

Presidential Appeals ('82 Budget), 12/11/80

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
722 JACKSON PLACE, N. W.
WASHINGTON, D. C. 20006

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December 10, 1980

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MEMORANDUM FOR THE PRESIDENT

FROM: Gus Speth *Gus Speth*

SUBJECT: OMB Budget Recommendations for DOE Nuclear Fission Program

We have carefully reviewed the nuclear fission budget request proposed by OMB for FY 1982. I wish to express my deep concern that the proposed nuclear fission budget is inconsistent with your nuclear non-proliferation and nuclear fission program policies.

Nuclear nonproliferation is one of the most significant policies you established. In April 1977, you stated that funding for U.S. nuclear research and development programs was to be ". . . redirected to accelerate research into alternative nuclear fuel cycles which do not involve direct access to materials usable in nuclear weapons" and that the U.S. breeder reactor program was "to give greater priority to alternative designs of the breeder and to defer the date when breeder reactors would be put into commercial use." Consistent with these policy objectives, we recommend three changes in the DOE nuclear fission program budget proposed by OMB.

DOE research has resulted in programs which provide two of the most promising means of meeting your policy objectives: (1) to improve the uranium efficiency of existing light water reactors (LWRs); and (2) to investigate reactor concepts such as the fast mixed spectrum reactor (FMSR). Indeed, DOE's \$20 million NASAP study, completed this year with broad industry participation, recommended that special emphasis be given to these two efforts. The non-proliferation value of both these techniques is that they utilize uranium much more efficiently, without employing weapons usable fuel, and that they can effectively defer the need for plutonium fuel for several decades, and probably for much longer.

The OMB budget recommendations would terminate both these programs. OMB would close out the LWR uranium efficiency improvement effort by providing \$7 million "to pay mortgages" rather than the \$23 million originally requested by DOE. This recommendation does not advance your policies and is in direct conflict with the unanimous recommendations of the Interagency Ad Hoc NSC Subgroup on the Non-Proliferation Budget that were transmitted to Jim McIntyre in October 1980. OMB would also terminate the exploratory FMSR program. We strongly recommend that DOE receive \$23 million for the LWR uranium efficiency improvement effort and \$1 million for the FMSR.

Finally, we strongly object to OMB's budget recommendation of \$441 million for the LMFBR program. The proposed \$441 million LMFBR FY 1982 budget is inconsistent with your policy to defer commercial introduction of the breeder reactor because it would introduce into the budget hardware procurement for a costly and uneconomic breeder demonstration program. We recommend that the LMFBR program be budgetted at \$300 million, the same amount as in FY 1981.



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

1:30 PM

MEETING ON THE 1982 BUDGET
Thursday, December 11, 1980
1:30 p.m. (two hours)
The Cabinet Room

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

I. PURPOSE

A meeting regarding the fiscal year 1982 budget, including oral appeals relating to the Department of the Interior (1:30 p.m.), the Department of Energy (1:55 p.m.), the Department of Housing and Urban Development (2:20 p.m.), the Department of Commerce (2:45 p.m.), and the Treasury Department (3:10 p.m.). In addition to supporting materials for the oral appeals, one page summaries of EPA, NASA and the Corps of Engineers, and a written appeal for TVA are included in the attachment.

II. Participants

The Vice President
Stuart Eizenstat
Frank Moore
Jack Watson
Eugene Eidenberg
Charles Schultze
Anne Wexler
Jody Powell
Alonzo McDonald

James McIntyre
John White
Bowman Cutter
Gilbert Omenn
Kitty Schirmer
Frank Press
Gus Speth
Alice Rogoff
Robert Havel
Dale McOmber
Mark Gordon
Van Ooms

Interior:

Cecil D. Andrus
Larry E. Meierotto
William Bettenberg

Energy

To be decided later

Housing:

Moon Landrieu
Victor Marrero
Robert Embry
Lawrence Simons
Lawrence Kullman
Terrence Duvernay
David Garrison

Commerce:

Philip M. Klutznick
Elsa A. Porter
Nancy Richards

Treasury:

G. William Miller
Robert Carswell

INTERIOR

Department of the Interior
1982 Budget
Summary of OMB Actions
(\$ in millions)

Net Agency Totals

	<u>1980 Est.</u>	<u>1981 Est.</u>	<u>1982</u>	
			<u>Request</u>	<u>Recom.</u>
Budget Authority	4,529	4,037	5,020	4,273
Outlays	4,444	4,092	4,140	3,935
Full-time Permanent Employment (FTE)..	53,777	53,601	56,406	54,800
Total Employment (FTE)	84,811	84,274	88,580	85,886

Summary of Major Recommendations

- o Urban Park Grants: No funding is proposed for this program, consistent with decisions made in the 1981 March budget revisions (see issue paper).
- o Land and Water Conservation Fund: Funding is proposed at \$493 million versus the request of \$750 million (see issue paper).
- o National Petroleum Reserve Alaska: Federal exploratory drilling is scheduled to terminate, with closeout costs budgeted. Preparations for private development will continue; first lease sale to be held in 1983.
- o Energy Development: 1981 supplementals for the oil shale program, additional onshore oil and gas activities, and improved royalty management on the OCS. The 1982 Budget provides for full funding of the OCS and coal programs, increases for the onshore oil and gas program, continued operation of the oil shale and geothermal programs and initiates a tar sands leasing program.
- o Operating Programs: All operating programs were held at about the 1980-1981 level, with small increases for new areas and management improvements.
- o Office of Surface Mining: Provides for increased State responsibilities for the program, with increases allowed for the Abandoned Mine Fund State grants and decreases in the Federal regulatory program.

DEPARTMENT OF THE INTERIOR
1982 BUDGET
SUMMARY OF APPEAL ISSUES
(\$ in millions)

Issue	1981 Est.	1982		1983		1984	
		Interior Appeal	OMB Recom.	Interior Appeal	OMB Recom.	Interior Appeal	OMB Recom.
1. Urban Park Grants:							
BA	20	125	-0-	136	-0-	147	-0-
Outlays	56	56	43	85	47	110	-0-
2. Land and Water Conservation Fund:							
BA Totals	379	750	493	981	545	1,061	650
State Grants	(229)	(342)	(158)	(580)	(158)	(630)	(158)
Federal Acquisition.	(142)	(398)	(327)	(391)	(379)	(421)	(484)
Administration	(8)	(10)	(8)	(10)	(8)	(10)	(8)
Outlays	470	576	546	750	560	900	610
3. Rangeland:							
BA	92.2	108.4	98.4	123.5	106.1	153.0	110.3
Outlays	84.2	99.1	89.9	118.0	101.2	148.0	105.2
4. Youth Conservation Corps:							
BA	60	60	-0-	60	-0-	60	-0-
Outlays	61	60	5	60	-0-	60	-0-
FTP Employment							
FTE	186	186	-0-	186	-0-	186	-0-
End-of-year	181	181	-0-	181	-0-	181	-0-
5. Garrison Dam:							
BA	10.4	11.0	4.0	39.2 ^{1/}	4.0	48.1 ^{1/}	4.0
Outlays	6.0	11.0	7.5	39.0	4.0	47.0	4.0
Interior total:							
BA	561.6	1,054.4	595.4	1,339.7	655.1	1,469.1	764.3
Outlays	677.2	802.1	691.4	1,052.0	712.2	1,265.0	719.2
FTP Employment							
FTE	186	186	-0-	186	-0-	186	-0-
End-of-year	181	181	-0-	181	-0-	181	-0-

^{1/} Assumes successful negotiations with Canada.

I. Urban Grants

DEPARTMENT OF THE INTERIOR
1982 Budget

1/2

Issue #1: Urban Park Grants

Statement of Issue: Should funding for the Urban Park and Recreation Recovery program be continued in 1982 and beyond?

Alternatives:

1. Stop funding in 1982 (OMB recommendation).
2. Fund program at \$125 million level in 1982 and in outyears (Interior request).

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Discussion:

The Urban Park and Recreation Recovery program was enacted in 1978 as part of the Administration's Urban Policy initiative. The authorization provided for total appropriations of \$730 million from 1979-83. The program provides 50 to 85 percent Federal matching grants to approximately 350 eligible cities to restore existing recreational facilities, to demonstrate ways to enhance park and recreation opportunities at the neighborhood level, and for planning.

The program received appropriations of \$20 million in 1979 and \$125 million in 1980. The January 1981 budget included \$125 million. The March revision proposed rescinding \$85 million of the 1980 appropriations and no funding in 1981. The Congress rescinded \$15 million of 1980 funds, deferred \$45 million of 1980 funds into 1981, and appropriated \$20 million for 1981. This action provided for a program of \$65 million in both 1980 and 1981.

Interior believes this program should be supported because:

Cities, blacks, Envir.

BA 125
0 13

- It is targeted to needy urban areas which characteristically have deteriorated recreation facilities;
- These funds will leverage private revitalization monies;
- To participate in the program, cities are required to do city-wide recreation maintenance and development planning. 300 cities and urban counties have committed themselves to this substantial planning effort which would probably be wasted if the program were terminated;
- The program was one of those proposed in this Administration's National Urban Policy and is the only one to be authorized and funded;

- This program provides close-to-home recreation opportunities to urban populations, which otherwise have limited recreational opportunity.

OMB believes funding for the program should be terminated because:

- It expands the Federal role into local affairs using a narrow categorical grant approach;
- Providing local community recreation facilities is a low priority use of Federal funds in an economic climate that severely restricts Federal outlays;
- There is only anecdotal evidence to support the assumption that relatively small park rehabilitation projects will generate private economic activity;
- This purpose is an eligible use for Urban Development Block Grants; an old HUD "open space" program was for similar purposes, was unsuccessful, and was merged into the block grant program;
- 75 percent of all Americans have nearby parks and playgrounds and two-thirds of city residents have a public recreation facility in their own neighborhood; and
- As a new program without an established constituency, there is a realistic opportunity to end the program while overall fiscal policy requires constraining discretionary grant programs.

Budget Authority/Outlays (\$ in millions)

	1981 Est.	1982		1983		1984	
		<u>Interior Appeal</u>	<u>OMB Recom.</u>	<u>Interior Appeal</u>	<u>OMB Recom.</u>	<u>Interior Appeal</u>	<u>OMB Recom.</u>
BA	20	125	-0-	136	-0-	147	-0-
Outlays	56	56	43	85	47	140	-0-

2. DMCP

DEPARTMENT OF THE INTERIOR
1982 Budget

Issue #2: Land and Water Conservation Fund

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Statement of Issue: What should be the level of funding for the LWCF in 1982?

