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1977 Presidential Review
Department of Health, Education, and Welfare
Table of Contents

TAB A Summary tabulation of the 1977 Budget amounts requested and recommended.

TAB B Summary of the principal budget decisions reflected in the OMB recommendation.

TAB C Issue Papers

		<u>Effect of issue on outlays</u> <u>(dollars in millions)</u>	
<u>Issue</u>		<u>1977</u>	<u>1978</u>
H-1.	Medicare.....	- 2,213	- 2,300
H-2.	Medicaid/Special State Health Revenue Sharing.....	+ 8	- 50
H-3.	Health Resources Administration.....	- 61	- 259
H-4.	National Institutes of Health.....	- 50	- 32
H-5.	Health Services Administration.....	- 908	- 917
H-6.	Alcohol, Drug Abuse, and Mental Health Admin.....	- 185	- 323
H-7.	Other Health Programs.....	- 91	- 114
E-1.	Higher Education Student Assistance.....	- 339	- 319
E-2.	Impact Aid.....	- 218	- 242
E-3.	Education for the Handicapped.....	- 17	- 77
E-4.	Emergency School Aid.....	xxx	- 7
E-5.	Education for the Disadvantaged.....	- 198	- 315
E-6.	Education Research.....	- 28	- 56
E-7.	Library Resources.....	- 96	- 108
E-8.	Office of Education--Administration.....	- 14	- 16
E-9.	Higher Education Non-Student Assistance.....	- 9	- 79
I-1.	Social Security Legislation.....	- 3,728	- 7,030
I-2.	Cuban Refugees.....	xxx	xxx
I-3.	Aging Nutrition.....	xxx	xxx
I-4.	Vocational Rehabilitation.....	- 78	- 78
I-5.	Social Services.....	- 400	- 500

TAB A

Department of Health Education, and Welfare
 1977 Budget
 Summary Data
 (\$ In millions)

	<u>Budget Authority</u>	<u>Outlays</u>	<u>Full-time Permanent</u>	<u>TOTAL</u>
1975 Actual	116,489	111,907	129,285	141,804
1976 February Budget	120,031	118,062	124,437	144,285
Agency request	125,296	127,102	140,288	153,919
OMB recommendation	124,132	126,183	134,630	147,130
OMB employment ceiling	xxx	xxx	136,550	148,898
TQ February Budget	32,432	31,290	xxx	xxx
OMB recommendation	33,012	32,491	xxx	xxx
1977 planning target.....	132,673	136,397	xxx	xxx
Reduction target	xxx	133,200	xxx	xxx
Agency request	140,873	144,811	147,177	159,701
OMB recommendation	136,963	135,400	125,697	138,197
1978 OMB estimate	156,774	145,409	122,137	134,637

1977 Budget
 Department of Health, Education, and Welfare
 Summary of Full-time Permanent Employment

	9/30/75 Actual	1976		1977		1978 Est.
		HEW Request	OMB Recom.	HEW Request	OMB Recom.	
<u>Health</u>						
Food and Drug Administration.....	6,556	6,431	6,431	6,892	6,500	6,500
Health Services Administration....	15,432	16,216	15,000	17,296	9,000	9,000
Center for Disease Control.....	3,634	3,639	3,543	3,818	3,143	3,143
National Institutes of Health....	10,627	10,399	10,323	10,883	10,323	10,323
Alcohol, Drug Abuse, and Mental Health Administration.....	5,417	5,607	5,400	5,853	5,200	5,150
Health Resources Administration...	1,879	2,090	2,018	2,204	1,662	1,662
Assistant Secretary for Health....	1,000	1,106	1,000	1,114	1,000	1,000
Subtotal--Health programs.....	44,545	45,488	43,715	48,060	36,828	36,778
<u>Education</u>						
Office of Education.....	2,755	3,019	2,995	3,368	2,936	2,936
National Institute of Education...	317	330	330	330	330	330
Assistant Secretary for Education.	203	253	253	282	240	240
Subtotal--Education programs..	3,275	3,602	3,578	3,980	3,506	3,506
<u>Income Maintenance</u>						
Social and Rehabilitation Service.	1,715	2,223	1,728	2,745	1,033	1,033
Social Security Administration....	73,808	81,273	78,359	83,613	77,010	73,500
Office for Human Development.....	1,355	1,485	1,383	1,570	1,391	1,391
Subtotal--Income Maintenance programs.....	76,878	84,981	81,470	87,928	79,434	75,924
Departmental Management.....	5,401	6,217	5,867	7,209	5,929	5,929
TOTAL.....	130,099	140,288	134,630	147,177	125,697	122,137

1977 Budget
Department of Health, Education, and Welfare
Full-Time Permanent Employment

Health

The HEW proposed increase of 3,515 represents a 8% increase over the actual September 30, 1975, employment level of 44,545. HEW recommends that the Administration (1) accept over \$1 billion of congressional add-ons to the President's February 1976 Budget request of \$4.5 billion; and (2) seek an additional \$500 million in 1977. The HEW employment increase request is inconsistent with the current effort to hold down Federal employment and outlays. In any event, the current employment level for health agencies is adequate to handle likely congressional add-ons.

The OMB recommendation of 36,828 is a decrease of 7,717 below the actual September 30, 1975, employment level. This 17% decrease reflects:

- recommended proposed program funding levels lower than requested by HEW;
- proposed termination of the special status of merchant seamen as the only non-Federal occupational group entitled to free services at the Public Health Service hospitals; and
- proposed consolidation into a State Health Revenue Sharing grant the health service programs of Medicaid, the Center for Disease Control, Health Services Administration, and the Alcohol, Drug Abuse, and Mental Health Administration, as well as health planning and construction programs of the Health Resources Administration.

Education

HEW requests 3,980 positions for FY 1977 for the Office of Education, the National Institute of Education, and the Assistant Secretary for Education arguing that increased staff is needed to handle problems developing in such areas as Guaranteed Student Loans and Basic Opportunity Grants. The OMB recommendation of 3,506 positions reflects the program reductions proposed and our belief that the developing problems can be met through reallocating positions from administrative and support areas. A 2% increase in productivity is also assumed.

Income Maintenance

The OMB recommendation for the Social Security Administration (SSA) provides for no increase from the February budget for FY 1976 and for a small increase in FY 1977. This is a tight level and may require an upward adjustment in the ceiling if backlogs unexpectedly increase beyond acceptable levels. OMB does not believe that this tight level carries any risk of missing monthly check payments, but we will closely monitor the SSA workload statistics.

For the Social and Rehabilitation Service (SRS), HEW requested 2,223 and 2,745 positions for FY 1976 and FY 1977, respectively, compared to the September 30, 1975, on board strength of 1,715. Increases were requested for administrative needs and penalty enforcement in the social services program and for improved fraud and abuse control in the Medicaid program. The OMB recommendation provides 1,728 positions for FY 1976 and 1,033 positions for FY 1977, on the basis that: (1) substantial capacity already exists in SRS to improve administration and enforce penalty requirements; (2) the recently enacted Title X of the Social Security Act took away Federal controls over the substance of State social services programs, thus greatly reducing the need for Federal employees to review State decisions; and (3) the proposal for a Health Services block grant eliminates most of the need for staff now administering the Medicaid program.

For the Office of Human Development (OHD), HEW requested 1,570 positions in FY 1977, compared to its September 30, 1975, employment of 1,355. OMB recommends 1,391 positions, which recognizes that OHD has been able to manage its programs while operating below authorized strength, allows the increases approved in the 1976 Budget, and provides added staff to implement the Randolph-Sheppard (blind stand) Amendments of 1974.

Departmental Management

HEW requested a large increase in positions for FY 1977 in legal, accounting, and auditing services and civil rights activities. OMB recommends no increases for FY 1977, except for the Office for Civil Rights where substantial additional workload has been created by new legislation (Title IX of the Education Amendments of 1972 and Section 504 of the Vocational Rehabilitation Act of 1973) and court orders establishing stringent timetables for complaint resolution by the Office for Civil Rights.

1977 Budget
 Department of Health, Education, and Welfare
 Summary of Recommended Program Reductions
 (\$ in millions)

	<u>1976</u> <u>Outlays</u>	<u>TQ</u> <u>Outlays</u>	<u>1977</u>		<u>1978</u> <u>Outlays</u>
			<u>B.A.</u>	<u>Outlays</u>	
<u>Health programs</u>					
Current base.....	31,806	8,399	38,084	37,419	41,892
Recommended level.....	<u>30,625</u>	<u>7,913</u>	<u>36,304</u>	<u>32,521</u>	<u>36,686</u>
Reduction.....	1,181	486	1,780	4,898	5,206
<u>Education programs</u>					
Current base.....	7,657	1,566	8,058	7,800	7,981
Recommended level.....	<u>7,486</u>	<u>1,502</u>	<u>6,229</u>	<u>6,694</u>	<u>6,231</u>
Reduction.....	171	64	1,829	1,106	1,750
<u>Income Maintenance programs</u>					
Current base.....	88,324	24,229	95,631	101,057	110,453
Recommended level.....	<u>88,052</u>	<u>23,039</u>	<u>94,380</u>	<u>96,151</u>	<u>102,440</u>
Reduction.....	272	1,190	1,251	4,906	8,013
Other.....	20	37	50	34	52
<u>HEW Totals</u>					
Current base.....	127,807	34,231	141,823	146,310	160,378
Recommended level.....	<u>126,163</u>	<u>32,454</u>	<u>136,913</u>	<u>135,366</u>	<u>145,357</u>
Reduction.....	1,644	1,777	4,910	10,944	15,021

TAB B

1977 Budget
Department of Health, Education, and Welfare
Summary of Principal Budget Decisions
Reflected in the OMB Recommendation

The Department's share of the \$395 billion 1977 outlay goal is \$133.2 billion.

The current services outlays for the Department of HEW are projected to grow from \$127.7 billion in 1976 to \$146.3 billion in 1977. Virtually all of this \$18.6 billion increase is accounted for by the relatively uncontrollable programs: OASDI, Medicare, Medicaid, SSI, Public Assistance, Social Services, and coal miners benefits. The current services estimates for these seven programs alone total \$131.2 billion.

The need to take strong actions to hold down outlays has been the primary factor influencing our recommendations for the HEW budget. The Department has requested \$144.8 billion, close to the current services estimate. OMB has found no practical way to hold down the growth in uncontrollable programs to the extent necessary to reach the HEW total target of \$133.2 billion.

Our recommendations hold the uncontrollable increases to \$11 billion. These include (as described in the following papers) holding Social Security and other cost-of-living increases to 60% of the adjustment now provided in law; placing limits on the growth of hospital and physician charges reimbursable under Medicare; merging the uncontrollable Medicaid and discretionary health service programs into State health revenue sharing, with a fixed dollar limit; and reducing the present ceiling on social services grants.

Therefore, despite the announced aim of reducing the growth in Federal programs, no growth can be recommended in the totals for the discretionary health, education, and social service programs. In fact, the OMB recommendation reduces discretionary programs \$1.8 billion, or 12%, below our current 1976 estimate, and \$1 billion, or 7%, below the 1975 actual.

The OMB recommendations would result in 1977 outlays for HEW of \$135.4 billion, some \$2.2 billion higher than the target. Final economic assumptions may change our estimates. Decisions in other areas may affect the actions needed here to achieve our \$395 billion goal. We therefore recommend waiting until later before deciding on any further reductions in HEW. If necessary, further reductions could be made in the fixed dollar limit proposed for health services block grants (without going below the 1976 budget level), the limit on automatic cost-of-living adjustments in Social Security payments could be lowered, or current administration policies, such as provision of capitation subsidies to medical and dental schools, could be reconsidered.

Despite the primary emphasis on controlling outlay growth, the OMB recommendations are also directed toward program improvements, including decreasing Federal control and increasing State, local and individual choice. The block grant proposal for health services would enable States to run their own medical programs for the needy by eliminating excessive Federal restrictions and controls. Moreover, a fixed dollar limit should encourage States to become concerned with rising health costs, and to find solutions which permit phase out of the Federal cost limits proposed for Medicare. The Administration's efforts to revise higher education programs to provide greater student choice would be continued. The reduction in social service grants would be accompanied by removal of Federal restrictions and matching requirements.

