The original documents are located in Box 8, folder "FY 1976 - 12/19/74, Transportation, Small Agencies" of the White House Special Files Unit Files at the Gerald R. Ford Presidential Library.

1976 Budget
Session With The
President
12/19/74

1976 Budget
Session With The
President
12/19/74

MEETING WITH
ROY L. ASH

DEPARTMENT OF TRANSPORTATION
AND OTHER SMALLER AGENCIES

Thursday, December 19, 1974

2:00 P.M.

THE WHITE HOUSE

WASHINGTON

December 18, 1974

MEETING WITH ROY L. ASH
Thursday, December 19, 1974
2:00 P.M. (60 minutes)
Oval Office

From: Roy L. Ash

I. PURPOSE

To make final FY '76 budget decisions for the Department of Transportation and several smaller agencies.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: The FY'76 budget submissions of the Department of Transportation and several smaller agencies have been reviewed and the results have been transmitted to the affected agencies. This meeting will focus on the issues raised in the above reviews that require Presidential consideration and determinations.

B. Participants: Roy L. Ash, Paul O'Neill, Dale McOmber and Walter Scott.

C. Press Plan: David Kennerly photo

III. TALKING POINTS

A. Wally Scott, what is the first issue we should consider for the Department of Transportation?

B. Wally Scott, which of the smaller agencies to be discussed today should we begin with?

THE WHITE HOUSE

WASHINGTON

INFORMATION

December 19, 1974

MEMORANDUM FOR THE PRESIDENT

THROUGH: KEN COLE

FROM: MIKE DUVAL

SUBJECT: TRANSPORTATION BUDGET REVIEW

Two of the items in the DOT budget you will be discussing today with Roy Ash involve basic political/policy decisions. In both cases, I believe you should defer any final decision until you have heard the direct views of Secretary Brinegar and key Congressional leaders. The two issues:

1. Highway Trust Fund. DOT and OMB have agreed on a broad strategy for the Highway Trust Fund which is essentially to continue it after its expiration date in October 1977 only for interstate purposes. While we concur in this recommendation, it is obviously very controversial and will meet with considerable opposition on the Hill, especially from the Public Works Committee. We recommend that before any final decisions are made, we solicit the views of Senators Randolph and Baker and Congressman Jones and Harsha.

2. Aviation Trust Fund. DOT supports a basic revamping of the Aviation Trust Fund with retention of a small discretionary program ($40 million) and a planning grants program ($10 million). OMB objects to both programs but is in agreement with DOT on total funding levels. We believe that a limited discretionary grant program which combines the airport and planning monies is absolutely essential on the merits, for the new program to be politically acceptable, and as a means of insuring orderly transition. This fund is essential if small to medium cities served by such airlines as Piedmont and North Central are to have any hope for financing new airports. Senator Pearson will be consulted today concerning his views on the aviation program for next year. As you know, he will be the ranking minority member of the Commerce Committee and a kay leader on aviation matters. My guess is he is not going to like the DOT-OMB proposal at all, but as a rock bottom minimum, he will insist on the discretionary fund.

Department of
Transportation

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: 1976 Budget decisions: Department of Transportation

The agency request and my recommendations with respect to 1976 budget amounts for the Department of Transportation 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).

Two key legislative issues, five budget issues and one information issue have been identified for your consideration (detail at Tab C).

I. Aviation Trust Fund Strategy. DOT/OMB agree on submission of legislation to change the airport program from a Federal project approval grant program to basically a formula grant program. Legislation would also open aviation trust fund for operating expenses and establish general aviation landing fees while reducing domestic passenger ticket tax. DOT would include a discretionary grant program, separate planning grants and continuation of Federal grants to general aviation airports. OMB recommends all formula funding, no separate planning grants, and a gradual shift of general aviation airport grants to the states.

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

II. Highway Legislation. DOT/OMB agree on submission of legislation to fund only the interstate highways from the trust fund and reduce the gas tax 1¢ in 1977 if the states raise their taxes. By legislation eliminate all deferred highway contract authorizations. DOT has accepted OMB interstate highway long range funding recommendation. DOT wants an increase in long range non-interstate highway program, but has agreed to further review of OMB recommendation to hold funding constant.

Decision: Approve DOT/OMB basic recommendation ________
See me ________

III. AMTRAK. DOT/OMB agree on submission of legislation to establish a specific annual operating deficit ceiling for AMTRAK. Change present legislation to permit AMTRAK to live within the deficit ceiling by eliminating points served, reduce service, raise fares. DOT wants $49M in 1975 for Northeast Corridor improvements and OMB recommends $15M

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

IV. Tracked Levitated Vehicle Research. DOT recommends continuation of research on tracked levitated vehicles (e.g. 300 mph trains). OMB recommends the elimination of this program in 1975.

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

V. Intermodal Terminals. Recent legislation authorizes the Federal Government to: (1) plan an intermodal Union Station in D.C., (2) plan and fund several other intermodal terminals, (3) fund the preservation of historical terminals, and (4) study high speed ground system for the West Coast. DOT recommends initial funds for each of the four new functions ($7.0M). OMB recommends $2M for planning of Union Station and intermodal terminal concept.

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

VI. Railroad Safety. DOT recommends an additional $500K for 52 railroad safety inspectors and clerks. OMB recommends denial of appeal, the allowance already includes an increase of 43 positions.

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

VII. Coast Guard. DOT requests an additional 200 military personnel to man a new ice breaker and new facilities. OMB believes existing resources and personnel are sufficient.

Decision: Approve DOT recommendation ________
Approve OMB recommendation ________
See me ________

VIII. Regional Rail Restructuring. The U. S. Railway Association will submit a preliminary plan to Congress in February on how to restructure the Northeast bankrupt railroad. Additional funds not included in your budget may be required for:

- Meeting the cash flow problem of Penn Central until Conrail becomes operational in January 1976.

- Loan guarantees beyond the $1B presently authorized in order to pay off creditors and provide for rehabilitating the system.

- Initiation of Northeast Corridor passenger improvements program at a level of approximately $1.8 billion over eight years.

Attachments

Tab A

Department of Transportation
1976 B[illegible]t

Summary Data

	(In millions) Budget Authority	(In millions) Outlays	Employment, end of period: Full-time Permanent	Employment, end of period: Total
1974 actual	17,635	8,111	69,526	71,526
1975 January budget	9,814	9,060	71,300	73,300
enacted	18,562	8,765		
supplementals recommended ...	201	358		
OMB recommends	18,763	9,123		
OMB ceiling	18,691	9,045	70,128	72,128
1976 planning ceiling	10,660	9,750	-	-
agency request	11,677	10,248	74,702	76,702
OMB recommendation	6,576	9,958	71,615	73,615
agency recommendation	6,596	9,969	71,673	73,673
Transition period				
agency recommendation	1,676	2,630	72,553	74,553
OMB recommendation	1,676	2,630	71,615	73,615
1977 OMB estimate	9,159	10,755	73,969	75,969

TAB A
4

DEPARTMENT OF T[illegible]SPORTATION
PROGRAM LEVEL
$ in Millions

	1974	1975			1976		July 1 - Sept 30, 1976	1977	
	Actual	Jan Budget	Agency Request	OMB Recom.	Agency Request	OMB Recom.	DOT/Req. OMB Recom.	Agency Request	OMB Recom.
Coast Guard	815	903	974	974	1,125	1,072	281	1,230	1,096
Federal Aviation Administration	1,907	2,120	2,144	2,144	2,349	2,301	585	2,360	2,360
Federal Highway Administration	5,012	4,800	4,810	4,810	5,623	5,413	1,346	6,115	5,615
National Highway Safety Administration	139	220	169	168	185	168	40	175	160
Federal Railroad Administration	94	111	184	168	180	139	43	180	180
AMTRAK Request	373	279	651	617	460	460	120	485	485
Urban Mass Transportation Administration	1,080	1,351	1,446	1,446	1,746	1,724	400	1,900	1,900
Office of the Secretary	58	92	72	72	82	74	18	73	73
St. Lawrence Seaway Development Corporation	5	6	6	6	6	6	2	7	7
National Transporation Safety Board	8	10	10	10	12	10	3	10	10
Total DOT	9,491	9,892	10,466	10,415	11,768	11,367	2,838	12,535	11,886

Tab B

1976 Budget
Department of Transportation
Background Information

The OMB recommendations for the Department of Transportation (DOT) provides for approximately a $1 billion increase in program level. This is a very significant increase and is primarily for interstate highways, mass transit assistance and aviation assistance. Congressional add-ons to the Administration's legislative initiatives in highways, aviation and AMTRAK plus additional Federal assistance for bankrupt railroads (see Issue 8) could substantially increase transportation programs in 1976.

A short summary by major mode follows:

United States Coast Guard: The recommendation of $1,072M provides for the following major activities: search and rescue, maintenance of aids to navigation, enforcement of fishing laws and treaties, marine environmental protection, military readiness, supervision of port safety, and replacement and improvement of capital equipment. The allowance is an increase of $98M over 1975. It is required for increased operating and maintenance costs for aircraft, ships and shore stations, and for continuing major programs. Major changes in 1976 will be operation of the two new polar icebreakers, the first since 1954; beginning replacement of the amphibious search and rescue aircraft which have reached the end of their useful life; construction of long-range navigation (LORAN-C) stations on the West Coast, including Alaska and the Gulf of Mexico, to provide more precise navigation to avoid pollution incidents; and the beginning of a replacement program for tugs used to break ice in the Great Lakes and in major harbors.

Federal Aviation Administration: Allowance provides $2.3 billion for 1976, an increase of $157 million from the 1975 estimate. Included is $1.5 billion for operating expenses, primarily funding the agency's 56,000 employees. Almost 29,000 of this staff operate the air traffic control system, and another 14,000 are engaged in maintenance and logistic support of the traffic control and navigation systems. Increases of 900 air traffic control and 600 maintenance staff are provided in 1976 based on projected growth in air traffic and the staffing of new FAA facilities. The airway facilities capital program is continued at the $250 million annual level and is extended until 1980. A more detailed discussion of legislative proposals to convert the airport grant program to a formula basis, adjust user fees, and broaden the uses of aviation trust funds is included in Issue #1. $9 million is included for expansion of the passenger terminal and other facilities at Dulles Airport.

<u>Federal Highway Administration</u>: Allowance provides $5.4 billion for 1976 compared with the 1975 program level of $4.8 billion. Included is $5.2 billion for Federal-aid highway obligations, an increase of $600M over the 1975 program. The interstate highway program level would rise from $2.5 billion in 1975 to $3.0 billion in 1976; the urban/rural programs would remain level at $1.55 billion; and safety improvements would increase $50 million to $300 million. This larger Federal-aid program is supportive of the Administration's highway legislation, described in Issue #2, which will focus major Federal efforts on the interstate system. These increases will not fully offset the impact of inflation on highway construction. It should be noted that some Congressional review of the $10.8 billion highway deferral is anticipated at the start of the next Congress. A significant but reasonable program increase will be helpful in preventing release of additional deferred funds.

4.6/5.2

<u>National Highway Traffic Safety Administration</u>: Allowance of $168 million provides for the following activities: development of safety standards for all classes of motor vehicles, provision of motor vehicle consumer information, and assistance to the States in the establishment and development of highway safety programs. The 1976 allowance is approximately the same as 1975 due primarily to the completion of five motor vehicle diagnostic inspection demonstration projects which require no further funding. These funds which are no longer needed (12.5M) have been shifted primarily to the state grant program for 1976.

<u>Federal Railroad Administration</u>: Allowance of $138 million provides for rail safety enforcement, studies of conventional rail systems aimed at improving financial viability of the industry, advanced technology research, and restructuring of the bankrupt Midwest and Northeast rail system. Despite a new provision of $45 million for rail branch line subsidies, the 1976 level is $29 million lower than 1975. This is primarily due to decrease in cash assistance to bankrupt railroads, from $82 million in 1975 to zero in 1976. The actual need for these funds may approach $400 million, but this is not reflected in the budget (see Issue #8 for explanation.) The thrust of railroad studies continues to shift away from advanced hardware development, toward analysis and demonstration of operating improvements with near term, and less costly, applications. For example, all research on tracked levitated vehicles would be terminated by 1976 under the OMB recommendation (See Issue #4).

AMTRAK: Federal assistance to AMTRAK currently takes two forms: grants used to cover the annual operating deficit; and 100% federally guaranteed loans for capital improvements. AMTRAK operating losses have been rising rapidly and are now estimated at $298M for this year, requiring an additional 1975 supplemental of $78M. Operating deficits for 1976 are $350M which assumes continued increases in costs. The $350M will represent a ceiling within which AMTRAK must operate in 1976. To live within the ceiling will require management to raise fares, reduce service frequency, or eliminate service over some routes. $100M has been allowed in 1976 for continuation of the passenger car replacement program, which will be proposed to be financed by Federal grants in lieu of loans to reflect true costs. $10M has also been allowed for spot improvements on track outside the Northeast Corridor.

Urban Mass Transportation Administration: The agency requested $1,746 million, an increase of $300 million. Minor reductions of $22 million were negotiated for a total program level of $1,724 million. This amount is consistent with funding assumptions in the $11.8 billion, six-year National Mass Transportation Assistance Act of 1974. Steps are currently being taken to implement the new formula grant program for transit capital and operating assistance in FY 1975 at the authorized level of $300 million. The FY 1976 allowance will increase the formula grants to $500 million and also provides $1,100 million for the existing capital grant program - essentially this year's level. To better control the out-year pressures on the existing discretionary transit capital grant program, we have reached preliminary agreement with the Department to require Executive Office concurrence in approval and funding of major projects so that funding assumptions for such multi-hundred million dollar projects can be reflected in the Administration's budget planning.