Alternatives:

1. Fund at \$493 million with \$158 million available for State grants (OMB recommendation).
2. Fund at \$750 million with \$342 million available for State grants (Interior request).

Discussion:

The LWCF provides for up to 50 percent matching grants to the States for outdoor recreation land acquisition, facilities development, and planning. In addition, at least 40 percent of the Fund must be for Federal land acquisition by the Federal land managing agencies.

Authorizations for new national parks, historic sites, wildlife refuges and other conservation areas during this Administration have totaled over \$1 billion. Most of these authorizations were supported by this Administration. Some areas, such as the Redwood National Park expansion, are expected to cost more than twice their original authorizations. In addition, Interior and the Forest Service have identified an additional \$1.5 billion worth of recreation lands which could be acquired using general land acquisition authorities. OMB and Interior agree that increased emphasis should be placed on specifically authorized areas. Interior would increase funding for such areas by \$24 million and other Federal acquisitions by \$47 million.

The recent funding history for the LWCF and distribution of the recommended levels is as follows:

	Actual Appropriations				1982	
	1978	1979	1980	1981	Interior Request	OMB Recom.
State Grants	306	370	300	→ 229 ³⁰⁴	342	158 } ⁴⁸⁵
Federal Acquisition	490	360	201	→ 142 ²³²	398	327 }
Administration	9	7	8	8	10	8
Total, LWCF	805	737	509	379 ⁵⁴⁴	750	493

The Congress deferred \$165 million of 1980 funds making the available 1981 budget authority \$304 million for State grants and \$232 million for Federal acquisition.

Interior believes that:

- The Administration should support a \$750 million level in the LWCF as part of its commitment to recreation, wildlife and natural area protection and provision of recreational opportunity. This returns to Administration supported 1978-79 levels, not counting inflation.
- The demand by the States for the grant program in 1982 is about \$550 million for local and regional land protection and recreational projects, 40 percent greater than Interior's requested level. OMB would significantly increase this disparity, reducing the State grants to about 50 percent of the amount available in 1981.
- The requested level would allow for acquisition of additional areas which were supported by the Administration in the authorization process.
- Recreation opportunities on Federal lands would be increased, and natural areas protected with relatively low cost acquisitions, frequently forestalling adverse development threats, using general land acquisition authorities.
- Approval of Interior's 1982 request does not imply that the long range numbers in the table below must be approved. Using the ZBB process, levels of funding and the distribution between grants and acquisition are decided on a year by year basis.

OMB believes that:

- Overall fiscal policy requires constraining program growth in all discretionary grant programs.
- \$750 million level is unrealistically high as the Congress has appropriated only \$509 million in 1980 and \$379 million in 1981.
- Meeting over 60 percent of the State demand in 1982, and about 100 percent in the outyears, does not reflect the reductions that are being taken in many other domestic programs.
- Financing local recreation facilities (parks, golf courses, tennis courts, etc.) is a low priority use of Federal funds in tight budget years. These can be financed by local governments.

- First priority must be acquiring specifically authorized areas, to avoid price escalation problems and to reduce uncertainty to private land owners of the Government's intentions following congressional action. Purchase of other areas can easily be postponed.

Budget Authority/Outlays (\$ in millions)

	1981 Est.	1982		1983		1984	
		Interior Appeal	OMB Recom.	Interior Appeal	OMB Recom.	Interior Appeal	OMB Recom.
BA Totals	379	750	493	981	545	1,061	650
State Grants	(229)	(342)	(158)	(580)	(158)	(630)	(158)
Federal Acquisition	(142)	(398)	(327)	(391)	(379)	(421)	(484)
Administration	(8)	(10)	(8)	(8)	(8)	(10)	(8)
Outlays	470	576	546	750	560	900	610

DEPARTMENT OF THE INTERIOR
1982 Budget

Issue #3: Rangeland Management

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Statement of Issue: Should Interior's rangeland management activities be funded to maximum authorized by law?

Alternatives:

1. "Fully fund" at maximum authorized by law (\$108 million).
2. Fund at level currently recommended by OMB (\$98 million).

17 = 6/84
83 2/80

Discussion:

Rangeland management activities include planning and environmental analysis for grazing and wildlife uses required by court decision, as well as construction of on-the-ground improvements, and management of the resources: forage, soil, water and air quality, and erosion control.

In the past, overgrazing by private stockraisers has degraded the public rangeland. Starting with passage of the Federal Lands Policy and Management Act (FLPMA) in 1976 and the Public Rangelands Improvement Act (PRIA) in 1978 more emphasis has been given to improving the condition of the public rangelands. Recognizing that part of an effort to restore the public rangelands could result in grazing reductions adverse to the private sector, the PRIA authorized additional monies for range investment projects to ameliorate such adverse effects.

The same act established a formula for setting grazing fees that have reduced the fees that would otherwise have been charged stockraisers over the past two years for grazing on the public lands. By law, half of these fees are returned to the States and the other half must be used by the Federal Government on range management.

The concept of "full funding" means requesting in the budget the maximum amount authorized by the FLPMA and the PRIA. The FLPMA level is determined by enactment into law of amounts reported by the Secretary as "the funding levels which he determines can be efficiently and effectively utilized (for range management) notwithstanding any budget guidelines or limitations imposed by any official or agency of the executive branch". The PRIA authorizes appropriation of \$15 million to \$20 million more per year than authorized under FLPMA, and any amount not appropriated can be carried forward to future years. Thus, taken at face value, "full funding" means budgeting more than can be efficiently and effectively utilized.

Your budgets over the past four years have provided for significant increases (approximately 70 percent) in funds used for rangeland management, with appropriated funds increasing by 78 percent and fees increasing by 27 percent.

	(\$ in millions)			
<u>Funds</u>	<u>FY 1979 Carter Budget</u>	<u>FY 1981</u>	<u>FY 1982 OMB Allow.</u>	<u>FY 1982 Appeal</u>
Rangeland Management from appropriations	55	92	98	108
Improvements from users fees.	<u>11</u>	<u>14</u>	<u>14</u>	<u>14</u>
Total funds	66	106	112	122

Interior believes that:

- Fully funding the authorization is not only politically attractive but is warranted by programmatic reasons.
- The current rangeland program is a decade-long effort to improve and restore the long-term productivity of the rangelands, typically through a combination of short-term grazing reductions and longer term productivity investments (a commitment made in the 1979 Environmental Message).
- The political attractiveness stems from attempting to retain the confidence of rangeland users whose grazing use has been or will predictably be reduced in the near term as each grazing area plan is developed and implemented.
- The programmatic reason is that most of the rangeland needs rehabilitation and can be restored to much higher levels of productivity than currently exist. New investment criteria being put in place should also result in more cost efficient use of such funds.

OMB believes that:

- Since the failure to reach a full funding level in FY 1982 is partially a result of congressional reductions in FY 1981, it makes little sense to mechanically request a "full-funding" level in FY 1982.
- Your 1981 budget was 43 percent greater than the 1980 budget for rangeland management. Interior and OMB are developing economic criteria for funding range projects. Further large scale funding increases should await a period of field testing of the criteria to see if they do indeed target monies in an economically efficient manner.

- The Environmental Message called for designing programs that achieved environmentally sound, fiscally responsible and economically efficient investment, development, protection and resource use. We believe OMB's mark, \$6.2 million above the 1981 appropriation and 78 percent above your 1979 appropriated budget, meets that mandate.

Budget Authority/Outlays (\$ in millions)

	1981 <u>Est.</u>	1982		1983		1984	
		<u>Interior Appeal</u>	<u>OMB Recom.</u>	<u>Interior Appeal</u>	<u>OMB Recom.</u>	<u>Interior Appeal</u>	<u>OMB Recom.</u>
BA	92.2	108.4	98.4	123.5	106.1	138.0	110.3
Outlays	84.2	99.1	89.9	118.0	101.2	133.0	105.2

DEPARTMENT OF THE INTERIOR
1982 Budget

Issue #4: Youth Conservation Corps

Statement of Issue: What should be the level of funding for the Youth Conservation Corps (YCC) in 1982?

Alternatives:

1. Fund at \$60 million which is the current level (Interior request).
2. Terminate the program at the end of 1981 and provide no funds in 1982 (OMB recommendation).

Discussion:

The objectives of the program are to: (1) provide gainful outdoor summer employment for youth, ages 15-18; (2) develop and maintain natural resources and recreation facilities; and (3) increase enrollees' understanding of the environment. The enrollees work on national forests, parks, wildlife refuges and other Federal and State areas. They earn minimum wage and work on projects such as campground and trail construction and maintenance, wildlife management, road maintenance, range improvements and other natural resources management tasks. Interior and Agriculture each receive 35 percent of the funds, with the remaining 30 percent available for grants to States.

The YCC is a popular program with youth and has strong State and Congressional support. Congress has frequently appropriated more funds than requested. Although the appropriation has traditionally been to the Department of Agriculture, Congress has just appropriated the funds to Interior in 1981 because they feel that Interior supports the program more enthusiastically.

Arguments against the program:

- YCC is not targeted to the disadvantaged but must by law be open to all youth regardless of economic or social backgrounds.
- Its value in environmental education is doubtful.

- It is expensive compared to other (Department of Labor) youth employment and training programs and does not address a critical sector of unemployment; i.e., these youths are not heads of households.
- It is not an efficient way to accomplish conservation and recreation work. Activities on which youths of this age may work are limited and much of the work is low priority.
- The program reaches a very small number of youths.
- It is not a critical program given strong pressures on available Federal financial resources.

Arguments for the program:

- While not targeted, the over 10,000 enrollees in Interior's 1980 program included:
 - 30 percent minorities (of which over one-third are Indians)
 - 48 percent females
 - 30 percent disadvantaged - about twice the proportion of disadvantaged in the population, and it is a useful experience for the enrollees to learn to work with others from different economic and social backgrounds.
- Enrollees learn good work habits which will help them in other jobs.
- The estimated value of the conservation work accomplished is about equal to the cost of program operations, a factor which should be considered in comparing YCC to other training programs.
- Enrollees are exposed to the natural environment and gain an appreciation for natural resources.

