The original documents are located in Box 1, folder "Budget (FY1977) - Agriculture and Small Agencies (1)" of the Richard B. Cheney Files at the Gerald R. Ford Presidential Library.

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

MEETING ON FY-1977 BUDGET
Wednesday, November 19, 1975
2:00 p.m. (60 minutes)
Oval Office

From: James T. Lynn

I. PURPOSE

To make decisions on issues raised by the FY-77 budget for the Department of Agriculture and certain small agencies.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

A. Background: The FY-77 budget submission of the Department of Agriculture and other small agencies have been reviewed by the Office of Management and Budget and members of the White House staff. This meeting will focus on issues raised in their budget submissions that require Presidential consideration and determination.

B. Participants: James T. Lynn, James Cannon, Paul O'Neill, James Mitchell, and Dale McOmber.

C. Press Plan: David Kennerly photo.

III. TALKING POINTS

A. Jim Mitchell, what is the first issue we should discuss today?

AGRICULTURE

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

NOV 18 1975

ACTION

MEMORANDUM FOR: THE PRESIDENT

FROM: James T. Lynn

SUBJECT: 1977 Budget decisions: Department of Agriculture

The agency request and my recommendations with respect to 1977 budget amounts for the Department of Agriculture are presented in the tabulation attached (Tab A). A summary of the principal budget decisions reflected in my recommendation is provided as background information (Tab B).

My recommendations concerning the Department's forestry programs, domestic food programs, and the P.L. 480 program will be submitted later.

The Secretary has not yet submitted a budget proposal for Forest Service programs. This is a result of the Forest Service being sued by several environmental groups to compel the preparation of an environmental impact statement on the annual budget proposals. This lawsuit was settled out of court with the Federal Government agreeing to formulate the fiscal year 1977 budget in the context of the "Resource Planning Act," which became law after the lawsuit was initiated. Severe time constraints have not permitted completion of the necessary activities preliminary to making specific budget proposals. Detailed proposals are, however, expected this week.

Six key issues have been identified for your consideration (additional detail at Tab C).

I. Rural community development block grants

OMB recommends that we proceed to develop a rural community development block grant legislative proposal for submission to the Congress in the spring of 1976, with an effective date for implementation in FY 1978. Federal grant and loan programs totaling about

$2.6 billion in 1976 in 9 Federal agencies would be eliminated as a source of funding for the block grant proposal. The proposed approach would be structured along the lines of the Community Development Act of 1974 and would:

1. Consolidate 30 programs into a program administered by USDA.

2. Provide grants to States for rural area development.

Approval of the concept by you would lead to a set of further studies and recommendations on such matters as:

- Whether or not an amount beyond the total of the programs replaced is necessary as a "sweetener" to obtain enactment of the legislation, and if so, the required amount.

- Development of criteria/factors for formula allocation of block grants.

- Determining the method and time frame for establishment and phase-out of "hold harmless" payments.

- Development of policy on recipient eligibility.

- Development of an explicit list of purposes for which block grants may be utilized.

USDA and the other agencies have not been consulted as yet.

Decision: Approve OMB recommendation _______________
Continue existing programs _______________

II. <u>Commodity Credit Corporation (CCC) short-term export credit</u>

USDA requested authorization to extend $750 million of short-term export credit in FY 1977. The Department attaches great importance to such credit in meeting competition and maintaining and building export markets.

OMB recommends a program level of $450 million in view of the tight budget and because export demand has been very strong this year. FY 1977 cannot accurately be assessed this year, but current trends may continue. Should conditions change in FY 1977, the amount of credit authorized can be changed administratively.

Decision: Approve agency recommendation _______________
Approve OMB recommendation _______________

III. Peanut price support program

The Department of Agriculture requests $321 million to continue its policy of reselling peanuts and peanut oil acquired under the price support program at no less than 100 percent of the support price. No such sales have been made since this policy was initiated about two years ago; however, USDA believes that through this strategy it can induce needed legislative changes in the law governing the program.

OMB recommends $71 million. This figure can be achieved by selling CCC's inventory of oil and reselling at market prices to processors for crushing into oil and meal the peanuts acquired under the price support program. This recommendation is based on the lack of evidence that USDA's strategy is working and to forestall attempts to increase the P.L. 480 budget to accommodate an expensive product like peanut oil.

Decision: Approve agency recommendation _______________
Approve OMB recommendation _______________

IV. Interest rates on CCC loans

USDA proposes to charge an interest rate of 6.1 percent on price support loans to farmers. This is the same rate that Treasury charges CCC for borrowed money, but well below market rates of 8-9%. While the Department is not averse, on economic grounds, to raising its interest rate, it does object on political grounds. It would expect to receive protests from many important members of its constituency.

OMB believes that the subsidy to farmers is not necessary and recommends raising CCC interest rates by 1 percentage point, thereby increasing interest income by $12 million.

V. Rural Electrification Administration (REA) guaranteed electric loans

The USDA recommends REA loan guarantees of $2.7 billion on loans to electric power supply borrowers in FY 1976, and $2.7 billion in FY 1977. This is in addition to $810 million loaned directly at interest rates of 2% and 5%.

OMB recommendation would hold REA loan guarantees in 1976 and 1977 to the $1.3 billion level proposed in the 1976 budget because the ability of the electric industry to obtain private financing has shown significant improvement lately and because the demand for energy may grow at a lower rate in the future.

Decision: Approve agency recommendation ______________
Approve OMB recommendation ______________

VI. Agricultural research

The Department of Agriculture recommends a $37 million increase over the FY 1976 level of $376 million. Secretary Butz has made this his highest priority item in this budget.

OMB recommends a $15 million overall increase, re-emphasizing the role of USDA in crop and animal production efficiency research, but with a new emphasis on basic research. This new emphasis is needed because of land constraints and decreasing returns in agricultural productivity. The recommendation also includes a reduction in markèting research which can be increasingly undertaken by the private sector, due to the greater ability of commodity groups to organize for action.