Office of the Secretary of Transportation: Funding of $74 million, including $35 million for research and planning and $2 million for pipeline safety grants to the states, is provided for the Secretarial offices. The staff of 2,030 includes about 700 for the department-wide Transportation Systems Center in Cambridge, Ma. and 400 for department-wide administrative support activities. Modest staffing increases for the expanding and sensitive Hazardous Materials and Pipeline Safety offices are planned. The research and planning program continues at the 1975 level but places increased emphasis on regulatory reform research and the energy problem in transportation.

Tab C

Issue Paper
Department of Transportation
1976 Budget
Issue #1: Aviation Trust Fund Strategy

Statement of Issue

What strategy should be taken concerning continuation of the Airport and Airway Trust Fund and the related airport development program?

Background

...The Airport and Airway Trust Fund finances Airport Construction and Planning Grants ($325 M "minimum"), Airway Facilities ($250 M "minimum"), and FAA Research and Development (about $80 M).
...Trust fund receipts are primarily generated by an 8% tax on domestic airline passenger tickets, a $3 international passenger tax, a 5% tax on air freight way-bills, and a 7¢ per gallon general aviation fuel tax.
...Since passage of legislation in 1971 restricting trust funding to capital development programs (excluded operating expenses), tax receipts have exceeded program expenditures. Trust fund balance at end of 1975 will be $2 B.
...Air carriers, through the passenger taxes, pay their share of Federal aviation operating and capital expenditures. General aviation (non-air carrier) pays less than 20% of the estimated $500 M annual cost of providing them services.
...As part of 1975 Budget Restraints, legislation was proposed to establish new general aviation landing fees at airports with FAA traffic control towers and to open the Airport and Airway Trust Fund to finance the $1.5 B FAA operating expenses. This proposal would eliminate the large trust fund surplus, which fuels desires for more development projects, and reduce the general taxpayer subsidy to general aviation. This legislation will not be acted on by this Congress.
...Legislation is also required in 1976 to continue the airport grant and airway facilities programs. Although continued Federal development of the airway system is necessary, there are substantial concerns about the role of the Federal Government in financing local airport construction.

Analysis

...DOT/OMB have agreed in principle on an aviation legislative proposal. Key objectives of this proposal are to:

--Eliminate aviation trust fund "surplus" and unobligated contract authority.
--Reduce Federal involvement in local airport development.
--Establish principle of user responsibility for financing some part of traffic control system operating costs.
--Allocate user fees more equitably among aviation system users.

...To accomplish these objectives, the legislative proposal would:

--Provide a $350 M airport development grant program, most of which would be allocated to the states and local airports by formula (present program is $325 M of grants awarded for specific projects).
--Broaden the grants to permit funding of critical passenger handling construction (currently restricted to runways, lighting, etc.) and increase funds provided to larger airports with more significant national system impact.
--Reduce domestic passenger ticket tax from 8% to 7% ($110 M annual revenue loss) while increasing international enplanement fees from $3 to $5 ($30 M revenue increase) and instituting general aviation departure fees of $5 and $10 ($80 M revenue increase) to distribute system cost more equitably among users.

-Fund maintenance costs of air traffic control system from trust fund (would balance receipts into and expenditures from the fund).
--Allow $194 M in existing unobligated contract authority to lapse on June 30, 1975 (about $130 M of this amount has been allocated to airports--this will generate substantial oppostion, but is consistent with highway rescission).

...DOT/OMB have differences regarding some aspects of the legislative proposal. Key differences concern the desirability of a discretionary fund, long-term Federal assistance for general aviation airports, and the necessity for a planning grant program. There is agreement on the total annual program level of $350 M, but not on the structure of the program.

Discretionary Fund ($40 M)

...DOT recommends that approximately $40 M be included as part of the $300 M air carrier airport program as a discretionary fund for grants to small air carrier and reliever airports. DOT believes this would correct inadvertant inequities in the formula distribution and permit funding of occassional large projects at these airports.
...OMB recommends that the entire $300 M be distributed by formula. If discretionary funding is allowed, airports will seek matching Federal discretionary funds for all projects in which local funds are used (since there are no local matching requirements for the formula allocations). This would generate a large demand for discretionary projects which would quickly force up the unrealistically small $40 M discretionary program and the total $300 M air carrier program. In addition, T proposals concentrate Federal project approval at small airports with smallest national system impact and perpetuate an ineffective Federal bureaucracy.

General Aviation Grants ($40 M)

...DOT recommends that funds be allocated to states on a formula basis with gradual delegation to the states of administrative responsibilities for grant programs. DOT believes Congress and general aviation users will not accept shift to local funding.
...OMB recommends that funds be allocated to states from Federal taxes for two years, at which time Federal gas tax would be reduced in those states which instituted local general aviation fuel taxes. States would then be responsible for funding this essentially local development program. Anticipate some Congressional opposition, but believe general aviation users would not strongly resist lower Federal involvement.

Planning Grant Program ($10 M)

...DOT recommends a $10 M planning grant program for state, regional, and metropolitan area-wide plans. DOT believes a separate categorical grant is necessary to assure adequate planning.
...OMB recommends adding these funds to state and airport grants and permitting grantees to use a portion of their formula allocation for planning. Since use of Federal construction funds is contingent on development of acceptable plans, there is no need to force planning through categorical grants. Present categorical planning grant program, opposed by most users, has been used to fuel extensive justifications for questionable capital development.

Issue Paper
Department of Transportation
1976 Budget
Issue #2: Highway Legislation

Statement of Issue

What should be the focus of the Administration's proposals for providing Federal-aid for highway construction for the next five years?

Background

...Major highway legislation is needed in 1976 to extend the highway trust fund and provide additional contract authorizations for highway programs.

...Trust fund revenues in recent years have been substantially greater than the level of resources that were allocated to highway programs by the Executive Branch. Congress, using "trust fund philosophy," has tended to match authorizations fairly closely to receipts.

...$10.7 billion of Federal-aid highway funds is currently deferred (i.e. impounded). Congressional review of Administration's deferral action anticipated early in next Congress with uncertain outcome.

...Imbalance between highway program expenditures and trust fund revenues will continue unless Federal-aid is substantially expanded or present revenue/program structure is modified.

...In addition, the present aid program is hampered by a multitude of categorical grant programs and excessive red tape. Need to focus Federal effort on interstate system while providing more state flexibility for other local highway programs.

...Major legislative objectives:

A. Break long term revenue/program cycle that forces excessive highway funding
B. Eliminate short term possibility of unprogrammed release of massive amounts of deferred funds.
C. Increase efficiency and effectiveness of Federal-aid program.

...DOT/OMB have reached agreement on the major objectives and concepts of the legislative proposal as well as the 1976 program level. Funding levels for 1977-80 are not yet resolved. Specific legislative proposals are now being developed.

A. Long Term Revenue/Funding Strategy

Alternatives

1. Continue present tax and program structure
2. Substantially reduce trust fund revenues and trust funded programs. (DOT/OMB recommendation)
   -- Fund Interstate from Trust Fund; other programs from general fund.
   -- Shift 2¢ of gas tax receipts to general fund.
   -- Rescind 1¢ of motor fuel tax in FY 1978 if states increase their taxes.
3. Eliminate trust fund. All revenue/programs through the general fund.

Analysis

...No outlay/receipt impacts on unified Federal Budget through FY 1977. Receipts would be reduced in 1978 and subsequent years by about $1.2 billion annually under Alternative 2.

...Continuation of present tax and program structure would exacerbate impoundment problem--probably forcing Congress to release some deferred funds.

...Reduction in trust fund revenues would decrease the "push" that "dedicated" revenues have on program levels.

...Shift of 1¢ of motor fuel tax to states would give states more flexibility and decrease Federal role in local highway funding.

...Restricting trust fund program to interstate would help focus resources and Federal attention on this "special" Federal commitment.

...Other highway assistance for local road construction would be forced to compete with other general fund programs in future.

...Elimination of trust fund altogether is not necessary to redirect focus and is probably not politically viable.

Short-Term Deferral Strategy

Alternatives

1. Continue increasing amount of deferrals.

2. Eliminate deferred amounts by rescinding all unobligated balances at the beginning of FY 1977 (DOT/OMB rec.).

Analysis

...Action has no direct outlay/receipt impact.

...Rescission has a high political cost--Congress and states will strongly resist efforts to "take away" highway funds.

...Very difficult to justify continually increasing deferred amounts. Probable that Congress would not permit continued deferrals (Congress can force release of all or part of deferred funds).

...No politically attractive way to rescind funds, but better to request rescission as an overall strategy to "rationalize" highway program than be forced to have it considered independently. This also bypasses Budget Control Act procedures which would require Congressional action within 45 days of request.

Alternative 2 includes "hold harmless provisions" to insure that no state would eceive lower obligational limitations in FY 1976-1977 because of the rescission.

Program Efficiency and Effectiveness

Alternatives

1. Continue present categorical programs.
2. Provide four broad funding categories (interstate, urbanized, rural and safety) with provisions to permit use of non-interstate funds off the Federal-aid system and prioritize interstate system funding (DOT/OMB rec.).

Analysis

...Presently, categorical funding categories limit local flexibility in use of Federal highway grants. Many restrictions needlessly interject Federal Government in local affairs.

...On the other hand, national priorities, which may differ from local objectives, should be considered in determining what critical segments of the interstate system should be initially completed.

...Alternative 2 would greatly expand local flexibility in use of non-interstate funds while emphasizing the national system aspects of the interstate system.

...States and user groups will support broader funding categories although there will be some Congressional reluctance to relax these constraints.

...Prioritization is a delicate political call because local officials have traditionally prioritized interstate projects within their state. DOT is currently reviewing alternative mechanisms for encouraging completion of critical interstate links with minimal Federal involvement in local resource allocation decisions.

D. Funding Level

ternatives

1. Provide annual increases for all Federal-aid highway programs through 1980 (DOT initial request).
2. Provide annual interstate trust fund increases through 1980, but hold constant non-interstate program (OMB rec.).

Analysis

Billions of Dollars (Program Level)

	1975	1976	1977	1978	1979	1980
Alternative 1 - Total	4.6	5.2	5.9	6.1	6.3	6.6
Interstate	(2.5)	(3.0)	(3.4)	(3.5)	(3.6)	(3.7)
Non-Interstate	(2.1)	(2.2)	(2.5)	(2.6)	(2.7)	(2.9)
Alternative 2 - Total	4.6	5.2	5.4	5.5	5.8	5.9
Interstate	(2.5)	(3.0)	(3.2)	(3.4)	(3.6)	(3.7)
Non-Interstate	(2.1)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)

...Increasing interstate contract authority is consistent with new Federal focus on interstate.

...Larger non-interstate program would increase political support, but it is inconsistent with new policy to deemphasize non-interstate program.

...In 1978 and beyond, it is anticipated that states would be collecting an additional $1.2 B of previously Federal motor fuel taxes, which is available to augment local highway programs. There should be less dependence on Federal-aid funds for non-interstate program.

...DOT has agreed with OMB recommendations for the interstate program, but is still reviewing non-interstate funding for 1977-1980. DOT agrees in principle with the OMB non-interstate funding levels, but believes that these program levels, which are substantially below current non-interstate authorizations, may not be politically viable.

Issue Paper
Department of Transportation/AMTRAK
1976 Budget
Issue #3: AMTRAK

Statement of Issue

What should be the Administration's proposal for continuation of the AMTRAK program?

		1975		1976				1977	
	1974 Actual	DOT Req.	OMB Rec.	DOT Req.	Allow	Appeal	OMB Rec.	DOT Req.	OMB Rec.
Deficit Grant	198	298	298	240	260	+90	+90	385	385
Equipment & Facilities	135	304	304	100	100	+10	+10	100	100
Northeast Corridor	-	49	15	-	-	-	-	-	-
Total Program level	333	651	617	340	360	+100	+100	485	485

Background

. Extending authorization legislation will be required for AMTRAK in 1975.

. The AMTRAK program represents a large and rising drain on the budget. Federally-assumed operating losses have soared from $143M in 1973 to over $300M this year (an additional $78M supplemental will be required), with over $600M in Federal loan guarantees committed for capital improvements.

. Control over AMTRAK has been shifting away from the Executive Branch and towards Congress, AMTRAK management and the ICC because of DOT/OMB attempts to cut uneconomic service and prevent congressional add-ons. AMTRAK cannot discontinue service without ICC approval, and recent legislation has mandated many ICC service performance standards (e.g. reservation system requirements, number of baggage attendants).

. Some key operating characteristics include the facts that Federal subsidies exceed passenger revenues, that long-haul trains account for over 1/2 of AMTRAK's losses, and that only a few corridor routes have any long-run breakeven potential.

. From a social benefit and energy savings viewpoint, the long-haul and congressionally-required "experimental" services do not merit Federal support.

In accordance with the Regional Rail Reorganization Act of 1974, DOT and AMTRAK are preparing plans for upgrading the Boston-Washington (NEC) rail passenger lines. Although these plans have not been finalized a $49M program is proposed for this year to remedy certain deferred maintenance ($15M) and to slightly improve normal running times ($34M) as a preclude to the major improvements. Estimates of total improvement project costs exceed $1.5B over the next eight years.

