

**2/12/77**

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FROM: JACK WATSON  
TO: PRESIDENT CARTER

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SPECIAL INSTRUCTIONS:

# 1

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MEMORANDUM FOR: THE PRESIDENT  
FROM: JACK WATSON *Jack*  
SUBJECT: COMMENTS ON OMB BUDGET MEMORANDUM

The following are general comments concerning the OMB budget which you will be reviewing over the weekend. All of my comments are primarily from the viewpoint of the budget's impact on state and local governments, or on the fundamental principle of "Cabinet government".

There are three general points which deserve emphasis:

1. Although departments have requested increased spending above the current services levels (assuming restoration of Ford's cuts), no major programs have been identified for elimination or reduction. Even though there has been no time for a zero base budgeting analysis, there must be some major programs that could legitimately be cut back in the FY 78 budget.
2. We should establish a general principle regarding the role of OMB in determining the specifics of spending once a ceiling is agreed upon for a general area of concern. For example, if OMB agrees with HUD that \$4 billion should be spent for community development, it should not be OMB's role to pass on whether HUD should spend it all on block grants or part on discretionary funds. The policy development process between the departments and your policy staff should settle such issues. If your emphasis on "Cabinet Government" is to be more than rhetorical, the Cabinet Secretaries must be given some discretion in establishing priorities and allocating money within established ceilings.

3. Since this OMB document concerns only domestic budget programs, the senior White House staff has not had a chance to review the national security budget items for similar comment. I think it's important for us to consider the budget as a whole so that we can assess proper national priorities in overall spending.

Comments on OMB document.

1. Army Corps of Engineers and Bureau of Reclamation.

No substantive comment. OMB should consult with Cecil Andrus in reviewing all the water resources projects; I don't believe this has been done thus far.

2. EPA Issues.

- a. Personnel Levels. No comment.

- b. Waste Water Treatment Construction Grants.

The problem with OMB's position is that the \$400 million cannot be targeted to just those states that are running out of funds because there is a state allocation process. Without major changes in the underlying legislation, it is necessary to increase the total authority in order to get the money to the needy areas. These changes have not yet been addressed as a policy issue. Moreover, Congress is almost certain to add \$5 billion in authority to help those states. It seems unwise for us to take on such a major fight without alternative comprehensive legislation to offer.

- c. Funding Level for State and Local Planning Grants.

Two major areas for pollution control planning were added last year for state and local agencies, and the law authorized \$100 million because of these new responsibilities. Consequently, the 74

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\$13 million increase OMB recommends is much too low if we want to demand high quality performance in the planning process. (The Agency requested \$124 million). A compromise of \$50 million seems more appropriate.

d. Consolidation of Categorical Grant Programs.

OMB recommends administrative consolidation of certain programs. The Acting Administrator agrees that consolidation should occur but recommends that it be deferred. Until we get our reorganization authority and a comprehensive reorganization plan from each agency (the EPA Administrator-designate has not even reviewed these plans). I agree that consolidation should be postponed. Moreover, consolidation is more a program/policy issue than it is a budget issue.

e. Waste Treatment Loan Guarantee Program.

I have several problems with OMB's statement of this issue.

- (1) These are not guarantees for a local share; they are to be used only when reasonable private financing is not available.
- (2) Review of the Federal Financing Bank seems to me to be more appropriately a job for the Secretary of the Treasury, not OMB.
- (3) It is not true that there were no hearings or debate in Congress on this program. The amendment was added in Committee mark-up after considerable discussion and was specifically voted upon in the full House.
- (4) The last two restrictions OMB wishes to place on possible implementation of the program go directly against the interests of the City of Buffalo whose Congressman - Henry Nowak (D) -

authored the amendment. (New York City also has a significant interest in this item since it is closed out of the private market). On the other hand, the recommended surcharge on such guarantees is a good idea in order to make the program self-financing over the long term.

4. H.E.W. Issues.

a. Child Health Assessment Program.

This is an excellent new initiative in the health and family life area which really represents a major first step toward equal access for all Americans to adequate health care. The program was slow getting started (because the Nixon Administration didn't support it), but late data have shown that the EPSDT program is beginning to improve significantly. (In Georgia, EPSDT created more enthusiasm among health and social service personnel than almost any other program.) In addition, if the \$250 million cost is troublesome, the program could be phased in by staggering the age of eligibility, i.e., only children ages 0-6 the first year, 0-12 the second year, 0-18 the third year.

b. Education.

(1) Disadvantaged, Elementary and Secondary.

This is a targetted program in which the program levels have not kept pace with inflation for the past several years. It is not a significant amount of money and could have important impact with state and local governments' education budgets.

(2) Impact Aid for Education.

HEW is requesting a small amount of funds - \$68 million - to fund Title "C" Children

(school children who live in public housing). This would be the first time this category has received funds in the three years since it was created (it would help fund those dense urban areas which lost funds when the impact aid formula was changed three years ago). It is an effective targetting tool.

c. Medicare Reimbursement.

