. Although this law preempts State authority in occupational safety and health regulation, States that have programs approved by the Labor Department can get 50 percent Federal financing. The Budget includes financing for programs in 23 States and jurisdictions.

The question of OSHA's ability to reduce job accidents and job-related illnesses has not yet been answered conclusively. The program was started in 1971 and it is not possible to obtain the statistics necessary to evaluate this program in only five years. There is thus insufficient measured experience at this time to permit firm conclusions. Federal Government inspections of large numbers of private sector workplaces, including small businesses less accustomed to Federal regulation, has generated substantial controversy and criticism from advocates and from opponents of Federal activity in the area. The extremely complex nature of the cause and effect relationships in job-related diseases has delayed issuance of health standards.

The 1977 budget request of $127.9 million acknowledges these problems and provides resources to allow DOL to continue a balanced expansion of the program and attack some of the more difficult problems.

The request is for resources to continue existing program levels and to increase the following activities:

Occupational Health. The Budget requests an increase of 95 positions and $2 million to develop and enforce more job health standards without lessening OSHA's capability to develop and enforce safety standards.

Voluntary Compliance and Consultation. Budget requests $19.7 million for a variety of education and consultation programs to help voluntary compliance with the law. Most existing education programs in OSHA have been about general rights and duties under the law; in FY 1977 OSHA will expand its efforts to work more closely with business associations, unions, and large and small firms to solve specific problems. The proposal contains an increase of $4.7 million to expand OSHA consultation programs to the 21 States not now providing this service with Federal matching assistance from DOL.

Inspector Training. Because of criticism of inspector quality and conduct, the Budget seeks an increase of $2.1 million for expanded training programs to upgrade the professionalism of OSHA inspectors and enable more inspections under occupational health standards which are increasingly complex and require higher skills.

Economic and Environmental Impact. To insure that new OSHA standards not only protect workers but take account of economic costs and technological feasibility, the Budget calls for an increase of $4 million to provide $6.3 million for conducting detailed studies of the inflationary and environmental impact of standards before they are promulgated.

National Emphasis Programs. Finally, the proposals will enable OSHA to expand and continue the National Emphasis Programs begun in FY 1976. These programs seek to reduce injuries and illnesses in selected high-hazard industries, including small businesses, by focusing OSHA activities on the recognized hazards for which OSHA standards exist and by obtaining the voluntary cooperation of trade associations, management groups, organized labor and the scientific community in making the programs work.

Housing

Top priorities in the housing area, as reflected in the 1977 Budget, are to: (1) further the current recovery in housing construction, (2) modernize our financial system so that housing can hold its own in competing for capital, and (3) enable more families to obtain adequate housing.

Housing recovery. Clearly, a recovery in housing construction got underway during 1975. By November, the annual rate of new housing starts had risen more than 56 percent above the rate achieved in December 1974. The Administration's economic policy would further this recovery.

In addition, the President's budget program will facilitate the housing recovery by making it easier to finance new housing. The Budget provides $3 billion for the purchase of mortgages in 1976--an amount sufficient to finance 120,000 new apartment units. Since the mortgages will carry lower interest rates than those generally available, rent levels can be lower than otherwise.

The financial system. The President is again urging Congress to pass the Financial Institutions Act. This legislation would improve the ability of financial institutions to compete for funds. It would also encourage lenders to make mortgage loans by providing a tax credit on income from such loans.

Adequate housing for the Nation's families. The Budget provides for continued increases in the number of persons receiving Federal housing subsidies. Subsidies will be approved for up to 400,000 tenant families under a new rental housing program in both 1976 and 1977. This program (commonly referred to as the "Section 8" program) pays the difference between a percentage of family income and the rent charged by the landlord. The long-term Federal obligation to provide these subsidies will come close to $41 billion.

During the 1976-1977 period, additional subsidies will be approved for 175,000 families with moderate incomes to help them buy their own homes, under the Section 235 homeownership assistance program.