Budget Authority/Outlays (\$ in Millions)

	<u>1981</u> <u>Estimate</u>	<u>1982</u>		<u>1983</u>		<u>1984</u>	
		<u>Interior</u> <u>Appeal</u>	<u>OMB</u> <u>Recom.</u>	<u>Interior</u> <u>Appeal</u>	<u>OMB</u> <u>Recom.</u>	<u>Interior</u> <u>Appeal</u>	<u>OMB</u> <u>Recom.</u>
Budget Authority	60	60	0	60	0	60	0
Outlays	61	60	5	60	0	60	0

NOTE: Interior also believes that the Young Adult Conservation Corps should be continued in 1982. This program funded by the Department of Labor is similar to the YCC, but provides employment on a year-long basis. Funds are transferred from Labor to Interior and Agriculture.

5. Garrison

DEPARTMENT OF THE INTERIOR
1982 Budget
Issue: #5 Garrison Diversion Unit

Statement of Issue: What should be the level of funding for the Garrison Diversion Unit in 1982?

Alternatives:

1. Fund at OMB suggested level of \$4 million.
2. Fund at Interior's proposed level of \$11 million.

Discussion:

The construction schedule on the Garrison Diversion Unit has been hotly contested for several years primarily because of environmental issues, including those raised by the Canadian Government and Interior's revised plan for the project. Despite Administration opposition, Congress appropriated funds this summer to reinstate project work on features that did not affect Canada. After review, the Secretary approved and publicly announced on November 18 a construction schedule that would allow work to continue on features clearly not affecting Canada and placed \$4.9 million in reserve until consultations with Canada are held. After consultations, these funds would be used to initiate construction on two features about which Canada is most concerned.

In conjunction with the announcement, the State Department on December 1 sent a note to Canada which set forth the work schedule, indicated the amounts and purposes of the funding held in reserve, requested that the consultation process begin no later than March and invited visits to the United States by Canadian experts to review the technical aspects of the project as a prelude to those consultations. Interior has proposed a 1981-82 funding program consistent with the announced plan. Interior proposes to hold the \$4.9 M in reserve for most of 1981 and to add a net amount in 1982 of \$2.1 M over the two year \$14 M total that OMB proposes. These funds would provide for award of contracts in 1982 for water distribution in the West Oakes Test Area, a fish screen on the McCluskey Canal, and for fish and wildlife mitigation measures.

OMB proposes instead to use all the available appropriated funds for planning and for work on separable features which 1) would clearly not affect Canada, 2) would be operable even if the main project were not completed, and 3) would not create long-term commitments to build key features of either the original or revised Interior plan for the project. Only a small (\$4M) 1982 amount would be requested for studies, maintenance, and coordination with Canada.

OMB believes that with \$14.4 M available over 2 years, a construction schedule can be developed for the West Oakes separable feature and associated mitigation, as Interior requests, if it were not necessary to reserve \$4.9 M for eventual use on main project features.

Interior Argues That:

- The \$4.9 million should be retained in reserve to allow construction to be initiated following the consultation and as an inducement to assure that Canada joins those discussions. This view holds that Canada will have little incentive to negotiate if the United States is not in a position to move forward on construction of Lonetree Dam and New Rockford Canal.
- Funding should be provided for the contract for water distribution which is necessary to complete the Oakes Test Area.
- Funding should be provided for the McCluskey Canal fish screen which is of great concern to Canada.
- Funding should be continued for concurrent fish and wildlife mitigation consistent with Administration water policy.

OMB Argues That:

- The project plan that is under discussion with Canada has not been given Administration approval for construction and has not been authorized by Congress or agreed to by North Dakota. It was approved only as a vehicle to open discussions with Canada.)
- It is premature to earmark funds for contracts on major key features of the project that will cost \$40 M in total.)
- If the consultations are concluded on the schedule that the Secretary foresees and congressional concurrence with the revised project is obtained, adjustments in the budget can be made at that time.)

CORPS OF ENGINEERS

Corps of Engineers-Civil
1982 Budget
Summary of OMB Actions
(\$ in millions)

Agency Totals

	<u>1980</u>	<u>1981 A/</u>	<u>1982</u>	
			<u>Request A/</u>	<u>Recom. A/</u>
Budget Authority	3233	2968	3625	3339
Outlays	3257	3285	3405	3355
Full-time Permanent Employment (FTE)	28446	27644	28350	27444
Total Employment (FTE)	34836	35500	36250	35300

Summary of Major Recommendations

- o New Starts: Because Congress has not appropriated funds for the Independent Review function of the Water Resources Council, the budget will indicate that new start recommendations would be made if the independent review were operational. Army had recommended \$278 M to fully fund 8 new construction starts.
- o The Ongoing Construction Program: Is funded at \$2016 M, a level \$260 M below what would be required to keep all projects on current completion schedules. This delays completion on 60 projects an average of 8 months, though the features producing high priority benefits will be completed on schedule.
- o Operation and Maintenance: Functions will continue at FY 80-81 levels.
- o Operating Costs: Reductions totaling \$8 M are made.
- o Corps Personnel Ceilings: Were held to their projected December 31, 1980 (freeze) level throughout FY 81 and FY 82.

A/ Includes the effect of 1980 pay costs.

DEPARTMENT OF ENERGY

Department of Energy
 FY 1982 Budget
 (\$ in Millions)

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	1981		1982		1983		1984	
	Initial Agency Request	OMB Rec.						
Defense Programs	3664	3618	5426	4730	5795	4866	5492	4881
Strategic Petroleum Reserve	1485	1485	3082	3674	3463	3188	2778	2418
Energy Programs	6890	6350	11010	7969	11839	7756	11440	7319
Utility Oil Backout	25	0	9947	0	5	0	4	0
Less: Receipts	-1639	-1639	-1903	-1895	-2802	-2802	-2789	-2789
Total BA	10425	9814	27562	14478	18300	13008	16925	11829
Total Outlays	10034	9566	16804	13572	16145	14177	16613	13745

For FY 1982, DOE and OMB agree on a total of \$14.5B BA and \$13.6B in outlays. In its preliminary review, OMB considered a total of \$13.1B BA, but DOE and OMB subsequently agreed to an upward adjustment of \$1.3B to ensure that major Administration commitments are met. The 1982 budget provides for:

- ° A major increase in defense programs, particularly for increased testing and materials and weapons production to meet Administration commitments.
- ° Initiation of the 3rd 250MB increment of the Strategic Petroleum Reserve, and sufficient funding in the OMB recommendation to fill SPR to available capacity (261MB) by the end of 1982.
- ° Deletion of \$10B BA (\$1.3B outlays) for the Utility Oil Backout program - leaving the current regulatory program under the Fuel Use Act in place.
- ° A substantial increase in energy programs, primarily due to built-in increases in the funding of major fossil energy demonstration projects as these projects proceed from design to construction.

There is a possibility of several relatively small adjustments in the 1982 estimates as a result of final decisions on continuing the modernization of the 155mm nuclear rounds, revised oil price assumptions and on science programs still under consideration as part of the Economic Revitalization program.

81
 \$66m
 82
 \$40m
 320m

A major difference between the initial agency request and the OMB recommendation is the agreed upon deletion of the Utility Oil Backout program. The decrease from the request in the weapons program is for a number of non-critical and deferrable items including elements of defense waste management. The decreases in the energy program are in near term R&D and commercialization where there are adequate incentives for private investment and also in conservation grants to hold programs essentially level. The reduction in conservation grants stems from deletion of increases for weatherization and schools and hospitals earlier included under the Economic Revitalization program, which DOE is not appealing.

The FY 1982 budget provides for continued funding of a number of Administration commitments in the fossil area, including two SRC demonstrations, a high-Btu coal gasification demonstration, other fossil energy demonstrations and continued funding for Magnetohydrodynamics. In the nuclear area, the budget provides funds to continue the High Temperature Gas Reactor (HTGR) program, a program Congress added back to the 1981 budget. Although funds are provided to meet prior commitments, the budget is still significantly below the request particularly in the fossil program.)

- Regarding SRC-I, OMB still has reservations about this project not only because the technology is largely duplicative of the SRC-II plant but also because of the limited market potential for the SRC-I solid product. Because of limited market potential, the project is being redesigned to produce a greater proportion of liquid products, thereby increasing the duplication with SRC-II.
- Regarding the HTGR, OMB is concerned about the potential pay-off of this project, but Dr. Press and the Secretaries of Defense and Energy strongly support continued government involvement.

OSTP and NSC generally concur in the recommended budget. CEQ has proposed an additional \$65M in solar thermal, passive solar, wind, industrial conservation and indoor air pollution. The OMB recommendation already incorporates \$32M of the items in the CEQ request. CEQ also recommends a reduction of \$141M in the breeder program, offset by increases totalling \$17M for LWR uranium efficiency improvements and the fast mixed spectrum reactor. DOE and OMB believe that the Liquid Metal Fast Breeder Reactor (LMFBR) program should be funded at a \$441M level in keeping with your recent letter to Senator Church stating that "a strong LMFBR base program is an essential ingredient of our energy policy for the future."]

OMB and DOE disagree on only one issue--personnel levels for 1981 and 1982. We hope to have this resolved before our meeting with you on the DOE budget. If not a separate memo will be prepared.

TENNESSEE VALLEY AUTHORITY

Tennessee Valley Authority
 1982 Budget
 Summary of Budget Agreement
 (\$ in millions)

	1981		1982		1983		1984	
	Initial Agency Request	OMB Recomm.						
Budget Authority	351	133	709	149	738	141	857	119
Outlays	2148	2190	2180	2190	2855	2251	2870	1891

Except for the coal gasification project discussed below, TVA and OMB agree on 1982 totals of \$149 million in BA and \$2,190 million in outlays. Most of the outlays, \$2,010 million, are attributable to the self-financed power program, which is not at issue.

The major differences between TVA's initial request of \$709 million BA and OMB's recommendation of \$149 million BA include OMB's deletion of (1) more than \$500 million in energy demonstrations which overlap DOE or Synthetic Fuels Corporation responsibilities or begin demonstration phases of projects before evaluating the results of pilot efforts, (2) almost \$30 million in natural resources for various lower priority recreational and other development activities, and (3) \$7 million in economic, regional and local development initiatives which can be addressed in part by other Federal programs. The 1982 budget now provides:

- \$67 million for economic and community development, agriculture and fertilizer demonstrations;
- \$64 million for natural resources, including water projects and land, forest and environmental programs; and
- \$18 million for energy demonstrations, for which TVA will reduce its planned effort--particularly in solar, transportation and waste heat programs where the Department of Energy has primary responsibility. The atmospheric fluidized bed coal boiler project, an important national energy demonstration uniquely suited to the TVA utility capability, will continue to completion.