Decision: Approve agency recommendation ______________
Approve OMB recommendation ______________

Attachment

TAB A

Department of Agriculture
1977 Budget

Summary Data

	(In Millions) Budget Authority	Outlays	Employment, End-of-Year Full-Time Permanent	Total
1975 actual	15,190	9,708	79,133	118,986
1976 February budget	11,864	9,662	81,061	114,701
Enacted	15,636	13,871	xx	xx
Supplementals recommended	450	503	xx	xx
Agency request	14,982	14,217	82,686	122,300
OMB recommendation	16,086	14,374	80,918	120,518
OMB employment ceiling	xx	xx	81,061	114,701
TQ February budget	3,181	3,438	xx	xx
Enacted	2,983	3,552	xx	xx
Supplementals recommended	22	22	xx	xx
OMB recommendation	3,005	3,574	xx	xx
1977 planning target	13,276	13,947	xx	xx
Reduction target	xx	11,390	xx	xx
Agency request	13,657	13,186	83,323	123,300
OMB recommendation	10,213	10,527	80,918	120,518
1978 OMB estimate	12,068	12,472	80,796	120,396

TAB B

Department of Agriculture
1977 Budget
Summary and Background Information

A. 1977 Budget Summary (Outlays in Mil. $)

	1976	1976 %	Initial USDA Request	Revised USDA Request	OMB Rec.	
Farmers Home Administration	722	5	903	831	830	Issue #1.
Commodity Credit Corporation	1,430	10	1,229	1,003	350	Issues #2,3, and 4.
Rural electric loans	(2,036)	xx	(3,510)	(3,510)	(2,096)	Off-budget; Issue #5.
Research, regulatory, and extension	997	7	1,051	1,022	980	Issue #6.
Conservation	672	5	603	457	457	
Forestry	994	7	1/	1/	872 2/	To be reviewed later.
Other	488	3	477	469	447	
Receipts and asset sales from inventory	-632	xx	-1,013	-1,429	-1,513	
Sub-total	4,671	35	4,082	3,185	2,423	
Domestic feeding programs	8,636	58	9,059	9,059	7,162 2/	To be reviewed later.
P.L. 480	1,077	7	1,042	942	942 2/	To be reviewed later.
Total	14,384	100	14,183	13,186	10,527	

1/ Request being formulated.
2/ Tentative.

B. Summary of Issues

	1977 Outlays ($ in M)
1. Legislative proposal to convert categorical loan and grant programs to rural development block grants:	
Agency request - not consulted	NA
OMB recommendation - work out details and submit early next year	NA
2. Amount to be included for short-term export credit sales:	
Agency request - continue at about the 1976 level	750
OMB recommendation - hold to $450 million and increase administratively later if market conditions warrant	450
3. Sales policy for peanut oil acquired under price support program:	
Agency request - maintain high sales price in effort to attain new price support legislation, dispose of stocks under P.L. 480	321
OMB recommendation - strategy not working; sell oil commercially	71
4. Interest rate on price support loans:	
Agency request - continue to charge farmers same rate as Treasury charges CCC	-71
OMB recommendation - increase rate by 1% to bring it closer to market rate (8-9%)	-83
5. REA electric loan guarantees:	
Agency request - double the loan level proposed in 1976 budget	(2,700)
OMB recommendation - hold to 1976 budget level because private market financing is available	(1,300)

	1977 Outlays ($ in M)
6. Direction of USDA agricultural research:	
Agency request - would increase most categories of research	408
OMB recommendation - would provide increases for production efficiency research and de-emphasize marketing research	380

C. Agricultural Outlook

The world food situation continues on the tight side, despite record U.S. grain production and an increase in world production over the last year. The hoped-for buildup in world stocks has not materialized and stocks are now expected to be near the minimum levels of last year.

Thus, despite declining prices and a cost-price squeeze earlier this year, the outlook for U.S. agriculture is very good.

.. Foreign demand for grain is strong.

.. Grain prices have stabilized at levels slightly below a year ago and are likely to remain strong for the rest of the year.

.. Sales of cotton, wool, and tobacco are picking up as the general economy improves.

.. Livestock prices are up substantially, largely because of reduced output generated over a year ago by short feed crops and high feed prices.

The livestock situation is highly uncertain. The industry will make decisions this fall relating to placing more cattle on feed, increasing farrowings, setting more eggs, and stepping up grain feeding to dairy cows. These decisions will have implications well into 1976. So far cattle feeders and hog producers have been hesitant to make large expansion commitments, despite improved feeding margins.

If livestock feeders should opt for a major expansion in their operations, the demand for credit could pick up considerably. 1975 saw a slow-down in the demand for both real estate and production credit, reflecting reduced livestock feeding and the impact of somewhat lower crop prices. With a record large harvest this fall and with crop prices generally strong, farmers will be entering 1976 in an optimistic frame of mind. Land values will probably be rising at a faster rate, and the demand for real estate credit will increase as well.

The supply of credit is expected to be adequate, although both production and mortgage loans will be made at the same or slightly higher interest rates than in 1975.

D. USDA Request

Except for the domestic feeding programs, the Secretary's original request was within the original planning target; his revised request was $105 million under the reduction target.

The revised request calls for the termination of or sharp reductions in a number of programs (e.g., domestic feeding programs, water and sewer grants, Agricultural Conservation Program (ACP), and a number of housing programs).

Despite the large reductions, USDA's revised request provided significant increases for the Secretary's high priorities; i.e., agricultural research and insect and disease control.

E. OMB Recommendation

The OMB recommendation accepts all the reductions proposed by the Secretary and, in addition, is $762 M below his outlay request.