During the same period, the Farmers Home Administration in the Department of Agriculture will provide housing subsidies for 191,000 families through programs geared to meet the needs of rural areas. In addition, Farmers Home will help finance nearly 300,000 units of housing through direct and guaranteed loans in rural areas where there is a serious lack of mortgage credit.

All told, occupants of approximately 585,000 units of housing will be approved for new subsidies in 1977.

Summary. The Federal Government also supports housing through a variety of other policies and programs which:

- Increase the supply of credit available to finance home purchases in urban and rural areas.
- Assure that financial institutions serving the homebuyer continue to enjoy the public's confidence.
- Reduce the cost of housing and otherwise encourage families to become homeowners, through a number of special tax breaks.
- Help individual families obtain the credit they need to buy homes through mortgage insurance programs.
- Help families obtain housing on a nondiscriminatory basis through the enforcement of fair housing laws.
- Help homeowners protect their properties against losses by increasing the availability of property insurance.
- Help families maintain their homes by facilitating improvements and rehabilitation.
- Protect mobile homebuyers through the development and enforcement of construction and safety standards.
- Promote improvements in housing quality through research and development.
- Help locally based housing agencies provide public housing by underwriting the operating deficits they incur.

During 1977, Federal and federally sponsored agencies will support housing by providing:

- $36.0 Billion in new mortgage loans
- $4.9 Billion in loan guarantees and insurance
- $5.2 Billion in direct subsidies
- $9.4 Billion in special tax breaks

<u>Simplification of Income Maintenance</u>

The Federal Government operates or supports a host of individual programs to provide the necessities to those currently unable to provide for themselves such as:

- -- Food Stamps;
- -- Aid to Families with Dependent Children (AFDC);
- -- Supplemental Security Income (SSI) for the elderly, blind, and disabled; and
- -- Housing programs.

The Administration is proposing a number of management and structural reforms to answer pressing problems in the major income assistance programs.

<u>Food Stamps</u>

In the Food Stamp program, reforms would eliminate inequities and abuse, and simplify State administration in order to reduce overpayments, underpayments, and plain wrong payments. There are two key features which would concentrate benefits on those most truly in need: (1) limiting eligibility to households with net monthly income at or below the poverty level, and (2) providing each household a standard deduction of $100 per month in computing net income, with an additional $25 allowed for the elderly, to replace the present complex itemized deductions. Other changes would reduce certification error by basing benefits on actual average monthly income for the previous 90 days rather than the applicant's estimate of future income.

<u>Aid to Families with Dependent Children (AFDC)</u>

It is estimated that, nationally, 7.5% of AFDC cases are ineligible, and 17.5% receive overpayments and 7.3% receive underpayments of benefits. HEW is working closely with the States in the AFDC program and enforcing carefully designed standards to eliminate errors and to ensure that eligible persons receive accurate benefits. The Administration is also requesting legislative changes such as the inclusion of stepparents' income and revision of the income-disregards for work-related expenses in the determination of AFDC eligibility. These changes will focus income assistance resources on the most needy by assuring that family income is counted equitably and work incentives are promoted.

Work Incentive (WIN) Program

New WIN program legislation will be introduced to assure that all employable applicants for, and recipients of, AFDC search actively for jobs and accept suitable work as a requirement for continuing eligibility for AFDC benefits.

Authorized by 1967 amendments to the Social Security Act, the Work Incentive (WIN) Program is designed to assist recipients of Aid to Families with Dependent Children (AFDC) to shift from welfare dependency to self-support through stable employment. Under current law, all nonemployable persons (those under 16 years of age, in school, disabled, or with a dependent under six years old) receiving assistance under AFDC are exempted from registration with the WIN program. Employable AFDC recipients are required to register with WIN and participate in WIN work and training activities or, where possible, accept placement in jobs without prior training. Child care and other necessary support services are provided to WIN registrants to facilitate their participation. The program is run jointly by the Department of Labor and the Department of Health, Education, and Welfare.

