

5/11/79 [1]

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letter w/att.	From The President to Sen. Muskie (31 pp.) two copies- re: Meeting with Chancellor Schmidt	5/11/79	A

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THE WHITE HOUSE
WASHINGTON

5/11/79

Stu Eizenstat
Frank Moore
Zbig Brzezinski
Jim McIntyre
Frank Press

The attached was returned in
the President's outbox today
and is forwarded to you for
your information. The signed
transmittal has been given to
Bob Linder for appropriate
handling.

Rick Hutcheson

cc: Bob Linder



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 11, 1979

Jim - I hope this is not a bottomless pit.

SIGNATURE

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr. *Jim*

SUBJECT: Proposed 1980 Budget Amendment for National Aeronautics and Space Administration (NASA)

Attached for your approval is a package containing a request for a 1980 budget amendment for \$220 million for the Space Shuttle Program. A recent Agency review of the Space Shuttle Program has indicated further schedule delays and increased funding requirements caused by technical problems, program changes, contract cost increases and deferrals from previous years. Probable schedule problems include delay of the first flight from the currently scheduled date of November 1979 to the first quarter of 1980, and delays in the deliveries of the follow-on orbiters. To meet essential civil and military schedule requirements, additional funding will be required in fiscal years 1980 through 1983. In our opinion the transmittal of the proposed 1980 budget amendment is necessary at this time. A final report on the Space Shuttle budget and schedule situation will be submitted to us by September 1. Additional funding requirements beyond 1980 will not be known until NASA submits its report.

The recent Space Shuttle problems have caused concern in the Congress, both in relation to the credibility of the Administration's budgets and the Program's ability to meet critical national requirements. The attached letter from Dr. Frosch to Senator Cannon outlines specific steps planned or initiated by NASA to strengthen management of the Program. We expect further findings and recommendations in Dr. Frosch's September 1 report.

RECOMMENDATION

That you sign the letter transmitting this request to the Congress no later than Friday, May 11.

Attachments

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THE WHITE HOUSE
WASHINGTON

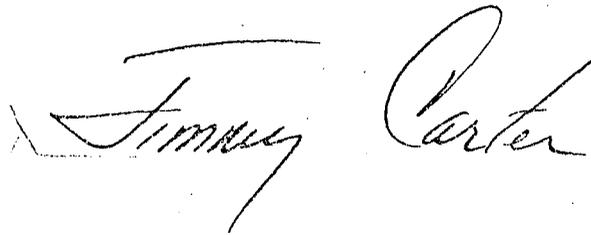
The Speaker of
the House of Representatives

Sir:

I ask the Congress to consider an amendment to the request for appropriations for the fiscal year 1980 in the amount of \$220,000,000 for the National Aeronautics and Space Administration.

The details of this proposal are set forth in the enclosed letter from the Director of the Office of Management and Budget. I concur with his comments and observations.

Respectfully,

A handwritten signature in cursive script that reads "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the word "Respectfully,".

Enclosures

THE WHITE HOUSE
WASHINGTON

5/11/79

Frank Moore

The attached was returned in
the President's outbox today
and is forwarded to you for
your information.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

May 11, 1979

Frank
J

MR. PRESIDENT
CONGRESSMAN WAXMAN
TRIED TO REACH YOU
LAST NIGHT. FRANK
RECOMMENDS THAT YOU
RETURN HIS CALL.

Waxman -
will be
Co-author
of Kennedy
Health
Bill

PHIL

JC:
Talk to Stu
J

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THE WHITE HOUSE
WASHINGTON

not done
J

CONGRESSIONAL TELEPHONE CALL

TO: Speaker Tip O'Neill

DATE: As soon as possible

RECOMMENDED BY: Frank Moore *F.M.*

PURPOSE: To ask O'Neill to organize a major effort to get the Murphy bill on the Panama Canal Implementing Legislation passed by the House without amendment

BACKGROUND: If the Panama Canal Legislation is to pass without disabling amendments, the House leadership will have to take an active lead in rounding up votes. When extraordinary efforts are required to maintain discipline on the Democratic side, the Speaker normally establishes a task force of issue leaders who keep the troops in line. Thus far, the Speaker has not been eager to make this effort on behalf of the Panama Implementing Legislation. We feel that a call from you is needed.

TOPICS OF DISCUSSION: As per your recent meeting with House Members, you should emphasize the vital importance of this legislation while showing your awareness of the political burden Members have to carry. O'Neill has been following the legislative battle from afar, so you may wish to inform him that we are supporting the Murphy bill, albeit with some serious reservations. Murphy has agreed to oppose all amendments and, since George Hansen's anti-treaty forces will have the bulk of them, we enthusiastically support that strategy.

DATE OF SUBMISSION: May 10, 1979

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THE WHITE HOUSE

WASHINGTON

5/11/79

Jim McIntyre

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: The Vice President
Stu Eizenstat
Frank Moore
Jack Watson
Anne Wexler
Charlie Schultze
Alfred Kahn

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ACTION
FYI

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<input type="checkbox"/>	JAGODA
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<input type="checkbox"/>	BROWN
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<input type="checkbox"/>	KREPS
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<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	VANCE



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

MAY 11 1979

1

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. McIntyre, Jr. 

SUBJECT: Alternatives for Restricting Current Use of Mortgage Revenue Bonds for Single-Family Housing

In the 1980 budget, we indicated concern about the growing use of tax-exempt mortgage revenue bonds to provide subsidized financing for single-family homes for middle- and upper middle-income families. Congressman Ullman has recently introduced a bill, with bipartisan support from the key banking and housing subcommittee chairmen and ranking minority Members, to eliminate the use of tax-exempt bonds for single-family housing (except for some isolated veterans programs) and to restrict the use of tax-exempt bonds to only low- and moderate-income multifamily rental housing.

All parties agree that the current situation is unacceptable. The growth potential for single-family mortgage revenue bonds and the resulting loss of Treasury revenues is substantial. Even conservative estimates of this growth indicate that the annual tax loss would increase from about \$200 million in 1980 to \$500 million in 1981, and to almost \$2.5 billion in 1984. Treasury believes the annual tax losses could range up to five times those amounts. Because these tax-exempt bonds have an expected life or term of 12 years, each annual issue commits the Federal Government to future annual tax losses over the life of the bond. These committed future tax losses, comparable to a direct expenditure commitment of budget authority, will increase from \$4.4 billion in 1980 to \$15.3 billion in 1984, assuming conservative growth estimates (see attached table). In addition to this severe impact on the budget deficit, these bonds will also significantly increase tax-exempt interest rates, thereby driving up State and local government borrowing costs for traditional public purpose projects.

Although the principal issue addressed by the Ullman bill is the elimination of single-family mortgage revenue bonds, the bill also raises two secondary issues concerning a veterans exemption and additional restrictions on use of tax-exempt financing for multifamily housing. There is no major disagreement on relaxing the current Ullman restrictions on multifamily housing to permit the use of tax-exempt bonds for mixed income housing. However, there is serious disagreement

about the veterans exemption and this issue is separately discussed at the end of the decision memorandum. Frank Moore will provide you a separate political assessment of these issues.

Alternatives

There are four basic alternatives for changing the currently unacceptable situation. These are described in detail in the attached paper (~~Tab A~~), along with the Treasury and HUD positions. The specific recommendations of senior White House staff are included at ~~Tab B~~.

Alternative #1 - Eliminate the use of tax-exempt mortgage revenue bonds for single-family housing. *Tr, OMB-CEA, Kahn*

Alternative #2 - Restrict the use of single-family mortgage revenue bonds.

Alternative #3 - Eliminate the use of single-family mortgage revenue bonds, but substitute a targeted, HUD direct expenditure program.

Alternative #4 - Indicate general support for eliminating these single-family bonds, but express a willingness to develop a tightly restricted alternative.

Recommendations

1. Treasury Position - Treasury recommends eliminating the use of tax-exempt mortgage revenue bonds for single-family housing (Alternative #1) and supporting the Ullman bill because these bonds:

- . Are enormously expensive, and the resulting tax loss will seriously impede efforts to balance the budget.

- . Will exacerbate inflation problems by artificially increasing the demand for housing and, more importantly, by further insulating the housing sector, thereby reduce the ability of monetary policy to dampen inflation.

- . Are a "back door" uncontrollable subsidy, since they are subject to neither the Administration's nor the congressional budget control process.

- . Are an inefficient means to provide housing subsidies, since the revenue loss to the Treasury exceeds the amount of the subsidy to the issuer of the bond.

Treasury also believes there is political support for eliminating these bonds (as demonstrated by the support for the Ullman bill) and that attempts to target these bonds will not be successful. In any event, targeted use of these bonds would:

- . Add significantly to the budget deficit (at a minimum, \$232 million in 1981, increasing to almost \$1.4 billion by 1984).

- . Remain an uncontrollable, "back door" and inefficient housing subsidy.

- . Not significantly increase city tax bases, since much of this subsidy is likely to go to current residents or those intending to relocate in the area anyway.

OMB, CEA, and Fred Kahn concur with the Treasury recommendation.

2. HUD Position - HUD recommends introducing an alternative to restrict the use of single-family tax-exempt bonds (1) to middle- and upper middle-income families in selected urban areas, and (2) to low- and moderate-income families in other distressed urban areas. HUD believes this alternative would:

- . Be a natural extension of our urban policy to encourage revitalization of our urban areas;

- . Permit a useful local initiative to continue to be used, consistent with Administration priorities;

- . Help build city tax bases by attracting higher income families to distressed urban areas;

- . Help those moderate- and lower middle-income families who are currently being priced out of the housing market;

- . Reduce the current inequitable distribution of tax benefits to homeowners by providing an additional housing tax subsidy to low- and moderate-income families; and

- . Be supported by State housing agencies, the investment banking community, civil rights groups, and other housing groups expected to strongly oppose the Ullman bill.

Esther Peterson concurs with the HUD recommendation.

3. Direct expenditure substitute - eliminating these bonds but substituting a targeted, HUD direct expenditure program would be (a) far less costly than either the current situation or Alternative #2, (b) controllable and more efficient than the tax-exempt bond subsidy, and (c) more palatable politically than Alternative #1.

OMB could support this alternative if it is shown to be politically necessary. However, on programmatic grounds, there is no good reason to provide costly new homeownership subsidies to moderate, middle-, and upper middle-income families, since:

- . This is inconsistent with our previous housing budget decisions, which provide much higher priority for housing assistance targeted to inadequately housed low-income families;

- . The Federal Government has already committed substantial direct expenditure, tax exemption, and credit resources to housing.

- . Low- and moderate-income families remain active homebuyers despite housing price increases. They accounted for more than 40 percent of all homebuyers in most recent survey data.

OMB also strongly believes that anticipated congressional opposition to a new direct expenditure homeownership assistance program is not an adequate reason to propose additional tax subsidies for homeownership. Any such "back door" proposals would undermine the integrity of the budget process and the Administration's commitment to efficiency in Government through zero-based budgeting and program evaluation.

4. DPS position - DPS recommends that the Administration strongly support the concept of eliminating these bonds for unrestricted single-family use, but indicate a willingness to work with Congress to establish a very narrowly defined program that would serve only low-income and moderate-income families and would intend to have a limited budget impact. DPS also believes that we should state that, if such a narrowly defined program cannot be agreed to, the Administra-

tion would support total elimination of these single-family bonds. DPS believes this compromise alternative would:

- . Permit the Administration to acknowledge the currently unacceptable budget, tax, fiscal, and housing policy impacts of unrestricted single-family housing bonds.