.. The bulk of the additional reductions ($538 M) are in the Commodity Credit Corporation programs; e.g., selling peanut oil, reducing export credit sales, and raising interest rates on price support. It should be pointed out, however, that the resulting outlay estimates for both 1976 and 1977 are highly tentative and probably on the optimistic side. This is so because the most significant determinants of program cost are beyond the Administration's control; namely, weather and demand for farm products. For example, the recent dry weather in the Midwest may cut wheat production sufficiently to result in additional disaster payments to producers. Favorable weather abroad could cut importer requirements while increasing the competition among exporters for available markets. This could result in a buildup of stocks, depressed prices and, possibly, deficiency payments for wheat and feed grains.

.. Although the Department has not submitted a budget request for the Forest Service, the OMB recommendation tentatively provides for some increase in high priority work, offset in part by proposed termination of the Youth Conservation Corps and grants to States for forest fire control. The upward budget pressures for this area are particularly great this year because of the widespread belief that the "Resource Planning Act" will result in increased appropriations. This Act also creates pressure by requiring the President to submit a detailed statement of policy that he intends to follow in framing budget requests for these activities over the plan period.

.. The OMB recommendation:

- Would provide increases for crop and livestock efficiency research largely because the Federal Government offers the only research source in this area.

- Would partially deny requested increases for insect and disease control programs, either because the net benefits are substantially less than USDA indicates or past experience has shown USDA to be incapable of producing in these areas. In the animal disease area, the Department has failed to prohibit recurrences of disease, such as brucellosis, but it continues to show eradication costs as one-time costs. In the plant area, the Department desires to eradicate pests, such as witchweed, or prohibit the entry of weeds into the Nation. It has never successfully eradicated an important plant pest, and it admits the impossibility of prohibiting new weeds from entering the mainland.

1977 Budget
Department of Agriculture
Summary of Recommended Program Reductions
($ in Millions)

	1976		TQ	1977			1978	
	O	FTP Employ	O	BA	O	FTP Employ	O	FTP Employ
Current base	14,426	81,318	3,706	10,706	11,050	81,388	12,903	81,266
Recommended level	14,374	80,918	3,574	10,213	10,527	80,918	12,472	80,796
Reduction	52	470	132	493	523	470	431	470
Program reductions:								
Terminate self-help housing, farm labor housing, and business and industrial development grant programs through rescissions	2	20	1	28	12	20	12	20
Reduce water and sewer grants through rescission of $125 M and deferral of $50 M for the 1977 program	35	-	8	150	76	-	121	-
Terminate the 1976 Agricultural Conservation Program through rescission and propose no program for FY 1977	-	-	-	175	140	-	157	-
Defer $15 M of Watershed Protection and Resource Conservation and Development programs for the 1977 programs	-	-	-	30	6	-	21	-
Eliminate Water Bank program	-	-	-	10	1	-	3	-
Eliminate Forestry Incentives program ..	-	-	-	15	11	-	15	-

(Continued on next page)

Summary of Recommended Program Reductions (continued)

	1976		TQ	1977			1978	
	O	FTP Employ	O	BA	O	FTP Employ	O	FTP Employ
Reduce tobacco marketing quotas	-	-	113	-	175	-	-	-
Increase interest rates on price support loans	-	-	-	-	12	-	12	-
Shift Dairy Herd Improvement program to National DHI Association	-	-	-	2	2	-	2	-
Eliminate Rural Development Act funding of research and extension activities at the Land Grant Colleges	-	-	-	3	3	-	3	-
Reduce expanded food and nutrition education program	-	-	-	10	10	-	10	-
Charge service fee for market rate housing loans	-	-	-	-	5	-	5	-
Reduce beekeeper indemnity payment schedule by 25%	-	-	-	1	1	-	1	-
Reduce salaries & expenses associated with reduction in the conservation programs cited above	-	400	-	15	15	400	15	400
Terminate the rural community fire protection grant program through rescission	3	-	2	4	4	-	4	-

(Continued on next page)

Summary of Recommended Program Reductions (continued)

	1976		TQ	1977			1978	
	O	FTP Employ	O	BA	O	FTP Employ	O	FTP Employ
Terminate Cooperative Forest Fire Control Grants to States	-	-	-	18	18	-	18	-
Terminate the Youth Conservation Corps program	10	50	8	30	30	50	30	50
Terminate marketing research payments to States and possessions	2	-	-	2	2	-	2	-
Total reductions	52	470	132	493	523	470	431	470

TAB C

C-1

Issue Paper
Department of Agriculture
1977 Budget
Issue #1: Rural Community Development Block Grants

Statement of Issue

Should legislation be proposed to convert rural community development grant and loan programs scattered among nine Federal agencies to a block grant program administered by the Department of Agriculture?

Background

Federal community development program obligations are expected to total about $5 billion nationally during 1976, of which about half is directed to metropolitan (SMSA) counties where 73% of the U.S. population lived in 1973. While most of the funds currently going to metropolitan areas are grants, over $1 billion of the amount going to nonmetropolitan areas is in the form of long-term -- mostly subsidized -- loans.

Included in the $5 billion are 33 Federal programs with about $2.7 billion in obligations for FY 1976. These programs are administered by nine departments and agencies which have community or economic development in rural areas as their primary objective (see Attachment 1). EDA and SBA have job creation as their primary objective; the former directs assistance to areas with chronic high unemployment or low income, many of which are in nonmetropolitan areas. About $2.5 billion of this amount is obligated in nonmetropolitan (nonSMSA) counties. This potpourri of categorical programs includes the following Federal programs:

		($ in Millions) Funding Levels			
		1976		1977	
Program	Federal Agency	Obligations	Outlays	Obligations	Outlays
Business and community facility:	USDA				
Loans	Farmers Home Administration	1,020	30	1,070	63
Grants		57	51	50	61

(Continued next page)

Program	Federal Agency	($ in Millions) Funding Levels 1976 Obligations	1976 Outlays	1977 Obligations	1977 Outlays
Community development block grants	HUD	520	120 1/	578	320 1/
State and local development company loans	SBA	32	14	24	4
Economic Development Administration assistance	Commerce EDA	385	276	245 2/	264
Technical assistance and grants	Commerce Regional Planning Commissions	67	55	42	42
Appalachian development assistance	Appalachian Regional Commissions	328	340	292	320
Economic growth center highway and nonurbanized area transit assistance	Department of Transportation Federal Highway Administration Urban Mass Transp. Admin. 3/	184	101	40	85
Tennessee Valley, general resources development and special Indian assistance	Tennessee Valley Authority Department of Interior, Bureau of Indian Affairs	72	73	36	39
Community economic development	Community Services Administration	39	39	39	39
TOTAL		2,704	1,099	2,416	1,237

1/ HUD CD grant obligations occur very late in a fiscal year and outlay over about a five year time period. HUD initially issues a letter of credit to grant recipients and subsequently disburses funds as bills come due.