TVA is, however, appealing the OMB recommendation to delete all funds for its major coal gasification project.

- In 1979 and 1980, Congress appropriated--on its initiative--\$14 million and \$60 million respectively for TVA to conduct preliminary studies and design work.
- In 1981 TVA requested funds to begin siting and detailed design work. However, the Administration's 1981 Budget included no funding for this project. Congress ignored the Administration's 1981 request to make the project eligible for support by the Synthetic Fuels Corporation (SFC) and, on recommendation of the House Appropriations Committee, the Congress provided \$150 million directly to TVA.
- For 1982, TVA is requesting \$350 million to continue the project.

This project was originally conceived of as a first-of-a-kind coal gasification demonstration to cost \$1.2 to \$1.5 billion. The cost in current dollars is now estimated to be \$3 to \$4 billion of which TVA proposes 100 percent be financed by Federal appropriations (as opposed to any power program revenues or other sources of funds) because of the technical and financial risks of the project and the national benefits which would be gained, e.g., resolving institutional problems and demonstrating environmental controls. TVA believes that its experience with large construction projects places it in a unique position to rapidly complete this project which "will serve as a yardstick for subsequent plants."

Since 1979 a number of changes have occurred to raise questions as to the need for this project, given its budget impact. DOE is now funding a similar medium btu coal gasification plant in Memphis, Tennessee. This and other projects funded elsewhere, e.g., SFC projects, the DOE-supported ANR project and a proposed Kodak project will capture many of the national benefits claimed by TVA. Even if TVA were able to complete the first plant module on schedule (i.e., 1985), the benefits associated with the one year earlier completion date for the TVA plant does not justify the \$3 to \$4 billion investment. Because the gasification technologies now being proposed by TVA are already in commercial use throughout the world, there is little justification for this project from a technology demonstration standpoint. Finally, with the creation of the Synthetic Fuels Corporation there is less need to have the Federal Government demonstrate commercial synfuel technologies outside the SFC program.

EPA	
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Environmental Protection Agency
 1982 Budget
 Summary of OMB Actions
 (\$ in millions)

Agency Totals

	<u>1980</u>	<u>1981</u> ^{A/}	<u>1982</u>	
			<u>Request</u> ^{A/}	<u>Recom.</u> ^{A/}
Budget Authority	4,669	4,776	6,556	5,345
Outlays	5,603	5,506	5,961	5,701
Full-time Permanent Employment (FTE)	10,671	11,063	12,540	11,254
Total Employment (FTE)	13,103	13,656	15,406	13,921

Summary of Major Recommendations

- o Operating Programs - EPA's operating programs, which carry on the the Agency's research, regulatory, and enforcement efforts, receive an increase in FY 1982 of \$19 million in budget authority and 191 full-time permanent employees over the enacted FY 1981 level. These additional resources support several initiatives including an increased emphasis on enforcement, efforts to protect the nation's supply of groundwater and an effort to move the Agency toward integrating its regulation of toxic substances across all of its regulatory programs.
- o Construction Grants - EPA's sewage treatment grants are to be funded at \$3.7 billion, an increase of \$300 million over the FY 1981 enacted level.
- o Superfund - Superfund is currently slated to be funded at \$250 million in budget authority for FY 1982. With the bill's recent passage, the budget authority and personnel need to be readdressed for both FY 1981 and FY 1982.

^{A/} Includes the effect of 1981 pay costs.

NASA

National Aeronautics and Space Administration
1982 Budget
Summary of Budget Agreement
(\$ in millions)

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	1981		1982		1983		1984	
	Agency Request	OMB Recomm.	Initial Agency Request	OMB Recomm.	Initial Agency Request	OMB Recomm.	Initial Agency Request	OMB Recomm.
Budget Authority	5462	5462	7018	6647	7932	7108	8253	6759
Outlays	5192	5192	6443	6292	7418	6825	7956	6735

Except for a few small basic research projects being considered under the Economic Revitalization Program, the NASA 1982 budget is settled. The OMB recommendation now includes:

- ° The full request for the Shuttle, including funds to protect a fifth orbiter option.
- ° Two major new projects, the Venus Orbiting Imaging Radar and the Numerical Aerodynamic Simulator, a supercomputer which will improve the productivity of new aircraft design and contribute to basic research in other disciplines.
- ° Continuation of other ongoing programs with real increases in basic and longer range research.

The initial OMB determination for 1982 was \$6,549 million. NASA appealed \$235 million, principally for pricing adjustments but also funding for the Numerical Aerodynamic Simulator and the U.S. participation in the European Halley's Comet mission. OMB agreed to recommend another \$98 million for pricing adjustments, basic research, the Simulator, and support for observing Halley's Comet. Based on uncertainties in negotiating U.S. participation in Halley's Comet, a decision on further funding for U.S. participation is deferred at least until late December (cost is less than \$5 million in 1982).

\$ 6087.250M.

Department of Housing
and Urban Development

Department of Housing and Urban Development
1982 Budget
Summary of Appeal Issues
(dollars in millions)

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Issue	1982		1983		1984	
	Agency Appeal	OMB Rec.	Agency Appeal	OMB Rec.	Agency Appeal	OMB Rec.
1. Subsidized Housing:						
BA	27,224	25,449	29,429	27,577	31,607	29,617
0	16	15	190	181	609	579
	<i>4.2 mil now</i>					
	<i>+ ?</i>					
2. Other HUD Issues:						
A. Rent Burden:						
BA	86	---	185	---	303	---
0	178	---	405	---	699	---
B. Housing Opportunities Program:						
BA	20	---	23	---	24	---
0	8	---	29	---	24	---
C. Urban Development Action Grants:						
BA	875	675	960	675	1,050	675
0	634	610	740	660	795	675
D. Community Energy Development Block Grants:						
BA	300	---	375	---	470	---
0	5	---	95	---	300	---
Total:						
BA	1,281	675	1,543	675	1,847	675
0	825	610	1,269	660	1,818	675
Agency Totals:						
BA	39,235	36,854	41,134	38,414	44,846	41,684
Outlays	14,962	14,746	16,661	16,043	18,960	17,787
FTP Employment:						
FTE	16,040	15,875	16,040	15,875	16,040	15,875
End of Year:	15,602	15,452	15,602	15,452	15,602	15,452

Department of Housing and Urban Development
1982 Budget Overview

In September, HUD initially requested a substantial increase in 1982 budget resources to fund 12 program initiatives and significant expansions in current programs. As a result, the initial HUD 1982 budget request was for \$49 billion in budget authority (\$4.5 billion over ceiling) and \$15.4 billion in outlays (\$1.5 billion over ceiling). HUD's personnel request to staff these program expansions and new initiatives was also 10% above the personnel planning ceiling. Most of HUD's new initiatives were in the housing area and raised fundamental policy issues about the traditional Federal emphasis on eliminating substandard housing for low-income households by proposing: (1) new homeownership and rental housing subsidy programs for the middle class and (2) new subsidy programs to protect current subsidized tenants from inflation.

The initial OMB decisions for the HUD budget request denied most of the new initiatives and program expansions, and proposed three program reforms to reduce outlays while attempting to maintain current program levels. These OMB decisions provided \$34.9 billion in HUD budget authority and \$14.2 billion outlays for 1982.

Although HUD appealed 29 specific program marks, there is agreement between OMB and HUD on all but 5 issues. HUD has dropped all but two of their new initiatives and has agreed to maintain existing HUD programs at or below their current levels, except for (1) public housing operating subsidies, where an increase in funding was needed to maintain current services and meet increased utility costs and (2) the Urban Development Action Grant program, which is being appealed. OMB also agreed to drop two of its program reforms. The third program change--a proposed increase in tenant rent burden--is being appealed.

As a result of these agreements, the 1982 HUD budget estimates have been increased to \$36.9 billion in budget authority and \$14.7 billion in outlays. While HUD 1982 budget authority has been increased \$2 billion, HUD 1982 outlays are now more than \$500 million above the initial OMB decisions and over \$800 million above the OMB planning ceiling.

Two basic issues are raised in the HUD appeal. The first involves the level and mix of additional low-income rental subsidized housing units to be supported in the 1982 budget. OMB recommends that \$25.4 billion in budget authority be provided to support 250,000 additional HUD subsidized housing units, 50% newly constructed or substantially rehabilitated, 50% existing. HUD recommends that \$27.2 billion in budget authority be provided to support about 265,000 units at a total mix of 53% new and 47% existing.]

The second issue involves four HUD appeals for program expansions or initiatives. These additions would significantly increase HUD outlays during the 1982-1984 planning period. OMB and HUD would agree that, if additional budget resources were available to increase some 1982 government programs, HUD's appeal on rent burden should be given a high priority. HUD and OMB disagree about the priority to be given the remaining three HUD appeal issues on the new Fair Housing Opportunity program, the UDAG program expansion, and a new Community Energy Development Block Grant proposal.

ISSUE #1

Department of Housing and Urban Development
1982 Budget
Issue #1: Subsidized Housing

Statement of Issue

What should be the level of resources provided for the HUD subsidized housing programs in the 1982 budget and how should these resources be allocated between new and existing housing units?

Background

In its 1982 budget submission, HUD proposed a subsidized housing program of \$29 billion in budget authority to support 110,000 units of existing low income rental housing, 150,000 units of new low income rental housing and 40,000 middle income rental housing units, for a total subsidized housing program of 300,000 units.

OMB denied the new middle income program and now proposes to hold the 1982 program to a level of 250,000 units requiring \$25.4 billion in budget authority. OMB also proposes that for 1982 the subsidized housing program be divided 50/50 between new and existing units.

On appeal, HUD has argued for a low income 1982 program of \$27.2 billion to support 264,882 units at a new/existing mix of 53/47 (60/40 for units governed by local Housing Assistance Plans).

Attached is a table showing the budget cost of alternative combinations of program level and mix.

The Program Level

OMB and HUD agree that the 1982 subsidized housing program level should be essentially equivalent to the 1981 program. The difference between OMB and HUD at this point is the definition of the 1981 program level.

OMB believes 250,000 units is the proper figure while HUD argues for 264,882 units.

In the 1981 budget, the Administration proposed to begin financing the cost of the construction of public housing projects based upon the use of taxable, rather than tax-exempt bonds. This program reform is desirable in order to (1) reduce the volume of tax-exempt bonds, which are a principal means of tax avoidance for high income taxpayers; (2) avoid driving up interest rates on long-term tax exempt debt issues of State and local governments; and (3) reflect fully the cost of public housing in the HUD (rather than the Treasury) budget. Unfortunately, the Congress rejected this Administration initiative and directed that the budget authority which the Administration included in the 1981 budget solely to accomplish the financing change be used instead to expand the subsidized housing program level.