. Requests for the AMTRAK program are made by both DOT and AMTRAK. The table given above accurately reflects both the DOT and AMTRAK requests in the "DOT request" columns, however, the appeal entry is DOT's only. AMTRAK has not been informed of the OMB allowance by DOT as yet.

Alternatives

#1. AMTRAK request--Continue existing AMTRAK posture of making good all deficits incurred. Undertake immediate Boston-Washington corridor upgrading (both DOT and AMTRAK favor this).

#2. OMB Recommendation--seek to contain AMTRAK by establishing specific predetermined deficit ceilings for AMTRAK service and requiring operations to be confined within that level. (DOT agrees to this strategy). Approve NEC track improvements only to permit continuation of present speeds and await total upgrading project plans (DOT favors Alternative #1 for the NEC).

AMTRAK Recommendation--Three major portions are: (1) Operating deficits--Continuation of the status quo, whereby substantial cost overruns which are reestimated as the year progresses are covered by supplemental grants, (2) NEC track improvements (DOT proposal)--Initiation of track improvements in the NEC would begin with a $49M effort in 1975, which assumes $34M in rail and tie procurement and roadbed improvements. This would lower running times and begin the NEC improvement project and recognize the long lead times on materials deliveries and heavy congressional interest in immediate action, (3) AMTRAK also proposes all 1976 and future capital expenditures be made with grants, rather than loan guarantees, to reduce interest payments.

OMB Recommendation--(1) Operating Deficits: Seek legislation to establish fixed deficit ceilings for AMTRAK and removal of ICC restrictions on service discontinuances and performance standards regulations. Once established these ceilings would represent the maximum Federal funding which the Administration would seek for AMTRAK in a given year, with supplemental requests unavailable. AMTRAK management would be required to operate within the ceilings or take whatever action required (e.g., fare increases, service frequency reductions, service discontinuances) to live within the limit. In 1976 the AMTRAK deficits are funded at $350M, which is $52M in excess of the 1975 level to allow for expected added costs and inflation. This position attempts to apply pressure on AMTRAK management to reduce and control costs. It also provides a means for preventing the current open-ended assumption of cost overruns while avoiding the pitfalls of previous Administration attempts to reduce costs by naming specific routes to be dropped. (DOT agrees with this strategy). (2) NEC Upgrading: Provide only sufficient funds to correct deferred maintenance on these Penn Central lines. Deny approval of the remaining $34M since this represents the initiation of a $1.5B project for which we have no plans. $22M of this $34M upgrading funds were to be utilized exclusively for the New York-Boston segment of the NEC, which carries only 15% of NEC riders. This underscores the need for considering the $34M simultaneously with the entire NEC plan, since we would propose emphasis on the more economically viable and heavily-patronized Washington-New York segment first. Denial of the $34M at this time would not preclude improvements beyond the deferred maintenance this year, since $30M in already-authorized AMTRAK loan guarantee funds can be utilized without requiring further congressional action. (3) Agree on conversion of capital improvements from loan guarantees to grants, since loans have no chance of repayment and grant funding will reflect true program costs. DOT agrees with this.

Issue Paper
Department of Transportation
1976 Budget
Issue #4: Tracked Levitated Vehicle Research

(Dollars in millions)

	1974	1975		1976				1977	
	Actual	DOT Request	OMB Rec.	DOT Request	Allow	DOT Appeal	OMB Rec.	DOT Request	OMB Rec.
PL	8.6	5.9	4.2	10.6	0.1	~~+10.5~~	-	11.0	0.1
O	5.2	4.0	2.3	4.5	0.1	+ 4.4	-	8.0	0.1

Statement of Issue

Should we continue to fund Track Levitated Vehicle (TLV) Research)?

Background

. During the 1975 budget review, a decision was made to terminate TLV. The Secretary appealed, and funding of TLV was approved pending the completion of a study of economic and social effects of implementing such a system.

. Findings of Study:

- Economic viability within 20 years is low.
- Advantages relative to other modes are not demonstrated.
- Nevertheless, study called for continued program in promising levitation technology.

Alternatives

#1. Continue the TLV research program. (DOT request)

#2. Terminate TLV in 1975. $100K per year to monitor TLV efforts in other countries. (OMB recommendation)

DOT request: Program consists of research on two kinds of TLV systems: "Air Cushion" and "Maglev" (magnetically levitated). Both operate on special guideways.

DOT considers vehicle levitation to be a promising technology, offering potential payoff in high and low speed applications. Expected to reduce maintenance cost because of minimum friction.

Would allow DOT to take advantage of large sunk cost (over $40 million since 1966). Should keep pace with TLV work in other countries, in case the technology proves useful.

OMB Recommendation

TLV does not offer significant advantate over existing technology.

- In low speed range (0-150 mph) conventional rail is less costly, more energy-efficient, and can operate on existing rights of way. Possibility of lower TLV maintenance cost is more than offset by high initial investment. Germans reportedly are discontinuing TLV research in this speed range.

- In higher speed range (150-300 mph) aviation provides the most viable alternative. Infrastructure is already in place. Wide bodied jets and other improvements expected to provide sufficient capacity for this market in the forseeable future. Technical problems in the higher speed range are substantial. For instance, entering a tunnel at high speed would lead to sudden deceleration, due to compression of air.

- The only case in which DOT cites potential economic viability for TLV is in the Northeast Corridor, and then under such questionable assumptions as 1) complete replacement of air travel by TLV and 2) saturation of high speed rail line (currently being planned).

TLV investment would be very costly to the Federal Government, both in short and long term:

- $50M development cost through 1980.

- Pressures for Federal implementation in long term. At least $3 billion for Northeast Corridor alone (1971 dollars).

Pueblo test center 1976 budget is decreased from $13 million (DOT request) to $11 million, to reflect overall effect of TLV termination on the mission of the center.

Issue Paper
Department of Transportation/Federal Railroad Administration
1976 Budget
Issue #5: Intermodal Terminals

(Dollars in Millions)

	1974	1975		1976					1977	
		DOT Req.	OMB Recom.	DOT Appeal	DOT Req.	Allow	DOT Appeal	OMB Recom.	DOT Req.	OMB Recom.
Program Level	-	7.2	-	-	19.0	2.0	+ 5.0	-	12.0	-

Background

. The 1975 AMTRAK authorization enacted last October 8 contained $38M in authorizations for DOT to: 1) preserve historic rail stations, 2) design and coordinate a new intermodal terminal at Union Station in Washington ($5M), 3) construction of not less than 3 intermodal station demonstration projects ($15M) and grants for state and local planning of such stations ($5M), 4) conduct West Coast high speed railroad ground study ($8M). These authorizations were supported by Sen. Magnuson.

. On December 9 DOT submitted the following request:

Project	1975 Supplemental Request	1976 Request
Historic Terminal Preservation	$ 1M	$ 1M
Union Station Design	5M	--
Intermodal Demonstrations	--	15M
Intermodal Planning Grants	1M	1M
West Coast Study	.2M	2M
	$ 7.2M	$19M

. The OMB allowance provided no 1975 funds and $2M in 1976, $1.5M to be used for the Union Station intermodal terminal design and $500K for a DOT study on the merits of the intermodal terminal concept.

DOT Recommendation: DOT accepts the refusal of 1975 funds and the $1.5M 1976 allowance for a Washington intermodal station design. They request an additional $5M in 1976 for application towards intermodal station demonstrations ($3M), the West Coast study ($1M) and historic terminal preservation ($1M). DOT believes this is a minimal level of effort which is required to pursue Congressional desires as contained in the legislation. Also, certain second-level DOT officials have made promises of an intermodal terminal for Seattle.

OMB Recommendation: Deny the DOT appeal. All of these projects have the potential to be long lasting, expensive programs. The $500K provided to DOT for studying the merits of the intermodal terminal concept should be sufficient to determine if rail/bus or rail/mass transit connections are sound. At present DOT has made no analysis which supports the concept. The $1M requested for historic station preservation is not of sufficient scale to preserve more than a few small terminals and will only build a demand for expanded funding. Moreover, approval would mean Federal participation in a presently strictly local activity. The West Coast study should not be performed, given the discontinuation of tracked levitated vehicle research (see Issue #4).

Issue Paper
Department of Transportation
1976 Budget
Issue #6: Rail Safety Enforcement

(Dollars in millions)

	1975		1975	1976				1977	
	1974 Actual	DOT Request	OMB Recom.	DOT Request	Allow.	DOT Appeal	OMB Recom.	DOT Request	OMB Recom.
PL	8.0	9.8	11.7	16.5	15.8	+ 2.4	-	20.8	16.0
O	6.8	9.8	11.7	15.1	14.0	+ 2.4	-	19.8	16.0
EOY (Inspectors and clerks)..	282	282	282	364	325	+52	-	438	325

Statement of Issue

What additional increase, if any, should be allowed for staffing and funding of the Federal Railroad Administration's safety enforcement program in 1976?

Background

. Rail safety problem generally increasing. Comparing the first half of 1974 with the same period in 1973: Accidents up 9%; derailments up 19%; injuries up 13%; but fatalities down 13%.

. Railroads: Hampered by lack of funds to maintain safe conditions; some luction of train speeds has occurred.

. Unions: Favor Federal involvement; strong pressure on Congress to increase Federal program.

. Congress: Critical of DOT efforts to date; Rail Safety Improvement Act of 1974 (pending final floor approval) would authorize a total of 430 positions for inspectors and clerks. This is 53 more than DOT appeal and 105 more than OMB allowance.

. DOT: Current safety program consists of regulation, enforcement by field inspectors, and research. Joint Federal/State inspection program just begun. DOT 1976 request for safety enforcement represents a funding increase of 230% and a 60% increase in positions since 1973, primarily as a response to Unions and Congress. Difficult to assess impact of DOT programs to date.

Alternatives

#1. Additional increase of 52 EOY positions and $500K, representing a substantial (but not complete) fulfillment of Congressional intent. $1.9M included in appeal for two safety inspection cars, originally in 1975 request. (DOT request).

#2. No further increase in positions. Wait for evaluation of current efforts before further increases. Fund safety inspection cars in 1975, using savings from TLV program (see Issue #4). (OMB recommendation).

Age Request: Represents "good faith" response to cope with safety problem. Considered the minimum increase acceptable to Congress, even though it falls short of the congressional authorization.

"MB Recommendation: 1976 allowance already includes an increase of 43 positions er 1975. These were allowed on a selective basis. For example, DOT signal inspectors were denied (only one signal-related accident in 1973). State inspection program and use of inspection cars should offset much of need for additional DOT safety personnel. The DOT safety program has grown rapidly over the past four years, and should be examined carefully before further expansion is allowed. The role of its new missions needs to be defined more clearly, and the potential impact on DOT staffing determined.

Issue Paper
Department of Transportation
Issue #7: Additional Coast Guard Personnel

Statement of Issue

Should Coast Guard end-of-year military strength be increased by 200?

		1975	1976				1977	
	1974	Current Est.	DOT Req.	Allow.	DOT Appeal	OMB Recom.	DOT Req.	OMB Recom.
Program Level	815	974	1,125	1,072	+2	-	1,230	1,096
Military (End of Year)	37,600	37,486	38,351	37,774	+200	-	38,200	38,200

Alternatives

#1. Increase the Coast Guard military end strength by 200 to 37,974 and operating expenses by $2 M.

#2. Require Coast Guard to stay within an end-of-year military strength of 37,774.

Analysis

...DOT recommends an additional 200 positions to adequately carry out operational missions. Activities that would probably be decreased are: 61 to ~~provide~~ full staffing at Search and Rescue stations; reduction of 10 in surveillance of vessels from iron curtain countries; delay in manning second new icebreaker (96); and other minor activities.

...OMB believes Coast Guard's requirements can be met by:

--Reallocation of manpower from adjacent stations to man new Search and Rescue stations

--Awaiting the results of a comprehensive study of pollution enforcement before increasing staffing.

--Absorbing other requirements within the total.

Agency Recommendation: Alternative 1. The Coast Guard mission will be impeded if the appeal of 200 is denied.

OMB Recommendation: Alternative 2: Better allocation of workload should allow absorption of all priority items within the ceiling recommended.

Impending Issue

Department of Transportation
1976 Budget

Issue # 8: Regional Rail Restructuring

Summary

In order to implement the Regional Rail Reorganization Act of 1973, the Federal Government is required to provide various types of financial assistance. In certain cases, the form and amounts of assistance are still undefined, and represent a major potential outlay threat not currently specified in the 1976 Budget. The Act also required major upgrading of the Washington-Boston rail passenger lines to provide 5 1/2 hr. end to end running times. Estimates of the cost of this project exceed $1.5B.

Background

. Regional Rail Reorganization Act designed to restructure bankrupt Midwest and Northeast lines into streamlined, profitable, and private system.

. Two phases:

- Planning (January 1974 - January 1976); U.S. Railway Association (USRA) has lead role; Congressional approval of final plan.

- Implementation (8-10 years following January 1976); Consolidated Rail Corporation (ConRail) new operating entity.

. No direct opportunity for Presidential control in either phase of the restructuring process.