The Domestic Council staff is considering other block grant proposals (education, social services, research and development). If decisions are made to go ahead with any of these, the amounts included in our recommendations for the programs to be merged can be proposed for the block grant. The Domestic Council staff is also considering a welfare reform proposal and a gradual approach to health insurance. If the first of these has a delayed effective date, no change in our 1977 budget recommendations would be required. However, the desirability of seeking a consolidation of health programs at the same time we are designing a health insurance program which could eliminate the need for service support programs will have to be carefully considered. A considerable revamping of our health activities might be required.

TAB C

HEALTH

Department of Health, Education, and Welfare

Health Programs
(\$ in millions)

		1973	1975	1976			1977			1978
		Actual	Actual	President's Budget	Exp. Cong. Action	OMB Recom.	Exp. Cong. Action	HEW Request	OMB Recom.	OMB Est.
Medicare	BA	11,248	16,890	18,573	18,532	18,668	22,399	22,218	22,218	26,900
	O	9,479	14,781	14,990	17,464	16,723	21,659	20,962	18,749	21,600
Medicaid	BA	5,764	6,996	7,156	7,766	8,262	9,292	8,992	--	--
	O	4,591	6,840	7,156	8,184	8,184	9,292	8,992	--	--
State Health Revenue Sharing	BA	--	--	--	--	--	--	--	10,000	10,500
	O	--	--	--	--	--	--	--	9,000	10,450
Health Resources Administration	BA	630	814	626	910	517	954	833	431	442
	O	1,008	1,110	978	1,242	1,163	1,297	1,027	966	911
National Institutes of Health	BA	1,531	2,093	1,805	2,306	1,980	2,536	2,188	2,166	2,166
	O	1,516	1,889	1,832	2,225	2,095	2,453	2,238	2,188	2,156
Health Services Administration	BA	1,032	1,213	1,007	1,297	1,007	1,384	1,493	531	523
	O	875	1,035	1,091	1,291	1,126	1,340	1,415	507	523
Alcohol, Drug Abuse, and Mental Health Administration	BA	743	848	702	924	714	1,041	954	561	437
	O	606	950	786	924	877	900	865	680	617
Center for Disease Control	BA	146	152	133	166	133	174	213	99	99
	O	136	154	150	176	157	164	181	122	119
Food and Drug Administration	BA	150	201	203	203	203	226	257	220	220
	O	143	201	215	216	216	224	247	219	220
Assistant Secretary for Health	BA	76	72	70	69	69	78	82	78	86
	O	57	66	93	84	84	90	94	90	90
Total	BA	21,320	29,279	30,275	32,173	31,553	38,084	37,230	36,304	41,373
	O	18,411	27,026	27,291	31,806	30,625	37,419	36,021	32,521	36,686

Budget
Department of Health, Education, and Welfare
Issue #H-1: Medicare

Statement of Issue. What measures should be proposed to limit the rise of Medicare program costs?

Background. Medicare provides health insurance coverage for 24 million aged and disabled persons. From 1974 to 1977, program outlays are expected to rise from \$11 billion to \$22 billion, and a further rise to \$36 billion is projected by 1981. These increases largely result from rising health costs. As a result of inflationary trends, the hospital insurance (HI) trust fund is underfinanced and is expected to be depleted by about 1990.

For the past two Congresses, the Administration has submitted cost-sharing proposals to restrain the growth of Medicare outlays: (1) a requirement that beneficiaries pay 10% of hospital charges from the 2nd to 60th day of care to reduce overutilization; and (2) an increase in the SMI deductible for physicians' services to reflect Social Security cash benefit increases. Hospital care is now free from the 2nd to 60th day of care and the deductible for physician insurance is fixed by law at \$60. Under the proposals, separate \$750 cost-sharing limits would be placed on cost-sharing for both hospital and physicians services to provide catastrophic protection. The Administration has also requested legislation to deny excessive rates of increase in hospital costs paid by Medicare.

HEW Request. The HEW proposal is for levels of \$17.5 billion in 1976 (the same as current law) and \$21 billion in 1977 (a \$600 million saving). HEW recommends dropping the cost-sharing reform proposal. Secretary Mathews has stated that it has a "measure of programmatic justification, but, in our opinion, stands no chance of being seriously considered by Congress, much less adopted."

HEW proposes, instead, a national system for Federal regulation of all hospital reimbursements from Federal and non-Federal payors. The Federal government would encourage States to assume these functions, but would regulate hospitals permanently if States did not do so. The hospital industry includes about 7,000 hospitals with \$50 billion of annual expenditures. No limit would be set on physician fees.

HEW argues that a national control system is the only effective measure for coming to grips with the hospital inflation problem. In HEW's view, limits on Federal reimbursement rates--which comprise about 35% of hospital revenues--would deal only with a symptom of the problem and would be insufficient to affect overall health inflation. The Administration's health insurance program (CHIP) required State regulation of hospital costs under Federal guidelines. HEW believes initiating a control system now is consistent with a requirement that States adopt such a system under any national health insurance plan.

The HEW proposal would limit rises in hospital per diem costs to an average of 10% in 1977, in contrast to an expected 15% rise, with 1977 savings of \$600 million.

OMB Recommendation. The OMB level would be \$16.7 billion in 1976 (\$740 million less than HEW) and \$18.7 billion in 1977 (\$2.2 billion less than HEW). OMB recommends continued support of the cost-sharing proposals with 1977 savings of \$1.7 billion. These proposals have a relatively strong programmatic justification in terms of incentives against overutilization of services and they would put the hospital trust fund on a sounder financial footing. The proposals are already before the Congress and would not have to be reintroduced.

W Federal regulation of all hospital income would inevitably lead to Federal review of individual hospital operations. HEW is unable to provide explicit standards for judging that hospital costs are too high or too inflationary in relation to the value of the services. Thus, such hospital regulation would be highly judgemental, controversial, and far more difficult than regulation of other industries. It would also require substantial increases in Federal employment.

The OMB alternative would place a limit of 7% on Medicare per diem hospital rates (\$810 million in 1977 savings) and ~~4% on Medicare physicians' fees (\$178 million in 1977 savings)~~ ^(increase). Hospitals would not be permitted to charge inflation above the 7% increase to Medicare patients. The 7% limit is about the same as the projected 6-7% rise in the consumer price index (CPI). Over the past ten years, increases in hospital daily costs have averaged 13% annually--about 7% per year faster than the CPI. In view of these extraordinary increases, we do not believe that a 7% limit would prevent delivery of essential services or quality improvements.

HEW maintains that hospitals should not be held to CPI increases because they are labor intensive. Moreover, HEW argues that too tight a limit would incite hospital opposition to the necessary legislation.

HEW and OMB agree that, whatever the limit policy initiated, it should be continued in order to prevent later "catch-up" inflation.

The OMB recommendation of a 4% cap on physicians' fee increases would be substantially less than the 10.8% rise expected in the absence of limits. Physicians have been among the major beneficiaries of the Medicare program, and some limits are appropriate in a period of budget restraint. HEW opposes limits on Medicare physician payments because physicians might (1) pass costs to patients or (2) refuse to see Medicare patients.

The hospital and physician limits would be retained for two years during which HEW would be directed to develop reimbursement policies for longer term implementation.

The OMB recommendation would also tighten administrative cost screens on routine hospital costs for 1977 savings of \$100 million. The present screens exclude routine costs if they are higher than those incurred by about 85% of comparable hospitals. The proposed action would lower the screen to 75%, the same as used for physicians' fees.

1977 Budget
 Department of Health, Education, and Welfare
Medicare
 (Outlays in \$ millions)

	<u>1975 Actual</u>	<u>1976</u>			<u>1977</u>	
		<u>February Budget</u>	<u>Expected Congressional Action</u>	<u>OMB Recom.</u>	<u>HEW Request</u>	<u>OMB Recom.</u>
Present law	14,781	16,369	17,463	17,463	21,562	21,562
Proposed legislation						
-- Cost-sharing reform	--	-1,279	--	-740	--	-1,700
-- Reimbursement limits	--	-100	--	--	-600	-988
(Hospitals)	--	(-100)	--	--	(-600)	(-810)
(Physicians)	--	--	--	--	--	(-178)
Administrative savings						
-- Tighter limits on routine hospital costs	--	--	--	--	--	-100
-- Other	--	--	--	--	--	-25
Total	14,781	14,990	17,463	16,723	20,962	18,749

1977 Budget
Department of Health, Education, and Welfare
Issue #H-2: Medicaid/Special State Health Revenue Sharing

Statement of Issue. Should the 1977 budget propose State Health Revenue Sharing--the consolidation of Medicaid and the narrow categorical health services, planning and construction programs into a new formula grant?

Background. In 1975, HEW spent \$7 billion on Medicaid in addition to \$1.6 billion on 16 separate health services, planning and construction programs. In the past, the Administration has sought to ~~reform the Federal Medicaid matching formula~~ and to consolidate and reduce funding for a number of health service programs. The Congress has not accepted the proposals and has added new categorical programs and funding.

- Inappropriate Federal Role and Inequities. There is no sound conceptual basis for either selecting or distinguishing among existing categories centered on population groups, types of services, diseases, and delivery mechanisms. In the absence of a valid conceptual framework for determining the Federal role, there will always be pressure to create new categorical programs that increase the Federal role, and Federal spending.

The design and funding of these programs raise serious questions concerning national health strategy to assist the poor. These programs inequitably single out for special Federal subsidies certain States and communities, diseases, organizational mechanisms, and individuals from others similarly situated.

Federal assistance to States per poor person ranges from \$921 in New York and \$953 in the District of Columbia to \$166 in Florida and \$76 in Arizona. In general, wealthier, urban States receive disproportionately large amounts of Federal funds, reflecting those States' ability to meet matching requirements under Medicaid, as well as "grantsmanship" in obtaining project grant funds. The narrow categorical health service programs are also inequitable in providing a wide array of services to certain groups, generally without the needs and eligibility tests of Medicaid. A number of these programs by-pass State and local governments, thus depriving them of discretion in setting priorities.

- Duplication and Inefficiency. The narrow categorical health service programs also duplicate many services provided by existing community health resources and financed by Medicaid; they frequently provide "medical social services" in addition to "traditional" health services. These additional services and personnel--combined with lower productivity than in the private sector--contribute to higher costs. Some governors have estimated they could reduce program costs by 10% to 15%, if the funds were allocated to the States by formula.

HEW Request. HEW proposes continuing Medicaid without major reform (\$9 billion) and accepting across the board congressional increases in 1976 and seeking further increases in 1977 for the other programs (\$1.5 billion). HEW believes that additional Federal spending under a comprehensive national health insurance plan will ultimately address most of the problems identified above and that, in the interim, HEW must "build capacity" to address "unmet needs" through the categorical programs.

OMB Recommendation. As indicated above, the problems attending current programs require reform.

The OMB recommendation folds Medicaid, health services, planning, and construction programs into a single \$10 billion State Health Revenue Sharing program (Attachment A). Federal funds would be allocated to States based solely on the number of poor in each State, i.e., \$400 per capita or \$1,600 per family of four. An alternative level of \$9 billion would provide \$360 and \$1,440, respectively. In 1975, national health spending amounts to \$420 per capita for the general population; existing programs at current levels would amount to \$378 per poor person in 1976.

The current debate focuses on overall funding levels for narrow program categories promoted by special interest groups. Consolidated State Health Revenue Sharing, on the other hand, will permit a discussion of the Federal role in terms of an identifiable per capita Federal contribution to the States for the poor and will sharpen the issue of relative State and Federal responsibilities for funding and priorities. This approach offers an equitable and easily comprehensible Federal policy for contributing to the health care of the poor.