- . Maintain flexibility to negotiate more restricted use of these single-family bonds that is limited to an appropriate target population and does not have the adverse budget, tax, fiscal, and housing policy impacts inherent in the current situation or the HUD position.

- . Avoid alienating a large, politically significant, constituency for little practical reason, since the Ullman bill is not likely to pass.

OMB believes this alternative would:

- . Indicate the Administration's inability to develop a specific proposal on this issue, as promised in the 1980 budget.

- . Continue to rely on an inefficient, expensive, and uncontrollable "back door" subsidy mechanism to provide additional homeownership assistance, rather than develop a coherent, controllable direct expenditure program.

- . Undermine the efforts of key House leaders to shut off this expensive and unwarranted use of Federal resources without specifically satisfying those groups advocating continued use.

- . Be ineffective and inappropriate in the current situation. Given a specific congressional proposal (the Ullman bill) and the Administration's promise in the 1980 budget to submit a specific legislative proposal on this issue, it is now essential for the Administration to make up its mind and establish a specific position. Starting from a firm position would strengthen the Administration's position in any subsequent negotiations with Congress.

- . Be inconsistent with current housing policies, which have targeted housing assistance to inadequately housed, low-income families.

Jack Watson, Anne Wexler, and the Vice President concur with the DPS recommendation.

Decision

- ✓ Alternative #1 - Eliminate bonds
(Treasury, OMB, CEA, Fred Kahn recommend)
 - ___ Alternative #2 - Restrict bonds
(HUD, Esther Peterson recommend)
 - ___ Alternative #3 - Substitute direct expenditure program
 - ___ Alternative #4 - Support elimination, but indicate willingness to accept stringent restrictions (more narrowly defined than Alternative #2). (DPS, Jack Watson, Anne Wexler, and the Vice President recommend)
- ___ See me/arrange meeting

(Mike Blumenthal, Charlie Schultze, Fred Kahn, and I would like to meet with you personally if you have any reservations about Alternative #1.)

Veterans Housing

The Ullman bill permits continued use of tax-exempt, general obligation bonds for single-family veterans housing. Four States currently have such programs and Oregon is the largest. Total bonds for veterans housing issued in 1978 amounted to \$1 billion; the tax loss was about \$100 million. Treasury believes the veterans exemption should not be opposed because:

- . The potential budget and fiscal policy threat is limited, since general obligation bonds require States to pledge their full faith and credit.

- . These small State programs have been in operation at a low level for many years and no major increase is anticipated.

- . The program is very important to Congressman Ullman.

DPS believes that we should oppose the veterans exemption provision of the Ullman bill because:

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. It is inequitable to continue this subsidy only for veterans, and

. A serious budget threat could emerge, since there is nothing to stop the remaining States from developing a veterans program.

OMB believes Treasury's assessment of the limited potential budget threat is accurate, and DPS is correct that there is no substantive reason to support the veterans exemption. In OMB's view, this decision is essentially a political one.

Decision

- Oppose veterans exemption
- Do not oppose veterans exemption

*I will be willing to work with
Ullman later on to make minimal
changes as political requirements
dictate.*

Budget Impact*
(Dollars in Billions)

	1980		1981		1982		1983		1984	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Current policy:	(4.4)	.2	(6.6)	.5	(9.4)	1.0	(12.4)	1.6	(15.3)	2.5
Alt. #1 (eliminate bonds).....	---	0	---	0	---	0	---	0	---	0
Alt. #2 (target bonds).....	(3.0)	.1	(4.4)	.2	(6.4)	.5	(8.6)	.9	(10.6)	1.4
Alt. #3 (direct spending substitute**).	---	---	3.75	.1	3.75	.3	3.75	.4	3.75	.5
Alt. #4.....	No cost estimates available									

* Annual tax losses are shown as outlays; budget authority estimates in parentheses reflect the annual tax losses over the expected life of the bonds from the bonds issued in that year. These are minimum tax loss estimates. Treasury believes losses would be substantially greater for both current policy and Alternative #2.

** Does not reflect any reduction in BA required due to recapture provision; carryover balances are assumed to fund program in 1980.

THE WHITE HOUSE

WASHINGTON

May 11, 1979

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT *Stu*
RALPH SCHLOSSTEIN

SUBJECT: Use of Tax-Exempt Bonds to Finance
Housing

The attached memorandum from Jim McIntyre discusses the growing use of tax-exempt bonds to finance single-family and multi-family housing. Jim's memorandum briefly describes the major options for addressing single-family mortgage bonds. This memorandum provides my recommendations on the three key issues -- the use of tax-exempts for multi-family housing, Veterans housing and single-family housing.

Multi-Family Housing:

We concur with OMB, Treasury and HUD that multi-family housing should remain eligible for tax-exempt financing. Treasury's testimony before the Ways and Means Committee should express the Administration's concern that the limitations on multi-family housing in the Ullman bill are too restrictive. Ullman and Conable already agree with this position and intend to amend their own bill to reflect it.

Veterans Housing:

The Ullman bill continues tax-exemption for Veterans housing programs that are financed through general-obligation bonds (backed by the "full faith and credit" of the State or locality). There currently are four such programs (Oregon, Texas, Wisconsin and California). They account for approximately \$1 billion of tax-exempt bonds annually, almost half of which are issued by Oregon. While this provision is politically important to Cong. Ullman, we believe that it is so inequitable substantively that we should oppose it in our testimony. We have the following concerns:

- o The potential budget liability from these programs is very large. With only four States participating, the volume of Veteran's bonds already is \$1 billion annually.

If Veteran's housing is the only housing eligible for tax-exemption, it is likely that all fifty States would soon develop Veterans programs, creating a serious budget threat.

- o There is no rational justification for selecting Veterans for special assistance, particularly when we are taking this same aid away from non-Veterans with much lower incomes. (The Veterans programs, for the most part, have no serious income limitations.) In fact, Veterans already receive substantial housing subsidies through the VA housing programs.
- o It is unwise to encourage States and cities to put their "full faith and credit" behind these housing bonds for two reasons. First, using general obligation bonds to finance housing will raise borrowing costs on other general obligation bonds that are issued for more legitimate public purposes. Second, the distressed cities and States with the weakest credit ratings (i.e. Detroit, Newark, N.Y., Cleveland, Philadelphia, etc.) will be unable to participate in the program because their credit is not strong enough to support additional general obligation bonds. The programs permitted by the Ullman bill, in effect, could be used only by the wealthiest States and cities.
- o We cannot, in good faith, tell the cities that we want to sharply limit their low-income housing programs, and simultaneously allow to continue substantial programs that help Veterans, regardless of income.

Single-Family Housing:

We share OMB's and Treasury's concern about the growing use of tax-exempt bonds for single-family housing. We agree that these programs constitute a significant threat to our budget deficit and, therefore, must be sharply limited. We also agree that some States and localities have abused these programs (by providing low-interest mortgages to upper-income households) and that these abuses must be eliminated.

We are concerned, however, that the Ullman bill goes too far by eliminating some State and local housing programs that serve true public purposes. Some of these programs provide assistance only to low-income and moderate-income families. These programs generally focus on distressed urban and rural areas, where private mortgage credit may not otherwise be available in sufficient amounts.

A good example is the State Housing Finance Agency in Georgia, which you established when you were Governor. This agency has financed approximately \$100 million of single-family housing bonds in the last two years. These bonds have financed single-family homes for low-income and moderate-income families that otherwise could not afford a home. Eighty-five percent of the families assisted were first-time homebuyers. They had an average income of approximately \$12,000 and the average size of a mortgage was \$33,000. Most of these homes were financed in rural areas, where multi-family housing simply is not appropriate. The Ullman bill would totally eliminate this program and others like it.

The States and cities that run these limited single-family programs agree that the abuses of tax-exempt housing bonds must be eliminated. They also believe very strongly that these tax-exempt bonds, when limited appropriately, are an invaluable tool for providing housing to low-income and moderate-income families. Many of these officials have expressed this view quite strongly to the Vice President, Anne Wexler, Jack Watson, me and others within the last week. They are strongly opposed to the Ullman bill. In fact, with the exception of the budget, no other issue has generated as much reaction in the last year from State and local officials as the Ullman bill.

On the other hand, Congressman Ullman is way out front on this issue. He has put his political prestige behind this bill and would be offended if we proposed a specific alternative at this time. Virtually everyone, including Ullman, agrees that the Ullman bill is too restrictive to pass Congress. It is, in effect, an initial negotiating position.

Since there are some tax-exempt single-family housing programs that serve legitimate public purposes, since there is extremely strong and legitimate opposition to the Ullman bill from key parts of our constituency and since the Ullman bill is not likely to pass in its current form, we believe that our testimony on single-family housing should be somewhat more general. We suggest that Treasury make the following points in their testimony:

- o The Administration agrees that limitations should be placed on single-family tax-exempt housing bonds. We believe, however, that there are some single-family housing programs that serve valid public purposes, including:
 - 1) providing housing to low-income and moderate-income families that otherwise could not afford to purchase a home;

- 2) providing mortgage financing to these households in distressed urban and rural areas where private financing is scarce.
- o The Administration would like to work with the Committee to design a single-family program that serves these purposes and that:
 - 1) limits sharply the impact on the Federal budget deficit;
 - 2) limits the program to families that really need help in buying a single-family house; and
 - 3) limits the program primarily to areas within a State where mortgage credit is scarce.
 - o However, we would not support the use of tax-exemption for single-family housing unless it was very narrowly defined and had a very limited budget impact. If such a limited program cannot be supported by the Committee, we would strongly support elimination of the use of tax-exempts for single-family housing entirely.

This approach has several key advantages:

- o It expresses our strong support for limiting single-family tax-exempt bonds, but allows us to support a program that meets narrowly defined public purposes and has a very limited budget effect. If such a program cannot be agreed to, we should make it clear that we will support total elimination of these programs. (This will maintain negotiating leverage for the Administration and for Ullman.)
- o It eliminates the unacceptable, budget, tax, fiscal and housing policy impact of unrestricted single-family housing bonds or the HUD position.
- o It avoids alienating a major part of our constituency (State and local officials, housing interests, State housing agencies, etc.) on an issue about which they feel very strongly. This is particularly important since virtually everyone agrees that the Ullman bill will not pass the Congress as written. There simply is no reason for us to take a formal position alienating our constituency when the negotiations have just begun and the Ullman position is not likely to prevail.

The Vice President, Jack Watson and Anne Wexler support this compromise position. Treasury feels that we should not go this far at this time.

Summary of Recommendations:

We recommend that you ask Treasury to testify as follows before the Ways and Means Committee:

- 1) permit use of tax-exemption for mixed-income multi-family housing;
- 2) oppose the Veteran's housing programs; and
- 3) express support for the general thrust of the Ullman bill -- that the use of tax-exempt financing for single-family housing must be curtailed. Point out, however, that there are some State and local housing programs that serve legitimate public purposes. Suggest that we want to work with the Committee to permit continuation of tax-exempt financing of single-family housing for these programs under narrowly defined and very limited circumstances.

BLUMENTHAL
MEMO



THE SECRETARY OF THE TREASURY

WASHINGTON 20220

May 10, 1979

MEMORANDUM FOR THE PRESIDENT

Subject: Mortgage Subsidy Bonds

Chairman Al Ullman of the House Ways and Means Committee introduced legislation that would generally prohibit the use of tax-exempt bonds for mortgages on single-family houses. The bill would, however, continue to allow tax-exempt bonds to finance low and moderate income rental housing.