. Federal Financing Presently Available:

	(Millions)
- During Planning Phase	
...Planning process	$ 58 salaries and expenses
...Emergency cash assistance	85 grants
...Interim plant improvement	150 loan guarantees
- During Implementation Phase	
...Service continuation subsidies	90/yr. grants
...Labor protection	250 grants
...ConRail financing	1,000 loan guarantees
...General financial assistance for purchase and improvement of rail property	500 loan guarantees

Potential Additional Funding Requirements

. Emergency cash assistance

- Original authorization of $85M to meet cash deficits of bankrupt lines during planning period will be exhausted by February, 1975, based on the current outlook.

- Will need to seek additional authorization, since planning will last at least through January 1976.

- DOT requests a nominal amount ($20 million), to avoid "bailing out" bankrupt estates, and meanwhile seek other ways to meet the need.

-. This need is estimated at $200-$400 million (assumes continued economic downturn which may be partially offset by rate increases).

- DOT strategy reflected in 1976 Budget submission , with understanding that creative alternatives will be generated by DOT, to insure that railroads have sufficient cash to maintain service. Contingency of $400 million will be included in budget summary.

. ConRail financing

- Financing authorized for ConRail ($1B in guaranteed loans) may not be adequate.

- Updated estimate of ConRail's financial needs will appear in USRA's Preliminary System Plan, February 26, 1975.

Commerce
Appeal

Department of Commerce
Appeal of Presidential Decision
Export Promotion Services

Budget Authority/Outlays ($ in millions)	1974	1975	1976	July 1-Sept. 30, 1976	1977
Presidential Allowance	22	21	14	4	14
Commerce Appeal	22	21	20	5	20

Summary of Agency Appeal

Commerce is appealing your decision that experienced exporters should pay the full cost of the export promotion services provided by the Department.

Commerce requests that it not be required to implement full cost recovery fees for these experienced exporters, and that its 1976 budget allowance be increased by $5.8 million to permit continuation of the subsidy to these firms. The assumption underlying the Commerce appeal is that experienced exporters will not use its services if full-cost fees are charged. Therefore, Commerce assumes that this will result in fewer firms receiving Commerce assistance, and that this will have an adverse impact on exports.

OMB Recommendation

OMB recommends no change in your decision. We believe that subsidies to experienced exporters are not in the national interest, and that ending these subsidies will not adversely affect U.S. trade.

The Commerce assumption that full-cost fees will adversely affect U.S. exports has no basis in fact. Experienced exporters are aware of the availability of a variety of alternative private export services which they can use if necessary. The experienced exporters will decide whether to use the private services or the Commerce services based on their evaluation of the cost-effectiveness of each. There is no evidence that these experienced exporters will discontinue their export efforts because of the full-cost fees.

The full-cost requirement does not apply to the Commerce programs to promote East-West trade, or to inexperienced exporters, so Commerce will be able to continue to promote trade with Socialist economies as in the past, and to assist small firms develop export markets. The decision also will not prevent Commerce from providing national leadership in encouraging international trade.

The Commerce assumption that experienced exporters will not use its services at full-cost fees is not based on any test. There presently is no basis for estimating the amount of demand by experienced exporters for the services at full cost.

If there is substantial use of the full-cost services, then the Commerce appeal has no substantive basis. If there is little or no use of the services, it could result in some increase in the cost of continuing services to inexperienced exporters because of fixed overhead costs. In the latter case we would then review the estimates of direct appropriations needed to maintain the program for new exporters. In this way we can avoid any reduction in services to new exporters.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

December 13, 1974

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

Consonant with your objective to restrain Federal spending, we are fully supportive of the adjustments in our FY 1976 budget request, with but one exception. This exception, while small in budgetary magnitude, has such broad policy implications that I am compelled to request your reconsideration of this item. It consists of a reduction of $5.8 million and 153 positions in our current level of export promotion activities, such as overseas trade centers, trade fairs and trade missions.

Your Export Council, with whom I work most closely, has urged in the strongest terms that we redouble our efforts under your leadership to keep our exports as a strong factor in our national economy. As compared with other nations, we have a relatively modest but highly effective trade promotion apparatus. In these critical times it deserves your fullest support for the following reasons:

1. Our Government export services directly assist in generating some $3 - $4 billion of U. S. export sales annually which affect 210,000 to 280,000 jobs for U. S. workers and return $1.2 - $2 billion in U. S. tax receipts.

2. Our Government export services provide national leadership to the export drive spearheading the complementary export development activities of regional, state and local groups, trade associations and other industrial development organizations.

3. Early passage of the trade bill will provide widening opportunities for U. S. exporters in a world setting in which Near Eastern markets offer a vast new potential; in which the Socialist economies are at the beginning of a new era for the utilization of American products, and in which our principal trading partners demand increasing usage of high technology U. S. manufactures.

4. Our Government export services are particularly effective in assisting medium-and small-sized manufacturers, over 10,000 of whom utilize these services annually.

At a time when other nations are intensifying their export promotion activities, to be curbing our international sales force would seem to be false economy. As we consider the possibility of creating Federal employment, it would also seem most unwise to be cutting back in an area which is demonstrably productive in terms of the economic welfare of the nation.

Therefore, I urge that you fully restore the proposed reductions in our export promotion programs. I feel so strongly on this point that I request the opportunity to review this matter in greater depth with you personally if need be.

Respectfully,

Secretary of Commerce

Civil Service Commission

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

From: Roy L. Ash

Subject: 1976 Budget Decisions. Civil Service Commission

The agency request and my recommendations with respect to 1976 budget amounts for the Civil Service Commission are presented in the tabulation attached (Tab A). A summary of the principal budget decisions on which we have reached agreement with CSC is provided as background information (Tab B).

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

I. Cost-of-Living Adjustments for Civil Service Retirement

CSC and OMB concur that legislation should be submitted to remove distortions in the present statutory formula for determining automatic cost-of-living increases in retirement annuities. This will reduce costs by $61 million in 1976, $412 million in 1977, and $842 million in 1980. In view of the sensitivity of this proposal and expected opposition from employee groups, we have prepared an issue paper for your review.

Decision: Approve CSC/OMB recommendation __________

Disapprove CSC/OMB recommendation __________

See me __________

II. Contribution to Civil Service Retirement

CSC would not support a legislative proposal to change employer and employee contribution rates to the Civil Service Retirement Fund. While they do not object to establishing a Presidential panel to undertake a policy review of Civil Service retirement financing, they oppose making any decision to change the rates until further study and analysis has been completed.

OMB recommends that legislation be proposed to increase the employer and employee contribution rates to cover anticipated cost-of-living increases for Federal retirees. The increased contributions would be phased in over a three-year period with the proposed first step increasing the 7% contribution rate to 8 1/4% in 1976. Actual dimensions of the legislative proposal would await completion of review by a top level panel. Reflecting anticipated rate increases in the budget would establish a presumption of the need for change and demonstrate the seriousness of the proposal. The anticipated rate increases would place the retirement fund on a sounder financial basis and help to reduce total budget deficits by $282 million in 1976, $1.2 billion in 1977, and $2.2 billion in 1980.

Decision: Approve agency recommendation ____________

Approve OMB recommendation ____________

See me ____________

III. Federal Employees Group Life Insurance Premiums

CSC agrees to increase employee contribution rates to cover actuarial costs. However, they would defer the increase until July 1, 1975, in order to allow for consultation with employee groups. They oppose making the increase effective in 1975 and would prefer not to reflect a proposed increase in the budget.

OMB proposes that the Commission exercise its authority to increase the rate effective February 1, 1975. The rates are deficient by 17.5% even though the law requires that they be periodically adjusted to cover the liability of the insurance program. Increasing the rates in February would still allow for consultation with employee groups, but would reduce 1975 outlays by $40 million.

Decision: Approve agency recommendation ____________

Approve OMB recommendation ____________

See me ____________

IV. Central Personnel Operations for Federal Agencies

CSC proposes that its operations budget (excluding Intergovernmental Personnel Assistance activities) be increased from $85 million (adjusted for nonrecurring 1975 costs) to $98 million for 1976. For recruiting and examining activities, which account for nearly half of the operations budget, the CSC request programs a 13% decrease in productivity between 1974 and 1976. CSC maintains this decrease is necessary in order to meet legal obligations placed on the Commission by statute and court decisions.

OMB proposes that the operations budget be increased from $85 million to $88 million, primarily for rent costs, full year operation of the new appeals system for employees, and various commitments to improve Federal personnel management. The OMB recommendation reflects an assumption of 2.5% annual productivity gains for recruiting and examining between 1974 and 1976 which should be achievable in spite of legal requirements which were placed on the Commission prior to 1974. The resulting savings would be used to help finance increased workload and new initiatives to achieve system improvements. We suggest that a comprehensive study be undertaken of the effectiveness and efficiency of the recruiting and examining system by reviewing the policies and procedures for hiring Federal employees.

Decision: Approve agency recommendation ____________

Approve OMB recommendation ____________

See me ____________

Both CSC and OMB recommend establishing a Presidential panel to review the comparability of total compensation (pay and fringe benefits) for Federal employees to that being paid in the private sector (summary at Tab B).

Civil Service Commission

1976 Budget

Summary Data

	($ in Millions) Budget Authority	Outlays	Employment Full-time Permanent	Employment Total
1974 actual	9,185	5,692	6,190	7,334
1975 January budget	10,322	7,341	6,255	7,440
enacted	10,322	7,341	XXX	XXX
supplementals recommended (pay and program)	3	3	XXX	XXX
reestimates	927	19	XXX	XXX
program change	--	-40	XXX	XXX
OMB recommendation...........	11,252	7,323	6,363	7,848
1976 planning ceiling	12,272	8,560	XXX	XXX
agency recommendation	12,401	9,127	7,670	9,181
OMB recommendation	12,815	9,031	6,520	8,000
Transition period				
agency recommendation	2,180	2,489	7,590	9,500
OMB recommendation	2,424	2,461	6,520	8,000
1977 OMB estimate	16,020	10,257	6,620	8,120

1976 Budget
Civil Service Commission

OMB and CSC have reached agreement on budget and program recommendations for the following:

1. Intergovernmental Personnel Assistance. The agency initially requested that the IPA grant funding be increased from $15 million to $45 million for expansion in size and scope of the program. Administrative expenses and technical assistance were also initially proposed to be increased from $5 million to $11 million. While CSC would prefer to augment the IPA program which they believe to be highly effective, they have agreed that the program should be held to the 1975 level and the evaluation of IPA activities scheduled for 1976 should be completed prior to consideration of future expansion.

2. Compensation of Federal Employees. Fringe benefits for Federal employees are determined by separate legislative actions and are not taken into consideration in determining Federal pay levels. For example, in the area of retirement benefits, more than six benefit liberalizations, with annual amortization cost of $300 million, were enacted by the Congress in the past two years. The 1976 budget calls for a Presidential panel to make policy recommendations for how the Federal Government can best determine the appropriate level of total compensation for its employees comparable to the non-Federal workforce. Under the Pay Reform Act, the determination of comparability with private industry is limited solely to pay levels without consideration of other forms of compensation such as retirement, health and life insurance, annual and sick leave, and job security.

Issue Paper
Civil Service Commission
1976 Budget
Issue #1: Cost-of-Living Adjustments for Civil Service Retirement

Statement of Issue

Should legislation be proposed to change the formula for determining cost-of-living adjustments for Federal civilian retirees?

Background

The Civil Service Retirement (CSR) system consists of 2.6 million active employees and 1.4 million retired employees and survivors. In 1969 legislation was enacted which significantly increased retirement benefits, including a 1% bonus added to each automatic adjustment for cost-of-living increases. The 1% bonus provision was added by the Congress largely to compensate for the five month lag between the CPI increase and receipt of annuity increases. This provision has been a significant factor in driving up annual retirement costs which have increased from $1.8 billion in 1969 to $5.7 billion in 1974. Costs are projected to reach $9 billion in 1976 and $15 billion by 1980. Outlays for annuitants as a percentage of total payroll have increased from 8% in 1969 to 18% in 1974 and are projected to reach 30% by 1980.

The present formula for determining cost-of-living adjustments progressively overcompensates annuitants in the long run. For example, if the CPI increases by 6%, a 1% bonus is added giving the annuitant a 7% increase for the rest of his life. Yet, the next increase assumes that the annuitant only received a 6% increase. Assuming a 6% average annual inflation rate, the present formula would overcompensate by an aggregate 12% over the 20 year retired life of the average annuitant. With 3% annual CPI increases aggregate overcompensation would be 6%.

Alternatives

1. Continue the present formula for cost-of-living adjustments for CS retirement.

2. Obtain legislation to remove the distortion in the present cost-of-living formula for CSR by requiring the effect of the 1% bonus to be included in determining subsequent increases (CSC/OMB recommendation).

Analysis

Benefit Outlays ($ in millions)	1974	1975	1976	July 1-Sept. 30, 1976	1977	1978	1979	1980
Alt. #1	5,669	7,273	8,960	2,437	10,436	11,944	13,337	14,664
Alt. #2 (OMB rec.)	5,669	7,273	8,899	2,417	10,024	11,442	12,689	13,822
			-61	-20	-412	-502	-648	-842

The Comptroller General reviewed the experience under the CSR system since 1969 and concluded in a February 1974 letter to OMB and CSC, that the excess of annuity adjustments above the cost-of-living index was not the intent of the Congress in enacting the present formula. While his review indicated that the formula will create a sizeable and unintended increase in retirement costs and in total Federal budget outlays, a subsequent formal report by GAO was silent on this matter. The present formula enjoys strong support by employee organizations and the Congress, particularly the Post Office and Civil Service Committees. The 1% bonus provision is viewed by some as an essential provision to compensate for the five month lag in receiving cost-of-living increases, maintain the standard of living for Federal retirees and allow for possible inaccuracies in CPI caluclations. Proposals to change the formula would be viewed by employee groups as a deliberalization of benefits.