As a result of Congress' action, both HUD and OMB agree that the 1981 appropriation will support 261,600 housing units. However, OMB argues that 10,000 of these units will be supported out of resources which the Administration had intended to use not for program expansion but only to accomplish a needed financing change. Subtracting these resources, which Congress used for an unintended purpose, the adjusted 1981 program level would be 250,000 units. Straightlining this program level, therefore, would give 250,000 units in 1982 as well.

HUD responds that the budget authority provided by Congress for FY 1981 was \$1 billion below the level sought by the Administration, excluding the additional funds for taxable financing of public housing. Thus, HUD argues that the 261,600 units Congress provided come entirely out of assisted housing funds. HUD notes further that for FY 1981, the Administration requested funding for a 300,000 unit program. The actual amount appropriated for 1981, \$30.9 billion in budget authority, would support 264,488 units in FY 1982.

While HUD has agreed for purely fiscal constraint reasons to a "current level" policy, HUD has provided for consideration a 300,000 unit alternative level which is the same level proposed by this Administration in every one of its prior budgets except the first one where 400,000 units were proposed.

The New/Existing Mix

The proportion of new and substantially rehabilitated units to existing units which is supported out of subsidized housing resources is important because:

- it affects total program costs;
- it raises questions of national versus local housing priorities; and
- it involves the role of the Federal Government in stimulating the production of rental housing.

During the past few years, HUD and OMB have disagreed about the mix of new and existing rental units. HUD has argued that the budget should be premised upon the most recent information on local communities' needs for subsidized housing as specified in their housing assistance plans (HAPs), which the communities must submit to HUD as part of the application for a Community Development Block Grant. On a national basis, these plans always favor a greater proportion of higher cost new and substantially rehabilitated units than existing units.

HUD believes the 1982 program should be based upon a 53/47 new/existing mix because:

- As recently as the 1976 HUD Authorization Act, Congress directed the HUD Secretary to administer the subsidized housing programs in accordance with the goals for new, substantially rehabilitated, and existing housing units as specified in locally developed HAPs. Although the Banking Committees established dollar limitations that were not strictly based on the HAP mix, Congress reiterated its directive to HUD to follow local HAPs "to the maximum extent practicable" in the 1980 authorizing legislation. HUD will carry out this instruction by allowing HAPs to govern the distribution of the units for which local governments actually plan when preparing their HAPs, while providing separately for non-HAP units (Indian housing, units for HUD-acquired properties, etc.). The effect of this policy is that HUD proposes an overall 53/47 mix for FY 1982, but the HAP-governed units will be allocated on a 60/40 basis, thus maintaining a commitment to local government control.
- The construction of new rental units has fallen off dramatically in recent years, and rental markets around the country have steadily tightened. Artificially shifting the new/existing mix toward existing subsidies only aggravates this trend.
- Existing rental markets are already showing signs of severe stress: low vacancy rates; rapid increases in rents; displacement; conversions. Federal efforts should be directed to more, rather than less, production. Note, too, that the costs of the Section 8 Existing program have risen more rapidly than new construction, reflecting the tightness in the existing rental market.
- Demand for rental housing will not decrease in the future. The most that can be said is that it will increase at a lesser rate than at present. In other words, things will continue to get worse, but less rapidly.
- Abandoning the locally-designated HAP mix is a direct affront to the local governments with whom this Administration has worked so closely.
- Given that HUD and Congress have found a legitimate way to tilt the HAP mix somewhat more toward existing, there is no need to go further and override local control entirely. The HAP shift which OMB wants will save only \$200 million in budget authority out of a more than \$30 billion assisted housing budget, assuming a constant number of units.

For 1982, OMB favors a 50/50 new/existing mix because:

- While HAPs may be useful for allocating Federal housing resources in local communities after appropriations have been enacted, they should not serve to bind the Federal Government when the budget is being developed. Moreover, many communities base their HAPs on outmoded 1970 Census data. A national housing strategy should be based upon data of more recent housing conditions and should reflect national targeting priorities.
- Because existing units have a lower per unit cost, a greater percentage of existing units will respond to Congressional concerns about increasing program costs and will also increase the program level supported by a given amount of budget authority. (Existing units require an average BA of \$56,000 compared to \$140,000 for new units.)
- Given that the demand for rental housing is expected to decrease after 1985, it makes sense for the government to shift its subsidized housing emphasis from supply expansion to maintenance and rehabilitation. Although the use of existing housing subsidies will not produce new units, it can preserve and even increase the number of standard units in the housing stock by stimulating repairs and continued maintenance.
- Finally, Congressional commitment to the HAP process (primarily in the Banking Committees) has eroded in the past few years, because the Banking Committees have been under pressure from the Budget and Appropriations Committees to reduce the mounting costs of the subsidized housing program or face significant program reductions. The Banking Committees responded this year by reducing the proportion of new and substantially rehabilitated units to be supported by the funding levels authorized.
- For 1981, the amount authorized and appropriated for subsidized housing was reduced by \$2 billion below the Administration's request and the new/existing mix was altered from the 60/40 mix proposed in the President's budget to a 50/50 mix assumed by the authorizing committees. Although this allocation was not formally acknowledged by the committees, the amounts authorized were calculated on a 50/50 basis and several Senators indicated in public statements that this was the effect of the 1980 authorization bill upon the subsidized housing program. Thus, if the Administration proposes a 1982 subsidized housing mix greater than 50/50, there is a serious risk that the Congress will take on any cut in the President's budget by again adopting a 50/50 mix.

Alternatives (\$ in millions)

	1982		1983		1984	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
1. 250,000 at 50/50 <i>53/41</i>	25,449	15	27,577	181	29,617	579
2. 260,000 at 50/50	26,370	16	28,581	188	30,701	598
3. 264,882 at 53/47 <u>a/</u> →	27,224	16	29,429	190	31,607	609
4. 300,000 at 54/46 <u>a/</u>	30,762	18	33,254	215	35,714	688

a/ 60/40 mix for HAP-governed units.

*Ashley → Cong Patterson
Proc → Garn*

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ISSUE #2

Department of Housing and Urban Development
1982 Budget
Issue #2: Other HUD Issues

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Statement of Issue

What should be the level of funding for the remaining HUD programs under appeal?

Alternatives (dollars in millions)

	1982		1983		1984	
	HUD Appeal	OMB Rec'd	HUD Appeal	OMB Rec'd	HUD Appeal	OMB Rec'd
I. Tenant Rent Burden						
BA	86	---	185	---	303	---
0	178	---	405	---	699	---
II. Housing Opportunities Program						
BA	20	---	23	---	24	---
0	8	---	29	---	24	---
III. Urban Development Action Grants						
BA	875	675	960	675	1050	675
0	634	610	740	660	795	675
IV. Community Energy Development Block Grants						
BA	300	---	375	---	470	---
0	5	---	95	---	300	---
Total						
BA	1281	675	1543	675	1847	675
0	825	610	1269	660	1818	675

I. Tenant Rent Burden

The first appeal item is OMB's proposal to require a gradual change in subsidized housing tenant rent burdens of 1 percent per year for five years, producing an ultimate increase in tenant rent payments from 25 percent to 30 percent of income.

HUD opposes increasing the rent burden for lower income tenants. This Administration should not, in its final actions, propose a major increase in the rent payments of the poor. Lower income households are already suffering the most from inflation. It is unjust and inhumane to add a 20 percent to 30 percent increase in what they must pay for assisted housing. Higher rent payments will not increase the number of households that can be assisted with current funding levels since the budget authority required for housing commitments will not change.

OMB favors gradually increasing the required tenant rent contribution in the subsidized housing programs. It is difficult to justify holding harmless from inflation the rent burden of the limited number of subsidized housing tenants while rent burdens have increased substantially for all other renters. A gradual increase in tenant rent contributions from 25% to 30% of income will also reduce the significant difference in rent burdens between low income subsidized tenants and unsubsidized tenants (whose 1979 rent burdens averaged more than 37% of their income). Increasing current rent burdens will substantially reduce 1982 and future year outlays. Despite these significant budgetary savings, OMB estimates that the increased rent payment for subsidized tenants in 1982 would average only \$57. Finally, this would respond to a 1979 Congressional change, authorizing HUD to increase tenant rent burdens from 25 to 30 percent for new tenants with incomes above 50 percent of median.

II. Housing Opportunities Program

HUD is appealing to create a Housing Opportunities Program to provide planning funds for local governments to develop explicit fair housing strategies. For \$20 million, HUD estimates it can fund strategies in 65 Community Development Block Grant (CDBG) entitlement communities at \$250,000 per community and 80 small cities at \$35,000 per city, and fund the documentation and dissemination of the results of these strategies.

65
80

145

HUD believes that this Administration should show in its final budget a tangible and visible commitment to the principle of fair housing. Municipalities and other governmental entities have voluntarily expressed the need for technical assistance to formulate fair housing strategies to meet their statutory and regulatory responsibilities. The Housing Opportunities Program will provide communities with the technical expertise required to develop strategies. The program is not intended to replace or act as a substitute for CDBG or other funds. The actual implementation of strategies will come from CDBG and other governmental and private funds available to a community; thus, there is leveraging of other than Federal Government funds to accomplish fair housing objectives. While a few communities have used CDBG funds to develop strategies, experience shows that this is the exception rather than the norm. Block Grant funds are subject to other competing and primarily community development activities (e.g., housing rehabilitation, street repairs) and communities, therefore, rank fair housing as a low priority. The program will provide communities with the expertise to develop strategies which will cover all activities which affect housing (e.g., zoning policies, tax incentives to private developers to offset potential displacement, routing of public transportation, etc.). Assisting communities to develop a comprehensive program "up-front" creates a climate which will deter discriminatory practices; thus the program is "preventive" in nature, reducing the number of complaints of discrimination which would otherwise occur. Many communities submit unacceptable strategies when applying for CDBG funds. This program will provide them with the expertise needed and, therefore, reduce the number of unacceptable strategies which could lead to the disapproval of their application or the conditioning of their funds. A HUD study of 40 cities which was completed in 1979 concluded that there are over 2 1/2 million instances of discrimination. To effectively reduce or eliminate discrimination, both the Federal Government and local community must be involved. The FHEO comprehensive strategy has successfully gained the support of State governments through the Fair Housing Assistance Program; the Housing Opportunities Program will enlist the support of the local sector. Support for the program will clearly state the Administration's commitment to fair housing.