The new legislation would require that all individuals applying for AFDC be exposed to job opportunities at the time of application. If they are found to be employable under the guidelines noted above, they must then register with WIN as in the past. All AFDC applicants registering for WIN would review job openings again at the time of registration and be required to follow up suitable job opportunities. In addition, they would be required to accept suitable job offers or lose their eligibility for AFDC payments. WIN would apply job search requirements to an estimated 1.3 million AFDC recipients - a figure more than double the FY 1975 level.

Work and training activities will no longer be funded by WIN, although individuals registered with WIN may fill available slots in programs funded under the Comprehensive Employment and Training Act. By emphasizing direct placement and labor market exposure, the WIN program will be concentrating on its most successful and cost-effective program area. Over the past two years, approximately two-thirds of the WIN job placements (about 233,000 individuals) have been direct placements--those requiring no prior work experience or training. Child care and support services will continue to be available to those WIN registrants most in need of assistance during job search and for thirty days after accepting employment.

Supplemental Security Income (SSI)

Similarily in SSI, HEW is implementing management improvements to reduce the number of overpayments, underpayments, and payments to ineligibles. Errors in payments occur due to mistakes made in taking the initial claim, incorrect initial reporting by beneficiaries of their income and living arrangements, and late or incomplete reporting by beneficiaries of changes in income or living arrangements. HEW is also examining ways to simplify the federally-administered complex State supplements to the basic SSI benefit.

Housing Assistance

In the area of housing, the Administration will propose legislation to standardize rental payments charged to lower income families under two subsidy programs: low-rent public housing and lower income housing assistance (commonly known as section 8). A uniform definition of income will be proposed and tenants will be expected to allocate 25% of their adjusted income to rent to obtain subsidies. Under the present system, tenants are frequently charged lower rents for reasons unrelated to rent-paying ability. Consequently, the proposed changes will simplify administration and result in greater equity among tenants and lower costs to the taxpayers.

Overall Improvements

These specific program proposals and management improvement actions have been advanced with a view toward longer range objectives, including: (1) simplification of income assistance administration and program requirements, (2) improvements in the delivery of benefits to eligible recipients, and (3) targeting existing income assistance programs on the needy to the greatest extent possible.

We must, however, move beyond these immediate problems to treat more fundamental income assistance problems, many of which involve the weakening of incentives for people who get income assistance to seek work.

The various income assistance programs were enacted at different times over the course of the years to meet specific concerns and needs. Many programs were created in isolation from the others, with requirements and benefits only superficially related (and sometimes unrelated) to those of other programs. At the same time, these programs serve a largely overlapping population, often the duplicative benefits yet not coordinated because of the multiplicity of programs and the ends they are supposed to serve. This independent development of programs has resulted in the following shortcomings of our national income assistance effort:

-- Inequity - Individuals and families with similar circumstances may not receive the same benefits. Some persons may not qualify for any benefits simply because they have a few more dollars of income than others whose income falls below a qualifying cutoff line.

-- Complexity - The large number of programs with varying requirements are costly to administer and bewildering to the applicant trying to obtain the benefits he needs. The applicant, by not being able to apply at one location for several possible benefits, surely fails to obtain all the benefits which he may need.

-- Inconsistency -- Since these programs have come into existence at different times and seek to achieve different objectives, individuals who qualify under one program may, though their need is as great, not qualify under another.

-- Targeting on the needy - Due to possible combinations of benefits, a recipient may actually receive more than a similarily situated working person who cannot qualify for income assistance, though the latter's need may be as great or even greater.

-- Work disincentives - The reductions in benefits from several programs that can occur whenever a beneficiary earns income or receives other benefits from other programs may act together, so that for every additional dollar a beneficiary receives, more than a dollar will be taken away in benefits.

Efforts to correct these problems and to curb abuses have either been: (1) piecemeal, unrelated efforts to solve narrow problems within a program with no concern for the impact on other programs or for the possible impairment to overall Federal income assistance policy, or (2) grand and comprehensive legislative reform proposals that bog down in the Congress because of the sheer magnitude and complexity of the task, jurisdictional disputes or conflicts in policy objectives, and the plethora of special and often competing interests that have to be confronted.