The Ullman bill has influential bipartisan support. It has been co-sponsored by Congressmen Conable (Ranking Minority Member of the House Ways and Means Committee), Reuss (Chairman of the House Banking, Finance & Urban Affairs Committee), Ashley (a member of the Banking Committee and Chairman of its Subcommittee on Housing), and Stanton (Ranking Minority Member of both the Banking Committee and the Subcommittee on Housing). If we join in supporting this bill it has a good chance of being passed.

Chairman Ullman has gone out on a limb with a sound legislative position and has asked for our support. It would be in our interest to give it to him.

On the merits, we believe the Ullman bill warrants our full support for the following reasons:

- Mortgage subsidy bonds are enormously expensive. Unless the Ullman bill is passed, we stand to lose between \$500 million and \$1.6 billion in 1981 (depending on the volume of bonds), and as much as \$11.2 billion in 1984.
- If we are to balance the budget and control inflation, just as we have cut back spending, we must conserve revenues.
- These bonds will make our income tax system more unfair by providing an enormous new tax shelter for the wealthy. The rich will be able to shelter billions of dollars more of their income by buying these bonds. We certainly should not make it any easier for the rich to avoid paying taxes.

- These bonds are inflationary, not only because they add to the budget deficit, but also because they insulate housing from fiscal and monetary policies designed to control inflation. They not only provide increased credit to housing, but do so at below market rates.
- The market for tax-exempt bonds will be swamped. This will drive up the cost of financing schools, roads, and other traditional government projects.
- Capital formation will be retarded as capital is drawn into housing at the expense of productive plant and equipment.

Some argue that it would be politically expedient to back away from the Ullman bill and suggest a vaguely defined use of these bonds to help middle class families buy homes and revitalize depressed areas. We do not agree.

- We will appear indecisive unless we (1) support the Ullman bill, or (2) make our own proposal. Any other course of action will look weak and uncertain.
- Narrow geographic targeting will never get through Congress. Congressmen are understandably reluctant to support a program that excludes their jurisdictions. If we propose geographic targeting, we undoubtedly will have an enormously expensive and wide open program shoved down our throats.
- Even if it could get through Congress, a limited program would be very expensive. A program limited to families with less than 95 percent of local median income who purchase homes in distressed areas would cost between \$400 million and \$900 million in 1981, and as much as \$5.6 billion in 1984.
- These bonds have been condemned for a variety of reasons by such diverse editorial opinion as The Washington Post, The Wall Street Journal and The New York Times. If we back away from the Ullman bill, we will be severely criticized by the press.
- There is no way for us to satisfy state and local officials. In no event would the states be willing to accept a limit of less than 80 percent of local median income, and even this would cost between \$500 million and \$1.1 billion in 1981, and as much as \$6.1 billion in 1984.

- The public will never believe we are serious about inflation if we are willing to tolerate a new multi-billion dollar program of housing subsidies for the middle class.

Some argue that if properly limited, mortgage subsidy bonds represent sound public policy. We disagree.

- Mortgage subsidy bonds are extraordinarily wasteful and inefficient. Of each \$1.00 that they cost the taxpayers, only \$.50 or \$.60 goes to homebuyers. Most of the remaining \$.40 to \$.50 goes to lawyers, bond dealers, and wealthy investors.
- Existing housing subsidies are already enormous. In addition to direct spending programs and extensive mortgage credit assistance, in FY 1984 we will forego more than \$31 billion in revenues as a result of tax expenditures for single-family housing (i.e., deductions for mortgage interest and property taxes and special capital gains rules).
- There is no need for a new multibillion dollar program of housing subsidies for the middle class. Even lower middle class families are active homebuyers and don't need government subsidies to afford houses. Based on the most recent data, nearly two-thirds of families with incomes from \$10,000 to \$15,000 own their own homes.
- Any program to assist homeowners will not benefit the poor, since they simply cannot afford homes. Our first priority in housing should be to provide shelter to those most in need.
- If we propose the use of tax-exempt bonds to fund a subsidy program, tax-exempt bonds will become fair game for every interest group. We will be in the untenable position of having to oppose the use of tax-exempt bonds in other areas on the ground that their purpose is not sufficiently worthy.

Some argue that tax-exempt bonds should be sanctioned for all rental housing. We disagree.

- There are, for example, some apartment houses in New York City financed with tax-exempt bonds where the rents exceed \$1,000 a month. Tax-exempt financing should not be available for luxury apartments.

- ° On the other hand, we agree the Ullman bill may be somewhat too harsh on rental housing.

Some argue that we should oppose the exception in the Ullman bill for veterans' housing. (Oregon and two other states have limited programs that finance homes for veterans with general obligation bonds.)

- ° This would serve no purpose except to infuriate Ullman.
- ° Veterans' programs have been in existence for more than 30 years and do not amount to anything worth worrying about.

Mike

W. Michael Blumenthal

THE WHITE HOUSE

WASHINGTON

May 7, 1979

MEMORANDUM TO JIM MCINTYRE

FROM:

FRED KAHN

Fred

RE:

Tax-Exempt Mortgage Revenue Bonds for
Single-Family Housing

On the basis of your memorandum of May 3 on this subject, I agree with Treasury on the Ullman bill.

I understand however that DPS may be proposing a modification which I will want to judge when I see it.

I also find attractive the direct expenditure substitute outlined on pp. 12-14, but would want to hear a fuller discussion of it before reaching a final position.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

May 7, 1979

MEMORANDUM FOR: KEN RYDER
FROM: ESTHER PETERSON *EP*
SUBJECT: Tax-Exempt Mortgage Revenue Bonds
for Single-Family Housing

We have reviewed the paper giving HUD and Treasury views on "Tax-Exempt Mortgage Revenue Bonds for Single-Family Housing," and support the HUD position as the most reasonable and equitable option among those presented.

We appreciate the opportunity to comment and regret that the copy sent to us Thursday, May 3, apparently did not reach this office.

Tax-Exempt Mortgage Revenue Bonds for Single-Family Housing

On Wednesday, April 25, Congressman Ullman introduced a bill to prohibit the use of tax-exempt financing for owner-occupied housing, except for some limited veterans housing programs. The bill would, however, permit use of tax-exempt bonds to finance multifamily rental housing for low- and moderate-income households.

The Ullman bill has bipartisan support. Co-sponsors include Congressmen Reuss (Chairman of the Banking, Finance and Urban Affairs Committee), Ashley (Chairman of the Housing and Community Development Subcommittee of the Banking Committee), Conable (Ranking Minority Member of the Ways and Means Committee), and Stanton (Ranking Minority Member of both the Banking, Finance and Urban Affairs Committee and the Housing and Community Development Subcommittee).

Hearings are scheduled before the full Ways and Means Committee for May 14-15 and, therefore, a prompt decision on the Ullman bill is needed.

Treasury believes the Administration should support the Ullman bill to balance the budget, fight inflation, and close down a large emerging tax shelter for the wealthy. HUD believes the Administration should propose an alternative to the Ullman bill which would target the use of these bonds: (1) to selected geographic areas to support the Administration's urban policy, and (2) to low- and moderate-income families to make homeownership affordable for them. HUD also believes the Ullman bill would unduly restrict multifamily rental housing and deter current efforts to achieve economically integrated mixed income rental housing. This paper focuses primarily on the single-family issue. In addition to the Treasury and HUD positions, it also discusses the option of substituting a direct spending program for tax-exempt financing.

Background

Traditionally, States and local governments have issued and used tax-exempt revenue bonds for essential public purposes. In the housing area, tax-exempt financing has been used to provide multifamily housing projects for

low-income families, such as HUD's public housing and lower income housing assistance (section 8) programs. Both Treasury and HUD concur in the continued use of tax-exempt financing to support subsidized multifamily rental housing for inadequately housed low-income people.

However, in the past few years, there has been an explosive increase in the use of tax-exempt revenue bonds issued by State and local governments to subsidize the provision of single-family homes. In 1978, States and municipalities issued more than \$4 billion of these tax-exempt revenue bonds for single-family housing, up from only \$36 million in 1971. Moreover, most of the increase has occurred since 1976.

Although a few State agencies began to issue small amounts of single-family tax-exempt bonds in the early 1970's, most other State agencies adopted the practice in 1977 and 1978. Many of these were located in rural southern and southwestern States, where single-family housing is the predominant housing mode. The first issue of tax-exempt single-family bonds by a city was in July 1978, when the City of Chicago sold a \$100-million issue for homebuyers with annual incomes up to \$40,000 (the average income of participants was \$20,750).

Because interest on these bonds is tax exempt, the bond proceeds can be used to make mortgage loans at approximately 2 percentage points below conventional mortgage rates. The security for the bonds is a pool of mortgage loans made with the bond proceeds, and the bonds are serviced by principal and interest payments collected from the individual mortgagors. The bonds are not backed by the credit of the municipality issuing the bonds.

In 1968, Congress restricted the use of tax-exempt bonds for housing to "residential real property for family units." The statutory language was written, however, at a time when all housing bonds were for low- and moderate-income multifamily projects; revenue bonds for single-family housing were unknown until the 1970's.

Under current law, there are no general restrictions on who can benefit from these subsidized, low-interest-rate mortgage loans. States and municipalities are free to establish whatever criteria or restrictions they consider appropriate. Most have established income limits for

participating households, but these annual income ceilings have ranged from \$18,000 in Pueblo, Colorado, to \$50,000 in Evanston, Illinois, and \$60,000 in Anchorage, Alaska. Most localities have established income limits of approximately \$30,000. Average income of participants has been less than the ceiling. According to the most recent Census data, 89 percent of U.S. households had incomes below \$30,000 in 1977, and 98 percent had incomes below \$50,000.

Reasons for Legislative Change

HUD and Treasury agree that the potential growth of mortgage revenue bonds is enormous. In 1978, approximately \$176 billion of gross new mortgage loans were made for single-family housing. The total of all mortgage revenue bonds in 1978 amounted to less than 3 percent of this volume. However, municipalities have just begun to use this new tax-exempt vehicle. Only about 12 States currently permit local jurisdictions to issue single-family mortgage revenue bonds, but enabling legislation has already been introduced in several additional State legislatures. The vast majority of States can be expected to pass enabling legislation within the next few years.

HUD and Treasury also agree that, absent Federal legislative limitations, there will be substantial growth in single-family tax-exempt revenue bonds from their current 1978 levels. They do not, however, agree on the potential extent of the unrestrained growth.

HUD believes these bonds would not account for more than between 10 and 20 percent of the single-family mortgage market in 1984 for the following reasons:

. While a larger share might be possible, HUD believes that, at a 20-percent share of the mortgage market, the impact of these mortgage revenue bonds on the tax-exempt market would be so severe that States would be forced to either petition Congress for a limitation or band together jointly to limit the use of these bonds.

. While in certain isolated instances the market penetration may currently exceed 20 percent, this will only occur for those localities that are the first to take advantage of the tax-exempt vehicle. These first few localities can achieve substantial penetration rates without impacting significantly the total tax-exempt

market; however, all communities together cannot enjoy this first-in advantage. Current experience is not a good indicator of future total market penetration.

. Even though early local issues have been large enough to finance between 20 to 30 percent of the annual local market, HUD believes this may decline once the newness of the vehicle wears off. HUD does not believe that rating agencies are more likely to give higher ratings once the bonds become more generally used.

Treasury believes that in 1984, between 10 and 50 percent of gross mortgage originations on single-family houses may be financed by tax-exempt bonds. (In the longer run, Treasury believes that significantly more than 50 percent of all single-family mortgage originations may be financed by these bonds.) Reasons Treasury believes the market share will be closer to the upper end of this range in 1984 include the following:

. There is no economic reason for the growth to be self-limiting. While the current differential between taxable and tax-exempt interest rates may be narrowed, there is no evidence it will become so small that the subsidy provided to homeowners will disappear.