While OMB acknowledges that the fair housing area has been a high priority concern of this Administration, OMB doubts that establishing a new local planning program is the most effective means for achieving Federal fair housing objectives. HUD has not been able to demonstrate the impact local fair housing strategies will have on reducing the incidence of housing discrimination in both absolute terms and relative to other Federal initiatives. CDBG funds can be used by local communities to develop such strategies if the communities believe they are effective. While a few communities have already developed such local strategies, using CDBG or other available funds, no evaluation of the relative effectiveness of these strategies has yet been made. The most significant Fair Housing legacy the Administration could leave would be passage of, or at least strong reaffirmation of the need for, the 1980 Fair Housing Bill which provides effective enforcement mechanisms for the 1968 Fair Housing Act.

III. Urban Development Action Grant

The Urban Development Action Grant (UDAG) program, created in 1977 as an initiative of this Administration, provides funds to units of local government to be used in conjunction with private and other public funds for the promotion of neighborhood, commercial, and industrial projects in distressed areas. The program has enjoyed wide popularity within Congress and among local officials.

HUD believes this Administration should propose an expansion in its major urban initiative and fund the UDAG program at \$875 million in 1982. The UDAG program is the most effective program initiated by this Administration. Approvable UDAG grant applications are three times the available funds. Studies by the Appropriations Committee, Urban Land Institute, and the GAO confirm that UDAG projects would not have been undertaken without the UDAG grants. The private firms are investing six dollars for every dollar of UDAG money--a clear indication that UDAG projects are effective, and, therefore, the UDAG program is totally consistent with the President's Economic Revitalization program. An additional two hundred million dollars would attract over \$1 billion in private investment to attack the ravages of distress existing in our cities by creating new jobs, maintaining existing jobs, and adding to the local tax base. While CDBG funds have been increased, the UDAG is targeted to meet specific targets of opportunity for economic development while the CDBG supports a broader range of community development needs.

OMB believes the UDAG program should be funded at \$675 million in 1982. Although HUD currently has an evaluation of the UDAG program underway, there is no comprehensive evaluation of the program to date; any apparent successes have not yet been thoroughly studied and evaluated. Excess demand and popularity are inadequate analytical justifications for a funding increase especially in a tight budget year. Community Development Block Grant (CDBG) funds can be used for the same purposes; in this regard, the OMB has provided a \$190 million funding increase for the CDBG program to \$3,960 million in 1982. There is a fundamental conflict between the basic premise of the UDAG program--that Federal subsidies should be provided to induce private sector investment in (higher cost) distressed urban areas--and the basic concern of the recently announced economic revitalization program--funding the most efficient programs for stimulating investment to increase lagging U.S. productivity growth. The UDAG program has been funded at its currently authorized 1982 level of \$675 million, unlike a number of other social programs that have been cut in 1982.

IV. Community Energy Development Block Grant

HUD is appealing to create a Community Energy Development Block Grant (CEDBG) program at a 1982 funding level of \$300 million. Modeled after the basic Community Development Block Grant (CDBG) program, this program would provide entitlement and discretionary grants to localities to develop comprehensive local energy conservation planning, management, and action programs. Five percent of the funds would be set aside in a Secretary's Discretionary Fund to sponsor competitions for developing innovative local energy projects, to provide technical assistance, and to conduct program evaluations.

HUD believes the new CEDBG program should be proposed. Conservation is the cheapest and quickest way to save scarce fuel. Cities can and should play a critical role in retrofitting residences particularly for lower income persons and in zoning decisions, building inspections and other local regulatory efforts. The cities lack the funds and the capacity to implement local conservation efforts and have little incentive to perform this role as private persons are the chief beneficiaries. The CEDBG would provide basic funds and would leverage a significant amount of private funding for local conservation efforts. The existing categorical DOE programs bypass city governments and those that do affect local energy conservation should be consolidated into a single block grant program. With the defeat of the Energy Management Partnership Act, an Energy Block Grant Program provides the best opportunity for effective energy conservation at the local level. Local governments complain that current DOE categorical programs are too complex, and there is no incentive for them to get involved. Staff savings could be achieved by consolidating categorical DOE programs into a single block grant program.

OMB believes the new CEDBG should not be proposed. It is not clear why the Federal Government should subsidize local conservation efforts since (1) the impetus to conserve already exists, (2) the immediate benefits from conserving accrue to localities and their residents, and (3) the energy problem, and hence its solution, is not necessarily or primarily confined to or best addressed by individual localities. Unless programs were consolidated, this proposal would duplicate other Federal government efforts in HUD through the CDBG and 701 Comprehensive Planning Grant Programs (both of which have recently made energy conservation activities eligible for funding), as well as the new Solar Energy and Energy Conservation Bank, and in DOE through the low-income weatherization program and the school and hospital grant programs. As for the possibility of consolidation, it is viewed as remote since neither DOE nor the appropriate congressional committees would willingly relinquish control of their programs. The program is staff intensive (an additional 92 staff-years would be required) and was ranked by HUD well below the planning ceiling in its initial submission and was also ranked 28 among 29 program appeal items. DOE has reviewed this new initiative and also recommends against it.

DEPARTMENT OF COMMERCE

DEPARTMENT OF COMMERCE
1982 BUDGET
SUMMARY OF APPEAL ISSUES

(Dollars in millions)

Issues	1981		1982		1983		1984	
	Agency Appeal	OMB Recom.						
A. <u>Unresolved Issues</u>								
1. National Center for Productivity:								
BA	xxx	xxx	19	0	144	0	455	0
Outlays	xxx	xxx	10	0	65	0	355	0
FTP employment:								
FTE	xxx	xxx	60	0	xxx	xxx	xxx	xxx
End-of-year	xxx	xxx	80	0	xxx	xxx	xxx	xxx
2. Personnel:								
BA	0	0	14	0	16	0	16	0
Outlays	0	0	12	0	15	0	15	0
FTP employment:								
FTE	75	0	436	0	xxx	xxx	xxx	xxx
End-of-year	121	0	514	0	xxx	xxx	xxx	xxx
B. <u>Resolved Issues</u>								
3. Land Remote Satellite Sensing (LANDSAT):								
BA	xxx	xxx	45	39	73	27	127	25
Outlays	xxx	xxx	37	35	68	27	120	25
FTP employment:								
FTE	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
End-of-year	xxx	xxx	xxx	xxx	xxx	xxx	xxx	xxx
4. Coastal Energy Impact Assistance								
BA	xxx	xxx	82	0	82	0	82	0
Outlays	xxx	xxx	40	0	70	0	82	0
FTP employment:								
FTE	xxx	xxx	3	0	xxx	xxx	xxx	xxx
End-of-year	xxx	xxx	3	0	xxx	xxx	xxx	xxx

(Dollars in millions)

Issues	1981		1982		1983		1984	
	Agency Appeal	OMB Recom.						
5. Maritime Ship Construction:								
BA	xxx	xxx	116	0	142	0	142	0
Outlays	xxx	xxx	37	0	61	0	66	0
FTP employment:								
FTE	xxx	xxx	0	0	xxx	xxx	xxx	xxx
End-of-year	xxx	xxx	0	0	xxx	xxx	xxx	xxx
6. Regional Development Commissions:								
BA	xxx	xxx	69	0	76	0	82	0
Outlays	xxx	xxx	64	0	66	0	75	0
FTP employment:								
FTE	xxx	xxx	79	0	xxx	xxx	xxx	xxx
End-of-year	xxx	xxx	79	0	xxx	xxx	xxx	xxx
7. Other Resolved Appeals:								
BA	33	10	97	11	132	10	165	9
Outlays	33	10	74	9	120	9	162	8
FTP employment:								
FTE	227	0	869	0	xxx	xxx	xxx	xxx
End-of-year	252	0	973	0	xxx	xxx	xxx	xxx
Department Total								
BA	2,908	2,883	3,591	3,101	4,155	3,364	4,724	3,527
Outlays	3,074	3,051	3,379	3,151	3,825	3,355	4,353	3,427
FTP employment:								
FTE	32,463	32,163	33,834	32,401	xxx	xxx	xxx	xxx
End-of-year	30,148	29,767	31,427	29,799	xxx	xxx	xxx	xxx

#1-National Productivity
Center

1982 Presidential Budget Appeal
 Department of Commerce
 National Productivity Center (NPC)
 (\$ in millions)

	1982		1983 (Est.)		1984 (Est.)		Total 1982-1987 (Est.)	
	Agency Appeal	OMB Recom.	Agency Appeal	OMB Recom.	Agency Appeal	OMB Recom.	Agency Appeal	OMB Recom.
BA.....	19	0	144	0	455	0	1,775	0
(NCP Facility/Equipment)....	(xxx)	(xxx)	(102)	(0)	(168)	(0)	(330)	(0)
Outlays.....	10	0	65	0	355	0	1,690	0
FTP Employment (EOY).....	80	0	260	0	1,086	0	2,400	0

Department of Commerce Appeal

The Secretary of Commerce has proposed the establishment of a National Productivity Center (NPC) and has requested additional funding to expand the number of Cooperative Generic Technology Centers (COGENTS).

The National Productivity Center (NPC)-NPC would provide a mechanism for the Federal Government to assist U.S. industry to develop and apply new or improved technologies to increase industrial productivity. NPC would be a major Federal laboratory to be built at the National Bureau of Standards' (NBS) campus in Gaithersburg, Maryland. The NPC would use Federal employees and representatives of industry to research and demonstrate technologies in three areas: automated manufacturing, materials substitution and processing, and construction techniques and practices.

The 1982 funding of \$14M would develop a comprehensive operational plan, including a research agenda; management, staffing, and organization plans; and general specifications for construction and equipment required by the Center. Discussions would be undertaken with industry, the academic community, and labor to establish commitments for participation and to provide critical input into the overall design and operation of the center. Construction of the NPC would begin in 1983 and would be completed by 1986 with a fully operational program by 1987. Some research work would begin while construction is underway. The total cost for NPC for 6 years through 1987 would be \$1.75 billion.