The omnibus and single program approaches have not been successful in bringing about fundamental reform. The Administration is proposing a new approach to reform existing income assistance programs without massively restructuring programs all at once. This approach will permit new solutions to problems in this area that will move the separate and conflicting income assistance programs towards a consistent system. The Administration is requesting authority to make modifications in pursuit of clear objectives within specific limits and subject to disapproval by the Congress. Below are the outlines of this proposal:

(1) The legislation would provide for altering eligibility requirements, the bais for computing income and assets, structure of benefits, and associated organizational frameworks.

(2) The authority would be limited to programs that provide benefits to individuals or families in cash or in kind that are based on a standard of need related to the beneficiary's income. It would not include social security, unemployment insurance, or other benefits earned by the recipient and not subject to means tests.

(3) The total amount of resources devoted to income assistance programs could not decline. Thus, if a change would reduce benefits, an offsetting change would be required so that total funds remained the same as before.

(4) Congress would be able to disapprove any modification before it would take effect.

(5) The modification authority would be available for a period of five years. During this period the authority would be carefully assessed and possible changes in it studied.

The legislation would allow rational changes in our income maintenance system since the changes could be developed from a single, broad perspective and would accommodate the practical requirements programs individually and in light of their relationship to other programs. This modification authority could be used only to promote the following fundamental objectives:

- -- Assist individuals to become self-sufficient.
- -- Simplify administration, reduce excessive reporting and procedural requirements, thereby reducing administrative costs.
- -- Assure that incentives to work are fostered for those who are employable.
- -- Achieve a system that is comprehensible to the public.
- -- Count income and assets under consistent rules; eliminate haphazard exceptions and inappropriate disregards of income for various expenses.

The Administration's proposal does not require additional expenditures for income assistance programs and would result in administrative savings by virtue of simplifying and rationalizing the operation of these programs. It provides the opportunity to advance to the Congress and the public specific reasoned measures which address concrete issues within a framework of clearly stated long-term goals. Each proposal would be considered within the context of income assistance policy and yet analyzed and treated with on its merits. Responsible exercise of this modification authority will promote a sounder, more rational and effective structure of income assistance for needy Americans.

Child Nutrition Reform

The Administration is proposing a single, block grant to provide Federal funds to enable States to feed needy children. There are now 15 federal programs which provide subsidies for 40 different types of meals.

Due to recent congressional changes, the Federal Government shortly will be spending more money on non-needy children than it does on needy children unless these programs are reformed. Children from all families, regardless of income, are now eligible to receive Federal subsidies for school lunches.

At the same time these programs (mostly run through the schools) are spending more money on more non-needy children, we estimate there are at least 700,000 children from poor families receiving no benefits whatsoever.

The existing set of complex and overlapping programs has developed in a largely piecemeal and uncoordinated fashion from the obsolete price-support and surplus-removal programs authorized by Congress to relieve the national economic emergency of the early 1930's. These programs were initially expanded in 1946 in order to ensure the disposal of irregularly occurring commodity surpluses in the period of postwar conversion.

Since 1966, both the size and number of the programs and school lunch programs has continued to grow. The Federal Government now provides approximately 20% of the total cost of school lunches served to all children regardless of their nutritional need or income. A patchwork of laws lead to complex Federal controls and regulations over State and local programs initially intended to be left to the States. Existing programs not only subsidize breakfasts and lunches which include milk, but also subsidize the consumption of milk by itself as a separate program. These programs are summarized in the attachment.

Essentially, the child nutrition block grants would replace the school lunch, school breakfast, special milk, and several other categorical programs and would:

- Help feed more low-income children.
- Eliminate the existing Federal food subsidies to non-needy children.
- Eliminate the existing administratively complex programs and give States more flexibility and responsibility in meeting the needs of its poor children.
- Save the taxpayers $900 million in the process.