. At no cost to itself, any locality can provide substantial benefits to its residents. There will be no incentive to States or localities to impose restrictions themselves.

-- Once some localities issue mortgage revenue bonds, the citizens of other localities will demand "equal treatment." Thus, competitive considerations will force localities to issue ever-increasing amounts of these bonds.

-- No single locality will have any incentive to restrict the use of these bonds. So long as other localities issue mortgage revenue bonds, any rise in tax-exempt rates caused by these bonds would affect a locality regardless of whether it issues them.

. Based on past experience, it will take only a few years for the vast majority of States to pass legislation authorizing the issuance of these bonds. (The number of

States which had enabling legislation for pollution control bonds increased from eight in 1971 to 43 in 1974.)

- . Experience demonstrates substantial market penetration.

- In Oregon, where the State issues bonds to provide veterans with subsidized mortgages, about 90 percent of all eligible homes are financed with tax-exempt bonds.

- The local single-family bonds issued to date have been large enough to finance between 20 percent to 30 percent of the annual local mortgage market. This share is expected to increase for future issues once the rating agencies become accustomed to this new financing vehicle and drop their reluctance to give AA ratings to issues with higher penetration rates.

The amount of single-family mortgages originated in 1984 is projected to be around \$400 billion. Mortgage revenue bonds for single-family housing in 1984 could range from \$47 billion to as much as \$235 billion. Even at only a 10-percent share of the market, single-family mortgage revenue bonds would have a number of serious impacts:

- . The Federal budget deficit will increase substantially due to the revenue loss. At a 10-percent share of the mortgage market, these bonds would generate an annual loss in Federal revenues of about \$200 million in 1980, \$500 million in 1981, increasing to \$2.5 billion in 1984. However, revenue losses could amount to over \$400 million in 1980, \$1.6 billion in 1981, and \$11.2 billion in 1984, if these bonds account for 50 percent of all single-family mortgage originations.

- . The cost of tax-exempt borrowing for other social purposes, especially low-income multifamily housing, will be increased significantly. Estimates range between a 1-2 percentage point increase in the tax-exempt interest rate by 1984.

- . The disruption in the structure of mortgage credit markets could jeopardize the viability of some federally insured financial intermediaries.

HUD and Treasury agree that the current situation is unacceptable. There is disagreement, however, about the appropriate corrective action.

Alternatives

There are three basic alternatives for changing the current unrestricted use of mortgage revenue bonds for single-family housing:

. Eliminate them: This is the Treasury and Ullman bill position.

. Target them to geographical areas and to low- and moderate-income families: this is the HUD position.

. Eliminate the single-family bonds but substitute a targeted, direct expenditure, homeownership subsidy program.

Treasury Position

Treasury believes the use of tax-exempt bonds to finance mortgages for single-family houses should be prohibited. If additional Federal subsidies for such housing are desirable, direct spending programs should be used. Tax-exempt financing should be limited to low- and moderate-income multifamily rental housing.

The Treasury position is the same as the Ullman bill. Thus, Treasury believes the Administration should support the Ullman bill.

Reasons for the Treasury Position

. We cannot afford mortgage revenue bonds as additional subsidies for single-family housing.

-- These bonds are enormously expensive and, by increasing the budget deficit, will make more difficult the commitment to achieve a balanced budget. Unless these bonds are prohibited, we stand to lose between \$500 million and \$1.6 billion in 1981 (depending on the volume of bonds), and as much as \$11.2 billion in 1984 (see attachment).

-- These bonds are inflationary, not only because they add to the budget deficit, but also because they interfere with the ability of monetary policies to dampen inflation. Proliferation of these bonds will substantially insulate housing from the influence of either fiscal or monetary policies. The newly authorized money market certificates have provided funds for housing at market interest rates during this cycle, whereas in previous cycles credit to housing was reduced. These bonds will have the effect of providing not only increased amounts of credit but doing so at below-market rates.

-- These bonds will retard capital formation by drawing capital into housing at the expense of investment in plant and equipment, which is urgently needed to help improve lagging U.S. productivity. This shift of capital will further the imbalance between housing prices and the stock market created by general inflationary trends.

-- These bonds will add to an already substantial commitment of Federal resources supporting single-family housing, including mortgage credit and insurance programs, direct expenditure programs, and tax expenditures. Tax expenditures alone will amount to \$17.3 billion in 1980 and over \$31 billion in 1984 (i.e., deductions for mortgage interest, property taxes, special capital gains rules, etc.).

. Even if we could afford additional subsidies for single-family housing, these mortgage revenue bonds would not be acceptable as a means to provide the subsidies.

-- Mortgage revenue bonds are a "back door" subsidy. From the Federal Government's perspective, there is no fiscal control over tax-exempt bonds. They are not subject to any budget constraint or review. No agency is accountable for them. Congressional authorizations and appropriations are not needed. In short, they are a completely open-ended and uncontrollable subsidy.

-- Mortgage revenue bonds are wasteful and inefficient subsidy mechanisms. Tax-exempt bonds are an extremely inefficient means to provide a subsidy because the revenue loss to the Treasury exceeds the savings to the issuer. For each \$1.00 of revenue loss on all tax-exempt bonds outstanding, the issuer gets only about \$.75. The remaining \$.25 is a windfall profit to wealthy investors.

-- Mortgage revenue bonds are particularly inefficient since only about \$.82 of each \$1.00 of bond proceeds is actually made available for mortgage loans. The remaining \$.18 is used for underwriter's fees, reserve funds, insurance premiums, etc.

-- Mortgage revenue bonds will make our income tax system more unfair. While the wealthy will be able to shelter billions more of their income by buying these bonds, the taxes of lower income people will not be affected. Thus, the net result of mortgage revenue bonds is a less progressive income tax. We certainly should not make it any easier for the rich to avoid paying taxes.

-- Mortgage revenue bonds will force a significant increase in tax-exempt interest rates, thereby driving up State and local borrowing costs for schools, roads, and other traditional public projects. The cost of borrowing for multifamily housing projects aimed at inadequately housed low-income families will rise the most. Thus, mortgage revenue bonds will actually increase the cost of shelter for those most in need.

. Prohibiting the use of mortgage revenue bonds will receive substantial public and congressional support. Their use has been strongly criticized by such diverse editorial opinion as The Washington Post, The Wall Street Journal, and The New York Times. Further, Treasury believes that this position is the best place to begin, assuming that we may have to compromise.

. Any program to provide assistance to homeowners does not benefit the poor, since they simply cannot afford homes. Our first priority in housing should be to provide shelter to those most in need.

Reasons Against Treasury Position

HUD believes that the prohibition of tax-exempt mortgage revenue bonds for single-family housing:

. Would remove a useful local initiative for increasing homeownership, especially if targeted to low- and moderate-income families.

. Is inconsistent with general Administration policies, which have attempted to link the various levels of

Government with the private sector in providing innovative solutions to urban problems.

. Raises serious equity problems for low- and moderate-income families since, under current tax law, they do not derive the same tax benefits from homeownership as higher income families. In HUD's view, eliminating this tax expenditure for low- and moderate-income families would make the tax system more unfair by denying these lower income families an opportunity to become homeowners and thereby receive any tax advantages from their housing.

. Is politically unrealistic; while the Congress would be receptive to certain limitations, it is doubtful they would be receptive to total prohibition; State agencies would object strongly to a complete prohibition, since they have been using tax-exempt financing for single-family housing since the early 1970's, although in substantial volume only in the last 2 years. This is because most of the southern and southwestern States have just recently established their agencies, and, in these predominantly rural areas, single-family housing is the predominant housing form.

. Will not seriously retard capital formation since most capital formation is accomplished through internally generated funds, not from borrowed funds from the taxable or tax-exempt market.

. Will receive a great deal of opposition from the States, the investment banking community, and civil rights groups.

. Is a drastic measure to achieve budgetary savings; HUD's proposal to target their use would reduce these costs by more than 50 percent in 1980, 1981, and 1982.

. Will hurt low- and moderate-income families who could benefit from a targeted use of this subsidy, as HUD proposes.

In addition to the concerns on eliminating mortgage revenue bonds for single-family housing, HUD opposes the Treasury position and the Ullman bill because both would prohibit mixed income multifamily projects. The Department has been attempting to encourage economically integrated projects

and such a prohibition would effectively terminate such efforts.

HUD Position

HUD's position on the use of single-family bonds is to target their use in the following ways:

- . For families purchasing homes in urban areas (i.e., areas eligible for grants under the Urban Development Action Grant (UDAG) program), there would be an income limitation of 120 percent of area median income.

- . For families purchasing homes located in Community Development Neighborhood Strategy Areas (NSA's), whether or not the NSA is located in a UDAG city, there would be an income limitation of 200 percent of area median.

- . All other purchases would be prohibited.

This alternative would reduce the currently estimated tax loss from single-family mortgage revenue bonds by approximately 45 percent (see attachment).

Reasons for HUD Position

HUD recommends that the use of single-family mortgage revenue bonds be targeted to support the Administration's urban policy and to make homeownership affordable to moderate- and lower middle-income families. Targeting these bonds to select NSA's for families with incomes up to 200 percent of median would:

- . Be a natural extension of the Administration's urban policy, which encourages the revitalization of our urban areas through a public/private partnership and innovative solutions.

- . Help build city tax bases by encouraging the relocation of middle- and upper middle-income families in distressed urban areas.

- . Help overcome mortgage redlining problems within these NSA's.

. Allow States and local governments to continue to use tax subsidies rather than a more administratively complex and political uncertain direct expenditure program.

Providing these subsidies for families in urban areas with incomes less than 120 percent of median would also:

. Help those moderate- and lower middle-income families purchase a home who are currently being priced out of the housing market by high interest rates and high housing prices.

. Reduce the current inequitable distribution of tax subsidies for homeownership.

Finally, HUD believes that geographical targeting of Federal programs is not only essential in an environment of scarce resources, but is also politically viable, as our experience with NSA's and the UDAG program demonstrates. HUD also believes that it can monitor the decisions of State and local governments to insure that geographical targeting is obtained.

Reasons Against HUD Position

. It is too expensive. The revenue loss for 1981 will range from \$232 million to \$773 million (depending on the volume of bonds), and between \$1.4 billion and \$6.3 billion in 1984 (see attachment).

. The lower middle class (i.e., families with incomes less than 120 percent of area median income) are not priced out of the housing market. They are active homebuyers and don't need more help from the Federal Government to afford homes. More than 57 percent of the lower middle-class already own houses. Moreover, they account for more than 40 percent of all homebuyers.

. Geographic targeting for mortgage revenue bonds is unworkable.

-- It won't get through Congress. Proposals for geographic targeting always encounter serious political difficulties. Congressmen are understandably reluctant to support a program that excludes their jurisdictions. The Administration experienced this problem last year with

targeted industrial development bonds and investment credit proposals.

-- If targeting does get through Congress, the targeted areas are likely to be quite extensive, perhaps including more than half the population of this country. If this is the case, there will be no effective restraint on the use of mortgage subsidy bonds. Any possible benefits of targeting will disappear and we will be faced with an enormous volume of these bonds.

- . These mortgage revenue bonds remain an inefficient and uncontrollable "back door" subsidy.

- . It requires Treasury to propose the use of tax-exempt bonds on their own to fund a subsidy program. This is something that the Treasury has never done before, although tax-exempt financing has been used in conjunction with other direct subsidies. If we do so now, tax-exempt bond programs will become fair game for every interest group. We will be in the untenable position of having to oppose the use of tax-exempt bonds in other areas on the ground that the purpose is not sufficiently worthy.