The CSR formula under both Alternatives 1 and 2 provides for periodic adjustment for changes in the cost-of-living since annuity increases are granted whenever the CPI goes up by 3% for three consecutive months. Many Federal transfer payment programs do not have automatic cost-of-living adjustments. Others provide only for annual increases. CSR on the other hand, goes far beyond making timely adjustments by allowing the 1% bonus to be continued indefinitely and to compound the rates for subsequent increases. Alternative 2 would eliminate distortions in the present system by requiring the effect of the 1% bonus to be included in determining the base for calculating subsequent increases. Alternative 2 would reduce outlays by $61 million in 1976 (effective for six months) and $412 million in 1977. Through 1980 aggregate saving would be $2.5 billion.

Since retirement systems for Military, Foreign Service Officers and some CIA personnel have the same cost-of-living adjustment formula as CSR, the new formula should also apply to these other systems. This could be requested in joint or separate legislative proposals. Applying the new formula to all of the Federal employee retirement systems would broaden the base of organized opposition. However, such opposition would be present even if the new formula were limited to CSR since the other groups would be fearful of later extension.

CSC/OMB recommendation: CSC agrees that changing the cost-of-living formula for retirees has merit. While the chances for obtaining enactment would be modest, the persistent growth of the uncontrollable part of the Federal budget and the exorbitant burden of the present formula on the taxpayer argue that the proposal should be advanced to the Congress and be reflected in the 1976 budget.

Issue Paper
Civil Service Commission
1976 Budget
Issue #2: Contributions for Retirement and Disability

Statement of Issue

Should legislation be proposed to increase employee and agency contributions to Civil Service Retirement to help finance costs of anticipated benefit increases for cost-of-living adjustments?

Background

The Civil Service Retirement (CSR) program is partially financed by 50/50 matching contributions by employer and employee -- now 7% and 7% of payroll. The contribution rates are set by the Congress and are intended to cover the present value of future benefits for participating employees -- referred to as "normal cost". The fund is also subsidized by appropriations for partial payments on the unfunded liability.

At present, all CSR funding -- including normal cost calculations for payroll withholdings -- exclude income from anticipated pay raises and outlays for anticipated cost-of-living increases. Consequently, the contributions to be paid into the fund are understated and the benefits are paid out of the fund without commensurate income. This weakens the financial soundness of the retirement fund and places a burden on the general taxpayer since total budget deficits increase to the extent income from employee withholdings are deficient. For the system to be adequately financed, employer and employee contributions would each need to be increased to 10.75% of payroll.

The 1974 Pension Reform Act requires private pension plans to be fully funded within 40 years and calls for Congressional committees to complete a study of levels of participation and financing of Federal, State and local retirement systems. Contrary to our expectation for private plans, the CSR system (which is exempt from the Pension Reform Act) continues to face increasing unfunded liability. Despite the 1969 Daniels amendments to arrest the growth of CSR unfunded liability, it has increased from $55 billion in 1969 to $77 billion in 1974. Unfunded liability is projected to reach $84 billion by 1976 and $117 billion by 1980.

Alternatives

1. Maintain the present normal cost calculation which excludes cost-of-living increases and thereby maintain the present 7% and 7% employer/employee contributions (Agency request).

2. Propose legislation to adjust normal cost to include future cost-of-living increases with increased employer/employee contributions to be phased in over three years (OMB recommendation).

Analysis ($ in millions) Income from employees and Postal Service	1975	1976	July 1-Sept. 30, 1976	1977	1978	1979	1980
Alt. #1 (Agency req.)	-2,959	-3,138	-851	-3,403	-3,635	-3,859	-4,077
Alt. #2 (OMB rec.)	-2,959	-3,420	-1,003	-4,618	-5,582	-5,926	-6,261
Total Difference	--	282	152	1,215	1,947	2,067	2,184
(From employees)	--	(230)	(124)	(990)	(1,587)	(1,685)	(1,780)
(From Postal Service)	--	(52)	(28)	(225)	(360)	(382)	(404)

The retirement fund can be placed on a sounder basis by either reducing the benefit levels or increasing contribution rates. A 15% reduction in present benefit levels would be the equivalent of a 3.75% increase in contribution rates for both employers and employees (using most recent 1972 data and assuming a 3.5% annual inflation rate over a 20-year period).

Increasing the contribution rates is a more viable approach than reducing benefits. While such an increase amounts to a 3.75% payroll tax hike for Federal employees, the increases could be phased over three years: from 7% to 8.25% in 1976, to 9.50% in 1977 and to 10.75% in 1978.

A three-step increase in contribution rates should not significantly impair the Government's ability to attract and retain qualified employees. While there is a paucity of good comparative data, the present CSR system is more generous than most non-Federal plans. The BLS 1972 report on the compensation structure of the Federal Government and private industry indicates that the Government paid 10.6% of payroll for all sources of funding compared to 8% paid by the private sector. The percentage of payroll for the Federal Government does not take into account automatic cost-of-living increases which are not covered by any funding and thus remain as a liability which must eventually be met by the Government. If this liability were taken into account, the effective BLS percentage for the Federal Government would increase from 10.6% to 18.2% -- well above contributions by private employers. The CSR compares favorably with most other pension plans only a few of which have any cost-of-living provision.

Alternative 2 proposes establishment of a Presidential panel to undertake a policy review of the financing of Civil Service Retirement and to determine what indreases, if any, should be made in the contribution rates to the CSR to cover cost-of-living increases. The panel would report in six months and thus permit legislation to be submitted in June 1975 for enactment by January 1976.

The report of the Presidential panel will need to review findings in the upcoming actuarial valuation of the fund which will soon be submitted to the Congress. The Presidential panel's recommendations need not await the Congressional committee review which will cover State and local systems and not be available until December 1976.

Under Alternative 2, the budget would reflect an increase in the contribution rates from 7% to 8.25% effective in the second half of 1976 and through the transition quarter, with the second and third steps scheduled for 1977 and 1978 respectively. These increases would: (a) increase Governmental receipts from additional employee withholdings (treated as tax revenues) and (b) reduce outlays through additional offsetting receipts from Postal Service employer contributions -- assuming no concomitant increase in Federal subsidy to Postal Service. Alternative 2 would reduce budget deficits by $282 million in 1976; $1.2 billion in 1977 and by a rate accelerating above $2.1 billion by 1980.

Agency request. The Civil Service Commission does not support a proposal that the cost-of-living adjustments should be included in establishing employer/employee contributions to the fund. They would not object to a Presidential panel studying this issue, but strongly oppose reflecting a proposal in the 1976 budget. They believe that the review should be completed along with consultations with employee unions before arriving at any decisions. They argue that to do otherwise would place the President in a position of appearing to act unfairly and arbitrarily and in a manner which would appear to foreclose chances for the Commission to be objective.

OMB recommendation: Establishing a Presidential panel would provide for a long overdue review of the policy basis on which contribution rates should be established; namely, whether cost-of-living increases should be included in normal cost calculations or remain as a liability solely of the general taxpayer. We recommend the budget estimate reflect the proposal for increasing retirement fund contribution rates and believe this would establish a presumption of the need for change and demonstrate the Administration's seriousness in addressing this issue. The actual dimensions of the legislative proposal woud, of course, await completion of the panel review scheduled for June 30, 1975.

Issue Paper
Civil Service Commission
1976 Budget
Issue #3: Federal Employees Group Life Insurance Premiums

Statement of Issue

Should premiums for Federal Employees Group Life Insurance be increased?

Background

Premiums for FEGLI are collected from Federal employees (2/3 share) and employer agencies (1/3 share). The Civil Service Commission is required to administratively set premiums for FEGLI at the level cost. Level cost is the biweekly amount per $1,000 coverage required to cover projected group liability in the insurance fund.

Level cost is estimated at 50.0¢ per thousand for 1975 and 50.25¢ for 1976. Present collections remain at the 1968 rate of 41.25¢. The increase in level cost since 1968 is attributable to: (1) decreases in the proportion of total coverage for females and younger employees; (2) a trend toward earlier retirements; and (3) a loss of interest income from shortfall in collections.

In 1973, the Commission completed an evaluation of the fund, which indicated that the rates had been deficient since 1968. CSC has deferred increasing the rates because it wanted to allow the Congress time to consider options for increasing minimum coverage or other benefit changes. Continued underpayment of premiums (now 17.5% short) will continue to compound fund deficits and increase the requirement for future income. The reduced income due to underpayment also has the effect of increasing outlays through loss of trust fund income from Federal employees.

The Commission believes that any increase in premiums should be accompanied by legislation to increase minimum coverage and to provide optional family insurance paid entirely by employees. The present minimum coverage of $10 thousand was established in 1968 and, in view of pay raises in the last six years, the minimum should accordingly be raised to $14 thousand. Such an increase in minimum coverage would lower the level cost by 2.2¢ by reducing the ratio between projected income and group liability since a larger proportion of total insurance coverage would be for women and younger employees. Consequently, level cost would be 48¢ per $1,000. Employee organizations have been seeking family insurance with the Government paying 1/3 or more of the cost. The CSC proposal for 100% employee financing of optional family coverage would not change level cost, but would provide a convenient payroll deduction for a family plan.

Alternatives

1. Defer increase in premiums until July 1, 1975, and submit legislation to increase minimum coverage and allow family option, but do not reflect the proposals in the 1976 budget (Agency request).

2. Increase premiums, effective February 1, 1975, to level cost (48¢) and propose legislation to increase minimum coverage and allow family option. Proposals to be reflected in the 1976 budget (OMB recommendation).

Analysis

FEGLI outlays* ($ in millions)	1974	1975	1976	July 1-Sept. 30, 1976	1977	1978	1979	1980
Alt. #1 (Agency req.)	-156	-244	-320	-66	-301	-330	-363	-399
Alt. #2 (OMB rec.)	-156	-284	-320	-66	-301	-330	-363	-399

* Contribution from employees and employers creates minus outlays in CSC fund.

Further delay in increasing the premium rates would compound the loss of revenue in the fund and increase future deficits. Increasing premiums to 48¢ per thousand (assuming acceptable Congressional action on proposed benefit legislation) would cost only 75¢ per paycheck for the average participating employee (GS 9-4). If no change were made CSC outlays would be about $100 million higher per year.

An increase in the premiums will not be popular with employee unions. However, the proposed benefit legislation should help to mollify opposition. A legislative proposal carries some risk that the Congress might amend the bill to require 100% Federal funding of employee life insurance (as is already the case for Postal employees) and/or Federal cost sharing for the family option. If so amended, the proposed benefit bill would become unacceptable -- costing over $700 million per year.

Both CSC and OMB concur that the premium rates should be increased but disagree over the effective date:

. CSC would defer increase until July 1, 1976, to allow time for consultation with employee groups prior to announcement of any decision. They would prefer that the proposed increase not be reflected in the budget.

. OMB believes the premiums should be increased to 48¢ per thousand effective February 1, 1975, and further increased to 50¢ per thousand on July 1, 1975, if the Congress has not enacted the proposed benefit legislation. This timing would still allow for CSC consultation with employee groups but would enable proposed benefit legislation to be considered on its own merits. An unacceptable benefit bill could still be opposed without rescinding the increase in premium rates which would have already been effected administratively.

Agency request: CSC deferral of rate increase until July 1, 1976, would allow six months for consultation.

OMB recommendation: Making rate increase effective February 1, 1975, would allow 30 days for consultation without tying it to action on proposed legislation. The rates could be increased further if the minimum coverage bill were not enacted. Since the law requires that premium rates be adjusted periodically by the Commission to recover the level cost and the rates have been deficient since 1968, we recommend they be adjusted on February 1, 1975.

Issue Paper
Civil Service Commission
1976 Budget
Issue #4: Central Personnel Operations

Statement of Issue

What is the appropriate level of resources for Federal central personnel operations?

Background

For directly funded Federal central personnel operations (adjusted for non-recurring 1975 costs) the Commission is proposing a 1976 budget increase of $13 million (from $85 million to $98 million) and a 20% increase in personnel above the 1975 recommended level.

Over the last five years, resources for central personnel operations have steadily increased. Between 1969 and 1974 the program level has increased more than 40% after allowing for annual pay raises. The 1976 request (also adjusted for pay raises and rental costs) would be about 17% above the 1974 level. The Commission's total permanent employment for all activities increased at an average annual rate of 4.9% between 1969 and 1974. During this same period, Government-wide civilian employment, excluding DOD civilian and military, increased at an average annual rate of only 1.4%. For 1976, the Commission is requesting 24.3% in personnel increase over 1974. The Commission's employment was not reduced in the 1975 Government-wide employment cutback which affected most other agencies.

Alternatives

1. Provide full amount of request for 1976 by allowing a decrease in productivity in response to greater demands for documentation in recruiting and examining and an increase in resources for new initiatives (Agency request).

2. Provide an increase of $3 million and require increase in productivity to offset additional workload and new initiatives (OMB recommendation).

Analysis

Budget Authority ($ in millions)	1974 actual	1975* adjusted	1976	July 1-Sept. 30, 1976	1977
Alt. #1 (Agency req.)	68	85	~~98~~	26	103
Alt. #2 (OMB rec.)	68	85	88	24	90

*Adjusted to exclude 1975 nonrecurring costs of $2.7 million for ADP acquisition.