The proposal also places a "cap" of \$10 billion on Federal health service spending. Medicaid has grown over 16% annually and is estimated to grow from \$9.3 billion in 1977 to \$14.9 billion by 1981. Thus, substantial Federal savings will result if a "cap" can be maintained or if growth can be limited to 5% per annum or the CPI. A "cap" will encourage States to control health care costs through health planning, licensure, prospective hospital budgeting and rate regulation.

Attachment B shows the proposed State distribution of existing categorical and Medicaid programs and State Health Revenue Sharing. The Southern, Midwestern and Mountain States generally gain from the new distribution, e.g., Texas and Florida would gain over \$200 million apiece. The wealthier, urban States generally lose funds, e.g., New York loses nearly \$1 billion and California more than \$250 million. Shifts of these magnitudes in the distribution of Federal funds indicate the irrationality and inequity of current programs. A 3-5 year phase-in may be desirable to soften the impact.

Attachments

1977 Budget
 Department of Health, Education, and Welfare
Special State Health Revenue Sharing
 (\$ BA in millions)

Attachment A

Program and HEW Agency	1976				1977		
	1975 Actual	February Budget	Expected Congressional Action	OMB Recommendation	Expected Congressional Action	HEW Request	OMB Recommendation
<u>State Health Formula Grant</u>	--	--	--	--	--	--	10,000
<u>Medicaid</u>	6,996	7,156	7,766	8,262	9,292	8,992	--
<u>Alcohol, Drug Abuse and Mental Health Administration</u>							
CMHC	214	160	235	160	267	217	--
Alcohol--projects	65	45	70	45	75	68	--
--formula	52	46	56	46	60	52	--
<u>Center for Disease Control</u>							
Rat Control	13	5	13	5	13	7	--
Lead-based Paint	9	4	9	4	9	8	--
Immunizations	6	5	6	5	6	8	--
Venereal Disease	28	20	28	20	28	28	--
<u>Health Services Administration</u>							
Comprehensive Health Centers	200	155	197	155	200	197	--
Family Planning	101	79	101	79	101	101	--
Migrant Health	24	19	24	19	24	34	--
State Formula Grants	90	--	90	--	90	90	--
Maternal and Child Health	295	211	305	211	295	315	--
Emergency Medical Services	37	25	37	25	37	37	--
<u>Health Resources Administration</u>							
Health Planning	90	66	86	66	90	137	--
Construction	136	100	222	--	217	84	--
<u>Office of Human Development</u>							
<u>Developmental Disabilities</u>	54	54	56	54	56	56	--
Totals--BA	8,410	8,150	9,301	9,156	10,860	10,431	10,000
0	8,610	7,546	8,346	8,566	9,874	9,584	9,000

	Total Obligations (\$ millions)			Per Low Income Individual		
	1976	1977		1976	1977	
	Current Law	Revenue Sharing	Difference	Current Law	Revenue Sharing	Difference
Alabama	\$164	\$316	\$152	\$208	\$400	\$192
Alaska	16	13	-3	503	400	-103
Arizona	19	97	78	76	400	324
Arkansas	111	193	82	230	400	170
California	1,050	792	-258	530	400	-130
Colorado	96	97	1	396	400	4
Connecticut	105	78	-27	537	400	-137
Delaware	15	21	6	287	400	113
District of Columbia	108	45	-63	953	400	-553
Florida	167	402	235	166	400	234
Georgia	240	341	101	282	400	118
Hawaii	33	25	-8	516	400	-116
Idaho	32	34	2	384	400	16
Illinois	459	409	-50	449	400	-49
Indiana	150	182	32	330	400	70
Iowa	72	118	46	246	400	154
Kansas	71	101	30	281	400	119
Kentucky	155	265	110	234	400	166
Louisiana	156	344	188	181	400	219
Maine	67	48	-19	551	400	-151
Maryland	151	143	-8	423	400	-23
Massachusetts	386	174	-212	885	400	-485
Michigan	410	302	-108	543	400	-143
Minnesota	198	147	-51	540	400	-140
Mississippi	133	283	150	188	400	212
Missouri	103	248	145	166	400	234
Montana	31	34	3	370	400	30
Nebraska	51	69	18	291	400	109
Nevada	14	16	2	357	400	43
New Hampshire	25	24	-1	422	400	-22
New Jersey	248	212	-36	469	400	-69
New Mexico	42	84	42	198	400	202
New York	1,690	734	-956	921	400	-521
North Carolina	187	367	180	204	400	196
North Dakota	26	34	8	303	400	97
Ohio	298	383	85	311	400	89
Oklahoma	144	171	27	336	400	64
Oregon	77	87	10	356	400	44
Pennsylvania	456	453	-3	402	400	-2
Rhode Island	59	37	-22	635	400	-235
South Carolina	107	219	112	195	400	205
South Dakota	26	44	18	231	400	169
Tennessee	130	308	178	169	400	231
Texas	494	756	262	261	400	139
Utah	41	43	2	378	400	22
Vermont	32	19	-13	677	400	-277
Virginia	137	255	118	215	400	185
Washington	146	124	-22	471	400	-71
West Virginia	47	140	93	135	400	265
Wisconsin	275	155	-120	709	400	-309
Wyoming	8	14	6	223	400	177

19 Budget
Department of Health, Education, and Welfare
Issue #H-3: Health Resources Administration (HRA)

Statement of Issue. What Federal support levels should be included in the 1977 Budget for the support of health professions schools and students, health planning, and hospital construction?

Background. - Health professions education. The President recently accepted an HEW proposal to address the problems of geographic and specialty maldistribution through capitation grants of \$1,500 per student to medical, osteopathic, and dental (MOD) schools agreeing to meet national conditions. HEW is proposing the following national conditions:

- 50% of medical school residencies must be in primary care fields;
- 25% of all medical and dental students must accept Federal service commitment scholarships, if offered; and
- all schools must maintain fiscal effort and dental schools must increase, and medical schools maintain, enrollment levels.
- schools' curriculums must be approved by HEW to provide a "significant part" of training stressing "continuous, comprehensive, and integrated health care."

Until the recent decision, the Administration had proposed a gradual phase-out of institutional subsidies for health professions schools, (1) out of concern for the precedent of providing operating support to all colleges and universities, and (2) because of the inequity of special taxpayer support for the highest income professions, i.e., physician and dentist.

- Health planning. P.L. 93-641, the "National Health Planning and Resource Development Act," authorizes Federal support of a nationwide network of State and local planning agencies, as well as related Federal activities.
- Construction. There is an excess of hospital beds nationally. Since 1946, HEW has spent \$4.5 billion on construction projects through grants, direct loans, loan guarantees, and interest subsidies. This is in addition to depreciation financing included in Medicare and Medicaid. HUD provides facility construction assistance in the form of insured loans for which the private borrower pays a premium. Currently, the private sector is supporting "record-breaking" amounts of bond issues as well as depreciation financing through private health insurance.

HEW Request. HEW proposes accepting \$284 million of anticipated Congressional add-ons in 1976 for a total of \$844 million. In 1977, HEW requests \$833 million.

- Health professions education. The HEW request reflects its belief that--in addition to capitation-- student assistance and special project funds are necessary in order to achieve the national conditions laid on in capitation. Phase-out costs associated with other health professions capitation and student assistance programs is also requested.
- Health planning. HEW requests funding near the maximum amount permitted in law for grants to State and local health planning agencies.
- Construction. HEW requests \$500 million in new loan authority, the same as the 1976 request, and \$84 million in grant authority--\$69 million for medical facilities and \$15 million for family practice teaching clinics. HEW believes that its proposed medical facilities grant level is necessary to forestall Congress from appropriating the full authorization level of \$135 million.

OMB Recommendation. OMB recommends going below the February Budget level by eliminating new construction funding. A level of \$431 million is recommended in 1977.

- Health professions education. The OMB recommended funding level for capitation (\$1,500 for every student) and special projects maintains the 1976 requested level of \$270 million--on the assumption that this issue should not be reopened as part of the effort to hold down 1977 spending. Student assistance would be limited to service-commitment scholarships. An additional 1,200 scholarships would be provided over the last year's level of 2,250.
- Health planning. Health planning would be consolidated into the State Health Revenue Sharing grant reflecting the traditional State and local responsibility for planning.
- Construction. Construction would be an activity for which States can use their State Health Revenue Sharing grants. Grant and loan authority currently available in 1976 would be rescinded. The Federal commitment through 2005 is already \$570 million for interest subsidies alone. Under the HEW request, an additional \$631 million would be added to that commitment.

Department of Health, Education, and Welfare
Health Resources Administration
 (in millions)

<u>Program</u>	<u>1975</u> <u>Actual</u>	<u>1976</u>			<u>1977</u>		
		<u>February</u> <u>Budget</u>	<u>Expected</u> <u>Congressional</u> <u>Action</u>	<u>OMB</u> <u>Recom.</u>	<u>Expected</u> <u>Congressional</u> <u>Action</u>	<u>HEW</u> <u>Request</u>	<u>OMB</u> <u>Recom.</u>
Health professions education:							
MOD capitation	123	96	123	96	123	120	120
Other capitation	61	5	61	5	61	7	--
Student assistance	123	69	123	69	123	90	35
Special projects	178	169	179	169	179	216	150
Health planning	90	66	86	66	106	137	--
Facilities construction	138	103	225	2	217	87	--
Health statistics and health services research	50	52	49	48	48	86	48
Program management	47	52	50	48	52	55	43
Medical facilities guarantee and loan fund	--	10	10	10	41	31	31
Payment of sales insufficiencies and interest losses	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>
total--BA	814	626	910	517	954	833	431
0	1,110	978	1,242	1,163	1,297	1,027	966

1977 Budget
Department of Health, Education, and Welfare
Issue #H-4: National Institutes of Health

Statement of Issue. What should be the level of Federal support for biomedical research in 1976 and 1977?

Background. The 1976 budget level for the National Institutes of Health (NIH) of \$1.805 billion assumed congressional acceptance of \$351 million in rescissions in 1975 proposed by the President which Congress subsequently denied. The 1976 appropriation bill is expected to top \$2.5 billion. The Administration has generally proposed a slower rate of growth for biomedical research funding, limited training of researchers, termination of Biomedical Research Support Grants, and restriction of funding of cancer research facilities to renovation. Congress has rejected these policies in the past.

HEW Request. In 1976, HEW recommends acceptance of congressional add-ons of \$298 million in 1975 for a level of \$2.103 billion. In 1977, HEW requests an NIH funding level of \$2.188 billion, including \$22 million for the first phase construction of an ambulatory care research facility. HEW does not appeal previous budget decisions to phase out "old" training grant programs and restrict the number of new postdoctoral fellowships, nor does HEW request further funding of Biomedical Research Support Grants.

The HEW request holds the National Cancer Institute (NCI) to \$695 million in both 1976 and 1977, approximately its 1975 level. HEW recommends that \$19 million be available for renovation of cancer research facilities, but not for new construction. NCI, which by law makes a direct budget request to OMB, recommends \$948 million, including \$49 million for both new construction and renovation. HEW maintains that the NCI request places a "disproportionate" emphasis on cancer research at the expense of other research priorities. HEW recommends elimination of the NCI direct budget request authority.

OMB Recommendation. In 1976, OMB recommends a level of \$1.980 billion--which is \$175 million over the February budget--to permit funding of second-year commitments resulting from 1975 congressional add-ons and a sharply limited number of new research grants. In 1977, OMB recommends acceptance of the HEW request with a reduction of \$22 million, on the grounds that the ambulatory care research facility should compete within the total funds available. The OMB level accepts the HEW proposals on the repeal of direct NCI budget requests, on the cancer research level, and on the prohibition of new cancer construction support. In addition, the OMB recommendation consolidates 15 separate NIH appropriation accounts into a single appropriation request. Consolidation is designed to allow greater flexibility and to focus discussion on research opportunities within the total funds available rather than upon individual research institutes.