- . The impact on urban city tax bases may be small. Available data indicates much of this subsidy is likely to go either to current residents or those who were intending to relocate in the area anyway.

- . If HUD is to be given authority to determine the communities which get the Federal subsidy, the appropriate vehicle is a direct expenditure program charged to HUD's budget and approved by the relevant congressional committees.

- . HUD's proposal does not support some Administration policy principles. First, there is no "partnership" with the Federal Government because these bonds cost the State and local governments absolutely nothing. Second, the Administration has given low priority to housing programs for moderate- and middle-income homeowners.

Direct Expenditure Substitute

This option would eliminate mortgage revenue bonds for single-family housing as would the Treasury position, but would substitute a targeted HUD direct expenditure program

to provide some support for homeownership. The direct expenditure program could be designed to:

- . Provide a 2-percent interest subsidy comparable to the current mortgage revenue bond subsidy.
- . Subsidize the same number of single-family housing units financed by mortgage revenue bonds in 1978 (about 100,000 units).
- . Target the mortgage interest subsidies to HUD-designated NSA's.
- . Limit participants to households with incomes less than 120 percent of median.
- . Set a sales price limit on homes which could be purchased through the program of \$65,000.
- . Provide for recapture of the total amount of the Government subsidy in the event the home is resold, unless that amount exceeded 60 percent of the appreciated value of the house.

Eliminating single-family mortgage revenue bonds but substituting a modified HUD homeownership assistance program has a number of advantages. Specifically, this alternative:

- . Establishes fiscal and budget policy discipline on homeownership assistance by substituting a HUD expenditure program, which must explicitly compete for available housing resources, for an uncontrollable Treasury tax subsidy.
- . Is politically more palatable than the Treasury proposal.
- . Is a more efficient homeownership subsidy than tax-exempt revenue bonds.

There are, however, a number of disadvantages to substituting a modified direct expenditure program for single-family tax-exempt bonds. In general, this alternative incurs a significant political risk that Congress will accept the direct expenditure program

expansion but not eliminate the single-family mortgage revenue bonds.

Relative to the Treasury proposal, this option has some disadvantages, since it:

- . Still provides a significant increase in the budget deficit to support a housing program--homeownership assistance--that has a lower priority than housing programs which target assistance to low-income families living in sub-standard housing.

- . Will provide additional subsidy support for the single-family housing sector, which Treasury believes already receives an exceptionally large amount of Federal resources.

Relative to the HUD proposal, this option has some disadvantages:

- . Converts a locally developed tax subsidy program into a Federal direct expenditure program, which is not consistent with Administration policies to encourage local governments to take care of their own needs.

- . Because of its lower income eligibility limits (120 percent of median income), it may not provide equivalent benefits to distressed city tax bases, which HUD anticipates would accrue from the HUD proposal.

Attachment

Budget Impact*
(Dollars in Millions)

	1980		1981		1982		1983		1984	
	<u>BA</u>	<u>0</u>								
Current policy:										
10% share	---	187	---	499	---	982	---	1,645	---	2,478
50% share	---	432	---	1,635	---	3,873	---	7,059	---	11,227
Treasury Position (prohibit bonds)	---	0	---	0	---	0	---	0	---	0
HUD Position (target bonds)										
10% share	---	82	---	232	---	488	---	875	---	1,383
50% share	---	191	---	773	---	1,956	---	3,810	---	6,339
Direct Spending Substitute**	---	---	3,750	125	3,750	250	3,750	375	3,750	500

* Tax losses are shown as outlays.

** Does not reflect any reduction in BA required due to recapture provision; carryover balances are assumed to fund program in 1980.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 4, 1979

MEMORANDUM FOR JAMES T. MCINTYRE

FROM: Charles L. Schultze *CLSch 2/87*

Subject: Tax-Exempt Mortgage Revenue Bonds for Single-Family Housing

The Council of Economic Advisers supports the Treasury position that further budgetary support, either direct or indirect, for owner-occupied housing is not needed at this time. The principal reasons for this judgment are the following:

- o Substantial assistance to single-family housing is already provided through tax deductions, direct expenditures, and mortgage credit and insurance programs.
- o Decisions on the allocation of Federal resources between housing and other sectors have already been made as part of the normal budgetary cycle.
 - There are no new factors that would indicate a need to reorder priorities in favor of housing.
 - Making allowances now for this sector would make it more difficult to deny other expenditure requests that will surely come along.
- o In general, decisions about subsidies to housing should be addressed specifically through the budgetary process, rather than being a fait accompli that the Government predicts, rather than controls.
 - Visible subsidies directly voted on by the Congress are more likely to lead to an appropriate weighing of both costs and benefits.

Even if we did see a need for further subsidies to housing, we would oppose tax-exempt bonds as a means to achieve those subsidies.

- o Tax-exempt mortgage bonds are an inefficient form of subsidy, since the tax expenditure must also finance windfall gains for high-income investors, fees for investment bankers, and heavy administrative costs.
- o Rapid growth of tax-exempt mortgage revenue bonds will drive up tax-exempt rates in general, increasing the cost of projects that are of higher public priority than single-family housing.
- o Tax-exempt mortgage revenue bonds will have an undesirable effect on income distribution.
 - By lowering the tax burden of the wealthy, they may well necessitate a higher tax burden for lower- to middle-income families.
 - While raising the tax-free interest rate earned by high-income people, they will put downward pressure on unsubsidized mortgage rates and, hence, on the deposit rates that thrift institutions can offer smaller savers.
 - We consider it unlikely that a significant part of these subsidized mortgages would go to truly low-income families, even under the HUD proposal.
- o We are quite concerned that rapid growth of these instruments would be potentially disruptive to normal housing finance channels and particularly to thrift institutions.
 - High income depositors would move funds into tax-exempts, and lower deposit rates at thrift institutions might well mean a loss of other deposits as well.
 - In some areas the demand for nonsubsidized mortgages may fall off sharply, but there is no reason to assume that these would be the same areas where thrifts experienced large drains of funds.

-- Economic factors could make the subsidy to be gained by issuing tax-exempt mortgage revenue bonds highly variable over time. Traditional housing finance channels probably would not be able to adjust levels of activity to offset large variations in the amount of subsidized funds available. The result might well be a return to the days of housing "crunches."

In conclusion, we strongly oppose the use of tax-exempt bonds to finance owner-occupied housing. Although the Government may, at some time in the future, consider a proposal such as the third option, we do not consider this the appropriate time to introduce further subsidies to owner-occupied housing -- particularly subsidies where the income test is 120 percent of the area mean.

Our comments on the memo that you distributed are attached.

Comments on Proposed Memo

The memo is quite long and could be tightened up. The format leads to repetition, as a "con" on the Treasury position, for example, gets reiterated as a "pro" on the HUD position. Why not simply list the three proposals and summarize the advantages and disadvantages of each? Also, the three pages of discussion (pp. 3-5) on what share of the mortgage market could go to these bonds should be cut substantially since it (1) is inconclusive, (2) focuses on unconstrained growth, which nobody is proposing, and (3) should not be a determining factor in a decision on this issue. A shortened version could simply emphasize the very great uncertainties as to the potential growth and revenue cost of this instrument.

We would like to propose three new paragraphs for insertion in the final version of the memo. These are attached as Inserts A, B, and C. We would also like to make the following page-by-page comments:

P. 1

The inefficiency of these instruments as a means of providing subsidies and the income distribution effects should be hit in the initial summary of the Treasury position in para 4. The "fight inflation" argument is weak and should not be overplayed. (See below)

P. 2

Would suggest adding in the second full paragraph the fact that local issues had already reached \$1.6 billion by April 1, 1979 and were fully \$1 billion in the first quarter of this year. This is striking.

P. 4

The point in para 3 about growth not being self-limiting is overstated. The CBO report indicated that you need a 150 basis point spread between mortgage rates and tax-exempt rates to give any subsidy at all. The cutoff point would be greater than this because communities are unlikely to bother if the subsidy is small. It seems likely that there is some share of the mortgage market at which that cutoff would be reached. The point is that we do not know whether that cutoff is 20, 50, or 70 percent of the market. Also, the cutoff

could change abruptly and significantly with changes in tax policy or changes in the level and structure of interest rates. HUD is right that penetration rates of early entrants are not relevant for determining the penetration rate that the market could ultimately support.

P. 7

The argument that the bonds are inflationary and undermine monetary policy is also overstated. The real issue is that the bonds would change the sectoral impact of any given degree of overall tightness. In the past, monetary policy hit the housing sector disproportionately. The introduction of the MMC has given housing finance institutions an instrument with which they can compete for funds during high rates, and monetary policy now affects housing and non-housing activity more evenly. If states and localities tended to accelerate the issue of tax-exempt bonds during periods of monetary tightness, a likely possibility, this would mean that, compared to the present situation, a given degree of overall tightness would have relatively less impact on housing and, therefore, would have to have a greater impact on non-housing activity.

We believe the argument in para 2 of page 7 is incomplete. First, to some extent these bonds will be a substitute for, rather than an addition to, other types of housing finance. Second, rising rates on tax-exempts will probably mean less borrowing for other types of state and local spending. Business investment would only be affected to the extent that these two factors did not offset the growth in tax-exempt mortgage bonds.

At the end of para 3 on page 7 we would suggest noting that the mortgage bonds involve a double subsidy. The borrower gets both the subsidized interest rate and the interest deduction on his taxes.

P. 8

The lowering of the tax burden for the wealthy (para 2) could well result in an increase in taxes for lower- and middle-income taxpayers.

P. 9

We don't understand the argument about "mixed income multifamily projects." How did HUD foresee these programs being financed before Mr. Lopp came up with the idea of having localities issue tax-exempt single-family mortgage bonds? Can't these projects be financed through other programs?

Insert A

The growth of mortgage bonds could be disruptive to normal housing finance channels and could jeopardize the viability of some federally-insured financial intermediaries. Institutions serving high-income areas will lose depositors to tax-exempts; institutions in areas offering substantial tax-exempt financing will face sharp drops in demand for unsubsidized mortgages. The impact on individual thrifts could be dramatic. Furthermore, the volume of tax-exempt financing in a particular area may be highly erratic, depending not only on political decisions and institutional changes but also on the relationship among tax-exempt rates, conventional mortgage rates, and usury ceilings. It is possible that in some areas normal financing channels may be completely undermined, making mortgage bond financing necessary even when it no longer provides a significant subsidy.

Insert B

Extensive use of mortgage bonds will put downward pressure on mortgage rates in general, thereby lowering the rate of return which thrift institutions can offer to depositors. Therefore, while rising tax-exempt interest rates will produce windfall gains for high-income savers, small savers will face reduced returns on their deposits. This is unacceptable not only because of the implications for income distribution, but also because the elderly account for a large proportion of deposits at thrift institutions. The "small saver" problem, already a political issue, will be exacerbated.

2

Insert C

Lower-income families are likely to receive little benefit from the HUD proposal if local programs continue to be administered, as they generally are now, by thrift institutions which are instructed to apply their normal credit worthiness criteria. The subsidized funds will go only to those who are regarded by the thrift institutions as the best credit risks, and are thus most likely to go to families at the higher end of the allowed income range.

T
A
B
B

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT

SUBJECT: Use of Tax-Exempt Bonds to Finance Housing

The attached memorandum from Jim McIntyre discusses the growing use of tax-exempt bonds to finance single-family and multi-family housing. This memorandum provides my recommendations on the three key issues -- the use of tax-exempts for multi-family housing, Veterans housing and single-family housing.