I think the HEW Secretary should be given the benefit of doubt on such matters as the effect of reimbursement differentials on physician manpower distribution.

5. HUD Issues.

a. Community Development.

This issue represents an illustration of whether or not you will rely chiefly on the Cabinet Secretaries for policy advice. Although OMB agrees on the total for community development - \$4 billion - it originally proposed to decide how that money should be divided between block grant distribution and discretionary funds. OMB subsequently agreed to give Pat Harris the discretion she requested. Pat believes she needs that discretion to develop initiatives and target money to those areas in greatest need, neither of which can be accomplished effectively through a formula. In a situation such as this, I think there should be a rebuttable presumption that the "policy" advice of the Cabinet Member is correct.

b. Housing.

OMB asserts that no evidence is present to show a need for raising the ceiling on subsidized rents, or for extending the government commitment on housing financing of Sec. 8 from 20 to 30 years to match the mortgage terms. It is HUD's expert opinion that these items are needed. State and local governments have been continuously rebuffed in financing because of the differences in these terms, and, again, I think the recommendations of the departmental and field personnel should be given great weight. As to rent

levels, there is substantial evidence in all cities that they must be raised in order to place the eligible tenants.

6. Justice Issues.

Justice is asking for a relatively small amount of money - \$45 million - for effective implementation of a juvenile justice program. OMB agrees with the goals but wants money reprogrammed from other areas. Since more than 80 percent of the LEAA monies are block grants, that diversion of funds is almost impossible. There would have to be a corresponding reduction in funds to state and local governments to accomplish it, and those funds were reduced this past year by Congress. Since the Attorney General is committed to reorganizing LEAA he should be allowed this small initiative while he is accomplishing that goal.

7. DOT Issues.

There is a major issue here concerning Highways, Mass Transit and the Administration's national transportation policy, or lack thereof. OMB is recommending an increase in Highway authority of \$1 billion. At the same time, OMB is only allowing a \$50 million increase in mass transit capital spending and is calling for continuation of the freeze on new starts or commitments. This would be a disastrous "signal" to mass transit advocates, metropolitan areas of the country, environmentalists, etc. Although there certainly is a need to control transportation spending, there is only one way we can send a limited mass transit budget to Congress with a freeze on new starts - (without having to accept Senator Williams' \$11.2 billion, 5 year, mass transit bill); that is by promising that the FY 78 legislative program will include a comprehensive transportation bill which consolidates the modal accounts. Brock Adams wants to wait until the FY 79 program to do so but the state and local governments which favor mass transit believe that the time is ripe now unless you are willing to provide several hundred million in new mass transit

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authority until Fy 79 - (which I think would relax the pressure for consolidation).

If we can present an energy policy by April 20th, and a welfare reform plan by May 1, we should be able to have a transportation policy for the FY 78 program.

Issue not presented in OMB Memo.

8. Legal Services Corporation.

The corporation has requested \$217 million for FY 78 which is \$92 million above current services. OMB is recommending a total of \$150 million. I think \$200 million would be a good commitment to justice and equal rights for the poor. This is the most successful program from the 1960's War on Poverty, and it deserves support.

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Mr. President:

I still think it would be a good idea to devote the entire Cabinet meeting on Monday to Budget Discussion. It would be a short discussion because of the Partillo arrival, but we could at least get started. Bert could carry on when you have to leave.

I know that some Cabinet members (Joe Califano & Pat Harris for sure; plus others) will want an "appeal" to you on certain budget issues.

Respectfully JACK W

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE  
WASHINGTON

February 12, 1977

MEMORANDUM TO: THE PRESIDENT  
FROM: Jack Watson *Jack*  
RE: WEEKLY SUMMARIES SUBMITTED  
BY CABINET DEPARTMENTS

For the week of February 7-11, you received summaries (attached) from the following Departments:

Commerce

Interior

Justice

Transportation

Treasury and HUD

*Defense*  
*State (daily)*

I suggest that you thank those who submitted summaries for making them informative and brief.

Those who did not submit summaries last week should do so this week. You might add that you appreciate the sensitivity of some information in the summaries and that circulation will be strictly limited.

JHWJr;ply

Attachments

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PHW

*Meeting*

*C*

CONSUMER MEETING WITH PRESIDENT CARTER

I. Appointments

- Special Assistant for Consumer Affairs -
- Civil Service
- GSA
- ERDA
- FTC
- HEW
- CPSC
- Ex-Im Bank
- FIA
- Federal Home Loan Bank

*Ester Peterson*

II. Issues Before Congress

- Consumer Protection Bill
- Cooperative Bank
- Citizen Access to Government Decisions
- Government Accountability
- Class Action Suits
- Antitrust--Divestiture

III. Future Access

- Regular Meetings
- Memoranda
- Addresses to Consumer Audiences

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