The Department of Commerce's rationale for a National Productivity Center is as follows:

- ° The current Administration policy for improving industrial productivity focuses on increasing capital for investment through depreciation allowances and providing limited basic research and development in productivity. This approach is not sufficient to significantly impact productivity. The Department of Commerce found that depreciation allowances for the steel industry did not result in investment in innovation for productivity.
- ° American industrial productivity does not show signs of improving. Many foreign competitors are increasing productivity growth, and may surpass American productivity in the next several years.
- ° Another mechanism for the transition from basic research to procurement of new technology by industry is needed. This transition phase is not being adequately addressed because:
 - Much applied R&D funding is used to meet regulatory requirements or develop proprietary products. Generic technology remains lower priority.
 - Many technologies require systems approaches which are very expensive. This tends to exclude small and medium firms.
 - Many industries cannot support the diversity of expertise required to develop these technologies.
- ° Diffusion of new technologies is hampered by the high cost of conversion and uncertainty of the effectiveness. Demonstration of the technologies could greatly accelerate the rate of acceptance.
- ° The Federal Government is the only entity capable of developing and transferring this type of generic technology.

Cooperative Generic Technology Centers (COGENTS) - The increased funding (\$5 million annually) would provide for involvement of a broader range of technologies resulting in a better base for evaluating the program. Without additional funds, the benefits of the program would be delayed five years or longer.

OMB Recommendation

OMB recommends against the establishment of a National Productivity Center because of serious reservations related to the proposed Federal role in fostering productivity, the approach outlined by the Department, the absence of a clear need for such a Center, and the future funding commitments involved.

- The macroeconomic approach (i.e., fiscal policy), combined with support for basic research, represents a more appropriate Federal role. Industry spokesmen have singled out the shortage of investment capital as the major deterrent to the introduction of new technologies, not lack of technological know how or risk per se. No evidence exists showing that the establishment of a NPC would have any impact on productivity. Limited Federal R&D dollars should emphasize basic research (with potential for broad application) because industry is more inclined and better able to support applied technology on its own where profitable applications exist.
- The problems with the steel industry were unique to that industry's structure, history and labor-management situation. This example cannot be used to generalize other industries' responses to macroeconomic policies nor to justify major direct Federal R&D involvement in specific industrial sectors.
- Although American industrial productivity growth has lagged over the past decade, we still have the highest productivity in the world and there are developments (e.g., automation) in various industrial sectors that should lead to productivity increases.
- The marketplace has a better track record than Government for diffusing technologies. The Federal Government should address its attention primarily to reducing regulations and creating a supportive environment for investment.
- There does not appear to be a compelling case for a Federal NPC in the three areas proposed by the Department:
 - The "generic" nature of automated manufacturing has not prevented substantial private "long-term industrial research," development, and diffusion of advanced automated manufacturing technology involving "robotics." Currently, the demand for robots exceeds their domestic supply (i.e., some suppliers are backlogged 6-12 months). GE, Westinghouse, GM, Lockheed Georgia and other major industrial firms are already exploring the feasibility of advanced automated manufacturing techniques. Three other top companies--Digital Equipment, IBM and Texas Instruments--have completed advanced generic R&D in robotics and are likely to join a host of smaller suppliers in this booming market soon.
 - Materials processing already receives Federal assistance through NASA, DoD and DOE.
 - The productivity problems of the construction industry are due largely to market conditions--involving building codes and diverse consumer preferences--unrelated to technology per se.

- The Department's argument that small and medium sized business need an NPC is questionable in that, historically, small and medium sized firms have taken longer to reap productivity gains from advancing technologies, but have eventually acquired them once they have become economically feasible.
- The transfer of NPC developed technologies into the marketplace may require the use of further incentive subsidies beyond the demonstrations proposed by the Department. Private sector development of new technologies could also be delayed as firms wait to see what the NPC will do.
- Although the proposed NPC would have participants from industry and the academic community, the cost of the NPC itself would be totally financed by the Federal Government. Thus, it would go forward without meaningful evidence that the private sector believes in or supports NPC's efforts or priorities.
- The OMB allowance does include a 130 percent increase (+\$7.6M) for expanded NBS basic research in advanced automated manufacturing and materials processing.
- One new and three existing COGENTS would be supported by the OMB allowance (\$5.2M). Before funds are committed to expand the COGENT program more rapidly, some evaluation of the recently begun efforts should be carried out.

#2- Personnel

1982 Presidential Budget Appeal
Department of Commerce

Personnel

Department of Commerce Appeal

The Department is appealing for an additional 121 and 514 full-time permanent (FTP) end-of-year positions for 1981 and 1982, respectively, over the OMB allowances of 29,767 in 1981 and 29,799 in 1982. This request does not include the 80 FTP positions in 1982 for the National Productivity Center which were discussed in the previous issue paper.

The Department's appeal consists of the following items (in order of priority):

- Patent and Trademark Office (170 FTPs) - The additional positions for the Patent and Trademark Office (PTO)--50 in 1981 and 170 in 1982--are requested to uphold the Administration's commitment, made in the 1981 Budget, to improve PTO operations and service. These positions would maintain the patent pendency period at its current level and allow some reduction in trademark pendency.
- Economic Development Administration (68 FTP's) - The 1982 budget currently includes a proposal to terminate the Regional Development Commissions, thereby saving 68 positions. Commerce is requesting that these 68 positions be allocated to EDA for managing an expanded EDA program.
- General Administration (109 FTP's) - The 1981 budget requested an increase of 109 FTP positions for the general administration of the Department of Commerce, including 80 positions for the Office of the Inspector General (IG) and 29 positions for implementation of Civil Service reform, grants management, and other management functions. All but 40 of these positions (for the IG) were eliminated by Congressional action. Commerce requests that 40 positions for 1981 and the full 109 positions for 1982 be restored.
- International Trade (75 FTP's) - The OMB allowance proposes that the overseas offices of the United States Travel Service be eliminated and that appropriate overseas tourism activities be conducted by the Foreign Commercial Service (FCS). Commerce believes that at least 30 of the 46 overseas positions eliminated by this action are necessary for the FCS to handle the extra workload.

Due to workload increases, the Department is also requesting that the International Trade Administration (ITA) be held completely harmless from the one-for-two hiring limitation in 1981 and

that 45 new positions be added in 1982. The OMB allowance provided 45 positions in 1981 over the December 31 projected employment level for highest priority export licensing and compliance monitoring activities but at the expense of ongoing programs in ITA.

- Other (92 FTPs) - The Department is appealing smaller amounts for three other bureaus as follows: 40 positions to allow for the maximum possible number of transfers associated with the integration of the Smithsonian Science Information Exchange with the National Technical Information Service; 33 positions to expand the Department's productivity, technology, and innovation programs and to support the generic technology centers; and 19 positions to support Federal radio frequency spectrum management. All of these positions were originally included in the 1981 budget.

OMB Recommendation

Given overall efforts to constrain Federal employments levels, OMB recommends that the Department's appeals be denied and that the employment levels allowed in the initial 1982 passback be affirmed. The 1982 employment allowance includes additional personnel over the projected December 31 level for the Department's two highest priority areas:

- 100 FTP positions for PTO to minimize increases in patent and trademark pendency rates and
- 45 FTP positions for ITA for expanded export licensing and compliance monitoring activities.

OMB believes that the Department can meet its essential policy and program objectives within the allowance.

If, however, after all appeals are presented, a decision is made to relax Government-wide personnel constraints, OMB would consider recommending limited add-ons in the following areas:

- 170 FTP positions to maintain patent and reduce trademark pendency rates;
- 68 FTP positions to enable the Economic Development Administration to expand its regional development activities and to increase its project monitoring capability.
- 40 FTP positions, as approved by the Congress for 1981, to increase the efficacy of the Office of the Inspector General.
- 30 FTP positions to facilitate assumption of tourism activities by the Foreign Commercial Service and to alleviate workload increases associated with implementation of the Multilateral Trade Negotiations agreements.

In summary, these add-ons would constitute an increase of 308 FTP positions over the 1982 passback allowance and would be adequate to enable the Department of Commerce to carry out its programs.



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

DEC 5 1980

MEMORANDUM FOR THE PRESIDENT

SUBJECT: 1982 Budget Decisions

Jim McIntyre and I have resolved all but two of the major differences between the Department of Commerce and the Office of Management and Budget (OMB) on the 1982 budget, but these are so important that I feel compelled to discuss them with you. The others were important as well, but we have tried to accommodate a newly deteriorating economic condition. The first is to extend the work of the National Bureau of Standards by establishing a National Productivity Center; the second is to increase the number of positions allowed to carry out the Department's programs.

The National Productivity Center is our response to the problems of lagging industrial growth and innovation in this country, problems which you outlined in your message to the Congress last year on industrial innovation. We believe that there should be established a central facility at which industry, labor, academia and government could join in developing, utilizing, and evaluating the new systems technologies which we believe to be key to improving industrial productivity over the long run. At the outset, the Center could focus on three such areas: automated manufacturing, materials substitution and construction technology. Our 1982 budget programs would provide for full-scale planning for organization, research and construction with the goal of completing construction by the end of fiscal 1985.

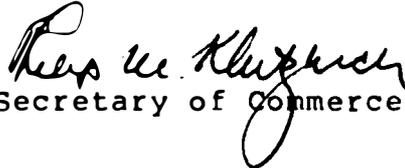
These proposals have been discussed at length at each stage of the budget review process. I am deeply disappointed that we have been unable to convince OMB of the necessity of this approach to help solve productivity problems. Macro-economic programs are not enough. If there is one thing we have learned from the steel tripartite procedure, it has been that depreciation allowances did not stimulate the steel industry to invest in innovation. American industry is not structured to invest in long-term industrial research, particularly the systems technologies that are becoming increasingly important. Ours is not a family system like Japan. Our industrial leaders themselves profit by short-term profits if the companies are public in character. Industry needs the stimulation of new ideas to spur investment in new techniques, especially if they have long-term significance. And the economy as a whole requires the dramatic and concrete symbol of tackling productivity problems head-on which the center would

provide. I urge you to reconsider this budget decision and to make a legacy of this Administration a commitment to restoring the creative spark of American industry.

The second major difference with OMB lies in the number of people required to carry out the Department's program. The OMB allowance provided 29,799 permanent employees for fiscal 1982, and we originally appealed for an additional 2,441 people. However, we have reexamined our needs and have reduced our appeal to only 594 additional people. This represents the bare minimum required to carry out the programs in the 1982 budget; these positions are absolutely essential. I fully support your commitment to hold down the level of Federal employment. I think the Department has done quite well in this regard; employment has grown by only two percent since 1972. The level we are now seeking for 1982 is still 800 less than the budget you submitted last January. There is no more room to absorb additional duties. The positions for which I am appealing would provide essential services including auditing, examination of patent and trademark applications and processing export licenses. I urge you to reconsider the level of Federal employment in light of the more basic missions and objectives of this Administration.