2/ Includes $45 million for economic adjustment assistance (base closings, disaster recovery, trade adjustment assistance). At issue is the need to continue these types of assistance apart from RCD block grants.

3/ Depending upon current budget decisions, these programs should be deleted from RCD block grant conversions <u>if the 1977 budget terminates the economic growth center highway program and DOT's request to initiate a non-urbanized area transit assistance program in 1976 is disallowed.</u>

Almost half consists of categorical loan programs for purposes ranging from water, sewer, and other community facilities to business development.

The remainder consist of grants and technical assistance, almost half of which are provided as the nonmetropolitan share of HUD's community development block grant programs.

Other purposes served by grants range from water, sewer, and other community facilities to highways and vocational rehabilitation.

Certain of the programs like water and sewer facilities have a high degree of overlap in that they are funded by several Federal agencies with different eligibility criteria.

Other programs - those of USDA totaling about $1 billion in loans and $57 million in grants in FY 1976 - are directed entirely to nonmetropolitan areas.

Others, including the grant and loan programs of the Economic Development Administration ($385 million). Appalachia and the Regional Commissions ($395 million), and the Small Business Administration community development program (about $32 million), are directed primarily to nonmetropolitan areas. This occures primarily because of the large number of rural areas which have chronically high unemployment and low income.

Certain programs are specific to regions of the country - Appalachia, the Title V Commissions, and the Tennessee Valley Authority (about $10 million), or are designed to assist a particular clientele group - Bureau of Indian Affairs (about $60 million).

Most of the programs have discretionary authority vested in the Federal Government with varying levels of involvement by State and local governments. Such involvement ranges from virtually no controlling inputs under the USDA programs to considerable influence by States and local governments on program financing decisions under the Appalachia and Regional Commission programs.

Analysis

The present collection of Federal categorical grant and loan programs has the following major flaws:

- They result in an inequitable distribution of resources among rural communities.
- It is a piecemeal and fragmented approach to community development.

- State/local decisionmaking is limited by Federal program administration.

- There is high administration cost at the Federal level.

Past Experience

Earlier efforts to convert Federal categorical programs to block grants have met with mixed success. Attempts in the early 1970's to convert a number of "rural" programs to rural revenue sharing failed, resulting ultimately in the enactment of the Rural Development Act of 1972 which contains a number of new categorical loan and grant programs. An attempt in 1974 to replace EDA and the regional commissions with formula allocated block grants to States was also unsuccessful. The HUD community development block grant program enacted in 1974 was a major success in converting seven HUD programs to block grants. This proposal for rural areas is prompted by and patterned after the HUD block grant program.

Programs to be Included

Most of the programs set forth in Attachment 1 are clearly candidates for a rural community development block grant program by virtue of the fact that they are competing and overlapping programs which are generally available for rural community development purposes, either nationwide, or in major regions of the country. Several are quite limited either by clientele - four programs administered by the Bureau of Indian Affairs; or geography - a small program administered by the Tennessee Valley Authority. These five programs can be excluded from the list of programs for conversion to block grants with only a nominal effect on the total funds involved - only about $70 million, thereby avoiding some fairly complex "hold harmless" and political problems. Under its authorizing legislation, the Community Services Administration's Community Economic Development program (supporting both rural and urban projects) may be transferred to the Department of Commerce as part of a Presidential reorganization plan. You have decided not to submit such a plan in FY 1977. Therefore, you may not wish to convert the rural component ($17 million) of this program into the block grant at this time but consider this alternative within the context of complete reorganization of CSA. The following alternatives have been developed within OMB without consultation with any of the Federal agencies involved.

Alternatives

#1. Propose legislation to convert all of the programs except for TVA and BIA to a rural community development block grant program. The proposal would have to encompass the following determinations:

Eligible purposes for use of grants could include:

(Illustrative list)

- Acquisition, construction, and rehabilitation of public facilities.
- Provision of public services - including social services.
- Business and industrial development.
- Payment of non-Federal share required by other Federal grant programs.
- Planning and technical assistance.
- Overhead costs for eligible activities.

Determination of State share

- Block grants to be allocated to, or at least by, reference to formula factors found in States.
- While further analysis is required to develop the formula allocation factors, they could include such factors as population, and incidence of poverty. Rates of employment/unemployment could also be considered. Further study is required on this issue. As part of this study, it is necessary to clarify and delineate objectives to be served by RCD block grants - community assistance, economic development/area growth, job creation in depressed areas, etc. Selected objectives will be determinates for allocation formula factors.
- As under the HUD block grant program, a small discretionary amount - say 2 percent - could be reserved by the Secretary of Agriculture for allocations as appropriate; and "hold harmless" provisions would have to be included during a transition period to assure that communities/ States obtained as much assistance as is currently available under the categorical programs.

- The level of block grant funding is a complex determination based upon whether and how much "sweetener" is deemed necessary to assure enactment of the legislative proposal. The following range of options are possibilities:

  (a) The level of block grants would equal the aggregate level of loans, grants, technical assistance, etc., currently provided by the programs being converted.

  (b) Same as (a) except that the block grant level of funding would equal current levels of grants, technical assistance, etc., and only an amount equivalent to the interest subsidy cost of current loan programs.

  (c) Same as (b) except that the equivalent value of loan interest subsidies would not be included in the block grant funding level.