1977 Budget
 Department of Health, Education, and Welfare
National Institutes of Health
 (\$ in millions)

	1975 <u>Actual</u>	1976			1977		
		<u>February Budget</u>	<u>Exp. Cong. Action</u>	<u>OMB Recom.</u>	<u>Exp. Cong. Action</u>	<u>HEW Request</u>	<u>OMB Recom.</u>
National Cancer Institute (NCI)	691	605	772	682	850	695	695
NCI Request	--	--	(772)	--	--	(948)	--
Cancer Control	(51)	(47)	(60)	(47)	(66)	(55)	(55)
Cancer Construction-HEW	(30)	(22)	(25)	(22)	(25)	(19)	(19)
Cancer Construction-NCI	--	--	--	--	--	(49)	--
Other Research Institutes	1,352	1,149	1,446	1,247	1,596	1,410	1,410
Biomedical Research Support Grants	(43)	--	(43)	--	(43)	--	--
Research Training	(155)	(123)	(125)	(123)	(135)	(111)	(111)
Other NIH	50	51	88	51	90	83	61
Buildings and Facilities	(3)	(3)	(41)	(3)	(40)	(25)	(3)
Total, NIH BA	2,093	1,805	2,306	1,980	2,536	2,188	2,166
NCI Request - BA	--	--	--	--	--	(2,441)	--
Total Outlays O	1,889	1,832	2,225	2,095	2,453	2,238	2,188
NCI Request - O	--	--	--	--	--	(2,375)	--

1977 Budget
Department of Health, Education, and Welfare
Issue #H-5: Health Services Administration (HSA)

Statement of Issue. What policies should the 1977 budget reflect with respect to the appropriate Federal role in the project grant funding of health services and the direct Federal delivery of health care?

Background. The Health Services Administration administers a variety of narrow categorical project and formula grant health services programs, e.g., community health centers, migrant health centers, and maternal and child health. HSA also directly provides health services to certain Federal beneficiaries, e.g., American Indians and Alaska Natives, merchant seamen, members of the U.S. Coast Guard, and employees of the Federal Government; and administers the Professional Standards Review Organization (PSRO) program to assure the quality of medical care financed under the Medicare, Medicaid, and Maternal and Child Health programs.

- Health Services Delivery. The narrow categorical health services delivery programs provide services, generally without needs and eligibility tests, to many individuals already eligible for Medicare and Medicaid--which cover most of the same services. These programs also provide services to persons with other forms of health insurance or with incomes that exceed Medicaid eligibility levels. Many of these programs also have as a program objective providing employment and training for local community workers. The availability of these direct federally funded programs to a limited number of communities without regard to relative need continues to be a serious equity issue.

The Administration has committed itself to a health financing strategy through broad national programs of Medicare and Medicaid. The President's 1976 Budget proposed a reduction of 20% in the Federal share for these programs on the basis that State and local governments should assume a greater role in the direct delivery of health care and since financing is available through Medicare and Medicaid.

- PHS Hospitals. The maintenance of the PHS hospital system primarily to provide health services for one occupational category, i.e., merchant seamen, is of questionable equity and program merit. Since 1798, when the Federal Government began providing this free health care, the health status of the merchant seaman has greatly improved. The primary purpose for this assistance--to prevent merchant seamen

from spreading communicable diseases--no longer exists. Moreover, access to health care by seamen is no longer a problem, and most seamen union funds that originally covered only dependents have been extended to cover seamen as well.

HEW Request. In 1976, HEW proposes a level of \$1,297 million, including acceptance of \$290 million of anticipated congressional add-ons. In 1977, HEW proposes \$1,493 million, an additional increase of \$196 million. HEW recommends these increases to maintain services at the 1975 level, to further decrease the estimated "unmet needs" in Indian health; to fund the provisions of P.L. 94-63, the "Health Services and Nurses Training Act of 1975" that the President vetoed and Congress overrode; and to implement a rural health initiative "as a means to building capacity in anticipation of national health insurance." HEW believes the PSRO program should be funded as rapidly as qualified applicants apply and that the National Health Service Corps field strength should be increased from 551 to 826, an increase of 50%.

OMB Recommendation. For 1976, OMB recommends staying at the 1976 February budget level of \$1,007 million. In 1977, OMB recommends \$531 million. The narrow categorical health service grants would be consolidated with Medicaid and other health service programs into a State Health Revenue Sharing grant. As part of overall effort to limit Federal spending, the National Health Service Corps, the Health Maintenance Organizations program, the PSRO program, and the Indian Health Service should continue under a "no expansion" policy. The PSRO program would be held level pending the evaluation of the best procedures since current data indicates more than 95% of claims reviewed by PSRO are approved.

The \$1.2 million annual payment to the state of Hawaii begun in 1953 for care to persons with Hansen's disease would be eliminated since funds for this purpose would be available, at the State's discretion, within the State Health Revenue Sharing grant. Legislation would be submitted in 1977 to transfer the Coast Guard medical care program from HEW to the Department of Transportation, to assign the Justice Department the responsibility for medical care for Federal prisoners and to repeal the Act of 1798, "An Act to Provide Relief to Sick and Disabled Merchant Seamen."

17 Budget
 Department of Health, Education, and Welfare
 Health Services Administration
 (\$ in millions)

	1975 <u>Actual</u>	1976			1977		
		<u>February Budget</u>	<u>Exp. Cong. Action</u>	<u>OMB Recom.</u>	<u>Exp. Cong. Action</u>	<u>HEW Request</u>	<u>OMB Recomm.</u>
Community health services:							
Community health centers	200	155	197	155	197	197	--
Comprehensive grants to States	90	--	90	--	90	90	--
Maternal and Child health	295	211	305	211	305	315	--
Family planning	101	79	101	79	101	101	--
Migrant health	24	19	24	19	24	34	--
Health Maintenance Organization	8	19	19	19	19	22	19
National Health Service Corps	13	13	18	18	25	31	18
Quality Assurance	5	55	50	55	55	167	50
Patient Care and Special Health services:							
Patient care	108	105	121	105	130	131	105
Coast Guard	8	8	9	8	9	10	8
Federal Employee Health	1	1	1	1	1	1	1
Payment to Hawaii	1	1	1	1	1	1	--
Emergency Medical Services	37	25	37	25	37	37	--
Indian Health Service	293	311	316	311	370	391	330
Buildings and facilities	1	--	--	--	--	5	--
Program Management	33	30	35	30	40	39	25
Less Trust Fund (QA)	-5	-25	-27	-25	-25	-79	-25
Total--BA	1,213	1,007	1,297	1,007	1,384	1,493	531
O	1,035	1,091	1,291	1,126	1,340	1,415	507

15 Budget
Department of Health, Education, and Welfare
Issue #H-6: Alcohol, Drug Abuse, and Mental Health Administration (ADAMHA)

Statement of Issue. What should the 1977 budget contain for ADAMHA alcoholism, drug abuse, and general mental health programs?

Background. The February 1976 budget proposes: (1) maintaining research at the 1975 level; (2) continuing phase-out of training support, except for a limited number of postdoctoral fellowships; and (3) no new funding for and decreasing Federal matches for alcohol, drug abuse, and community mental health center (CMHC) service programs. Saint Elizabeths Hospital is proposed for transfer to the District. The 1975 appropriation, however, permitted new awards and increased the 1976 "commitment" base. In order to maintain the 1976 February budget, research, training, and alcoholism services grants which are up for renewal the rest of this year will have to be funded up to 50% below the normal commitment levels. The Saint Elizabeths Hospital transfer legislation was not sent to Congress because of HEW-D. C. disagreement on some specifics.

HEW Request. HEW recommends accepting \$222 million of expected congressional add-ons to the February Budget request of \$702 million because Congress has "uniformly rejected" proposed ADAMHA reductions. In 1977, HEW proposes a level of \$954 million generally reflecting further across the board increases.

- Research and Training. In 1977, HEW requests a 12% increase in research funding over the expected 1976 appropriation level to "make up for past slow growth," to take advantage of recent research findings, and to initiate new research efforts. In training, HEW accepts phase-out of clinical training, but proposes that the phase-out policy of research training proposed over the last 3 years be abandoned in order to attract and assure quality mental health researchers.
- Services Programs. HEW proposes a new policy to extend Federal support for alcoholism projects from 3 to 6 years. The current 3-year commitment should be dropped because the anticipated State, local, third party, and private resources have not materialized and historically Congress has appropriated funds to continue the projects beyond 3 years. HEW believes there would be more likelihood of phasing out existing projects. In addition, if Congress continues current appropriation levels, HEW would be able to fund new alcoholism projects. HEW proposes maintaining current drug abuse treatment capacity--35% of national treatment capacity--because the demand for treatment continues to be high. HEW also proposes a "maintenance budget concept" under which the Federal match for drug abuse projects would not decrease below 60% indefinitely. New community mental health center (CMHC) authorities--contained in the vetoed health services law--would be funded by HEW because congressional intention is to create CMHCs across the nation. HEW believes funding of the new CMHC financial assistance programs is necessary to assure that existing CMHCs continue and expand their services. HEW proposes maintaining alcoholism and drug abuse State formula grants to assist State efforts in these areas.

- St. Elizabeths Hospital. Transfer should be delayed 4-5 years until the facilities are brought up to accreditation standards and a new transfer proposal should be developed that satisfies all of the involved parties.

OMB Recommendation. In 1976, the OMB recommendation of \$714 million holds near the February Budget with reductions significantly below normal commitments for training and alcoholism projects, in light of the tight fiscal situation. In 1977, OMB recommends \$561 million, reflecting continuation of the 1976 policies and State Health Revenue Sharing.

- Research and Training. Research would be held to the 1976 level in 1977. A research level of \$127 million should be sufficient to undertake work in promising and priority areas. ADAMHA research is similar to research conducted by other Federal programs, e.g., NIH, SRS, NSF, and other HEW agencies. In training, continuation support for most student stipend commitments would be provided, but institutional support would be virtually terminated. Over the years, psychology and social work faculties have had ample ADAMHA and other Federal subsidies to build up teaching capacity and curriculums. These professions should no longer be singled out for special Federal subsidies.
- Services. Alcoholism and CMHC service programs would be consolidated into State Health Revenue Sharing, reflecting traditional State and local responsibility for providing these health services. This would remove the inequity of singling out selected communities from all other communities similarly situated for special Federal grant subsidies. HEW's proposed 6-year alcohol project commitment policy would be denied. In effect HEW argues that because the Federal Government's 3-year seed money was not effective in generating other sources of support, 6 years might prove effective. Why more non-Federal funds to support these activities will become available than would not otherwise exist now is not apparent. The real result is likely to be never-ending Federal support as has been the case with CMHCs.
- Drug abuse service funding would be the only exception to the State Health Revenue Sharing. The categorical drug abuse treatment programs would increase from \$173 million in 1976 to \$195 million in 1977. A continued and increased Federal role is consistent with the recent White Paper on Drug Abuse recommendations.
- St. Elizabeths Hospital. Transfer would be sought in 1980, but with construction funds (\$100 million) tied in legislation to a definite transfer date commitment on the part of HEW, the District, and Congress.