There is one further item which I would like to bring to your attention. OMB has reduced by \$10 million our 1981 supplemental request for additional costs being incurred with the completion of the Decennial Census and directed us to use the amount already appropriated as a contingency for litigation costs. I have accepted this decision. However, resolution of the cases currently in progress is quite likely to add still more costs which could not then be covered. The Department would thus be required to seek further supplemental funding later this year. I understand that such a caveat will be contained in the budget transmittal.

Further details of our appeal are attached. I look forward to discussing them with you. Our appeal is a reasonable one. The budget authority we are seeking is nearly \$200 million below our original planning ceiling. I am raising these issues because I think it is vital that the 1982 budget provide a complete and fair record of this Administration's accomplishments and its vision for the future.)


Secretary of Commerce

Attachments

TREASURY

Department of the Treasury
1982 Budget
Appeal Overview

<u>Agency Total</u>	<u>1980 Actual</u>	<u>1981 Est.</u>	<u>1981 Appeal</u>		<u>1982</u>		<u>1982 Appeal</u>		<u>1983 Appeal</u>	<u>1984 Appeal</u>
			<u>Agency Request</u>	<u>OMB Recomm.</u>	<u>Agency Request*</u>	<u>OMB Allow.</u>	<u>Agency Request</u>	<u>OMB Allow.</u>		
BA (\$ M).....	90,571	83,964	50	-0-	97,783	97,078	104	-0-	111	119
Outlays (\$ M)	76,642	83,449	49	-0-	97,804	96,657	103	-0-	110	118
Employment:										
FTE/Total...	126,107	126,577	1,784	-0-	134,670	128,983	3,448	-0-	3,448	3,448
FTP/FTE.....	109,469	109,919	1,784	-0-	117,142	112,561	3,448	-0-	3,448	3,448

The budget totals for Treasury depend mainly on uncontrollable items, particularly interest payments on the public debt, which are estimated at \$95.2 billion in 1982. Additionally, the 1982 allowance is net of offsetting budgetary receipts in the amount of \$15.8 billion.

The decrease in budget authority between 1980 and 1981 is due principally to the one-time appropriation in 1980 of funds for the Synthetic Fuels Corporation, reductions in the General Revenue Sharing Program, and higher offsetting interest receipts.

OMB and Treasury have resolved all issues in Treasury's 1982 budget submission for the operating (controllable) programs except for the appeal for additional IRS staff in both 1981 and 1982 for tax administration.

* Adjusted to reflect current economic assumptions for the interest on the public debt and the economic stimulus proposal for tax credits (\$6.7 billion).

Tax Administration

1982 Presidential Budget Appeal
 Department of the Treasury
 Issue #1: Level of Tax Administration

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Description of Appeal. Treasury is appealing \$50 million and 1,784 average positions for 1981 and \$104 million and 3,448 average positions for 1982 for the Internal Revenue Service (IRS). The initial OMB recommendation for 1982 allows 91,334 average positions and \$2,455 million in budget authority of the agency request of 95,490 average positions and \$2,576 million in budget authority, or 95% of the full agency request. Following is a table of IRS staffing levels since 1979. The potential impact of various staffing alternatives on the audit rate, the number of unpaid accounts, and the generation of additional revenues is shown on the attached table.

	1979 Actual	1980 Actual	Est. 12/31/80 Level	1981			1982			
				Original Ceiling	Treasury Request	OMB Allow.	Treasury Request	OMB Allow.	Treasury Appeal	
Staff Years	86,168	88,010	87,025	90,134	91,429	88,951	+1,784	95,490	91,334	+3,448

+2?

Agency Position. There are serious gaps in tax compliance and disturbing trends of further deterioration. OMB's proposal would reduce significantly tax administration efforts, continuing the marked decline of recent years. The resulting revenue loss would exceed outlay savings by several times.

The OMB argues that the IRS staff has risen 34% since 1970. This ignores the fact that more than one-third of the increase (8,000) was for new legislation and increased emphasis on narcotics control efforts. In addition, a significant enhancement occurred in 1975 to increase examinations coverage from a near all-time low of 2.0% to 2.4% and to process previously deferred tax returns. Since 1977 when this Administration took office, that position has deteriorated in each fiscal year to the point where the level of unpaid accounts has risen from 884,000 to 1,668,000, the backlog of unpaid taxes has risen from \$2 billion to nearly \$5 billion, and examinations coverage has fallen from 2.44% to 1.98% (with every income class showing a decline in coverage from 1977). During this Administration, the total staff increased only 6% (primarily for returns processing and other non-enforcement programs), while tax returns have grown by 9%. Individual non-business returns over \$50,000 adjusted gross income (AGI) and business returns over \$30,000 AGI have increased since 1977 by about 130%. In the two major enforcement activities -- examinations and collection -- staffing has increased only by the Congressionally-initiated increase of 550 positions and the one-time increase in 1981 for the information returns program and collection follow-up of approximately 900 positions. The Service's programs are in a relatively weaker position than in 1977 to collect taxes not paid, to assess tax not reported, and to maintain voluntary compliance.

Hi Int

Not only have annual budget levels failed to maintain the enforcement activities in IRS, hiring freezes have repeatedly interrupted their efficiency and effectiveness. Because of the current hiring restriction, now in its tenth month, IRS is going into 1981 substantially under its budgeted strength.

The OMB allowance limits 1981 staffing to this reduced level by eliminating 1,784 staff years from the standard program* in the President's Budget for 1981, now pending in Congress. It is important that the IRS be relieved from the present freeze and be allowed to hire up to its current budgeted level. Even this level is below the program output level that existed in 1977 when this Administration began.

IRS's most recent taxpayer compliance study shows a continuing pattern of declining compliance in every individual income tax class, business and non-business, and among sampled corporations. The rate of decline is increasing. Revenue loss from tax not reported on individual tax returns is now running at an estimated \$17 billion annually. Cumulatively, this revenue loss amounts to \$68 billion in the past five years.

1981. The budget you submitted for IRS in 1981 provided some 1,400 staff years to help control backlogs of unpaid tax accounts and to follow up on non-compliance identified through matching information documents with tax returns. OMB's proposal would nullify this initiative.

1982. This appeal is needed to avoid further decline in examination coverage, to help deal with the \$5 billion uncollected tax problem, to follow up on non-compliance cases found through document matching and to avoid further delays in handling administrative appeals and tax litigation.

Conclusion. The expenditure of \$154 million requested in this appeal will produce increased revenues of \$1.0 to \$1.2 billion. More importantly, it will contribute significantly to stabilizing tax administration in the face of serious compliance problems that are apparent.

OMB Position

OMB does not believe that the data supports the Treasury arguments that enforcement resources have not kept pace with the growth in the tax system workload and that voluntary compliance has fallen as a result.

Staffing Growth. From 1970 through 1977 (the period for which IRS has compliance data), the number of primary tax returns filed increased by about 14%, whereas the IRS staff level increased by 23%. Although the tax system has increased in complexity during this period, substantial non-personnel investments have significantly increased the efficiency of IRS staff. >

Although the growth of IRS staff would slow from 1977 to 1982 under the OMB recommendation, staff would still increase by 9%, while primary returns would grow by 10%. From 1970 through 1982, the growth in tax returns will be around 26% while the growth in staffing would be about 34% under the OMB ceiling.

*Does not reflect effect of proposed supplemental for the Windfall Profits Tax Act.

Voluntary Compliance. Treasury has been unable to demonstrate that a marginal change in enforcement effort will produce significant changes in overall compliance. Many complex social and economic factors influence voluntary compliance. The existing data simply don't support the argument that reported decreases in voluntary compliance are the result of lowered enforcement levels; staffing during the period studied by IRS actually grew significantly faster than returns. >

Audit Rate/Collection Activities. There is no documentable cause and effect relationship between marginal changes in workload output indicators (such as audit rate) and overall taxpayer compliance. Even on the basis of these indicators, OMB believes that the allowance compares favorably with the IRS request. The audit coverage under the allowance is only 0.06% less than the requested level of 1.98%. It should be noted that inflation has moved a larger proportion of taxpayers into higher IRS income brackets (which are not adjusted for inflation) with higher audit staffing requirements. The audit rate, per se, does not take into account the effect of this shift.

It is true that collection backlogs have grown substantially during recent years, but rising interest rates and current economic conditions are a principal cause of this increase. As a recent Treasury study notes, other changes, e.g., in withholding rates and IRS collection procedures, could reduce collection problems.

Revenue Production. Treasury has traditionally argued that expenditures for IRS programs generate revenues and that these revenues should be viewed as a vehicle to help balance the budget. However, revenue collected as a result of IRS enforcement efforts have a marginal impact on total Federal receipts. In 1979, revenues collected by IRS enforcement efforts constituted less than 2% of total Federal receipts, about \$9 billion out of \$456 billion. The revenues collected as a result of the additional resources for 1982 requested by Treasury would be 0.1% of the total revenue collected by IRS for 1982. Accordingly, other factors, such as the growth of the bureaucracy, the oppressiveness of the Federal presence, and the costs imposed on the private sector, should be taken into account in considering the IRS budget request.

Conclusion. As an exception from the level employment guidance, the OMB allowance would provide 4,300 staff in 1982 above the 12/31/80 level. OMB believes that Treasury has been unable to demonstrate that the appealed resources, which would provide further substantial increases, are necessary to maintain a balanced and effective tax administration system. OMB recommends that you delay your decision on this staffing appeal until all appeals have been heard.

Comparison of Sample Alternatives

Alternatives	Average positions		Budget Authority (\$ in millions)		Audit rate		Unpaid accounts closed (in thousands)		Additional revenues (\$ in billions)	
	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>	<u>1981</u>	<u>1982</u>
#1- No change to allowance... (OMB Recommendation)	88,951	91,334	2,372	2,455	1.86%	1.92%	2,055	2,185	12.7	13.4
#2- Restore 25% of appealed resources.....	89,401	92,184	2,391	2,488	1.90%	1.94%	2,065	2,235	12.8	13.6
#3- Restore 66.7% of appealed resources.....	90,151	93,684	2,406	2,530	1.93%	1.95%	2,085	2,365	13.0	13.8
#4- Restore all of appealed resources..... (Treasury Recommendation)	90,735	94,782	2,422	2,559	1.98%	1.98%	2,104	2,390	13.1	14.1