Programs to be Reformed under the Child Nutrition Reform Act

1. School Lunch Program/Basic: This program provides a 12.5¢ subsidy for lunches served to children regardless of family income in schools (including tuition charging schools) and residential child care institutions. All qualifying school lunches must include one-half pint of milk. This program will subsidize nearly 4.2 billion lunches for 26.5 million children in 1976 at a cost of $521 million.

2. Commodity Distribution: This program provides commodities valued at 11¢ (or cash in lieu of commodities) for each lunch in addition to subsidies under the Basic subsidy of 12.5¢ per lunch for every lunch served in schools and child care institutions without regard to family income of the children.

   Together with the basic School Lunch subsidy of 12.5¢, over 4.2 billion lunches in 1976 will be subsidized by 23.5¢ for a total cost of nearly $1 billion.

3. School Lunch Program/Special Assistance: This program provides additional subsidies of 56.75¢ and 46.75¢ for each lunch served to children with family income up to 125% of the poverty level and from 125% to 195% of the poverty level respectively. This program also subsidizes meals served in residential child care institutions as well as schools and will subsidize 1.7 billion meals to approximately 11.5 million children in 1976 at a cost of $998 million.

4. Non-Food Assistance Program (Food Service Equipment): Provides grants for equipment to schools and residential child care institutions located in areas with poor economic conditions.

5. School Breakfast/Basic: Provides a 10¢ subsidy for each breakfast served to children in schools and residential child care institutions regardless of income. All qualifying breakfasts must include one-half pint of milk. This program will subsidize 340 million breakfasts for 2.4 million children at a cost of $116 (including Special Assistance) in 1976.

6. School Breakfast/Special Assistance: Provides subsidies in addition to the Basic School Breakfast subsidy of 25.25¢ and 19¢ for breakfasts served to children with family income up to 125% of the poverty level and from 125% to 195% of the poverty level respectively. This program will subsidizes 277 million breakfasts served in residential child care institutions as well as schools for approximately 2 million children in 1976.

7. Special Milk/Basic: This program increases the consumption of milk by providing a subsidy of 5.5¢ for each half pint of milk served to children with family income above 125% of the poverty guideline. This is in addition to the milk that is required to be served under other programs to participating children. In 1975, over 1.7 million half pints of milk were consumed at a cost of approximately 99 million.

8. Special Milk/Special Assistance: This program is also designed to increase the consumption of milk by providing a subsidy of the full cost of serving half pints of milk to children up to 125% of the poverty level. Most of this milk is in addition to milk subsidized under the subsidized breakfast, lunch and snack programs. In 1975, approximately 360 million free half pints were consumed at a cost of $24 million.

9. Special Supplemental Food for Women, Infants and Children: Provides cash grants to State health agencies to supplement the diets of pregnant and lactating women and infants and children up to age 5 who are or may be at nutritional risk due to inadequate family income nutrition. States make cash grants to local sponsors who may provide either cash, commodities or vouchers to program participants. There were 464,000 participants in 1975 at a cost of approximately $90 million. Program costs will exceed to $190 million in 1976.

10. Supplemental Feeding for Women, Infants and Children: Provides commodities to supplement the diets of pregnant and lactating women and infants and young children. There will be approximately 140,000 participants in 1976 at a cost of $21.5 million.

11. Summer Food Program: Provides free meals to all children regardless of family income participating in summer feeding programs. Summer feeding projects under this program must serve areas where at least one-third of the population have incomes below 195% of the poverty level. This program includes children attending summer camps, recreation centers, and schools.

12. Child Care Food Programs/Basic: Provides subsidies for each meal, including snacks at 5.25¢ per meal, served to children in day care programs regardless of family income, at the same subsidy levels as the school lunch program at least 23.5¢ per lunch. Estimated costs are $114 million in 1976 (including the special assistance program below).

13. Child Care Food Program/Special Assistance: Provides additional subsidies for meals served free or at reduced prices to children in day care programs from families below 195% of the poverty level. Subsidy levels are the same as for schools and include 15.5¢ and 10.25¢ for free and reduced price snacks respectively. Lunch subsidies range from 23.5¢ to 80.25¢.