1977 Budget
 Department of Health, Education, and Welfare
Alcohol, Drug Abuse, and Mental Health Administration
 (\$ in millions)

	1975	1976			1977		
	<u>Actual</u>	<u>February Budget</u>	<u>Exp. Cong. Action</u>	<u>OMB Recom.</u>	<u>Exp. Cong. Action</u>	<u>HEW Request</u>	<u>OMB Recom.</u>
<u>General Mental Health (NIMH)</u>	(421)	(305)	(439)	(308)	(481)	(429)	(130)
Research	93	80	96	83	103	109	83
Training	94	45	86	45	86	79	30
Community Mental Health Centers	214	160	235	160	267	217	--
Management and Information	20	20	22	20	25	25	17
<u>Drug Abuse (NIDA)</u>	(220)	(222)	(259)	(222)	(275)	(252)	(248)
Research	34	32	34	32	35	35	34
Training	14	3	12	3	10	10	4
Project Grants	122	138	154	138	168	154	160
Grants to States	35	35	45	35	45	35	35
Management and Information	15	14	14	14	17	19	15
<u>Alcoholism (NIAAA)</u>	(146)	(114)	(154)	(115)	(165)	(150)	(18)
Research	11	9	12	10	13	15	10
Training	8	8	9	8	9	6	3
Project Grants	65	45	70	45	75	68	--
Grants to States	52	46	56	46	60	52	--
Management and Information	10	6	7	6	8	10	5
<u>Program Direction</u>	11	12	11	11	12	13	11
<u>Saint Elizabeths Hospital (SEH)</u>	(50)	(48)	(61)	(58)	(108)	(108)	(154)
Operating Costs	50	48	56	53	58	58	54
Buildings and Facilities	--	--	5	5	50	50	100
Total	BA 848	702	924	714	1,041	954	561
.....	O 950	786	924	877	900	865	680

1977 Budget
Department of Health, Education, and Welfare
Issue #H-7: Other Health Programs

Statement of Issue. What should be the 1976 and 1977 funding levels for the Center for Disease Control (CDC), the Office of the Assistant Secretary for Health (OASH), and the Food and Drug Administration (FDA)?

Background. The February budget included \$406 million for CDC, OASH and FDA. Congress is expected to increase 1976 funding for CDC by \$33 million over the request of \$133 million and decrease 1976 OASH funding \$1 million below the \$70 million request. The 1976 FDA appropriation is identical to the Administration's request of \$203 million.

HEW Request. HEW recommends accepting all expected congressional add-ons of \$32 million in 1976 for a level of \$438 million. In 1977, HEW would seek an additional \$114 million primarily for occupational health research, clinical laboratory improvement, and food and drug safety programs. HEW considers these areas of increasing public concern that warrant additional Federal effort.

OMB Recommendation. OMB recommends maintaining the 1976 February budget level in 1977 and incorporating the CDC health services grants (\$34 million) into the new State Health Revenue Sharing. The OMB recommendation includes a \$17 million increase for FDA in 1977 and a \$7 million increase for OASH mandatory retirement benefits.

1977 Budget
 Department of Health, Education, and Welfare
 Other Health Programs
 (\$ in millions)

	1975	1976			1977		
	<u>Actual</u>	<u>February Budget</u>	<u>Exp. Cong. Action</u>	<u>OMB Recom.</u>	<u>Exp. Cong. Action</u>	<u>HEW Request</u>	<u>OMB Recom.</u>
Center for Disease Control	152	133	166	133	174	213	99
Office of the Assistant Secretary for Health	72	70	69	69	78	82	78
Food and Drug Administration	<u>201</u>	<u>203</u>	<u>203</u>	<u>203</u>	<u>226</u>	<u>257</u>	<u>220</u>
Total	425	406	438	405	478	552	397
.....BA	421	458	476	457	478	522	431
.....O							

1977 Budget
 Department of Health, Education, and Welfare
 Summary of Recommended Program Reductions, by Program
 (\$ in millions)

Health Programs	1975 Actual		1976		1977		1977		1978	
	BA	O	BA	O	BA	O	BA	O	BA	O
<u>Medicare Current Base</u>	16,890	14,781	18,532	17,464	4,836	4,889	22,399	21,659	24,800	24,800
OMB Recommendation	--	--	18,668	16,723	4,639	4,489	22,218	18,749	26,900	21,600
Reduction	--	--	+136	-741	-197	-400	-181	-2,910	+2,100	-3,200
<u>Medicaid Current Base</u>	6,996	6,840	7,766	8,184	2,220	2,220	9,292	9,292	10,500	10,500
OMB Recommendation	--	--	8,262	8,184	2,220	2,220	--	--	--	--
Reduction	--	--	+496	--	--	--	-9,292	-9,292	-10,500	-10,500
<u>State Health Revenue Sharing</u>	--	--	--	--	--	--	10,000	9,000	10,500	10,450
<u>Health Resources Administration Current</u>										
Base	814	1,110	910	1,242	142	174	954	1,297	961	1,173
OMB Recommendation	--	--	517	1,163	142	157	431	966	442	911
Reduction	--	--	-393	-79	--	-17	-523	-331	-519	-262
<u>National Institutes of Health Current</u>										
Base	2,093	1,889	2,306	2,225	456	513	2,536	2,453	2,789	2,600
OMB Recommendation	--	--	1,980	2,095	431	476	2,166	2,188	2,166	2,156
Reduction	--	--	-326	-130	-25	-37	-370	-265	-623	-444
<u>Health Services Administration Current</u>										
Base	1,213	1,035	1,297	1,291	324	323	1,384	1,340	1,384	1,384
OMB Recommendation	--	--	1,007	1,126	284	291	531	507	523	523
Reduction	--	--	-290	-165	-40	-32	-853	-833	-861	-861
<u>Alcohol, Drug Abuse, and Mental Health Administration Current Base</u>	848	950	924	924	97	155	1,041	900	950	950
OMB Recommendation	--	--	714	877	97	155	561	680	437	617
Reduction	--	--	-210	-47	--	--	-480	-220	-513	-333
<u>Center for Disease Control Current Base</u>	152	154	166	176	33	47	174	164	174	169
OMB Recommendation	--	--	133	157	33	47	99	122	99	119
Reduction	--	--	-33	-19	--	--	-75	-42	-75	-50
<u>Food and Drug Administration Current</u>										
Base	201	201	203	216	50	55	226	224	226	226
OMB Recommendation	--	--	203	216	50	55	220	219	220	220
Reduction	--	--	--	--	--	--	-6	-5	-6	-6
<u>Assistant Secretary for Health Current</u>										
Base	72	66	69	84	20	23	78	90	86	90
OMB Recommendation	--	--	69	84	20	23	78	90	86	90
Reduction	--	--	--	--	--	--	--	--	--	--
Subtotal, Health Programs	29,279	27,026	31,553	30,625	7,916	7,913	36,304	32,521	41,373	36,686

EDUCATION

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #1: Higher Education Student Assistance

Statement of Issue

What should be the Administration's policy with respect to student assistance?

Background

The authorizing legislation for the student assistance programs under the automatic 1-year extension now in effect expires June 30, 1976. The issues in student assistance fall into two broad program areas: (1) basic grants and campus-based student assistance, and (2) the guaranteed student loan program.

I. Basic Grants and Campus-Based Student Assistance

The basic policy issues in this area are:

- Issue of Access. Should the Administration seek full funding for BOGs, some funding for college work-study, and elimination of the other campus-based programs.
- Issue of Choice. Should the Administration propose an initiative in the 1977 budget to assist students, including those from middle income families, to afford the choice of more expensive institutions.

Alternatives

- #1. Provide \$1.6 billion for student assistance. Fully fund BOGs. Provide \$340 million for work study, \$200 million for national direct loans, and \$60 million for the State Student Incentive Grant (SSIG) program (Agency req.)
- #2. Provide \$1.3 billion for student assistance. Fully fund BOGs, eliminate all campus-based programs except work-study; keep the SSIG program at its current funded level (\$44 million), but impose more rigorous and uniform requirements upon States; request \$180 million for work-study reflecting a proposed reduced Federal share (OMB rec.).

- #3. Provide \$1.4 billion for student assistance. Fully fund BOGs and increase the maximum award ceiling to \$1,500 (\$1.2 billion); increase the level of funding in the SSIG program to \$50 million and require the same needs test as in BOGs; in all other respects, this is the same as Alternative #2.

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30, 1976	1977		1978		1979		1980		1981		
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
<u>Student Assistance:</u>																
Alt. #1 (Agency req.)	1550	1130	1841	1597	---	215	1600	1661	1600	1625	1600	1615	1600	1599	1600	1600
Alt. #2 (OMB rec.)	1550	1130	1473	1597	---	215	1336	1356	1336	1357	1336	1337	1336	1338	1336	1336
Alt. #3	1550	1130	1473	1596	---	215	1422	1356	1422	1433	1433	1422	1422	1424	1422	1422

Agency Request

(Difference from Alt. #1 (Agency request))	1977 Outlays	1978 Outlays)
(Alt. #2 (OMB recommendation)	-305	-268
(Alt. #3	-305	-192

Agency Request: Alternative #1.

OMB Recommendation. Alternative #2.

II. Guaranteed Student Loan Program

The major purpose of this program is to provide financial support to both complement basic opportunity grants and help students from middle income families attend schools of their choice. The issues are: (1) should the 7% in-school interest subsidy be discontinued?; (2) should the maximum special allowance be raised from 3% to 4%?

Alternatives

- #1. Continue the 7% in-school interest subsidy and raise the maximum special allowance to 4% (Agency req.).

- #2. Eliminate the 7% in-school subsidy. Raise the maximum student interest rate from 7% to 8% on loans made after enactment of legislation and provide for a dual special allowance system in which there would be two maximum special allowances: 3% on "new" loans, and 4% on "old" loans (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 -Sept. 30, 1976		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
GLSP:																
Alt. #1 (Agency req.)	382	330	452	434	124	103	400	458	410	408	410	410	410	410	410	410
Alt. #2 (OMB rec.)	382	330	452	434	124	103	354	424	326	332	256	274	181	200	109	127

Agency Request

(Difference from Alt. #1 (Agency request) (Alt. #2 (OMB recommendation)	<u>1977 Outlays</u> -34	<u>1978 Outlays</u> -76
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If interest is accrued during the in-school period and added to the principal amount of the loan, then monthly repayments would not be significantly increased. On an assumed student indebtedness of \$3,200 (twice the average level of student indebtedness) without an in-school subsidy, monthly payments would be \$43.90; with the in-school interest subsidy, monthly payments would be \$37.12.

On the other hand, there is a minimum cash flow requirement in any case. In addition, the interest subsidy permits lenders to bill the Federal Government for interest charges for loans on a bulk basis.

The elimination of the in-school interest subsidy would free up annually nearly \$297 million after a 5-year phase-out period and would represent a major change in the current program.

Agency Request: Alternative #1.

OMB Recommendation. Alternative #2.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #2 : Impact Aid

Statement of Issue

What should be the Administration's strategy for this program in the FY 1977 President's Budget?

Background

This program provides direct, general support to school districts intended to offset property tax revenue lost due to Federal activities in the district. The last two President's Budgets proposed distinct initiatives aimed at reforming the inequities in this program:

FY 1975: This proposal requested \$340 million and would have terminated all funding for the "b" category students. However, provision was made to insure that no district would lose more than 5% of its total operating budget as a result of this termination. This proposal was not given serious consideration by the Congress. The Congress rejected this strategy and provided \$656 million, an increase of some \$316 million.

FY 1976: Reform was proposed from the fiscal equity viewpoint. Payments would be calculated for school districts, but before these payments would be awarded, 5% of the previous year's total operating budget would be subtracted. This would have resulted in some 3,400 out of 4,400 eligible districts dropping out of the program.

The Administration requested \$266 million to carry this proposal out. The Congress rejected this new initiative and provided \$680 million, an increase of \$414 million.

Alternatives

- #1. Provide some \$726 million. (The likely congressional level.)
- #2. Provide some \$545 million. (HEW req.)
- #3. Provide some \$300 million. (OMB rec.)

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30 1976		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
Impact Aid:																
Alt. #1	656	619	680	658	70	57	726	713	775	756	825	799	879	855	929	907
Alt. #2 (Agency req.)	656	619	680	658	70	57	545	569	545	557	545	543	545	544	545	545
Alt. #3 (OMB rec.)	656	619	460	502	24	37	300	351	300	315	300	304	300	301	300	300

Agency Request

(Difference from Alt. #2 (Agency request)	1977 Outlays	1978 Outlays)
{ Alt. #3 (OMB recommendation)	-218	-242
{ Alt. #1 (Likely congressional level)	+144	+199

The HEW proposal would:

- Fund "a" category children at 88% to 100% of entitlement, depending upon their actual impact.
- Fund "b" children at 40% of entitlement.
- Fund those payments to other Federal agencies and the special discretionary provisions at 100% of entitlement.
- Provide no funding for either "c" category students or hold-harmless provisions.