Nearly one-half of the resources for central personnel operations for Federal agencies (excluding direct funding for strenthening State and local personnel administration) are for recruiting and examining activities. The remaining resources are spread among a wide variety of activities including: personnel investigations, training, employee appeals and labor relations, and personnel policy development. A review of the total resource and program levels for recruiting and examining indicates that the Commission's 1976 request would result in an overall 12.8% decrease in productivity from 1974. The decrease ranges from -5.5% to -30.0% for the various recruiting and examining workload elements:

Productivity Index (PI) and Man-Years (MY)
(1968 Base Year)

Recruiting and Examining:	1974 actual		1975 req.*		1976 req.		1974-76
	PI	MY	PI	MY	PI	MY	change
Applications	151.20	663	136.40	706	131.90	730	-12.8%
Inquiries	123.77	552	119.25	607	116.94	619	-5.5%
Hires	73.69	533	53.46	652	51.56	676	-30.0%
Examiniations	127.70	300	114.86	353	114.21	355	-10.6%
Totals	117	2,048	105	2,318	102	2,380	12.8%

*Estimates reflect initial CSC request which proposed 1975 supplemental.

The Commission maintains that decreases in productivity must be tolerated in order to improve the quality of recruiting and examining activities and increase the documentation of hiring decisions. Without deliberately programming productivity decreases, the Commission believes it could not meet the legal obligations placed on it by the Veterans Preference Act, the Civil Rights Act, and the Griggs decision of the Supreme Court that hiring standards be job related and free from discrimination.

The recruiting and examining program is basically labor intensive and represents relatively routine work. Modest annual productivity gains should be realized in CSC's recruiting and examining activities as a result of annual pay comparability increases and systematic within-grade promotions. Additional gains should be expected through various CSC personnel management efforts for job enrichment and design, training and career development, and use of cash incentives for group performance. While the Commission is faced with many external forces (e.g., more active employee groups and court decisions) the same holds true for other agencies as well -- e.g., environmental impact, protection of privacy, freedom of information, economic conditions. There is little reason to depart from the 2.5% guideline of annual productivity gain expected for most agency activities. The productivity decreases programmed by the Commission are not justified:

- The 20 year old Veterans Preference Act, the six year old Civil Rights Act and the five year old Griggs decision have been impacting on recruiting and examining operations for several years and should not now suddenly deflate productivity below the 1974 level.

- The Griggs vs. Duke Power decision requires that employment examinations must be job related unless they are demonstrated not to result in de facto exclusion of minorities or women. In the past, the Commission has long argued that their examinations have been nondiscriminatory and, therefore, their program should not be appreciably affected by this decision.

- The Commission has not defined specific improvement objectives which management would expect to achieve in 1976 by incurring the programmed decrease in productivity.

- Pressures on the Commission to make their recruiting and examining more job related or clearly nondiscriminatory appear to raise fundamental questions concerning qualification requirements and selection criteria rather than suggesting increases in basic resources for administering the system. The impact on CSC resources should be primarily for developmental efforts to change the system. While there might be some resource impact on administering examinations, there is little evidence that these pressures should increase resources required for the larger workload elements -- answering inquiries, processing applications and placing new hires.

The Commission believes it is unable to achieve normal productivity gains in its operations and in fact is proposing a program which reflects substantial productivity decreases. Consequently, a comprehensive review of recruiting and examining operations should be undertaken to examine major changes which could improve effectiveness and efficiency by reviewing the policies and procedures for hiring Federal employees. The study should be carried out under the direction of an interagency steering group to assure responsiveness to agency program objectives.

OMB recommendation would increase operations budget from $85 million to $88 million, primarily to allow for increased rent costs and full-year operation of new appeals systems as well as for various commitments to improve Federal personnel management. Workload increases and system improvements would be funded through savings resulting from deliberate actions to increase productivity by 2.5% per year between 1974 and 1976. Should expected productivity gains not be fully realized, improvements could be selectively scaled down or deferred.

Agency request: CSC would respond to pressures to strengthen its central personnel operations by requesting additional resources rather than taking steps to increase productivity.

OMB recommendation: Holding resources for central personnel operations to the 1975 level would require the Commission to increase productivity and selectively reporgram its priorities. OMB recommends a comprehensive study of recruiting and examining and believes it would be premature to increase resources until such a review is completed. This would not rule out later consideration of supplemental funding for 1976.

Treasury
Appeal

Department of the Treasury
1976 Budget
Appeal of Presidential Decision

		Budget Authority ($ Millions)							
		1975				1976			
	1974 Actual	DOT Req.	Pres. Allow	DOT Appeal	Recom.	Req.	Pres. Allow	Appeal	Recom.
Customs Service	241	282	282	--	--	301	285	+16	+7
Internal Revenue Service	1,309	1,530	1,526	+5	--	1,651	1,586	+65	--
Other	376	475	475	--	--	535	535	--	--
Total	1,926	2,287	2,283	+5	--	2,487	2,406	+81	+7

1975
Summary of agency appeal

Secretary Simon is appealing $4.6 million to be added to a 1975 supplemental appropriation for the Internal Revenue Service to carry out Treasury responsibilities under the new Employee Retirement Security Act of 1974.

recommendation

OMB recommends no further additions to the $6.6 million already included in the proposed 1975 supplemental, deferring additional resources until more precise workload data are available. At that time OMB would entertain a request for an additional supplemental appropriation.

1976
Summary of agency appeal

Secretary Simon is appealing your decisions on the Internal Revenue Service and the Customs Service. Your decisions assumed that the 1976 program requirements of these two bureaus could be accomplished with significantly less staff than requested by the Treasury Department by requiring productivity improvements in their work-force. Both of these bureaus have experienced productivity declines over the past few years. Secretary Simon's appeal letter states that the Treasury Department has made "great strides" in improving productivity in most Treasury operations, and he suggests that OMB did not take these gains into account in the 1976 budget recommendation. He questions whether productivity improvements can be forced during the budget process by "simply reducing manpower in the face of increasing workloads."

The Secretary requests restoration of $65 million and 4,365 man-years for the ernal Revenue Service and $16 million and 644 man-years for the Customs Service.

OMB recommendation

OMB recommends no change in your decision for the Internal Revenue Service. The productivity improvements cited by the Secretary as being projected throughout the Treasury Department are not evident in the 1976 budget request for this bureau. Treasury has presented no new information beyond that utilized to develop the OMB recommendation. Your decision provided the IRS with an increase of $60 million over 1975 and 2,296 additional man-years. The 2.8 percent increase in personnel already approved for 1976 compares favorably with the projected 2.0 percent growth in tax filings, the principal workload measure in IRS.

Customs Service

OMB recommends that you grant $6.9 million and 347 man-years of the Secretary's appeal to recognize that it will take more than one year to move the Customs Service from a declining to an increasing productivity. The recommended restoration will still require a small productivity improvement in 1976. There was no additional justification offered by the Department to support granting of any higher level of resources.

For your information and referral, we have attached summary materials you reviewed in making decisions on the Treasury Department budget request for 1976.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR: THE PRESIDENT

FROM: Roy L. Ash

SUBJECT: 1976 Budget decisions: Department of the Treasury

The agency request and my recommendations with respect to 1976 budget amounts for the Department of the Treasury 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).

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

I. IRS Tax Audit

Treasury proposes strengthening tax compliance by raising the level of audit coverage to 2.6 per cent of tax returns filed, thereby generating additional revenues and contributing to a balanced budget.

OMB recommends maintaining the 1975 level of 2.5 per cent audit coverage which will increase the absolute number of tax audits. Tax compliance will be encouraged by program increases in areas other than audit.

Decision: Approve agency recommendation ______
Approve OMB recommendation ✓
See me ______

II. IRS Information Returns Processing (document matching)

Treasury proposes annually transcribing, correcting, and matching one-fourth of all information documents and tax returns.

OMB recommends initiating a selective program of document matching to stimulate voluntary taxpayer compliance by concentrating on documents with the highest potential yield or greatest likelihood of reporting inaccuracy.

Decision: Approve agency recommendation ______
Approve OMB recommendation ✓
See me ______

III. IRS Data Processing

Treasury proposes adding 950 man-years in 1976, representing a 3 per cent growth in personnel, to process an estimated increase of 2 per cent in the number of tax returns filed.

OMB recommends maintaining the 1975 level of manpower, thereby relying on increased productivity aided by additional automatic data processing equipment to process the larger number of returns.

Decision: Approve agency recommendation ______
Approve OMB recommendation ✓
See me ______

IV. IRS Administration of Pension Reform

Treasury proposes a supplemental appropriation of $10.0 million in 1975. For 1976 they request a further increase of $14.1 million. This would provide funds to handle increased responsibilities under the new Employee Retirement Security Act of 1974.

OMB recommends $6.6 million of the $10.0 million 1975 request and a further increase of $4.1 million for the program in 1976. It defers additional increases in 1976 pending receipt of actual workload data. This is the same approach being recommended in the Labor Department request for this program.

Decision: Approve agency recommendation ______
Approve OMB recommendation ✓
See me ______

V. IRS Tax Fraud Investigation

Treasury proposes adding 8 man-years in 1976 to handle increased case complexity, as part of an overall effort to demonstrate to taxpayers that those who do not meet their tax obligations are identified and prosecuted.

OMB recommends investigating the same number of criminal cases which IRS projects for 1975 and 1976, using an investigation-to-man-year standard similar to the ratio achieved in 1973 and 1974 and budgeted for in 1975, thereby reducing the 1976 budget 329 positions below the 1975 level.

Decision: Approve agency recommendation ____
Approve OMB recommendation ✓
See me ____

VI. Taxpayer Service

Treasury proposes adding 63 positions on top of the base of 3,956 man-years provided in the OMB alternative (which reflects an increase of 878 man-years over the 1975 base) to conduct a special assistance program for the elderly and inner city taxpayers.

OMB recommends accomplishing the special emphasis program by redeploying some of the 3,956 man-years already provided in the 1976 budget for taxpayer service.

Decision: Approve agency recommendation ____
Approve OMB recommendation ✓
See me ____

VII. U. S. Customs Service

Treasury proposes to add 311 man-years and $19 million in 1976 to handle additional imports and people entering the United States and to expand enforcement programs to uncover duty fraud and interdict narcotics and other contraband.

OMB recommends handling the additional imports and people through a 2.5% increase in productivity, thereby reducing 323 positions below the 1975 level.

Decision: Approve agency recommendation ____
Approve OMB recommendation ✓
See me ____

Attachments

Tab B

1976 Budget

Department of the Treasury

Background Information

Treasury requests $40.8 billion in new budget authority for 1976. Of this amount, $38.1 billion is requested for uncontrollable accounts such as Interest on the Public Debt, Payments from the General Revenue Sharing Trust Fund, and other permanent accounts. The remaining $2.7 billion is requested for discretionary operating programs, which fund the Department's major activities.

The OMB recommendation provides $40.5 billion, which grants the Department's full request for uncontrollable programs but reduces the initial request for operating programs by $217 million. OMB and Treasury have subsequently come into agreement on most 1976 budget recommendations, and the areas of dispute have been reduced to $86 million. Items still in dispute, which are confined to the Internal Revenue Service and the Customs Service, are discussed in detail at Tab C.

The reductions in the Treasury request recommended by OMB in Treasury's operating programs stem largely from two major concerns:

- very large staff expansion beyond the requirements of reasonable workload increases (a requested 13 percent staffing increase over 1975); and,

- failure by the Department to reflect increased productivity in some of its major programs.

The requested 13 percent increase in staff comes on top of substantial increases provided to the Department over the past few years. In both 1974 and 1975 employment increased by 4 percent over the previous year. These increases were well in excess of population growth (a basic ingredient in several Treasury programs) or workload.

The major staff expansion proposed by the Department comes in the Internal Revenue Service and the Customs Service, which historically have accounted for approximately 80 percent of the total Treasury work force. Over the years, the Department has been accustomed to requesting and receiving sizeable increases for these bureaus because, as revenue producers, they have been considered essentially costless. Treasury has maintained and continues to maintain that rapidly increasing staff in its tax collections and compliance forcing programs are necessary to avoid revenue losses. In several of these programs, staffing increases have exceeded actual workload requirements, resulting in static or declining employee productivity.

In light of the Administration's policy of maximum budget restraint in 1976, OMB has subjected the Treasury budget request to a more critical review than in recent years. While OMB agrees with Treasury on the need to maintain and improve the integrity and capability of the tax collection and enforcement system, we have attempted to more accurately relate staffing and budget needs to projected workload requirements and to assume productivity increases where appropriate. Although the OMB recommendation proposes significant reductions from Treasury's initial budget request for operating programs, it does provide $118 million and 2,647 additional staff (2.4 percent increase) over 1975 to cope with workload increases and priority program improvements. Given the sizeable work force already in place, we believe this recommendation is adequate to successfully accomplish the 1976 program proposed by the Department and to continue progress toward the overall goal of the tax system: maximum voluntary compliance.

Smaller Agencies

Treasury
Appeal

INDEX FOR
SMALLER AGENCIES

A

WHITE HOUSE/EXECUTIVE OFFICE ACCOUNTS

A summary of the White House request follows. OMB concurs with the request.