Multi-Family Housing:

We concur with OMB, Treasury and HUD that multi-family housing should remain eligible for tax-exempt financing. We, therefore, recommend that Treasury's testimony before the Ways and Means Committee express concern that the limitations on multi-family housing in the Ullman bill are too restrictive. We make this recommendation for several reasons:

- o Tax-exempt financing of multi-family housing is not a problem. The volume of multi-family housing financed through tax-exempts is relatively low (\$3 billion annually), very stable and the existing multi-family programs have served primarily low-income and moderate-income households.
- o The Ullman bill precludes all mix-income housing projects, in which low-income families are mixed with middle-income and some upper-income households. By permitting only multi-family projects that are exclusively for low-income families, the Ullman bill eliminates exactly the type of mixed-income project that HUD has encouraged in the last two years. Thirty to fifty percent of the multi-family housing currently financed through tax-exempts would no longer be eligible for assistance.

- o Without the benefits of tax-exemption, multi-family housing will lag even further below needed levels. All housing experts agree that the principal problem in the housing markets today is a lack of multi-family construction and a shortage of rental units. Tax-exemption provides essential support to this portion of the market.
- o Tax-exempt financing of multi-family housing is critically important to the cities, particularly those in the Northeast and Midwest.

Veterans Housing:

The Ullman bill continues tax-exemption for Veterans housing programs that are financed through general-obligation bonds (backed by the "full faith and credit" of the State or locality). There currently are four such programs (Oregon, Texas, Wisconsin and California). They account for approximately \$1 billion of tax-exempt bonds annually, almost half of which are issued by Oregon. While this provision is politically important to Cong. Ullman, we believe that it is so inequitable substantively that we should oppose it in our testimony. We have the following concerns:

- o The potential budget liability from these programs is very large. With only four States participating, the volume of Veteran's bonds already is \$1 billion annually. If Veteran's housing is the only housing eligible for tax-exemption, it is likely that all fifty States would soon develop Veterans programs, creating a serious budget threat.
- o There is no rational justification for selecting Veterans for special assistance, particularly when we are taking this same aid away from non-Veterans with much lower incomes. In fact, Veterans already receive substantial housing subsidies through the VA housing programs.
- o It is unwise to encourage States and cities to put their "full faith and credit" behind these housing bonds for two reasons. First, using general obligation bonds to finance housing will raise borrowing costs on other general obligation bonds that are issued for more legitimate public purposes. Second, the distressed cities and States with the weakest credit ratings (i.e. Detroit, Newark, N.Y., Cleveland, Philadelphia, etc.) will be unable to participate in the program because their credit is not strong enough to support additional general obligation bonds. The programs permitted by the Ullman bill, in effect, could be used only by the wealthiest States and cities.

Single-Family Housing:

We share OMB's and Treasury's concern about the growing use of tax-exempt bonds for single-family housing. We agree that these programs constitute a significant threat to our budget deficit and, therefore, must be sharply limited. We also agree that some States and localities have abused these programs (by providing low-interest mortgages to upper-income households) and that these abuses must be eliminated.

We are concerned, however, that the Ullman bill may go⁶ too far by eliminating some State and local housing programs that serve true public purposes. Some of these programs provide assistance only to low-income and moderate-income families. These programs generally focus on distressed urban and rural areas, where private mortgage credit may not otherwise be available in sufficient amounts.

A good example is the State Housing Finance Agency in Georgia, which you established when you were Governor. This agency has financed approximately \$100 million of single-family housing bonds in the last two years. These bonds have financed single-family homes for low-income and moderate-income families that otherwise could not afford a home. Eighty-five percent of the families assisted were first-time homebuyers. They had an average income of approximately \$12,000 and the average size of a mortgage was \$33,000. Most of these homes were financed in rural areas, where multi-family housing simply is not appropriate. The Ullman bill would totally eliminate this program.

The States and cities that run these limited single-family programs agree that the abuses of tax-exempt housing bonds must be eliminated. They also believe very strongly that these tax-exempt bonds, when limited appropriately, are an invaluable tool for providing housing to low-income and moderate-income families. Many of these officials have expressed this view quite strongly to the Vice President, Anne Wexler, Jack Watson, me and others within the last week. They are strongly opposed to the Ullman bill. In fact, with the exception of the budget, no other issue has generated as much reaction in the last year from State and local officials as the Ullman bill.

On the other hand, Congressman Ullman is way out front on this issue. He has put his political prestige behind his bill and would be offended if we opposed the provisions that eliminate tax-exempt financing of single-family housing. Even though most observers agree that the Ullman bill is too restrictive to pass

offense
strongly opposed

Congress, they feel it would be harmful to our relationship with Ullman to offer a specific alternative to his bill at this time.

Since there are some tax-exempt single-family housing programs that serve legitimate public purposes and since there are extremely strong political pressures on both sides of this issue, we believe that our testimony on single-family housing should be somewhat more general. We suggest that Treasury make the following points in their testimony:

- o ^{The Administration} Supports the general thrust of the Ullman bill that stringent limitations should be placed on single-family tax-exempt housing bonds. ^{We believe} Point out, however, that there are some examples of single-family housing programs that do serve valid public purposes, including:
 - 1) providing housing to low-income and moderate-income families that otherwise could not afford to purchase a home;
 - 2) providing mortgage financing in distressed urban and rural areas where private financing is scarce.
- o ^{The Administration would like to work with the Committee} Suggest that if the Committee so desires, we would work with them to try to design a single-family program that serves these purposes and that:
 - 1) limits sharply the impact on the Federal budget deficit;
 - 2) limits the program to families that really need help in buying a single-family house; and
 - 3) limits the program primarily to areas within a State where mortgage credit is scarce.
- o However, we would not support the use of tax-exemption for single-family housing unless it was very narrowly defined and had a very limited budget impact. If such a limited program cannot be supported by the Committee, we would strongly support elimination of the use of tax-exempts for single-family housing entirely.

This approach has several key advantages:

- o It expresses our strong support for sharply limiting single-family tax-exempt bonds, but allows us to leave open the possibility that we will support a program that meets narrowly defined public purposes and has a very

limited budget effect. If such a program cannot be agreed to, we should make it clear that we will support total elimination of these programs.

- o It avoids alienating a major part of our constituency (State and local officials, housing interests, State housing agencies, etc.) on an issue about which they feel very strongly. This is particularly important since virtually everyone agrees that the Ullman bill will not pass the Congress as written. There simply is no reason for us to take a formal position alienating our constituency when the negotiations have just begun.
- o It limits damage to our relationship with Ullman by not offering a specific alternative to his legislation at this time.

Jack Wilson and Anne Warner
The Vice President, ^{Jack Wilson and Anne Warner} supports this compromise position. Treasury feels that we should not go this far at this time.

Summary of Recommendations:

We recommend that you ask Treasury to testify as follows before the Ways and Means Committee:

- 1) permit use of tax-exemption for multi-family housing;
- 2) oppose the Veteran's housing programs; and
- 3) Express support for the general thrust of the Ullman bill -- that the use of tax-exempt financing for single-family housing must be sharply curtailed. Point out, however, that there are some State and local housing programs that do serve legitimate public purposes and that, if the Committee so desires, we would work with them to continue tax-exempt financing of single-family housing under very narrowly defined and limited circumstances.

Committee to permit continuation of

THE WHITE HOUSE
WASHINGTON

5/11/79

Jim McIntyre

The attached was returned in the President's outbox today and is forwarded to you for appropriate handling.

Rick Hutcheson

cc: Stu Eizenstat
Charlie Schultze
Alfred Kahn

#791703

ID 791703

THE WHITE HOUSE

WASHINGTON

DATE: 30 APR 79

FOR ACTION:

INFO ONLY: THE VICE PRESIDENT

STU EIZENSTAT

; Schultze

BOB LIPSHUTZ

FRANK MOORE (LES FRANCIS)

JERRY RAFSHOON

JACK WATSON

ANNE WEXLER

ZBIG BRZEZINSKI

SUBJECT: MCINTYRE MEMO RE STATUS REPORT ON E.O. 12044, IMPROVING
GOVERNMENT REGULATIONS

+++++

+ RESPONSE DUE TO RICK HUTCHESON STAFF SECRETARY (456-7052) +

+ BY: 1200 PM WEDNESDAY 02 MAY 79 +

+++++

ACTION REQUESTED: ~~YOUR COMMENTS~~

call if you wish to comment

STAFF RESPONSE: () I CONCUR. () NO COMMENT. () HOLD.

PLEASE NOTE OTHER COMMENTS BELOW:

THE WHITE HOUSE
WASHINGTON

HOLD

Si. Laguerre

W/STH

will have count

late pm.

Schulke
attached

Send TO
Schulke attn George [comm + exp SAT 5/5] Cade

THE WHITE HOUSE
WASHINGTON

5/2/79

bill--

returned, per request

--susan

THE WHITE HOUSE
WASHINGTON

5/2/79

Mr. President:

No comments from Senior
Staff.

Rick

FOR ACTION
FYI

	FOR STAFFING
	FOR INFORMATION
	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND
	NO DEADLINE
	LAST DAY FOR ACTION

<input checked="" type="checkbox"/>	VICE PRESIDENT
	JORDAN
<input checked="" type="checkbox"/>	EIZENSTAT
	KRAFT
<input checked="" type="checkbox"/>	LIPSHUTZ
<input checked="" type="checkbox"/>	MOORE <i>lu</i>
	POWELL
<input checked="" type="checkbox"/>	RAFSHOON
<input checked="" type="checkbox"/>	WATSON
<input checked="" type="checkbox"/>	WEXLER
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	MCINTYRE
	SCHULTZE
	ADAMS
	ANDRUS
	BELL
	BERGLAND
	BLUMENTHAL
	BROWN
	CALIFANO
	HARRIS
	KREPS
	MARSHALL
	SCHLESINGER
	STRAUSS
	VANCE

	ARONSON
	BUTLER
	H. CARTER
	CLOUGH
	CRUIKSHANK
	FIRST LADY
	HARDEN
	HERNANDEZ
	HUTCHESON
	KAHN
	LINDER
	MARTIN
	MILLER
	MOE
	PETERSON
	PETTIGREW
	PRESS
	SANDERS
	WARREN
	WEDDINGTON
	WISE
	VOORDE
	ADMIN. CONFIDEN.
	CONFIDENTIAL
	SECRET
	EYES ONLY

*note: call if you wish
to comment.*



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

APR 30 1979

*cc Jim
see note 9/78
J*

MEMORANDUM FOR THE PRESIDENT

FROM: James T. McIntyre, Jr *Jim*

SUBJECT: Status Report on E.O. 12044, Improving Government Regulations

*OMB not doing
enough to monitor -
I want a
fresh, accurate,
specific report
ready to
use before
Cabinet
meeting 5/21
JC*

The attempt to change regulatory practices in place for many years was bound to have uneven results. However, the Order gave us a foundation for improvement and our experience encouraged us to use it as the basis for the Administration's regulatory reform legislation.

Summary of Agency Compliance

The Order required agency plans for implementing the specifics and spirit of the Order. Of the 20 major departments and agencies, 6 appear to be undertaking a serious effort to carry out your directive (DOT, part of HEW, Treasury, Energy, EPA, and USDA) and 2 agencies appear to be potential problems (SBA, CSA). It is too soon to know about the performance of 12 other agencies. More detailed assessments are included in TAB A.

Several agencies have already taken notable action to improve their regulations. For example:

- The Labor Department is issuing clearer preambles and explanations of their rules, performed several regulatory analyses without waiting for final publication of their revised procedures, and proposed serious "sunset" reviews.
- Treasury significantly strengthened central oversight of regulations issued by various components of the department.
- HUD significantly lengthened the comment period for significant regulations and has an effort under way to rewrite their privacy regulations in understandable English.
- Transportation produced a semiannual agenda that is an understandable and useful planning document

both for the Department and the public, mailed it to 5,000 individuals and organizations and is holding seminars for the public on the new procedures.