- The timing of implementation of the block grant proposal - 1977 vs 1978 - is crucial. It is questionable whether it would be possible to develop a sound legislative proposal adequately coordinated with agency officials and Hill staff and obtain enactment before 10/1/76.

Elibible communities

Grant eligibility should be limited to communities in nonmetropolitan counties. (In 1972 there were 2,600 nonmetropolitan counties containing 13,050 incorporated municipalities.)

#2. Continue existing categorical grant and loan programs.

	($ in Millions)							
	1976		1977		1978		1979	
	Obs.	O	Obs.	O	Obs.	O	Obs.	O
Alt. #1:								
Option (a)	2,632	1,026	2,380	1,198	2,410	1,416 1/	2,410	1,805
Increase over #2	-	-	-	-	-	-	-	+389
Option (b)	2,632	1,026	2,380	1,198	1,416	1,064 1/	1,416	1,309
Decrease from #2	-	-	-	-	-994	-352	-1,037	-107
Option (c)	2,632	1,026	2,380	1,198	1,312	1,038 1/	1,312	1,257
Decrease from #2	-	-	-	-	-1,098	-378	-1,141	-159
Alt. #2	2,632	1,026	2,380	1,198	2,410 2/	1,416 2/	2,410	1,416

1/ Assumes that rural community development block grants will "spend out" evenly over roughly a four year period, approximating the anticipated pattern under the HUD block grant program. Outlay amounts include outlays from prior year obligations under the "converted" programs of $710 million in 1978; $601 million in 1979; $159 million in 1980; and $59 million in 1981. By the fifth year, outlays under this proposal should be running at a level of $2,410 million under Option (a); $1,416 million under Option (b); and $1,312 million under Option (c).

2/ Includes roughly $170 million in obligations and $200 million in outlays under these programs in metropolitan counties. (An unresolved issue which must be addressed is the future treatment of metropolitan counties which are now included as "eligibles" for many of these programs which would be converted to RCD block grants under Alt. #1.)

Alternative #1

Pros:

-- Would eliminate a number of competing and overlapping categorical programs.

-- Would transfer decisionmaking from Federal bureaucrats to State and local governments which are closest to and most knowledgeable of their problems.

-- Would facilitate State and local development planning because of the existence of a known level of resources.

-- Would provide more nonrepayable Federal dollars than are presently available in the current package of grant and loan programs, thereby adding a substantial "sweetener" for rural communities under Option (a). Options (b) and (c) would not provide a "sweetener."

-- Would utilize an accepted model for block grants - the HUD community development block grant program.

-- While tight, a FY 1978 effective date should be feasible.

-- Would permit reductions in Federal employment in some agencies and eliminate the necessity for increases in some others.

Cons:

-- Many rural communities may oppose substituting block grants (an unknown) for a familiar system where the more adept communities can "work the system." Stronger opposition can be expected without a "sweetener."

-- Local governments and development districts would likely oppose a strong State role, preferring instead a direct allocation by the Federal Government.

-- Establishment of block grants will not diminish the demand for special assistance for which certain of the programs were originally created to provide:

- loans to small businesses.

- economic development assistance to distressed areas, including urban areas.

-- There is a sizeable risk that Congress will refuse to abolish EDA (and some other "favorite" programs) even if it approves the block grant approach for rural areas.

-- Will require the establishment of a new administrative bureaucracy in many States for distributing funds to local governments if the States are the grant recipients.

-- Strong Congressional opposition can be expected, at least from the Agriculture and Public Works Committees if the past lack of success in obtaining revenue sharing and/or block grants is any guide. (Historically there has been strong House opposition to block grants to States.)

Alternative #2

Pros:

-- Retains a program structure for which there are familiar ground rules for recipients.

-- Preserves a degree of Federal control over the use of Federal funds.

-- Avoids jurisdictional conflicts certain to arise with the Congressional committees under a block grant proposal.

Cons:

-- Would continue a number of Federal programs of questionable cost effectiveness.

-- Continues the practice of having the Federal Government call the shots on rural community development, thereby denying States and local governments a major voice in developmental decisionmaking.

-- Continues a fragmented incremental approach to rural community development which limits the effectiveness, particularly of States, in developing and implementing planning strategies which could make a significant impact on developing particular areas.

-- Continues an inequitable system of resource distribution whereunder those communities which are the best grantsmen get the lion's share of program assistance.

OMB Recommendation

Approve Alt. #1 with FY 1978 as the effective date for first year of implementation.

ATTACHMENT 1

Federal Programs which Contribute to Rural Community Development 1/

Program	Federal Agency	Legislative Congressional Committees	($ in Millions) Funding Levels 1975 Obs.	1975 O	1976 Obs.	1976 O	1977 Obs.	1977 O	1978 Obs.	1978 O
Business & Industrial loans	USDA/FmHA	Senate: Ag. & Forestry. House: Ag.	350	--	350	--	400	--	400	--
Industrial Dev. grants	Same	Same	14	4	7	9	--	4	--	3
Community Facility loans	Same	Same	200	1	200	9	200	19	200	25
Water & Sewer grants	Same	Same	157	35	50	42	50	57	50	128
Water & Sewer loans	Same	Same	470	3	470	21	470	44	470	60
Community Dev. grants--Hold harmless	HUD--Community Planning & Dev.	Senate: Banking, Housing & Urban Affairs. House: Banking, Currency, Housing.	270	4	266	60	260	140	173	120
Community Dev. grants--Discretionary	Same	Same	199	3	254	60	318	180	405	280

1/ Rural is defined as all nonmetropolitan counties. Except where indicated otherwise, amounts are expended in nonmetropolitan areas.