[redacted]

ACTION

WHITE HOUSE/EXECUTIVE OFFICE ACCOUNTS
1976 Budget
Summary Comparison of Agency Totals ($000)

	1974 Act.	1975 Req.	1975 Recom.	1976 Req.	1976 Recom.	July 1 - Sept. 30, 1976 Req.	July 1 - Sept. 30, 1976 Recom.	1977 Est.	1978 Est.	1979 Est.	1980 Est.
Executive Office of the President											
Compensation of the President:											
Budget authority	250	250	250	250	250	63	63	250	250	250	250
Outlays	250	250	250	250	250	63	63	250	250	250	250
Special Projects a/											
Budget authority	414	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Outlays	659	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Unanticipated Personnel needs:											
Budget authority	xx	500	500	500	500	125	125	500	500	500	500
Outlays	xx	500	500	500	500	125	125	500	500	500	500
Executive Residence:											
Budget authority	1,433	1,744	1,744	1,826	1,826	457	457	1,951	1,851	1,851	1,851
Outlays	1,788	1,722	1,722	1,750	1,750	438	438	1,951	1,851	1,851	1,851
Full-time perm..........	70	82	82	82	82	82	82	82	82	82	82
Total employment	70	82	82	82	82	82	82	82	82	82	82
Official Residence of the Vice President:											
Budget authority	xx	315	315	104	104	26	26	61	61	61	61
Outlays	xx	300	300	100	100	25	25	63	61	61	61
Full-time perm.	xx	8	8	8	8	8	8	8	8	8	8
Total employment	xx	8	8	8	8	8	8	8	8	8	8
Domestic Council:											
Budget authority	1,100	1,250	1,250	1,320	1,320	330	330	1,320	1,320	1,320	1,320
Outlays	956	1,240	1,240	1,320	1,320	330	330	1,320	1,320	1,320	1,320
Full-time perm.	30	30	30	30	30	30	30	30	30	30	30
Total employment	40	33	33	33	33	33	33	33	33	33	33

	1974 Act.	1975 Req.	1975 Recom.	1976 Req.	1976 Recom.	July 1 - Sept. 30, 1976 Req.	July 1 - Sept. 30, 1976 Recom.	1977 Est.	1978 Est.	1979 Est.	1980 Est.
Office of Management and Budget:											
Budget authority	19,400	21,500	21,500	24,150	24,150	6,750	6,750	24,150	24,150	24,150	24,150
Outlays	18,350	21,898	21,898	24,162	24,162	6,750	6,750	24,150	24,150	24,150	24,150
Full-time employment (e.o.y.)	606	618	640	640	640	640	640	640	640	640	640
Total employment (eoy) ..	688	700	700	722	722	722	722	722	722	722	722
Office of Federal Procurement Policy:											
Budget authority	xx	660	660	1,000	1,000	250	250	1,000	1,000	1,000	1,000
Outlays	xx	620	620	1,000	1,000	250	250	1,000	1,000	1,000	1,000
Full-time employment	xx	25	25	25	25	25	25	25	25	25	25
Total employment	xx	25	25	25	25	25	25	25	25	25	25
Funds Appropriated to the President											
Emergency Fund for the President a/											
Budget authority	1,000	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Outlays	436	25	25	xx	xx	xx	xx	xx	xx	xx	xx
Expenses of Management Improvement: a/											
Budget authority	350	xx	xx	xx	xx	xx	xx	xx	xx	xx	xx
Outlays	15	760	760	xx	xx	xx	xx	xx	xx	xx	xx

Discussion of Recommendation

The above amounts represent continuation of activities at approximately the 1975 levels, including cost for the 1975 pay raise. Analysis of the estimates reflects the following:

- Unanticipated Personnel Needs:
  These estimates are consistent with the authorization which would be provided in (which the pending White House authorization bill (H.R. 14715) is currently awaiting Senate concurrence. House agreed on August 12, 1974, to conference report containing Senate amendments.

- Executive Residence:
These estimates were informally provided by the Department of Interior. The official submission of this account is still pending clearance in the White House although no change is expected. An increase of $100K is requested for 1977 to provide for painting the White House which is done four months before the inauguration.

- Official Residence of the Vice President:
The Secretary of the Navy is requesting 1976 appropriations of $104K for this account and $252K for this activity through the Navy's own budget. At present, the residence at the Naval observatory is vacant and final decisions on decoration are awaiting confirmation of a Vice President. Mr. Rockefeller has not reviewed this request, although the Navy advises that if confirmed, he would ele to reside at the observatory. The Secretary of the Navy proposes to staff the residence and grounds as follows: 5 civilian groundkeepers (funded through Navy Operations and Maintenance Account);
3 civilian security personnel (funded through Navy Operations and Maintenance Account); and
10 Navy Stewards for food preparation, serving and domestic chores (funded through military personnel appropriations).
The $104K requested for the Official Residence account is entirely for maintenance, repair expenses and utilities for the residence itself. The Navy funding for nonreimbursable support will be authorized uc enactment of the pending 1975 Military Construction Authorization bill.

- Office of Management and Budget and Office of Federal Procurement Policy:
These estimates represent levels which were approved by the Deputy Director on 11/22/74. Estimates for OFPP will not be included within OMB totals as they will be shown as a separate account in the Executive Office of the President.

- Expenses of Management Improvement a/
Congress denied the 1975 requested appropriations for this account and no funds are requested for 1976. At present, (11/29/74) $455K is available for obligation.

The estimates in this report exclude accounts for White House Office and Special Assistance to the President (Vice President). These two accounts are still pending in the White House and will be covered in separate memoranda.

---

a/ No funds were appropriated by the Congress for these three accounts for fiscal year 1975. The unanticipated personnel needs account was established as alternate funding.

B

SPECIAL WHITE HOUSE ACCOUNTS

197[illegible] [illegible]dget

Summary Comparison [illegible] [illegible]gency Totals ($000)

Executive Office of the President

	1974	1975		1976		July 1 - Sept. 30, 1976		1977	1978	1979	1980
	Act.	Req.	Recom.	Req.	Recom.	Req.	Recom.	Est.	Est.	Est.	Est.
White House Office:											
Budget authority ...	11,260	16,367	16,367	16,946	16,946	4,237	4,237	16,946	16,946	16,946	16,946
Outlays	10,384	16,367	16,367	16,946	16,946	4,237	4,237	16,946	16,946	16,946	16,946
Full-time-perm.	510	540	540	500	500	500	500	500	500	500	500
Total Employment ...	515	555	555	515	515	515	515	515	515	515	515
Special Assistance to the President:											
Budget authority ...	692	910	910	1,040	990	260	248	990	990	990	990
Outlays	609	965	965	1,040	990	260	248	990	990	990	990
Full-time-perm.	30	30	30	30	30	30	30	30	30	30	30
Total employment ...	31	31	31	40	40	40	40	40	40	40	40

Discussion of Recommendations

White House Office:

The above amounts represent a decrease in 1976 staffing level with an increase in funding levels reflecting costs for annualization of the 1975 pay raise and increased costs for rent to GSA. The decreased staff size is part of the Administration's objective for a leaner Executive Office.

Special Assistance to the President (Vice-President's Office):

These estimates were informally provided. The official submission for this account is still pending clearance in the White House. The request holds staffing level but calls for a 7.7% increase in Budget authority. The requested $130,000 increase over the 1975 appropriated level is due to an increase of $36,000 in annual cost of the Federal Building Fund Standard Level User Charge for GSA and annualization of 1975 pay raise. The remaining $94,000 represents increases in; travel, printing, supplies and material, equipment and special personal service payments. The increase is a little generous and could reasonably be trimmed by $50,000. Budget staff agrees that these cuts would be reasonable and we are recommending a reduction of $50,000 from the request for 1976, and by $12,000 for the Transition period.

Prepared by:

Approved by:

C

THE PANAMA CANAL

Comments

The Panama Canal enterprise is made up of the Panama Canal Company, a revolving fund, and the Canal Zone Government, an independent agency financed by appropriations.

The OMB recommendation provides for program increases to insure the health and safety of Zone employees and to maintain the quality of service to ships using the waterway.

The recommendation reflects a compromise on an agency appeal on outlays.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual	2,310	1,095	13,841
1975 current estimate	5,038	8,105	13,840
1976 agency request	7,027	16,940	14,283
1976 OMB recommendation	2,531	4,561	13,840
Effect of OMB recommendation on agency request	-4,496	-12,379	-443
Transition period	1,725	1,895	13,942
1977 estimate	2,500	2,500	13,942

D

COUNCIL ON WAGE AND PRICE STABILITY

Comments

OMB recommendation provides for annualization of the anticipated 1975 appropriation.

Reduction in employment reflects a phase-down of the Council's activities in the latter part of 1976.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual.............	---	---	---
1975 current estimate...	1,000	935	41
1976 agency request.....	1,600	1,561	41
1976 OMB recommendation.	1,600	1,561	30
Effect of OMB recommendation on agency request................	---	---	-11
Transition period.......	---	104	---
1977 estimate...........	---	---	---

E

GENERAL SERVICES ADMINISTRATION

Comments

OMB and the agency have settled differences between the request and recommendation; GSA has indicated that they will not appeal to the President.

The estimates may be revised in the future to reflect 1) 1975 rental estimates in light of the enrolled supplemental appropriation bill, and 2) allowances being included in other agencies' totals for Standard Level User Charges to GSA.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual.............	-677	-276	36,733
1975 current estimate...	-918	-1,008	36,370
1976 agency request.....	-338	-435	39,773
1976 OMB recommendation.	-331	-475	36,687
Effect of OMB recommendation on agency request................	+7	-40	-3,086
Transition period.......	-107	-126	36,904
1977 estimate...........	-153	-279	37,421

F

ADVISORY COMMITTEE ON FEDERAL PAY

Comments

No change from agency request.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual.............	130	63	1
1975 current estimate...	130	106	1
1976 agency request.....	140	145	1
1976 OMB recommendation.	140	145	1
Effect of OMB recommendation on agency request................	---	---	---
Transition period.......	35	36	1
1977 estimate...........	140	140	1

G

Issue Paper
1976 Budget
Civil Aeronautics Board

	1974 Actual	1975 Est.	1976 Req.	1976 Allow	1976 Appeal	1976 Recom.	1977 Est.
Budget Authority ($M)	88.7	85.2	81.0	80.1	+.9	--	80.1
Salaries & Expenses	(15.6)	(17.5)	(20.3)	(19.4)	(+.9)		
Payments to air carriers	(73.1)	(67.7)	(60.7)	(60.7)			
Outlays ($M)	88.5	84.0	85.8	85.0	--	85.0	80.1
Employment							
Full-time permanent	700	711	823	751	+ 72	--	751

Statement of Issue

Should the Civil Aeronautics Board significantly increase its enforcement and audit programs?

Alternatives

CAB requests on appeal an additional $.9 million and 72 additional positions for the enforcement and audit programs which would represent full restoration of its origianl request.

OMB recommends no increase over the allowance of $19.4 million for salaries and expenses and 40 new positions.

Analysis

Major difference between the request and the recommendation:

. CAB places the highest priority on the enforcement and audit programs and considers additional resources to be essential to curb major compliance problems such as illegal ticket discounting on the North Atlantic. Restoration of tariff integrity, particularly the elimination of discounting on the North Atlantic, is a key action item of the Administration's plan to improve the financial situation of the U.S. flag international air carriers.

. OMB considers the 1976 allowance for enforcement adequate and reasonable and believes that the present audit capability is at a level sufficient to carryout the Board's statutory authority.

OMB's allowance for 1976 has provided for increased enforcement at a level believed sufficient to accomplish the Board's stated enforcement objectives. The allowance will permit the Board to take steps to restore tariff integrity, particularly on the North Atlantic, consistent with the Administration's action plan. Additional information and rationale for increased audit program funding does not provide sufficient justification to alter OMB's allowance.

H

FEDERAL HOME LOAN BANK BOARD

Comments

The estimates below assume that the 1975-1976 outlay effects of the FHLBB part of the May 10 housing program will be offset.

The agency has no major disagreements with the OMB recommendations.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual..............	---	-370	1,290
1975 current estimate....	---	-304	1,385
1976 agency request......	---	160	1,385
1976 OMB recommendation..	---	-340	1,385
Effect of OMB recommendation on agency request.................	---	-500	---
Transition period........	---	-131	1,385
1977 estimate............	---	-428	1,385

I

FEDERAL MARITIME COMMISSION

Comments

Consistent with a policy of decreasing rather than increasing Federal regulatory activities, the OMB recommendation would disallow a requested increase in funding for expanded regulatory efforts.

An increase to cover mandatory costs is recommended.

The agency has no objection.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual..................	6,372	6,475	293
1975 current estimate.......	7,307	7,343	316
1976 agency request.........	8,255	8,272	350
1976 OMB recommendation.....	7,894	7,910	316
Effect of OMB recommendation on agency request.....	-361	-362	-34
Transition period...........	1,973	1,943	316
1977 estimate...............	7,894	7,894	316

J

Issue Paper
Federal Trade Commisison
1976 Budget

	1974 Actual	1975 Current Est.	1976 Request	1976 Allowance	1976 Appeal	1976 Recom.
Budget Authority ($M)	32.3	39.0	50.9	44.0	+6.9	+1.6
Outlays ($M)	32.4	41.2	50.1	43.5	+6.6	+1.6
Employment (EOY)						
Full-time permanent	1,560	1,569	1,727	1,569	+158	+65

Statement of Issue

In the FTC's "maintenance of competition" programs, what level of resources should be devoted in 1976 to antitrust activities and to enforcement of the Robinson-Patman Act?