- Agriculture is integrating the Order's requirements into its decision-making procedures by placing regulatory analysis and environmental impact analysis into a single decision package. It has applied the Order to all departmental policies and actions, not just regulations.
- FDA requires a regulatory analysis assessment to decide if complete regulatory analyses are required. We have recommended to the Department that this procedure be adopted throughout HEW.

Evaluation

Our evaluation plan requires the agencies to do minimal record-keeping and contemplates continuing consultations with the public. Our first report is due August 1. It would be most helpful if you emphasize the Order's importance at the time the plan is published in the Federal Register. If you agree, we will prepare talking points for an upcoming Cabinet meeting to:

1. highlight the need to evaluate effectiveness;
2. clarify and stress the importance of sunset reviews;
3. applaud selected agencies for their efforts; and
4. emphasize the importance to your overall regulatory reform effort.

Agree _____

Disagree _____

THE WHITE HOUSE

WASHINGTON

Xc: Si
Bart

9/4/78

To Jim McIntyre

I want the executive order re regulatory reform carried out. This is an OMB responsibility.

Give me a status report when I return from Camp David.

I need a series of substantive "sunset announcements". Work with cabinet. Jerry & Stu will help.

Jimmy

cc Jerry, Stu

91

**Electrostatic Copy Made
for Preservation Purposes**

ADMINISTRATIVELY CONFIDENTIAL

THE WHITE HOUSE

WASHINGTON

May 11, 1979

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Jim McIntyre's status report on
E.O. 12044, Improving Government
Regulations

While this long list of various steps agencies have taken to improve their regulatory procedures no doubt shows that progress is occurring, the unfortunate fact is that E.O. 12044 is not showing concrete results important or dramatic enough to convince Congress or the business community that the administration means business about regulatory reform.

Several months ago (in the attached 9/4/78 note) you asked for a series of rules being "sunsetting" (like OSHA's 1000 rules) which you could announce. That has not been done.

In some cases agencies have failed to do the regulatory analyses required by the Executive Order. We think this requirement has improved agency operations, but there has been little effort to assemble data on the benefits.

This situation has severely hampered our effort to sell our regulatory reform legislation as an alternative to across-the-board legislative veto bills, introduced by Congressman Levitas and others. (Our bill continues OMB's oversight role.)

Administration spokesmen constantly face the charge that nothing has been done to get results from the Executive Order and nothing can be expected from the bill. To date, other political leaders interested in the regulatory reform issue -- such as Senators Ribicoff, Kennedy, and various Republicans -- have not made this point. But their staffs are becoming aware of it, and such an attack would not be surprising soon.

We need a tougher oversight effort at OMB. If we can demonstrate promptly and dramatically that the Executive Order is achieving clear results, we may be able to sell our concept -- that regulatory reform should be directed by the President and agency heads, without legislative veto or far-reaching judicial review of agency actions.

The hour is late, however, and only top level interest in this issue in OMB has a chance of turning public perceptions around.

As an indication of the current level of interest at the staff level in OMB, page 2 of tab b on sunset review "highlights" was evidently prepared four months ago, as it states EPA's new source performance standards decision "will be issued in late February." As you know, that decision (mandated by statute) is being considered now.

I suggest you personally discuss this with Jim, that you remind him of your 9/4/78 request to develop dramatic regulatory sunset announcements, that you ask him for some examples of progress to praise, and examples of bad regulatory management for you to rectify. We must show that you mean business about regulatory reform, and examples are the only way you can do it.

You should personally -- with public knowledge if appropriate -- praise selected agency heads who have produced concrete, valuable reforms, and challenge agency heads in selected cases of egregious failure.

SCHULTZE/KAHN
COMMENT

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 4, 1979

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CS*
Fred Kahn *Fred*

SUBJECT: OMB's Status Report on E.O. 12044,
Improving Government Regulations

We believe that Jim's memo reflects an excessively optimistic view of the degree of agency compliance with the Executive Order. In particular, it fails to reflect the difficulties that we have had in getting several of the major agencies--notably DOE and HEW--to conduct regulatory analyses in conjunction with their important proposed regulations.

On the other hand, the memo is too hard on EPA. We believe that Doug Costle should be especially commended for complying with both the spirit and the letter of the Executive Order.

One important development that Jim's memo fails to note with respect to the Department of Labor (in particular, OSHA) is the danger posed by the pending Benzene case. Until the Supreme Court decides this case next term, OSHA's ability and willingness to consider economic factors in its deliberations will remain in some doubt.

Finally, it appears to us that the items listed as candidates for "sunset" review could stand a closer look, and might well be expanded. None of the "sunset" candidates listed by OMB has the potential for producing results as dramatic as the elimination of the 1000 obsolete OSHA standards.

In sum, compliance with the Executive Order has been fairly good overall, but you should not be left with the impression that the picture is better than it is. We will work with Jim to help improve things.

AGENCY: ACTION
ASSESSMENT: Too soon to tell

COMMENTS: The small number of regulations issued since the final plan was approved makes it difficult to judge the agency's performance. The level of attention given to the process for developing regulations within the agency needs to be carefully monitored. The items listed on the first agenda do not appear to be significant regulatory actions.

AGENCY: AGRICULTURE
ASSESSMENT: Serious effort

COMMENTS: Goes beyond requirements for the Executive Order in public participation and includes a broad definition of "significant." The Department has established and published a "decision calendar" covering all types of regulatory actions, not just regulations. In addition, it requires an impact analysis of all regulations, not just major economic ones. Additional encouragement is needed however, to assure compliance with the plain English requirement.

Requirements of the Order are being fully integrated into Department procedures; they are not being viewed as an "add on" to traditional practices.

AGENCY: COMMERCE
ASSESSMENT: Too soon to tell

COMMENTS: There has been very little Federal Register activity so far and what has occurred has been relatively unimportant. As expected, performance varies from one sub-agency to another. Little evidence of fundamental change in the agencies' procedures/practices, although there is considerable "lip service" paid to the Order's requirements. Close monitoring needed to ensure procedures are meaningful.

Only comment is that there is little evidence that anything has happened.

AGENCY: COMMUNITY SERVICES ADMINISTRATION
ASSESSMENT: Potential Problem

COMMENTS: Several significant regulations have been published recently that do not comply with the Order, particularly with regard to allowing a 60-day comment period. OMB is closely monitoring agency actions and is working to change internal procedures to ensure that staff with responsibility for carrying out the Order are consulted and review all proposed regulations.

Agency is proposing a change to its authorizing legislation to make it easier to comply with the Order.

AGENCY: COUNCIL ON ENVIRONMENTAL QUALITY
ASSESSMENT: Too soon to tell

COMMENTS: The Council issues only two sets of regulations. The most important set, regulations on NEPA, were developed and proposed prior to the Executive Order. The Council was at first reluctant to acknowledge the application of the Order. But when the final regulations were issued in November, the Council indicated that the intent of the development process and the regulations themselves were consistent with the Order. It is too soon to tell whether, in fact, the regulations will reduce paperwork and streamline NEPA procedures.

AGENCY: DEFENSE
ASSESSMENT: Too soon to tell

COMMENTS: DOD has set up staff responsibilities for carrying out the Order and appears to be making an effort to reduce paperwork requirements and to reduce and clarify regulations. DOD does not normally think of itself as a regulatory agency. After some initial reluctance to apply the Order, it appears to have made an effort to put a regulation management system in place. Close attention required to make procedures "real."

Department of the Army has established an editorial control unit to increase the use of plain English and to reduce the complexity of Army publications and regulations.

AGENCY: ENERGY
ASSESSMENT: Serious effort

COMMENTS: "Significant" has been defined so that almost all DOE regulations will be subject to the Order. DOE requires republication of every regulation for public comment every five years. It has instituted 31 regulatory reform initiatives in response to the Order. This effort constitutes DOE's sunset review. DOE held 4 sets of hearings on the sunset targets. Internal department attention to the regulatory analysis requirement is improving.

DOE established a task force chaired by the Deputy Secretary to coordinate and lead a departmental regulatory reform initiative. The Deputy Secretary has attempted to create inter-Departmental competition by trying to get DOE out-front on E.O. compliance, e.g., they were the first department to publish; tried hard to go beyond the Order's requirement. Effort will be required to make the procedures meaningful.

AGENCY: ENVIRONMENTAL PROTECTION AGENCY
ASSESSMENT: Serious effort

COMMENTS: The agency views itself as a model for the principles underlying the Order and has undertaken many regulatory reform projects in response to the Order. For example, each program division is developing plain English "model regulations". Many of these activities, however, focus on process and not fundamental reform of the way in which environmental goals are achieved. Compliance with the regulatory analysis requirement of the Order is a potential problem. In its semi-annual agenda, EPA has not defined some costly regulations as major, thus precluding thorough regulatory review. CWPS has criticized some of the economic analyses that have been done as lacking adequate consideration of meaningful alternatives. Some of these problems may be addressed if EPA's management and policy staff can give more attention to EPA compliance and pass off responsibility for the Regulatory Council to the Council's new staff.

EPA has reoriented planning and management functions under an Assistant Administrator to provide more disciplined oversight over the regulatory development process. This group has undertaken about 40 regulatory reform projects aimed at innovative techniques to supplement traditional command and control approaches as well as improving and simplifying procedures.

AGENCY: EQUAL EMPLOYMENT OPPORTUNITY COMMISSION
ASSESSMENT: Too soon to tell

COMMENTS: Major upcoming regulatory activities include:
 -guidelines on religious discrimination;
 -guidelines governing discrimination complaints received by grant-making agencies; and
 -major new recordkeeping requirements governing the retention of information on job applicants that will be very costly to the private sector.

OMB and CWPS have asked EEOC for an economic assessment of the new recordkeeping requirements.

Major new recordkeeping requirement on retention of information on job applicants was revised just before publication to ensure compliance with the requirements of the Order even though the agency's report was not yet final.

AGENCY: GENERAL SERVICES ADMINISTRATION
ASSESSMENT: Too soon to tell

COMMENTS: GSA has a central control unit to screen regulations for plain English. Many GSA regulations are exempt from the Order but are covered by the Office of Federal Procurement Policy's program to simplify and consolidate procurement regulations. A recent regulation on disposal of surplus real property for education and health purposes followed E.O. procedural requirements. GSA has established a central control unit to review agency regulations to assure plain English.

AGENCY: HEALTH, EDUCATION, AND WELFARE
ASSESSMENT: Serious effort: FDA, SSA, Education
 Too soon to tell: FHS, Civil Rights, HCFA, HDA

COMMENTS: HEW had a major reform effort (Operation Common Sense) underway before the Executive Order was issued. Several elements of the program, however, were not in compliance with the Order and extended negotiations were required to assure compliance. Some components of HEW are now going beyond requirements of the Order. FDA is now requiring a regulatory analysis assessment to substantiate

AGENCY: HEW (CONTINUED)

the decision whether or not to prepare a regulatory analysis. OMB has encouraged HEW to adopt this procedure throughout the Department in order to address the most serious problem with HEW compliance--the lack of commitment to conducting regulatory analyses and the lack of adequate documentation for decisions on whether or not a regulatory analysis is required. In its recent agenda, HEW identified only two of FDA's regulations out of hundreds of upcoming regulations as needing regulatory analyses. These determinations will be monitored closely. SSA has done well in using more plain English. In general, Operation Common Sense looks very promising for improving public participation and recodifying regulations.