14. <u>State Administrative Expenses/Basic</u>: Provides funds for State administrative costs for most of School Lunch and Child Nutrition programs. Some of the programs above provide additional administrative financing.

15. <u>State Administrative Expenses/Summer</u>: Provides cash grants to States for the summer feeding program. In addition to the basic administrative expenses grants, a set-aside equal to 2% of the funds distributed for the summer feeding program are used for administrative costs.

Allied Services Act

The Administration is proposing legislation to encourage and assist States and localities to develop, demonstrate, and evaluate the utilization and effectiveness of human services through the integrated planning, management, and delivery of those services. The objective is to better achieve the personal independence and economic self-sufficiency of individuals and families.

The proposal's basic provisions are:

- -- Grants may be made to State and local governments for a maximum of two years to develop, and for a maximum of three years to implement, plans to demonstrate the coordinated delivery of services.
- -- State and local governments with allied services plans approved by the Secretary of HEW would be authorized to transfer up to 30% of their Federal funds from one HEW program to another under limited conditions and for selected purposes.
- -- The Secretary of HEW would be authorized to waive technical or administrative constraints in any program administered by HEW if they impede the development of integrated human services programs.
- -- Proposed State and local plans for the integrated delivery of services would be subject to public comment for a period of 60 days.
- -- Service delivery agencies would have to meet privacy safeguards.
- -- A total of $20 million per year for planning and implementation grants would be authorized for this program.

Even with the major block grants proposed for education, health, and social services programs, there will remain many cases where HEW human service programs operate under differing requirements through different local agencies, but serve overlapping target groups with similar or related services. For example, both the older Americans and social services programs may provide funding for the delivery of meals to the homes of poor elderly persons. However, social services funding is provided to States and, through them, to local welfare agencies, while older Americans funding goes to State and sub-State area agencies on aging.

States and localities are increasingly circumscribed in their ability to use Federal funds flexibly to meet their greatest priorities. Each program is designed to serve narrow categorical target groups with a range of services. And categorical programs tend to proliferate for it is easy to identify special groups with particular needs. State and local flexibility is further reduced since many Federal programs require State and local matching funds to be used for those programs, further restricting the effective and efficient use of funds.

The end result, however, is that individuals cannot readily have all their service needs met; service programs are often unwieldy, complicated, and inefficient; the cost of services may be high; and gaps in needed services may exist. The categorical requirements associated with the resources available under each program may create imbalances in the amounts spent on various problems and seriously skew State and local service priorities.

The Allied Services Act would permit States and localities to redress their imbalances and target resources on their most pressing needs. They would be enabled to explore and develop new and innovative systems to make available and deliver a large number of diverse services to meet several needs among their population. Substantial cost-savings might result which could be used to expand services to the needy.

VA Cemetery and Burial Benefits

The Veterans Administration provides a wide range of burial benefits for veterans who have served their country honorably. All are entitled to free burial in national veterans cemeteries, a grave marker, and a flag. Families who prefer to bury a veteran in a private cemetery also may receive a plot allowance and up to $250 to help pay funeral costs.

Other programs supported by Federal tax money provide burial benefits which are similar to the $250 VA burial payment, and most veterans' families are eligible for these benefits. For example, survivors of the 90% of all veterans who qualify for Social Security are eligible to receive a lump-sum death payment of up to $255. Some veterans also are eligible to receive burial payments provided under the Railroad Retirement Act as well as under other programs for Federal employees. Legislation proposed in the 1977 Budget will eliminate VA burial payments to the extent that the veteran's family is entitled to similar federally-funded benefits. With this legislation, every veteran's family will be treated fairly and equally: each will be assured of receiving a burial payment of at least $250 from the Federal Government but none will be paid twice for the same purpose.

Currently, the VA administers 103 national cemeteries in which the country's 29 million veterans and more than 20 million of their dependents, as well as military personnel and their dependents, can be buried. New cemeteries are planned for California, Massachusetts, New York, Pennsylvania, and the Washington, D.C. area, and a number of existing cemeteries are being expanded.