The OMB proposal would provide:

- Full funding for "a" category children
- No funding for "b" and "c" category children and none for hold-harmless provisions.
- Regular funding for the other minor provisions.

The HEW proposal (\$545 million) would provide a middle ground between the likely congressional action of \$726 million and the OMB proposal (\$300 million). However, the central issue hinges on the tension between overall program reform and the HEW request for moderate program reform coupled with a budget posture designed to render the Congress willing to compromise.

Agency Request: Provide \$545 million in FY 1977 and propose moderate reforms of the program. HEW maintains that this proposal stands the best chance of achieving success in lowering funding levels.

OMB Recommendation: Continue to press for significant reform. Submit substantive legislation and request \$300 million for FY 77. We believe this approach is programmatically the most sound and justifiable.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #3 : Handicapped

Statement of Issue

What should be the Administration's response to S. 6 and H.R. 7217, bills to provide Federal funding toward the "excess cost" of educating handicapped children and what should be the level of support for the State Grant program in FY 1977?

Background

Federal aid to the handicapped is designed to build the capacity of local and State agencies to provide equal educational opportunities for all handicapped children. While the Administration has steadily increased its requests for Education of the Handicapped, during the past several years Congress has raised appropriations above the Administration's request and rejected the Administration's attempts to rescind these increases. Congress has recently completed conference action on (S. 6 and H.R. 7217) that would increase the Federal role in providing education for the handicapped. Authorizations would be \$100 million for 1976; \$200 million for 1977, \$448 million for 1978, \$1.2 billion for 1979, \$1.8 billion for 1980, \$2.9 billion for 1981 and \$3.9 billion for 1982 and beyond. The State Grant program is advance funded. S. 6 addresses the State Grant program only.

This program is included in the Domestic Council education block grant proposal.

Alternatives

- #1. Fund the program at a high enough level to possibly ward off excess cost appropriations. \$300 million: (State Grant program - \$150 million; Discretionary programs - \$150 million) (HEW req.).
- #2. Resist the excess cost concept and level fund at the 1976 appropriation level of \$236 million (State Grant - \$110 million; Discretionary programs - \$126 million).
- #3. Resist the new legislation and fund at the requested 1976 rescission level of \$200 million (State Grant program - \$75 million, Discretionary programs - \$125 million) (OMB rec.).

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	<u>1975</u>		<u>1976</u>		<u>TQ</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>1980</u>		<u>1981</u>	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Handicapped:																
Alt. #1 (Agency req.)	200	151	236	200	121	57	300	250	300	250	300	300	300	300	300	300
Alt. #2	200	151	236	200	121	57	236	239	236	204	236	236	236	236	236	236
Alt. #3 (OMB rec.)	200	151	225	200	86	56	200	233	200	173	200	200	200	200	200	200

Agency Request

<u>(Difference from Alt. #1 (Agency request)</u>	<u>1977 Outlays</u>	<u>1978 Outlays)</u>
{ Alt. #3 (OMB recommendation)	-17	-77
{ Alt. #2	-11	-46

The major issue associated with formulating the budgetary strategy for the education of handicapped children is determining what should be the appropriate Federal role and what level of funding should be requested to support it.

Agency Request: Alternative #1. The Department places high priority on this program for FY 1977 and seeks to strengthen their position during debate before the Congress on the FY 1977 request for this activity.

Alternative #2. Would strengthen the HEW position but at a lower budget level.

OMB Recommendation: Alternative #3. Continues to disagree with the Congress that payment of "excess cost" is a proper Federal role and provides for a reduced FY 1977 level.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #4 : Emergency School Aid/Civil Rights Advisory Services

Statement of Issue

At what level should these programs be funded in FY 1977 and should they remain in their current form?

Background

The Emergency School Aid Act is a program designed to provide assistance to school districts that are in the process of desegregating. Within this program there are both discretionary, special purpose activities; as well as a State apportionment section that provides an allotment for each State on a formula basis. In both FY 1975 and FY 1976, the President's Budget requested \$75 million for this program and requested legislation to place it on a fully discretionary basis. The Congress rejected this legislative strategy and provided \$215 million in each year.

The Civil Rights Advisory Services program primarily provides technical assistance to both school districts and institutions of higher education to assist them in complying with the Civil Rights Act of 1964. It is a separate program authority that often works in tandem with the Emergency School Aid program. However, its possible scope encompasses both school desegregation and equality of opportunity in the bilingual and sex discrimination areas. In both FY 1976 and FY 1977, the Administration proposed, and the Congress provided, \$26.7 million for this program. Total for both programs: \$241.7 million.

The Domestic Council has included this program in its education block grant proposal.

Alternatives

- #1. Provide \$215 million for the Emergency School Aid program and \$34.7 million for the Civil Rights Advisory Services: Total: \$249.7 million. This continues the FY 1976 appropriation level for the Emergency School Aid program and increases the Civil Rights Advisory activity by \$8 million (Agency req.).
- #2. Provide \$215 million for the Emergency School Aid program and \$26.7 million for the Civil Rights Advisory program. Total: \$241.7 million. This continues the FY 1976 level for both programs (OMB rec.).

- #3. Provide funding at the \$75 million level for Emergency School Aid and \$26.7 million level for the Civil Rights Advisory Services. Total: \$101.7 million. This returns the support levels back to the original FY 1975 and FY 1976 requests.

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30 1976		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
Emergency School Aid:																
Alt. #1 (Agency req.)	242	216	242	235	.3	59	250	187	250	240	250	248	250	249	250	250
Alt. #2 (OMB rec.)	242	216	242	235	.3	59	242	187	242	233	242	240	242	241	242	242
Alt. #3	242	216	242	235	.3	59	102	171	102	116	102	104	102	102	102	102

Agency Request

(Difference from Alt. #1 (Agency request))	1977 Outlays	1978 Outlays
(Alt. #2 (OMB recommendation)	--	-7
(Alt. #3	-16	-124

The FY 1977 HEW proposal and OMB recommendation provide for continuation of the Emergency School Aid Act at the FY 1976 appropriation level and would not propose legislative changes. The HEW proposal provides for an increase of \$8 million for the Civil Rights Advisory Services program. HEW maintains that this increase is necessary to accommodate increased demand for assistance due to broader responsibilities in the bilingual and sex discrimination areas.

Agency Request. Alternative #1. Provide for continuation at the FY 1976 level for Emergency School Aid and provide for an increase of \$8 million for Civil Rights Advisory Services tied to expanded bilingual and new sex discrimination activities.

OMB Recommendation. Alternative #2. Continue both programs at the FY 1976 appropriation level and require any change in activities be carried out within currently budgeted levels. We believe that this level will continue to demonstrate a commitment to support activities in this area and will provide sufficient support for emphasis in bilingual or sex discrimination activities.

Issue Paper
 Department of Health, Education, and Welfare
 1977 Budget
 Issue #5 : Education for the Disadvantaged - Title I, ESEA

Statement of Issue

What should be the level of support for this advance-funded program for use during FY 1978?

Background

Title I, ESEA is a 10-year old program designed to provide compensatory educational and other services to disadvantaged children.

In FY 1976, the President's Budget provided for \$1.9 billion, to be available in the Transition Quarter and for use in FY 1977. Congress increased this amount by \$150 million to a level of \$2,050 million. The Administration has proposed rescission of this increase. The Domestic Council has included this program in its education block grant proposal.

Alternatives

- #1. Provide for an FY 1977 advance funded request (for obligation in FY 1978) of \$2,165 million (Agency req.).
- #2. Provide for an FY 1977 advance funded request at the FY 1977 rescission obligational level of \$1.9 billion.
- #3. Provide funding in the FY 1977 Budget at a level \$100 below the current rescission request level for FY 1976 of \$1.9 billion (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30 1976		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
Title I, ESEA																
Alt. #1 (Agency req.)	1876	1950	1900	1883	2050	506	2165	1914	2200	2087	2300	2178	2400	2275	2500	2374
Alt. #2	1876	1805	1900	1883	1900	484	1900	1788	1900	1863	1900	1888	1900	1896	1900	1899
Alt. #3 (OMB rec.)	1876	1805	1900	1883	1900	484	1800	1773	1800	1780	1800	1790	1800	1797	1800	1899

Agency Request

<u>(Difference from Alt. #1 (Agency request)</u>	<u>1977 Outlays</u>	<u>1978 Outlays</u>
(Alt. #3 (OMB recommendation)	-141	-307
(Alt. #2	-126	-224

- Alternative #1 would increase the FY 1976 requested level of \$1.9 billion by \$265 million and continue congressionally initiated growth inviting further increases.
- Alternative #2 would continue a substantial commitment but without a pattern of growth.
- Alternative #3 would reduce the Federal role and require additional State/local funding to offset this reduction, if the program is to be retained at current levels.

The following table shows the approximate average per pupil expenditure in local educational agencies under the three alternatives.

	(BA in millions of \$)	
	<u>Program Operating Total</u>	<u>Local Educational Agency Average Per Pupil Expenditure</u>
Alternative #1	2,165	388
Alternative #2	1,900	344
Alternative #3	1,800	324

Agency Request. Alternative #1. This would indicate a continued commitment to expansion of support in this area. In addition, it would reflect what HEW maintains is the likely outcome of congressional action.

OMB Recommendation. Alternative #3. Although this would represent a reduction against previous support levels, it would still provide funding to local educational agencies that would provide an average per pupil expenditure of more than \$320 per child.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue # E-6: Education Research and
Development (R&D)

Statement of Issue

What should be the Administration's budgetary strategy for support of educational research and development as administered by the Education Division?

Background

- The Federal Government has a role in supporting educational R&D because the conduct of research is costly and speculative resulting in the under investment of private risk capital.
- R&D is a public good whose benefits accrue to a broader universe than served by the market mechanism which must exact price payments.
- Payoff in terms of cost effective research or high yield policy relevant information has been minimal.
- The educational R&D system is characterized as small, decentralized, maldistributed and poorly focused.
- Formal evaluations of the Education Division R&D programs reveal some successes in academic achievement (Follow Through) and progress in the establishment of an R&D agenda by the National Institute of Education (NIE).

Alternatives

- #1. Increase the Education Division R&D level of support (Agency req.).
- #2. Provide level funding for education R&D by delaying new starts for one-year in Office of Education and Assistant Secretary for Education programs. Provide a modest increase in focused R&D for the National Institute of Education (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 -Sept. 30, 1976		1977		1978		1979		1980		1981	
	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O	BA	O
Education Research:																
Alt. #1 (Agency req.)	205	187	224	182	20	41	286	229	286	267	286	277	286	281	286	285
Alt. #2 (OMB rec.)	205	187	206	181	20	39	197	201	206	206	188	207	188	200	188	199

Agency Request

(Difference from Alt. #1 (Agency request) (<u>Alt. #2 (OMB recommendation)</u>)	<u>1977 Outlays</u> -28	<u>1978 Outlays</u> -61
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Arguments for Alternative #1:

- Current educational R&D funding is insufficient to attain a critical mass of capability and therefore cannot attract potential researchers or sustain high quality research.
- Educational R&D could serve to guide the direction of larger Federal investments and can result in significant cost savings.
- The number and complexity of contemporary issues before educational decision makers merits increased support for R&D.

Arguments for Alternative #2.

- Resources should be allocated so as to build capacity and optimize the probability of conducting high quality, productive R&D.
- The NIE mission to provide leadership to educational R&D should be reinforced. The NIE budget, as constituted, contains no flexibility for new starts, thereby, negating the establishment of an R&D agenda.
- A one-year hold on new starts for other than NIE research would not seriously effect the filling of educational research knowledge gaps.

Agency Request: Alternative #1. The Department seeks an increased commitment to R&D funding recognizing the need for additional knowledge to guide problem-solving and prepare the educational system for change.

OMB Recommendation. Alternative #2. Given the legitimacy of the Federal presence, the optimum strategy should maximize probability of high yield R&D.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #E-7: Library Resources

Statement of Issue

What is the optimum approach for achieving the Administration's budgetary and legislative objectives concerning library programs administered by the U.S. Office of Education?