Alternatives

Agency request: FTC requests 158 new man-years of effort for maintenance of competition, including 128 man-years for antitrust activities and 30 man-years for expanded enforcement of the Robinson-Patman Act.

OMB recommendation: Provides 95 new man-years of effort for antitrust activities and no further expansion for enforcement of the Robinson-Patman Act.

Analysis

The major differences between the FTC request and the OMB recommendation are:

- Antitrust activities. FTC is requesting an increase of 128 man-years for antitrust activity. The OMB recommendation allows for an additional 95 man-years of effort in this area, targeted primarily in the "key industries" of food, energy, and health care. These industries have contributed over 40% of the past year's inflation. The OMB recommendation is based on a sensitivity to the President's recent statements on the need for antitrust as an anti-inflationary toal and on FTC's proposal to target its efforts on high priority efforts.

- Robinson-Patman Act enforcement. The FTC request would increase the effort for this activity by approximately 30 man-years and $1 M over the 1974 level. Since there are strong indications that this statute is anti-competitive and contributes upward pressure on prices (especially food prices), OMB seriously questions the advisability of any expansion in this area. OMB recommends denying the increase and beginning a major effort to determine the effect of this statute on costs and prices and, if warranted, developing an Administration initiative to reform it.

- Other Expenses. The OMB recommendation allows only a 50% increase in travel, rather than 100%, to $1,593 K; cuts $712 K for new space rental - which is not required; cuts $464 K for new ADP rentals which are not urgent; cuts $175 K for staff training increases, cuts $200 K of the increase for supplies and equipment; disallows $477 K for previously unbudgeted personnel; and disallows a contingency reserve of $500 K.

K

1976 Budget
Interstate Commerce Commission

The OMB recommendation for the Interstate Commerce Commission (ICC) provides a $4.9 million increase in budget authority and total funds of $49.7 million for 1976. The Commission initially requested $51.8 million but has reached agreement with OMB on budget and program recommendations.

Decisions on the Commission's budget were made within the context of the Administration's regulatory reform objectives. The recommended increases will permit the Commission to improve the quality of its regulation of the surface transportation industries by providing resources for:

-- The initiation of proceedings to deal with key issues effecting the national transportation system which is the principle means of policy formulation.

-- The maintenance of a manageable case backlog in the face of constantly increasing workload.

-- Increased emphasis on management improvements and application of ADP techniques.

The Commission and OMB have discussed the need for improvement in the present economic regulation of surface transportation. The Commission has initiated a special internal study to identify areas for change and to prepare recommendations aimed at increasing productivity and improving the quality of regulation.

Interstate Commerce Commission
1976 Budget
($ Millions)

	Budget Authority	Outlays	Employment
1974 Actual	$40.3	$37.7	1950
1975 Enacted	42.9	43.9	2084
Supplemental Recommended	1.9	1.6	-
OMB Recommendation	44.8	45.5	2061
1976 Agency Recommendation	51.8	53.0	2282
OMB Recommendation	49.7	51.0	2101
Transition Period			
Agency Recommendation	13.0	13.5	2202
OMB Recommendation	12.5	13.0	2101
1977 OMB Estimate	49.7	50.5	2101

L

MARINE MAMMAL COMMISSION

Comments

No change from agency request.

	Budget authority	Outlays	Full-time permanent employment
	(in thousands of dollars)		
1974 actual..............	412	134	6
1975 current estimate....	750	735	8
1976 agency request......	1,000	1,000	10
1976 OMB recommendation..	1,000	1,000	10
Effect of OMB recommendation on agency request.................	---	---	---
Transition period........	250	250	10
1977 estimate............	1,000	1,000	10

M

NATIONAL CREDIT UNION ADMINISTRATION

Comments

OMB recommends additional requested positions to deal with voluntary credit union liquidations.

	Budget authority 1/ (in thousands	Outlays 2/ of dollars)	Full-time permanent employment
1974 actual..............	---	-11,677	526
1975 current estimate....	---	-10,355	552
1976 agency request......	---	-14,070	595
1976 OMB recommendation..	---	-14,632	558
Effect of OMB recommendation on agency request.................	---	-562	-37
Transition period........	---	-3,500	558
1977 estimate............	---	-17,562	558

N

Issue Paper
U.S. Postal Service
1976 Budget

Analysis

Budget Authority/Outlays ($ in millions)	1975	1976	1977	1978	1979	1980
Alt. #1 (Agency req.)	615.5	639.3	605.9	574.2	545.3	521.9
Alt. #2 (OMB rec.)	571.5	542.3	459.8	467.3	474.7	482.7

Statement of Issue

Should additional Federal subsidies be provided to extend the time period for certain mailers to adjust to higher postage rates?

Background

Under the Postal Reorganization Act of 1970, Federal subsidies were authorized to ease the adjustment of mailers in moving from the old rate structure to one which more properly reflects the actual cost of the mail service provided. The subsidies allow for phasing in the rate increases over a period of years. Phasing periods of five years for profit related mailings and ten years for non-profit mailings were established. A portion of the Federal subsidies to the Postal Service is to make up for the revenue foregone associated with carrying these classes of mail at less than full cost recovery rates.

Under pressure from mailers, who have argued that postal rate increases are higher than were anticipated at the time of postal reorganization, Congress acted last June to extend the authorized phasing period. P.L. 93-328 (S. 411), as enacted, extended the phasing periods by three years and six years. The revenue foregone subsidies associated with this extension would cost the taxpayer at least $753.7 million over the next 13 years. Major beneficiaries of these subsidies would be magazine, newspaper, and book publishers. Nearly one-half of the additional subsidies would go to direct support of these regular-rate second class mail users; the balance would support preferential, library, and non-profit classes of mail users.

Alternatives

#1. Request full funding for all authorized phasing - including all portions of extended phasing. (Agency Request)

#2. Continue to request funding for the originally authorized phasing schedule set out in the Reorganization Act, but request no funding for the extended phasing subsidies authorized by P.L. 93-328. (OMB Recommendation)

Agency request: Postal Service has requested the full level of funding authorized or phasing. This would require an additional subsidy of $44 million in 1975 and 97 million in 1976 to cover the revenue foregone associated with extended phasing both profit and non-profit categories of mail.

Under the provisions of section 3 of P.L. 93-328 the Postal Service is required to request all authorized subsidies. These amounts are also required to be presented in the budget along with the President's recommendation. Postal Service has supported extended phasing in an effort to avoid a confrontation with mailers. Extended phasing would lessen the direct impact of postage rate increases on mailers, and from the Postal Service's perspective would probably help to hold down strong objections to further proposed postage increases.

OMB recommendation: OMB recommends not requesting additional funding for the extended phasing. Since the provisions of P.L. 93-328 only authorize these subsidies, it is within the President's authority to request less than the full amount.

Funding for the originally authorized five and ten year phasing periods would continue.

Although President Nixon signed the authorization bill, you decided last September against requesting a $44 million 1975 supplemental for the first year of extended phasing on the grounds that it was contrary to our efforts to reduce Federal spending in 1975.

Throughout the development of S. 411 (P.L. 93-328) the Administration argued that extended phasing was unnecessary and was a low priority use of Federal funds. The subsidies are inflationary and provide direct Federal assistance to already profitable businesses. This is particularly true of the magazine publishing industry which is a heavy user of regular rate second class mail service. The potential savings to publishers from the authorized extended subsidy would be a very small portion of total publishing costs (generally less than 1%), and we believe that this will not have a critical impact on the health of the publishing industry.

The intent of the postal reorganization was to foster a self-sufficient Postal Service in which users pay for the services they receive from the postal system. To extend the phasing period would run contrary to that principle.

Third Class Mail Subsidy: Since 1972, the budget has not included a request to cover the revenue foregone associated with the phasing of regular rate third class mail (advertising matter). This policy was established to eliminate what we believe to be an unnecessary and improper expenditure of Federal funds. This subsidy would have directly supported an already profitable direct mail advertising business. The Congress has agreed with the President's Budget over the years and not appropriated any funding for third class phasing. Accordingly, the Postal Service has implemented full cost recovery rates for this class of mail.

Under the Reorganization Act, one more year of phasing is still authorized for third class mail. No extended phasing for regular rate third class mail was provided for in P.L. 93-328 (S. 411), but the Act as noted above does require the Postal Service to request all amounts authorized. Therefore, the Postal Service has included $118.8M in its 1976 request for this last year of phasing. In the past the Postal Service has excluded this amount from its request owing to existing Presidential policy and known Congressional action.

OMB recommends not requesting funding for this last year of regular rate third class phasing. The Postal Service is not appealing this recommendation.

O

Issue Paper
Securities and Exchange Commission
1976 Budget

	1974 Act.	1975 Current Est.	1976 Req.	1976 Allow.	1976 Appeal	1976 Recom.
Budget Authority ($ M)	36.2	44.4	51.6	47.2	+4.4	---
Outlays ($ M)	34.5	45.1	52.6	48.1	+4.5	---
Employment:						
Full-time permanent (EOY)	1,798	2,086	2,270	1,960	+310	---

Statement of Issue

Should SEC staffing resources be constrained in 1976 as a means of gaining more effective utilization of existing staff?

Alternatives

SEC requests an additional $7.2 M and 184 positions in 1976 in response to an anticipated increase in securities registrations and to expand its efforts in securities fraud investigations and enforcement.

OMB recommends an increase of $2.8 M in 1976 and a reduction of 126 positions from 1975 levels to require SEC to take actions (by increasing staff productivity and undertaking other management improvements) to insure more effective utilization of existing staff.

Analysis

OMB believes that sizeable staffing increases granted to SEC over the past few years, combined with the agency's lack of progress in updating several inefficient management practices, have resulted in (1) staffing levels which exceed actual and predicted workload requirements and (2) ineffective use of staffing in several of its major programs. Several factors have contributed to this problem:

- In fiscal years 1974-75 SEC received total staff increases of 488 positions, 354 of which were added by the Congress.

- During the period 1972-1975, securities registrations, an important workload determinant, fell by over 25%. Productivity in the enforcement program declined by 16% between 1971-1974 while staffing increased by almost 20%.

- SEC continues outdated management practices in several areas which, if corrected, would obviate the need for staffing increases: (a) obsolete procedures in the review of Full Disclosure Program Statements without attempts at streamlining the review process; (b) continued setting of shorter, arbitrary cycles for inspection of broker dealers without sampling; (c) a "last-in, first-out" approach to enforcement in which certain cases grow old as new ones come in, and which involves no strategy for maximizing the effect of the resources.

OMB believes that action should be taken to establish SEC employment levels which reflect increasing productivity and are more consistent with current workload requirements. To accomplish this, OMB recommends establishment of a 1976 employment target of 1,960, which is 126 positions lower than the current 1975 estimate and 310 less than SEC's 1976 request. As a means of beginning staffing reductions in 1975, OMB had earlier considered a rescission of 150 positions added by the Congress, but is not now recommending this action because of the likely adverse Congressional reaction. Instead, the OMB recommendation allows the SEC 18 months, beginning now, in which to make the adjustments necessary to achieve the recommended staffing reductions. This action will require the SEC to develop a 1975 staffing plan in keeping with the reduced target for 1976. Eighteen months should allow the agency time to design and implement improved management systems and strategies. Assuming increased productivity, OMB believes that SEC will be able to accomplish its budgeted program for 1976 under the reduced employment level. Even with the reduced OMB employment recommendation for 1976, SEC employment will have increased by 162 (over 9%) since 1974.

P

NATIONAL COMMISSION ON PRODUCTIVITY AND WORK QUALITY

Comments

Accommodation to agency appeal.

OMB recommendation provides for the continuation of the program at essentially the 1975 level.

	Budget authority (in thousands	Outlays of dollars)	Full-time permanent employment
1974 actual..................	900	1,000	9
1975 current estimate.......	2,000	2,102	20
1976 agency request.........	4,461	3,981	43
1976 OMB recommendation.....	2,500	2,500	20
Effect of OMB recommendation on agency request.....	-1,961	-1,481	-23
Transition period...........	625	625	20
1977 estimate...............	2,500	2,500	20

Q

U.S. RAILWAY ASSOCIATION

Comments

The United States Railway Association (USRA) was established by the Regional Rail Reorganization Act of 1973 to restructure the bankrupt Midwest and Northeast rail lines.

Additional funding of $15 million is required to complete the planning process through January, 1976. Instead of including this entire amount in a 1975 Supplemental as requested by USRA, OMB recommends that the Supplemental be limited to $5 million, with the remaining $10 million included in the 1976 budget.

	Budget authority (in thousands of dollars)	Outlays (in thousands of dollars)	Full-time permanent employment
1974 actual.................	18,000	2,950	
1975 current estimate.......	12,000	27,050	
			Not
1976 agency request.........	---	10,000	
1976 OMB recommendation.....	10,000	10,000	applicable
Effect of OMB recommendation on agency request.....	+10,000	---	to
Transition period...........	---	---	this
1977 estimate...............	---	---	
			agency

R

NATIONAL COMMISSION ON ELECTRONIC
FUND TRANSFERS

The enrolled supplemental appropriations bill (H.R. 16900) provides $500 thousand for this program in FY 1975.

OMB is deferring a recommendation for FY 1976 until the Commission has had an opportunity to organize and formulate its own plans.