Program	Federal Agency	Legislative Congressional Committees	Funding Levels 1975 Obs.	1975 O	1976 Obs.	1976 O	1977 Obs.	1977 O	1978 Obs.	1978 O
State & Local Dev. Co. Loans	Small Business Administration	Senate: Banking, Housing & Urban Affairs. House: Small Business.	41 2/	30	32	14	24	4	24	4
Public Works	Commerce--Econ. Dev. Admin.	Senate: Public Works. House: Public Works & Trans.								
Business Dev.	Same	Same								
Technical Assistance	Same	Same								
Planning Grants--301	Same	Same								
Planning Grants--302	Same	Same	269 3/	242	385	276	245	264	245	335
State Grants	Same	Same								
Econ. Adjust. Assist.	Same	Same								
Supplemental Grants	Same	Same								

2/ About 80% of the funds are expended in nonmetropolitan counties.
3/ About 75% of these funds are expended in nonmetropolitan counties.

Program	Federal Agency	Legislative Congressional Committees	Funding Levels 1975 Obs.	1975 O	1976 Obs.	1976 O	1977 Obs.	1977 O	1978 Obs.	1978 O
Technical Assistance	Commerce-- Regional Planning Commission	Same	40 4/	34	67	55	42	42	42	42
Supplemental Grants	Same	Same								
Appalachian Dev. Highway System	Appalachian Regional Comm.	Senate: Public Works. House: Public Works.								
Demonstration Health Projects	Same	Same								
Research, Demonstration & Local Dev. Districts	Same	Same	323 5/	313	328	340	292	320	292	340
Appalachian Housing Fund	Same	Same								
Mine Area Restoration	Same	Same								
Vocational Ed. Projects	Same	Same								
Supplements to Federal Grants-in-Aid	Same	Same								

4/ Percentages ranging from 85% to 95% of the amounts expended in six of the seven regions are expended in nonmetropolitan counties. About 50% of expenditures by the New England Regional Commission are in nonmetropolitan counties.

5/ About 80% of highway funds and 67% of all other Appalachian fund expenditures are in nonmetropolitan counties.

Program	Federal Agency	Legislative Congressional Committees	Funding Levels 1975 Obs.	1975 O	1976 Obs.	1976 O	1977 Obs.	1977 O	1978 Obs.	1978 O
Economic Growth Center Develop. Highway	Dept. of Trans. Federal Highway Administration	Senate: Public Works. House: Public Works & Transportation.	128	29	144	100	-	75	-	15
Tennessee Valley Region--General Resources Dev.	Tennessee Valley Authority	Senate: Public Works. House: Public Works & Transportation.	9 6/	9	10	9	12	11	13	12
Nonurbanized Area Transit Assistance	Dept. of Trans. Urban Mass Transportation Administration	Senate: Public Works. House: Public Works & Transportation.	-	-	40	1	40	10	70	25
Community Econ. Dev.	Community Services Administration	Senate: Labor & Public Welfare. House: Education and Labor.	39 7/	39	39	39	39	39	39	39
Indian Irrigation Construction	Dept. of Interior Bureau of Indian Affairs	Senate: Interior & Insular Affairs. House: Interior & Insular Affairs.	25	25	18	20	2	6	20	13
Indian Business Loan Guarantees	Same	Same	-	-	4	4	7	7	8	8
Indian Bus. Loans	Same	Same	7	7	30	30	5	5	-	-
Indian Bus. Grants	Same	Same	10	10	10	10	10	10	10	10
TOTAL			2,551	788	2,704	1,099	2,416	1,237	2,461	1,459

6/ About 75% of funds are expended in nonmetropolitan counties.
7/ About 45% of the funds are directed to nonmetropolitan counties.

C-2

Issue Paper
Department of Agriculture
1977 Budget
Issue #2: CCC Short-term Export Credit

Statement of Issue

Should the amount authorized for short-term export credit sales in FY 1977 be reduced from the $750 million level requested by USDA? If so, what should that level be?

Background

A major objective of Administration policy is to increase the volume of exports. Agricultural exports have played a major role in the achievement of recent trade surpluses. While we are the major suppliers of wheat, feed grains, rice and soybeans, there are other sellers with whom we compete for markets. Short-term export credit is made available to buyers by our foreign competitors. Thus, there are occasions when the availability of such credit can be the difference between making and losing a sale. The Commodity Credit Corporation extends short-term credit (up to three years at interest rates slightly above the prime rate, repayment of which is guaranteed by foreign or domestic banks) in order to maintain and promote exports of farm products.

In the budget short-term credit loans are outlays and repayments are receipts. The level of credit authorized is an administrative determination.

Prior to 1974, the short-term export credit program operated at a level of around $1 billion. With commodities in short supply in 1974 and 1975, large credit extensions were not required to maintain exports. Recently the $450 million ceiling for FY 1976 was raised to $790 to promote cotton sales.

Alternatives

1. Authorize $750 million for FY 1977 (USDA request).

2. Authorize $450 million, same as the initial figure for FY 1976.

Analysis

Program level ($ Millions)	1975	1976	TQ	1977	1978	1979
Alt. #1 (Agency req.)	249	790	225	750	1,600	1,700
Alt. #2 (OMB rec.)	249	790	225	450	450	450

The significant point about establishing the level of credit now for budget purposes is that the process is largely subjective - the crops to be sold in FY 1977 are not even in the ground (winter wheat excepted), and we do not have a reasonable fix on the world supply and demand situation for our export crops. Furthermore, whatever figure is selected, it can be adjusted up or down administratively as credit needs change. Shifting to a new level requires agreement between OMB and USDA that an adjustment is desirable.

Agency Request: Alternative #1. The Department prefers that the Administration assume an aggressive posture, because of the great importance it attaches to short-term credit in building export markets.

OMB Recommendation: Alternative #2. It is unlikely that cotton sales will need to be promoted as vigorously in 1977 as in 1976, and the program level can be changed later to accommodate the supply-demand situation.

C-3

Issue Paper
Department of Agriculture
1977 Budget
Issue #3: Peanut Price Supports

Statement of Issue

Should USDA sell its stocks of peanuts and peanut oil?