Background

- The Federal Government has provided financial assistance to public, school and college libraries since 1965.
- The enabling legislation for libraries was formulated for catalytic purposes; to stimulate or supplement governments, schools and universities to provide their own resources for library staff and materials acquisition.
- Legislative and budgetary efforts dating from 1974 to alter the nature of Federal support (from underwriting basic services to demonstrating resource sharing and information networking) have been rejected by the Congress.
- The Domestic Council will likely include this program in its education block grant proposal.

Alternatives

- #1. Continue funding school libraries under the existing consolidated library and learning resources package. Retain public library support at the 1976 appropriations level. Terminate college library assistance programs (Agency req.).
- #2. Resubmit the legislative proposal to demonstrate resource sharing and information networking. Terminate all other existing library assistance programs (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		July 1 - Sept. 30, 1976		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
Library Resources:																
Alt. #1 (Agency req.)	167	226	71	122	147	40	189	181	189	161	189	175	189	185	189	189
Alt. #2 (OMB rec.)	167	226	72	126	137	38	40	136	40	84	40	63	40	55	40	53

Agency Request

(Difference from Alt. #1 (Agency request) (Alt. #2)	1977 Outlays	1978 Outlays
	-45	-77

Arguments for Alternative #1:

- Strong congressional support for public library programs is recognized.
- Additional time to prepare for withdrawal of Federal support is provided.
- The fiscal crisis facing general purpose units of government is recognized and library service to the disadvantaged, institutionalized and handicapped is maintained.

Arguments for Alternative #2:

- Library support is essentially a State and local responsibility.
- Alternative revenue sources are available to finance library services.
- Federal resources should be committed to stimulate only interstate and cost sharing, networking, and other economizing measures.

Agency Request: Alternative #1. The Department offers a programmatic strategy for changing the Federal role in lieu of the enactment of the Administration's legislative and budgetary proposals.

OMB Recommendation. Alternative #2. This strategy provides a more appropriate scope of Federal responsibility.

Issue Paper
 Department of Health, Education, and Welfare
 1977 Budget
 Issue #8: Office of Education Program Administration

Statement of Issue

What should be the program administration budget and staff level for the Office of Education in FY 1977?

Background

- The FY 1977 budget request of \$116.4 million supports 3,307 permanent positions, a sizeable increase above the 1975 level of \$91.9 million and 2,867 persons and the 1976 current estimate of \$98.2 million and 2,972 persons.
- The Commissioner of Education believes staff and support cost increases are essential to perform administrative and stewardship functions.
- Staff calculations are predicated on a Work Measurement System established in 1975 to improve and measure management capability, as well as to provide the framework for allocating staff resources.

Alternatives

- #1. Increase the program administration budget to \$116.4 million supporting 3,307 permanent positions (Agency req.).
- #2. Reduce the personnel base by cutting non-essential staff from administrative and support areas as well as programs proposed for termination (OMB rec.).

Analysis

Budget Authority/Outlays (\$ Millions)	1975		1976		TQ		1977		1978		1979		1980		1981	
	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0	BA	0
Program Administration:																
Alt. #1 (Agency req.)	92	88	98	100	24	31	116	107	116	116	116	116	116	116	116	116
Alt. #2 (OMB rec.)	92	88	98	100	24	31	100	93	100	100	100	100	100	100	100	100

Agency Request

(Difference from Alt. #1 (Agency request) (<u>Alt. #2 (OMB recommendation)</u>)	<u>1977 Outlays</u> -14	<u>1978 Outlays</u> -16
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Argument for Alternative #1:

- Matches the request for personnel with the analysis of the Work Measurement System.
- Provides a commitment to increase the monitoring of grants and contracts.
- Promotes greater contact between recipients of Federal education funds and Office of Education staff.

Argument for Alternative #2:

- Provides a rational and concrete basis for allocating administrative costs.
- Supports manpower utilization planning without acceding to the limitations of the present Work Measurement System.
- Promotes accountability and results oriented management.
- Accomplishes programmatic and administrative objectives at a more efficient dollar level.

Agency Request: Alternative #1. The Agency strongly believes that an increase in program administration dollars is a sound investment both in increasing Federal administrative responsibilities and as an ultimate cost saving initiative.

OMB Recommendation: Alternative #2. Non-programmatic staff are reduced in favor of the performance of programmatic duties. Program staff levels are set commensurate with functional responsibilities and levels of effort required to achieve monitoring objectives. Productivity gains are applied through expected increases in the quality of work.

Issue #E-9: Higher Education Non-Student Assistance

(\$ in millions)

	1976		1977	
	<u>Enacted</u>	<u>Rescission Level</u>	<u>Agency Req.</u>	<u>OMB Recomm.</u>
<u>Higher Education Institutional Assistance</u>	30	18	30	-0-

These programs cover all Institutional Assistance programs (except the Developing Institutions program) for which the Department is requesting funds: Language Training and Area Studies, State Postsecondary Education Commissions, and Cooperative Education. Language Training and Area Studies includes the Fulbright-Hays Scholarship program.

HEW Request

The Department's request for 1977 is equal to the 1976 appropriated level in these three program areas: \$11 million in Cooperative Education, \$16 million in Language Training and Area Studies, and \$3.5 million in State Postsecondary Education Commissions. The Department believe that funding of these programs is necessary if meaningful dialogue with Congress on the overall education budget is to be achieved. HEW strongly believes that funds should be provided for State Postsecondary Commissions for discretionary grants to selected States to improve postsecondary education planning.

OMB Recommendation

Eliminate all three programs and concentrate educational dollars on student assistance. In all three programs, OMB believes that there is no valid rationale for Federal involvement.

<u>Special Programs for the Disadvantaged</u>	70	70	70	-0-
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This program assists low-income, disadvantaged youth in obtaining access to college or other postsecondary school opportunities. The program has four components: the Upward Bound program, the Educational Talent

Search program, Educational Opportunity Centers, and the Special Services for Disadvantaged Students. Studies attempting to measure the effectiveness of these programs in assisting low-income disadvantaged youth have had mixed results.

HEW Request

Continue the program at the same level of funding as over the past several fiscal years. Many of the Trio programs, particularly Upward Bound, are visible and remain popular.

OMB Recommendation

Eliminate the program. OMB believes that ten years of the Federal funding of these programs is sufficient to demonstrate successful methods of assisting low-income youth in this area.

1977 Budget
 Department of Health, Education, and Welfare
 Education Division
 Summary of Recommended Program Reductions
 (\$ in millions)

<u>Elementary and Secondary Education</u>	1976		TQ		1977		1978	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Current base	2,401	2,296	2,235	657	2,404	2,308	2,404	2,310
Recommended level	<u>2,340</u>	<u>2,290</u>	<u>2,073</u>	<u>584</u>	<u>2,092</u>	<u>2,168</u>	<u>2,080</u>	<u>2,086</u>
Reduction	- 61	- 6	-162	-73	-312	-140	-324	-224
Program reductions:								
1976 - Immediately rescind increases above the budget for the Reading Improvement program, Follow Through, Environmental Education, Bilingual, Drug Abuse Education, Educational Broadcasting Facilities								
	61	6	--	15	--	28	--	3
TQ - Rescind the increases in the advance funded appropriation for Title I, ESEA and Support and Innovation								
	--	--	162	58	--	72	--	12
1977-78 - Lower appropriations request for the Disadvantaged Consolidation, Bilingual Education; continue phase-out of Follow Through; hold Reading Improvement level and provide no funds for Environmental Education and Drug Abuse Education								
	--	--	--	--	312	40	--	209

<u>Impact Aid</u>	1976		TQ		1977		1978	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Current base	680	658	70	60	680	680	680	680
Recommended level	460	502	24	37	300	351	300	315
Reduction	-220	-156	-46	-23	-380	-329	-380	-365
Program reductions:								
1976 - Rescind some \$220 million in FY 1976 BA to provide for implementation in the 3rd and 4th quarters of FY 1976 of a revised reform strategy								
	220	156	--	16	--	48	--	--
TQ - Rescind amount above the request level								
	--	--	46	7	--	27	--	12
1977 - Reduce program level to \$300 million to carry out reform strategy								
	--	--	--	--	380	254	--	88
1978 - Continue reform strategy								
	--	--	--	--	--	--	380	265
<u>Education for the Handicapped</u>								
Current base	226	209	121	56	336	251	336	359
Recommended level	225	200	86	56	200	233	200	173
Reduction	-1	-9	-35	-0	-136	-18	-136	-186
Program reductions:								
Rescind FY 1976 and the TQ appropriation increases and hold at the rescinded level in FY 1977								

<u>Vocational and Adult Education</u>	1976		TQ		1977		1978	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Current base	674	674	230	111	677	713	677	713
Recommended level	663	665	226	110	607	615	607	465
Reduction	-11	-9	-4	-1	-70	-98	-70	-248

Program reductions:

Rescind FY 1976 and the TQ appropriation
 increases and fund at that level in FY 1977
 with no new starts in research

Higher Education

Current base	2,562	2,450	124	383	2,562	2,430	2,562	2,430
Recommended level	2,126	2,432	124	362	1,800	2,003	1,772	1,800
Reduction	-436	-18	-0	-21	-762	-427	-790	-630

Program reductions:

1976 - Rescissions	436	18	--	21	433	358	433	93
1977-78 - Eliminate in-school interest subsidy, direct loans, supplemental grants, Trio, and all institutional assistance programs except developing institutions	--	--	--	--	329	68	357	537

<u>Library Resources</u>	1976		TQ		1977		1978	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
Current base	91	128	147	40	238	203	238	210
Recommended level	<u>72</u>	<u>126</u>	<u>137</u>	<u>38</u>	<u>40</u>	<u>136</u>	<u>40</u>	<u>84</u>
Reduction	-19	-2	-10	-2	-198	-67	-198	-126

Program reductions:

Terminate all library resource programs
except the legislative proposal (Library
Partnership Act)

Other Education Programs

Current base	1,322	1,242	233	259	1,161	1,215	1,161	1,279
Recommended level	<u>1,331</u>	<u>1,271</u>	<u>224</u>	<u>315</u>	<u>1,190</u>	<u>1,188</u>	<u>1,305</u>	<u>1,308</u>
Reduction	+9	+29	+1	+56	+29	-27	+144	+29

Total reductions

Total, Education Programs:

Current base	7,956	7,657	3,150	1,566	8,058	7,800	8,058	7,981
Recommended level	<u>7,217</u>	<u>7,486</u>	<u>2,894</u>	<u>1,502</u>	<u>6,229</u>	<u>6,694</u>	<u>6,304</u>	<u>6,231</u>
Reduction	-739	-171	-256	-64	-1,829	-1,106	-1,754	-1,750

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Issue Paper
 Department of Health, Education, and Welfare
 1977 Budget
 Issue #I-1: Social Security Legislation

Statement of Issue

What Social Security legislation should be proposed in the 1977 Budget?

Background

Under present law, Social Security benefits would compose 21% (\$85.1 billion) of the 1977 current services outlays. From 1976 to 1977, Social Security outlays will grow 15.4%, from \$73.7 billion to \$85.1 billion. Alternatives are now under development to put the trust funds back on a sound financial basis; under present projections, the funds fall below the desired 1/3 ratio between reserves and annual outgo by the end of 1979.

Changes in Social Security program outlays can result only from legislation which modifies:

- (a) eligibility for benefits and the benefit amount to which the recipient is entitled, or
- (b) the automatic cost-of-living provisions in current law, or
- (c) a combination of both.