Studies undertaken by VA indicate that most veteran families choose burial in a national cemetery only if it is within 50 miles of their homes. The Federal Government cannot afford to build cemeteries near the homes of all the over 50 million people entitled to burial in national cemeteries; therefore, the President has proposed legislation which would provide grants to States so that they can establish and maintain veterans cemeteries. This program will greatly expand both the number and geographic distribution of veterans burial sites.

VA Medical Care

The VA medical care system with 172 hospitals, 229 outpatient clinics, 89 nursing homes and 18 domiciliaries serves millions of veterans. The 1977 Budget of over $4 billion is an alltime high for the VA medical system. It will provide for care of record numbers of veteran inpatients and outpatients, as well as continued high quality of care.

In 1974, at the request of the Administration, teams of VA and other health professionals surveyed all VA hospitals to evaluate how the system was operating and how it could be improved. The survey-called the Quality of Care Survey--resulted in two major recommendations:

- -- Over 9,000 employees should be added to the VA medical care staff.
- -- Over $300 million should be provided to correct fire and safety hazards and do other needed construction work on VA hospitals.

In 1975, funds were provided to begin the recommended Quality Care improvements. The 1977 budget provides funds for all of the Quality Care medical staff not already hired--an increase of over 1,700 full-time staff. It also includes over $200 million for selected high priority construction projects, including approximately $50 million related to Quality Care projects which were not started in 1975 or 1976.

In addition to providing Quality Care staff and construction funds, the 1977 budget proposes legislation which will improve the VA medical care program. VA medical care is focused primarily on veterans with service-connected disabilities. To the extent that VA staff and facilities are not fully utilized by these veterans, they are available to care for veterans with non-service-connected disabilities. Many of these non-service-connected veterans have health insurance or are covered by workmen's compensation. The 1977 budget proposes legislation which requires health insurers to reimburse the VA for the care provided to covered non-service-connected veterans. This legislation reflects the Administration's belief that the Federal taxpayer should not bear the cost of caring for non-service-connected veterans when to do so will benefit only third parties, including insurance companies, who are legally liable for the disability or injury necessitating such care. If enacted, this legislation would save over $130 million a year.

VA Educational Benefits

The primary purpose of all GI Bill education programs --World War II, Korean conflict and Vietnam-era--has been to assist veterans make the transition from military to civilian life by helping them get the education they might have received if they had not served their country in a time of national emergency.

The Vietnam-era GI Bill has served its purpose well. By the end of 1976, over 7 million people will have taken advantage of their education benefits at a cost to the Government of almost $23 billion.

The Vietnam conflict officially ended in May 1975; the draft, in June 1973. With the advent of a peacetime, All-Volunteer Force, GI Bill educational benefits are no longer appropriate for those men and women who enter military service in the future. They will choose the military in the same way men and women choose civilian jobs.

The educational assistance programs for veterans of both World War II and the Korean conflict were, from their inception, for readjustment purposes for those who served during wartime. It was never intended that these programs be a continuing benefit, and within a reasonable period after cessation of hostilities these programs were terminated. The Vietnam-era program should follow the same course. The period between the end of hostilities and the termination of eligibility for wartime veterans educational benefits has already been longer in the case of Vietnam than for any prior war. The 1977 budget reflects a proposal to end education benefits for people who join the peacetime All-Volunteer Force in the future. Terminating these benefits will result in savings of $54 million in 1977. Even more will be saved in later years--$111 million in 1978 and $236 million in 1979--a total of over $1.5 billion in five years.

Although education benefits will be ended for future Armed Forces members, the GI Bill program will continue for those men and women now in service. Because the active duty force is smaller now that the Vietnam conflict has ended, there will be fewer veterans training in future years--563,000 fewer in 1977 than in 1976 even with no changes to current law. Although the program will be smaller in the future, it is important that it be as well run as possible. The 1977 budget reflects a number of proposals to ensure that the program fulfills its intended purpose efficiently.