Background

Under the current law, CCC supports the price of peanuts at the legal minimum of 75 percent of parity by offering nonrecourse loans on edible peanuts to producers who are unable to sell their peanuts at the support price. Since the minimum acreage allotment turns out far more nuts than can be sold at the support price, CCC usually takes over around one-third of the peanuts produced.

Because the peanut program is so excessively profitable to allotment holders, and costly to consumers and taxpayers, the Administration announced its intent to improve the program.

To induce desirable changes in the program, USDA devised, and OMB approved, a two-pronged strategy:

-- Refuse to sell surplus peanuts at less than the support price. (Formerly they were sold to processors for crushing into oil and meal, or for export.) The resulting mountain of peanuts would call attention to the absurdity of the program.

-- Send legislation to the Hill which if enacted would:

. eliminate acreage controls.

. permit anyone to grow peanuts.

. cut back the level of price protection provided to existing allotment holders.

To date, the consequences of this strategy have been mostly adverse:

-- pressure to increase the P.L. 480 budget to accommodate "surplus" peanut oil owned by CCC. For example, USDA recently requested that the P.L. 480 budget for FY 1976 be increased to accommodate shipment of 175 million pounds of surplus peanut oil.

-- a shortage of peanut oil on the domestic market.

-- dwindling exports of peanuts.

Meanwhile, Congressional interest in enacting legislation incorporating the features described above has been nil. The leading defender of the peanut program in the Senate is Senator Talmadge, while in the House Poage, Albert and Mathis are the important spokesmen. Leading states in peanut production are: Georgia, Texas, North Carolina, Alabama, Virginia and Oklahoma.

Alternatives

1. Continue with present policy of accumulating oil until needed legislative changes are enacted (Agency request).

2. Concede failure of the strategy and sell, over time, the accumulated inventory of peanut oil and resume selling surplus peanuts to processors for crushing into oil and meal.

Analysis

Outlays 1/ ($ Millions)	1975	1976	TQ	1977	1978	1979
Alt. #1 (Agency request)	115	302	101	321	362	411
Alt. #2 (OMB recommendation)	115	302	101	71	126	232

1/ Net expenditures for price support and P.L. 480.

Agency Request: Alternative #1. Since it is costly to store processed oil - it must be further refined periodically to prevent spoilage - the Department prefers to ship the oil under P.L. 480. It is still hopeful that its rising inventory of peanut oil will have a positive effect on getting changes made in the peanut program, and wants to continue its present policy. It is fearful that a shift in direction now will undermine its efforts to change attitudes on the Hill.

OMB Recommendation: Alternative #2. OMB believes that shipping large quantities of oil under P.L. 480 would relieve some of the pressure to reform the program and would prefer that such relief be in the form of cash sales. This would not preclude USDA from attempting to obtain legislative changes over the next few months.

C-4

Issue Paper
Department of Agriculture
1977 Budget
Issue #4: Interest Rates on CCC Price Support Loans

Statement of Issue

Should CCC interest rates on price support loans include a mark-up to narrow the gap between free market rates and Treasury rates?

Background

The Commodity Credit Corporation makes commodity loans to producers of price-supported crops. Producers seek such loans not only to avail themselves of the price protection they provide, but to ease the financial burden of carrying their crops until an opportune time arrives to sell them.

For over 10 years prior to 1973 the interest rates on commodity loans were held at 3.5 percent. While the intent of current policy is to maintain parity with Treasury rates - now about 7.5% - CCC actually finds itself charging slightly more or less over the period of a year because it adjusts its rates semiannually. Rates on more or less comparable loans extended by country bankers fall in the 8-1/4 to 9-1/4 range.

Alternatives

1. Maintain a parity with Treasury rates (Agency request).

2. Add a one percentage point premium (OMB recommendation).

Analysis

Interest income on loans ($M)	1975	1976	TQ	1977	1978	1979
Alt. #1 (Agency request)	110	65	12	71	80	84
Alt. #2 (OMB recommendation)	110	65	12	83	93	98
Interest rates on loans (Percent)						
Alt. #1 (Agency request)	8.1	6.1	6.1	6.1	6.1	6.1
Alt. #2 (OMB recommendation)	8.1	6.1	6.1	7.1	7.1	7.1

There has been a lot of talk in financial circles in and out of government about the adverse economic consequences of Federal allocation of credit. By definition this allocation is made on a political basis and results in interest subsidies to favored groups.

Agency Request: Alternative #1. USDA prefers to continue with its present policy, not on economic grounds but because of the political heat an uptick in rates would generate. They would also argue that higher rates discourage farmers from holding large inventories of crops, which we may one day call on them to do.

OMB Recommendation: Alternative #2. Lifting interest rates on CCC loans would be a step toward bringing them closer to market rates and further reducing interest subsidies.

C–5

Issue Paper
Department of Agriculture
1977 Budget
Issue #5: REA Guaranteed Electric Loans

Statement of Issue

Should a substantial increase in Rural Electrification Administration (REA) guaranteed loans for electric power supply be recommended for FY 1976 and FY 1977?

Background

The REA makes loans and guarantees loans to rural electric systems.

-- Direct loans are off-budget. They must be repaid within 35 years, and they bear either a 2 percent or 5 percent interest rate in accordance with criteria specified in the Rural Electrification Act. These loans may be made for either distribution or power supply purposes.

-- REA also provides 100 percent guarantees for electric power supply loans to qualified borrowers which are made by legally organized lending agencies at rates agreed upon by the lender and the borrower. To date, all guaranteed loans have been made by the Federal Financing Bank (off-budget) currently in the range of 8.0 to 8.6 percent interest.

The Rural Electrification Act retained for the Congress the exclusive authority to limit the amount of guaranteed loans to be authorized; however, to date, the Congress has chosen not to limit the loan guarantee authority. Thus, for FY 1976 and the transition quarter, the amount of loan guarantee authority available is not limited by law.

Of the total energy needs of the REA electric distribution cooperatives, about 28 percent are currently supplied by REA power supply cooperatives, nearly 40 percent are supplied by publicly owned suppliers and the balance, 32 percent, are supplied by private companies.