HEW revised Operation Common Sense procedures to bring the agency into compliance with the Order. However, after reviewing its first agenda, it is clear that careful monitoring will be needed to assure compliance is not "in name only".

AGENCY: HOUSING AND URBAN DEVELOPMENT
ASSESSMENT: Too soon to tell

COMMENTS: Department has an outstanding plan for increasing public participation. Compliance with the 60-day comment period has been spotty so far. However, there has been a definite improvement since HUD published its procedures for implementing the E.O. Too soon to assess other plans for expanding public comment. General Counsel's office and top staff have good understanding of the Order. Training for lower-level staff will occur in February. Discussions are underway with Regulatory Council on the necessity for conducting a regulatory analysis on six upcoming regulatory actions.

HUD appears to be taking seriously the need to elevate regulatory issues to the Secretary and other senior level officials. Previously, such matters were buried within the various offices and bureaus.

AGENCY: INTERIOR
ASSESSMENT: Too soon to tell

COMMENTS: The Department has a good plan for public participation and broad definition of "significant". Interior worked hard to develop its plan for implementing the Order, but not enough regulations have been published to assess total agency performance. The Order has strong policy-level support within the Department. The new strip mining regulations, which have major economic consequences, were developed in accordance with the requirements of the Order. CWPS questioned some of the regulatory analysis and the extent of the regulations. Interior is not satisfied with the clarity of the writing of the regulation and is currently redrafting some provisions.

Interior tried hard to do a good job in the regulatory analysis of the strip mining regulations and conducted the analysis even before agency procedures for carrying out the Order were in final form.

AGENCY: JUSTICE
ASSESSMENT: Too soon to tell

COMMENTS: The Office of Legal Counsel has been given responsibility for assuring compliance with the Order within the Department. Justice is no longer resisting compliance with the spirit of the Order and appears to be trying to do a good job. But with the few regulations affecting the public that have been published recently, it is difficult to judge.

The Executive Order has compelled the Department to establish departmental oversight of the regulations issued by the component units where very little oversight has existed before the Order.

AGENCY: LABOR
ASSESSMENT: Too soon to tell

COMMENTS: Labor has been slow in meeting procedural requirements. Some comment periods have been less than 60 days until OMB intervention resulted in extensions. However, it has done a good job on its first sunset

AGENCY: LABOR (CONTINUED)

review list and it is writing clearer preambles for its regulations. Labor has done two regulatory analyses without waiting for publication of the final report: one on the carcinogenic standards and one on mine safety training programs.

Establishment of internal procedures to elevate significant regulatory decisions to Secretarial level.

AGENCY: OFFICE OF MANAGEMENT AND BUDGET

ASSESSMENT: Too soon to tell

COMMENTS: The December 1 date for publication of the first agenda was missed. However, a serious effort has been initiated to assure OMB compliance. An internal directive detailing the new requirements is being circulated.

Acknowledgement of the regulatory impact of many circulars and agreement to the requirement for public participation in the development of these circulars is an important change in OMB's procedures.

AGENCY: SMALL BUSINESS ADMINISTRATION

ASSESSMENT: Potential Problem

COMMENTS: After a slow start or two, SBA has established responsibility for the Order in the General Counsel's office. There has been little activity in the Federal Register. No evidence that the agency understands its impact as a regulator or is taking the Order's requirements seriously.

AGENCY: STATE

ASSESSMENT: Too soon to tell

COMMENTS: No significant new regulations have been published since the approval of the final report. State has agreed to review all of its regulations by May 15, 1979.

AGENCY: TRANSPORTATION
ASSESSMENT: Serious effort

COMMENTS: Transportation has gone significantly beyond the requirements in many cases. The Department had underway a program similar to the Order before the Order was issued and has willingly adapted its program to comply with the Order. DOT uses the agenda as an internal management tool and requires that it be updated bi-monthly, for internal Departmental use. The semiannual agenda published for members of the public is especially informative. Over 200 of the 400 regulations on the agenda are current regulations under review. The Department has an active and wide-ranging public participation program.

DOT strengthened a departmental office (the General Counsel) to oversee the regulations being issued by the very independent components of the Department.

AGENCY: TREASURY
ASSESSMENT: Serious effort

COMMENTS: After getting off to a slow start, Treasury has used the Order to strengthen Secretarial oversight of the Department, especially through increasing responsibilities of the Executive Secretary's office. The Department, especially IRS, is making a significant effort to write clearer explanations of its regulations and most Treasury regulations now include the name of the author of the regulation. The most difficult area to judge so far has been the seriousness of the effort to review existing regulations.

Strengthening central oversight of the regulations issued by the Department when little, if any, existed before the Order and the component units were very independent.

AGENCY: VETERANS ADMINISTRATION
ASSESSMENT: Too soon to tell

COMMENTS: VA has been reluctant to acknowledge the degree to which VA requirements impact private sector behavior. However, it has instituted a review of all VA directives and appears to be implementing other provisions of the Order. Two significant regulations (on pensions and educational benefits)

AGENCY:

VETERANS ADMINISTRATION (CONTINUED)

are under development and will be monitored closely for compliance with the Order. Constant attention will be needed to ensure the claims made in the procedures are "real".

VA expanded the scope of its review program to include VA directives, manuals, procurement regulations, circulars, etc.

Highlights of Regulations Undergoing "Sunset" Review

Agriculture

- The Food Safety and Quality Service in the Department of Agriculture has announced a major review of regulations governing meat and poultry inspection to identify more effective, less costly methods of inspection.
- Farmer's Home Administration is evaluating minimum property standards established by HUD to determine whether they can be modified to be more appropriate to rural areas. Current standards are considered unnecessarily costly for many rural families.
- The Soil Conservation Service is reviewing existing regulations governing the planning, approval and funding of watershed projects. Particular attention is being focused on the qualification standards, which determine eligibility for Federal funding.

Commerce

- Export Administration regulations governing such things as export of sensitive, high technology electronic equipment to Eastern European countries, and trade with Rhodesia, Cuba, South Africa, and others are under review. The review will provide important information for upcoming Congressional hearings on these issues and update U. S. policies in line with changing relationships with these countries.
- The Maritime Administration plans to review cargo preference and fair and reasonable rate regulations. These were chosen for review because of the effect these regulations have on consumer prices.

Defense

- The Army Corps of Engineers is reviewing the basic regulations which govern the granting of permits to discharge dredged or fill materials into the waters of the United States. The goal is to simplify and streamline these procedures.

Energy

- The Energy Information Administration has underway a major effort to reduce paperwork burdens created by the Department. It is promoting the use of sampling techniques to draw conclusions about overall industry issues or needs and reducing the frequency of reports. It is also trying to standardize as much as possible the terms used on forms and the instructions for filling out forms. An element-by-element justification is also being required for all proposed DOE forms.
- The Office of Conservation and Solar Applications is reviewing existing regulations affecting plentiful or renewable energy supplies to eliminate unnecessary cost or delays involved in the development of such energy supplies.

Environmental Protection Agency

- Ambient air quality standards, which define the maximum amount of an air pollutant that is compatible with an adequate margin of safety to protect public health, are under review. EPA has promulgated new regulations to control ozone -- the principal measurable ingredient in smog. Early this year, the agency will issue revised standards on other major air pollutants such as carbon monoxide and nitrogen oxides. The ozone rules resulted in a 50% reduction in the existing standard with an estimated savings of more than \$2 billion in compliance costs.
- Revised New Source Performance Standards for Electric Utilities, which control the amount of pollutants permitted of large, fossil fuel boilers, will be issued in late February. These revised rules will have a major impact on capital investment and technological choices in the electric utility industry and the price of electricity in the 1980's.

Equal Employment Opportunity Commission

- The Commission is reviewing its guidelines on religious discrimination and the procedures for filing an EEO complaint in the Federal Government. These reviews may have a significant impact on the effectiveness of our EEO programs.

Health, Education and Welfare

-The Department is developing a plan for comprehensive review of all Federal regulations affecting the cost of institutional health care. The review seeks to eliminate or revise requirements that place unnecessary or counterproductive burdens on health care providers. The goal is to assure the provision of quality health care at reasonable cost.

Housing and Urban Development

-Section 8 housing regulations which set minimum building standards, and in part, determine eligibility for FHA loans are under review.

-HUD privacy regulations will be revised to make them more understandable and thus improve the overall administration of HUD programs affecting the public.

-Office of Interstate Land Sales regulations governing the registration, advertising, sales practices, etc., of land sold in interstate commerce will be reviewed. These regulations have been the subject of substantial public complaint in the past.

Interior

-Rights-of-Way regulations mandated by the Federal Land Policy and Management Act and the Mineral Leasing Act are being reviewed to reduce the reporting burden of right-of-way application forms. More specifically the number of mandatory information items is being reduced and consideration is being given to eliminating the requirement for filing duplicate information with subsequent applications.

-The Geological Survey is conducting a complete review and modernization of the on-shore oil and gas operating regulations which were last generally revised in 1942.

-The Fisheries and Wildlife Service is reviewing a series of regulations on the identification and treatment of endangered species and other wildlife to simplify and clarify the language of the regulations and minimize reporting burdens.

Labor

- Federal Contract Compliance Program regulations are being reexamined and rewritten to simplify and clarify them and to ease regulatory burdens. This is a result, in part, of the reorganization of these functions to consolidate them in the Labor Department.
- Work hour and safety standards which affect all federally assisted construction contracts are being revised to reflect current policy and to clarify and simplify language. A regulatory analysis will be prepared on any proposed revisions.
- Mandatory safety standards for surface coal mines and surface areas of underground coal mines are being revised to implement improved safety standards.

Small Business Administration

- SBA's procurement and technical assistance regulations which establish policy and procedures for prime contracting, property sales, and subcontracting assistance are undergoing a complete "overhaul." This project was undertaken as a result of substantial public interest in this area.
- Regulations governing SBA funding of Small Business Investment Companies to provide venture and equity capital to small businesses are under review, again due to the amount of public interest and the important public policy questions involved.

Transportation

- The Federal Railroad Administration has initiated a General Safety Inquiry which includes an in-depth evaluation of existing safety regulations on inspection, maintenance and repair of our railroad transportation system. Emphasis is being placed on the need to eliminate or modify requirements, such as reporting and recordkeeping rules, that increase costs without affecting safety.

- The National Highway Traffic Safety Administration has underway a review of its regulations governing occupant protection in automobiles. The review is examining the current requirements for seat belts and whether or not it is desirable and/or effective to require more passive systems (such as air bags) in automobiles. The costs associated with these regulations and the sensitivity of government regulation of occupant behavior make this a particularly noteworthy review.
- The National Highway Traffic Safety Administration is examining regulations governing the safety of school buses, both structural requirements and occupant protection devices. This review is being undertaken in response to general consumer concern and congressional interest in assuring reasonable safety of children riding on school buses.

Treasury

- The Bureau of Alcohol and Firearms will update existing regulations now imposed on the wine industry to eliminate redundant and obsolete requirements. These regulations have not been revised in forty years. Similarly, regulations requiring the return of substances and containers used in manufacturing distilled spirits are under review. This review could eliminate significant costs to the industry.
- In connection with efforts to clarify and simplify existing requirements that national banks prepare and file "prospectuses" for offering of debt and equity securities, the Comptroller of the Currency will ask for public comments on whether or not the regulation should be eliminated completely or significantly amended by deleting specific requirements prescribing the form and content of the prospectus.

Veterans Administration

- Regulations governing educational assistance are among the first on the list of all regulations under review. The focus is on streamlining these regulations and minimizing paperwork burdens.