-- Veterans now have up to 10 years after they leave the service to use their education benefits. A return to the original 8 year eligibility period established for the Vietnam-era program--the same eligibility period provided under the Korean conflict program--provides the veteran with sufficient time to readjust from military to civilian life. This action results in savings of $624 million in 1977.

-- Currently, the Government spends over $210 million a year on GI Bill flight and correspondence course programs. These programs have high drop-out rates and provide few job opportunities. Reform will eliminate new enrollments in these programs at a savings of $35 million in 1977.

-- To ensure that veterans have funds for training when they need it, the Veterans Administration pays the veteran his monthly benefit in advance of the time he actually trains. A few veterans have abused these pre-payments by never intending to use them for educational purposes. Others change their plans for legitimate reasons. In both cases, the Veterans Administration requests return of the money provided to the veteran for time he did not train. In 1977 improved administrative practices will accelerate the collection of $100 million of these overpayments.

The costs savings from the legislative proposals to reform the GI Bill program total $713 million in 1977, and almost $5 billion dollars over 5 years.

Federal prisons

The Federal Prison System consists of 58 correctional facilities which house a total population of approximately 24,500. A broad range of services are provided for inmates, e.g., mental health, medical, religious, recreational, legal, educational, drug treatment, etc.

To reduce present overcrowding in Federal prisions and provide modern, humane facilities for incarceration, the 1977 budget provides $40 million for construction of two new institutions--a youth facility in Alabama and an adult facility in New York. Five million dollars is included for planning and site acquisition for two new correctional centers in Detroit and Phoenix. The budget provides $13 million to continue with the rehabilitation of existing Federal institutions, and $5 million and additional staff to activate three new institutions to be completed during fiscal 1977--the Bastrop, Texas youth center, the Memphis, Tennessee youth center, and the Butner, North Carolina correctional institution.

The National Institute of Corrections is budgeted for $5 million, which will be used to make grants to universities, correctional agencies, and non-profit corporations. The National Institute provides training, technical assistance, and research and evaluation programs, and contributes to the improvement of standards and policy development for correctional institutions.

Finally, the budget includes $500,000 and 40 new positions to expand functional unit management--a decentralized style of management which has had some success on an experimental basis in reducing tension among inmates.

U.S. attorneys and marshals

A U.S. Attorney supported by legal and clerical staff represents the Government in each of 94 judicial districts in the 50 States, Puerto Rico, and the territories. As the Government's trial lawyer and legal representative, the U.S. Attorney and his assistants are responsible for the prosecution and administration of the criminal statutes as well as most civil litigation in which the United States is involved.

In 1976, the Department of Justice is authorized to employ 1,618 attorneys and 1,676 support personnel in the Offices of the U.S. Attorneys. A staff increase of 9 percent (291 people) is proposed for 1977 to enable the U.S. Attorneys to cope with a growing caseload and increasingly complex cases.

The U.S. Marshals Service is responsible for court security and support, witness security, and other activities related to the operation of the Federal court system. In 1976, 1,701 Marshals are authorized for the 94 judicial districts and for Washington headquarters. An additional 87 Marshals are proposed for 1977, an increase of five percent.

Antitrust Enforcement

The President has emphasized his intention to maintain an open and competitive free market system unfettered by illegal restraints of trade. The two agencies with responsibility for enforcing the antitrust laws are the Antitrust Division of the Department of Justice and the independent Federal Trade Commission. The Antitrust Division has grown from 665 full-time permanent positions and outlays of $17.8 million in 1975 to 818 positions and $21 million in 1976. Twenty new positions will be added in 1977, and outlays of $22.6 million are planned. The Federal Trade Commission's antitrust activities have increased from 503 full-time positions and outlays of $12 million in 1975 to 593 positions and $17 million in 1976. Thirty new positions are requested for 1977, with most of the increase attributed to expanded antitrust enforcement. Some of the increased funds are requested for extraordinary expenses associated with major litigation of both agencies.