During 1974, sales of electric energy by the electric utility industry declined for the first time since World War II although sales for REA electric distribution borrowers grew at a 7.1 percent rate.

FEA reports that the electric industry in 1974 cancelled or deferred construction on 235 coal and nuclear plants representing 11,000 MW of nuclear capacity and 74,000 MW of coal capacity. Many of these cancellations were attributable to financing problems.

Alternatives

#1. Expand the guaranteed electric loan program at the $2.7 B rate requested for FY 1976 and FY 1977. (Agency request)

#2. Continue the guaranteed electric loan program at the $1.3 B level indicated in the FY 1976 budget as a ceiling both for FY 1976 and for FY 1977 and reassess the desirability of expanding the program in FY 1978. (OMB recommendation)

Analysis

Loan Commitments (LC)	($ in millions) 1975	1976	TQ	1977	1978	1979	1980	1981
Guaranteed Electric Loans								
Alt. #1 (Agency request):	1,206	2,700	675	2,700	3,200	3,600	4,000	4,400
Alt. #2 (OMB recommendation):	1,206	1,286	329	1,286	1,286	1,286	1,286	1,286

Agency Request (Alternative #1)

USDA indicates that because of the economic condition of the industry, private power companies and public agencies are not willing to commit themselves to supplying increasing amounts of electric power needed to meet the growing demand of REA distribution cooperatives. Also, given today's energy problem, the REA guaranteed loan program is a "bird-in-hand", while the administration's pending energy legislative proposals require the concurrence of Congress and may take considerable time to achieve.

OMB Recommendation (Alternative #2)

Although the electric industry in 1974 cancelled or deferred construction on 235 coal and nuclear power plants, economic conditions have decidedly improved and electric utility equity issues have again become attractive to many investors. Currently there is a generous margin of peaking capacity on hand and projects previously cancelled should be able to be brought on stream in less than the normal construction time.

Federal guarantees do not increase the amount of investment funds available to the economy; they merely take capital funds away from other sectors and lead to similar requests for Federal aid by those sectors.

Overall, the $810 million of direct loans at interest rates of 2 percent and 5 percent, together with $1.3B in loans for the Federal Financing Bank constitute a considerable subsidy to REA cooperatives.

C-6

Issue Paper
Department of Agriculture
1977 Budget
Issue #6: Agricultural Research

Statement of Issue

What should be the direction of research funded by the Department of Agriculture?

Background

The Federal Government through USDA supplies approximately 40% of the $1.2 billion devoted to agricultural research in the United States. The Department's budget request includes $37 million for program increases in all areas of research, including crop and livestock production research, food and nutrition research, marketing research, and nonproduction related environmental research. This request constitutes a 9% increase in Federal spending in agricultural research.

The base programs of USDA are generally oriented toward improving the efficiency of agricultural production, although increased emphasis has been placed on areas such as nutrition in recent years. A traditional emphasis on efficient marketing techniques and the development of new products has been maintained.

The nation has just about reached its limits in plantable land and a long-term trend toward decreased returns from production inputs is increasingly evident. If the country is to increase the amount of food available for export to meet projected world food shortages, and at the same time reduce the quantities of petroleum-based fertilizers and pesticides applied to the land, increased basic and applied production efficiency research is necessary.

This increase can be accommodated without radically expanding resources by reducing marketing research 20% over the next three years. Because agribusiness firms and commodity groups have become larger and more organized, they are increasingly able to fund this research and capture the benefits from it.

Neither USDA nor the land grant colleges receiving aid presently possess the analytical or evaluational capacity necessary to assess the long-term economic impacts of research or the probability of attaining results from different organizational approaches to research. Any reallocation or addition of funds must be accompanied by a strong Administration effort to develop these capabilities. Pressure from top policy officials probably will be necessary.

Alternatives

#1. Accept the USDA requests for research.

#2. Immediately reduce USDA marketing research by $10 million; approve increases in agricultural production research; direct USDA to improve analytical capabilities.

#3. Immediately reduce USDA marketing research by $2 million, direct USDA to plan for FY '78 phaseout of additional $8 million, approve requests for university basic research and in-house basic and applied production research; direct USDA to improve analytical capabilities (OMB recommendation).

Analysis

($ in Millions)

		1975	1976	TQ	1977	1978	1979	1980	1981
Alt. #1 (USDA req.)	BA	331.6	398.1	92.7	397.9	397.9	397.9	397.9	397.9
	O	328.6	383.8	97.9	408.4	399.4	396.7	395.0	394.0
Alt. #2:	BA	331.6	387.7	92.7	365.2	365.2	365.2	365.2	365.9
	O	328.6	376.0	97.9	366.5	357.0	354.9	353.0	351.8
Alt. #3 (OMB rec.):	BA	331.6	387.7	92.7	379.2	379.2	379.2	379.2	379.2
	O	328.6	376.0	97.9	380.5	371.0	368.9	367.0	365.8

Alternative 1 incorporates a basic and applied production efficiency package, among other proposals, and will mollify USDA critics in the agricultural research community, who are demanding as much as a 40% immediate increase in research. It also corresponds with the Secretary's wishes. However, it continues research in areas more appropriately carried out by other agencies, such as HEW (nutrition), or by private industry (marketing). Approval would also inappropriately signal OMB acceptance of the USDA analytical processes.

Alternative 2 would reduce total research outlays by 2.5%, and would emphasize new research directions and dissatisfaction with present organizational abilities. However, it would continue previous unsuccessful attempts by OMB to change research direction through large reductions, which have produced confrontation with Congress and loss of Administration leverage, and would be difficult to implement completely during FY 1977.

OMB Recommendation

Alternative 3 would begin the reduction in marketing research, give USDA sufficient time to plan additional reductions in non-priority areas, permit OMB to negotiate and work with USDA in improving evaluation, and emphasize research enough to permit the Administration to say it recognizes the importance of the area.