(Outlays in millions)

A. <u>Possible Program Changes</u>	<u>Recommended by HEW</u>			<u>Recommended by OMB</u>		
	<u>1976</u>	<u>TQ</u>	<u>1977</u>	<u>1976</u>	<u>TQ</u>	<u>1977</u>
1. Do not pay retroactive benefits for the months before an application is filed if such a lump-sum payment would require a permanent actuarial reduction in future monthly benefits	-160	-136	-477	-160	-136	-477
2. Eliminate the monthly retirement test, making the retirement test on cumulative annual earnings	-50	-56	-233	-50	-56	-233

(Outlays in millions)

	Recommended by HEW			Recommended by OMB		
	1976	TQ	1977	1976	TQ	1977
3. Reduce Social Security benefits to beneficiaries also entitled to benefits under a retirement plan from employment not covered by Social Security	0	0	-50	0	0	0
4. Eliminate over a 4-year period special benefits for those aged 18 to 22 in school full-time	0	0	0	0	0	-313
5. Eliminate the lump-sum death benefit from Social Security	0	0	0	0	0	-325
HEW Recommended Reductions	-210	-192	-760	--	--	--
OMB Recommended Reductions	--	--	--	-210	-192	-1,348

OMB does not recommend offsetting Social Security benefits against pension benefits from non-covered employment, as the full rationale and operation of the proposal is not clear. OMB recommends the phased elimination of students benefits since Basic Opportunity Grants can be utilized by low income students and higher income students do not need the student benefit. OMB recommends eliminating the \$255 lump-sum death benefit as it is unrelated to earnings and it is not a benefit that is properly associated with retirement. As a matter of policy, we do not see why the Federal Government should pay death benefits, especially when they are not based on need. The same argument can be made against any VA burial allowance.

B. Cost-of-Living Increases

	60% Cap				0% Cap			
	1976	TQ	1977	1978	1976	TQ	1977	1978
OASDI, present law	73,703	20,036	85,117	92,422	73,703	20,036	85,117	92,422
OASDI, cap	73,703	19,196	82,877	87,322	73,703	18,636	79,517	83,922
Reduction	0	840	2,240	5,100	0	1,400	5,600	8,500
SSI, present law	5,317	1,425	5,887	6,367	5,317	1,425	5,887	6,367
SSI, cap	5,317	1,390	5,747	6,162	5,317	1,367	5,657	6,027
Reduction	0	35	140	205	0	58	230	340

Under present law, with present economic assumptions, Social Security and Supplemental Security Income (SSI) benefits will increase by 7.1% on July 1, 1976, and by 5.2% on July 1, 1977. The 1977 costs associated with these increases is \$5.6 billion for Social Security and \$230 million for SSI.

Secretary Mathews suggests you consider a no cost-of-living increase proposal as a means of meeting the budget target. He believes that such a proposal is attractive in helping to meet the target, but "stands no chance of being seriously considered by Congress, much less adopted."

The OMB recommendation includes a proposal for a 60% "cap" on the Social Security and SSI cost-of-living increases. OMB believes this more moderate cap stands a better chance of congressional approval. However, if a lower or even zero cap is desired, it can be defended on program as well as fiscal policy grounds in view of the strain now being placed on the Social Security Trust Fund and through payroll taxes on the working population.

C. Other Issues in Social Security

The Domestic Council is developing alternatives with respect to "decoupling" (removing the double indexing of benefits to the Consumer Price Index) and short-term financing. Decoupling will remove approximately one-half of the long-term actuarial deficit. The tax rate and wage base changes under consideration would raise revenues by \$2.5 billion in the first year. These are extremely complex issues, and we will probably not be able to (nor should we) resolve them all until next spring. That timing has advantages, however, for the Congress will not turn to these Social Security issues until it receives a special staff report in May.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #I-2: Cuban Refugee Program

Statement of Issue

How can the termination of the Cuban Refugee program be effected?

Background

The Cuban Refugee program began as a temporary emergency effort in 1961 but has continued without halt since. Acting on a phase-out recommendation of the Passman Subcommittee on Foreign Affairs Appropriations, HEW attempted a phase-out in 1974, to be completed by 1977. This phase-out would have terminated present 100% federally-funded welfare and Medicaid assistance to refugees in the U.S. five years or more. The Congress, instigated by the Florida delegation, prohibited the phase-out by appropriation action or continuing resolution each year from 1974 to 1976. Florida receives over half of the program funds (\$50 million), primarily Dade County, where over 400,000 Cubans reside.

Phase-out is not a full loss of funds, since AFDC and Medicaid caseload would receive 55% Federal matching, rather than 100%. Florida would lose about \$20 million in welfare funds plus \$12.5 million in education assistance annually by 1980. The State would assume the full cost (\$4 million) of the general assistance caseload.

Alternatives

- #1. Propose a new administrative phase-out plan, running from fiscal years 1977 to 1980, which would limit the 100% welfare and medical assistance to beneficiaries on the rolls as of September 30, 1976 (HEW and OMB rec.).
- #2. Issue a Presidential order, under the authority of the Migration and Refugee Assistance Act, limiting participation according to the schedule in Alternative #1.

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept.</u> <u>30, 1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>1980</u>		<u>1981</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1 (HEW & OMB)	90	88	90	85	20	20	76	76	69	69	58	58	46	46	-	16
Alt. #2	90	88	90	85	20	20	76	76	69	69	58	58	46	46	-	16
Increase associated with phase-over to AFDC and Medicaid																
Alts. #1 and #2	NA	NA	NA	NA	NA	NA	4	4	5	5	9	9	14	14	25	25
Cong. action	90	88	90	85	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

A preliminary tax and benefit analysis indicates that in Dade County, Cubans are one-third of the population and generate about one-fourth of the tax receipts attributable to residents, or 75% of their "share." Comparable data are not yet available for other jurisdictions, but we do not believe there is a great economic disparity between Cubans and the general population. Therefore, full Federal funding of welfare and medical program costs does not seem warranted.

OMB Recommendation: Alternative #1, the HEW request. In carrying out this option, HEW should contract for a quick tax and benefit study limited to Florida (possibly with State/county participation) to determine the ratio of the Cubans' tax contributions to their share of governmental expenses and the extent to which the presence of the Cubans raises the Federal matching of AFDC, Medicaid, and other funding due to matching formulas linked to the State low income population. This information should be available before the transition quarter to buttress the argument for the phase-out plan, especially with the State of Florida and its congressional delegation.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #I-3: Administration on Aging - Nutrition Program for the Elderly

Statement of Issue

Should the Aging Nutrition program be income tested? What is the appropriate request level for budget authority in FY 1977?

Background

The Older Americans Act (OAA) Amendments of 1972 (P.L. 92-258) authorized this program which funds special projects to serve meals to the elderly. Congressional appropriation action in FY 1974 provided funds for two fiscal years, placing the program on an advance funding basis. The 1975 First Supplemental Appropriations Bill raised the annual program operating level from \$100M to \$150M, utilizing \$25M of the available advance-funded budget authority. Senator Magnuson indicated to the Secretary, "This would still leave \$74,600,000 to be forward-funded into FY 1976, although it is our intent to eliminate this remaining forward-funding entirely before FY 1977." For FY 1976, the House-passed Labor/HEW Appropriations Bill provides for maintaining the program at the \$150M level; however, the Senate version directs a \$200M program level "to reduce forward-funding into subsequent fiscal years."

Recent economic conditions have highlighted the absence of an income test for participants. Although the statute does not bar such a test, the legislative history supports the present practice. Meal sites in low income areas are the sole mechanism now used to target benefits to low income-aged. HEW indicates they will review the present meal sites to better assure the access of low-income aged.

Alternatives

- #1. Request advance funding and do not address participants' income qualifications in appropriation language (Agency Request).
- #2. Place the program on a current funding basis and add appropriation language to limit new participants to those below the poverty line (OMB Recommendation).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept.</u> <u>30, 1976</u>		<u>1977</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
	<u>Nutrition Program for the Elderly:</u>							
Alternative #1 (HEW req.)	125	116	100	159	25	39	125	151
Alternative #2 (OMB rec.)	125	116	100	159	25	39	75	151

The nutrition program provides older persons approximately 280,000 daily meals served primarily in congregate settings in conjunction with supportive social services, offering an opportunity for the elderly to socialize and obtain services which may delay institutionalization. Data is not available to substantiate such impact. The program does not provide universal coverage--participation is often determined by "lottery type" luck. A recently completed sample survey by the Administration on Aging indicates 67% of the nutrition program participants had an income under \$4,000. This nutrition and service program duplicates or overlaps authority available under OAA Area Planning and Social Services, USDA Food Stamp, Social Services (Title XX, Social Security Act), HUD Community Development Block Grant, and Department of Transportation programs.

The OMB recommendation would, without decreasing the current level of effort, eliminate future congressional opportunities to raise the program operating level without increasing the budget authority and require new participants to meet the same income test proposed for elderly in the Food Stamp program.

The HEW request would make no changes in program criteria and avoid any appearance of a lower program by seeking budget authority for advance funding.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #I-4: Vocational Rehabilitation - Social Security Administration (SSA) Programs

Statement of Issue

What is the appropriate level of funding for vocational rehabilitation (VR)?

Background

A White House Conference on Handicapped Individuals is scheduled for December 1976 to identify problems facing the handicapped and solutions. VR has developed a broad-base of support, defining its role as processing "tax-eaters" into tax-payers. The 1973 Rehabilitation Act Amendments require greater emphasis on the severely disabled. VR has three components: (1) Direct VR programs--Research, Training, and Service Projects (the discretionary Federal support activities lack evaluations, duplicate and overlap other Federal programs as well as each other, and are not well related to the Basic State Grant program); and (3) 100% funding of State VR for Disability Insurance (DI) beneficiaries from trust funds and for SSI beneficiaries from general funds. In 1972, Congress authorized use of up to 1.5% of prior year DI benefit payments for VR based on HEW assurances of "investment"-type returns to the trust fund of 2.5:1. DI payments are growing 25% annually. Persons eligible for DI and SSI are routinely referred to State VR agencies; however, eligibility criteria for VR benefits under DI and SSI are more stringent and assume a more severe handicap than State VR criteria. Many DI and SSI beneficiaries do not meet the standards required for DI and SSI funding for VR services.

Alternatives

- #1. Continue VR programs at increasing levels (Agency req.).
- #2. Fully fund the State basic VR grants, modestly reduce Federal supporting activities and limit the use of DI and SSI funds to rehabilitation of those that meet the SSA special criteria.

Analysis

<u>Budget Authority/Outlays</u> <u>(\$ Millions)</u>	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept.</u> <u>30, 1976</u>		<u>1977</u>		<u>1978</u>	
	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>BA</u>	<u>0</u>
<u>Vocational Rehabilitation Programs:</u>										
<u>Alternative #1 (Agency req.)</u>										
Basic State Grants	680	736	680	621	170	162	720	705	720	705
Federal Support Programs	83	96	85	96	14	23	70	66	70	66
SSA Program Transfers (DI and SSI)	120	120	161	161	36	36	190	190	190	190
TOTALS	883	952	926	878	220	221	980	961	980	961
<u>Alternative #2 (OMB rec.)</u>										
Basic State Grants	680	736	680	621	170	162	720	705	720	705
Federal Support Programs	83	96	60	63	14	23	56	51	56	61
SSA Program Transfers (DI and SSI)	120	120	120	120	23	23	120	120	120	120
TOTALS	883	952	860	804	207	208	896	886	896	886
<u>Agency Request</u>										
<u>(Difference from Alt. #1 (Agency req.)</u>			<u>1976 Outlays</u>		<u>T.Q. Outlays</u>		<u>1977 Outlays</u>		<u>1978 Outlays</u>	
Alt. #2 (OMB rec.)			-74		-13		-75		-75	

GAO, in an advance briefing to HEW and OMB of an audit report, has determined a cost-benefit substantially below prior HEW estimates--1.15:1 investment--for the DI-VR program and the diversion of DI/SSI funds for general State VR purposes. An HEW research study (October 1975) indicated that DI beneficiaries not accepted for services by State VR agencies achieved higher levels of earnings than those accepted and not rehabilitated (those identified by VR agencies as having vocational "potential" and meeting the SSA special selection criteria).

Agency Request: Alternative #1. HEW does not wish to reduce the Basic State Grants and Federal support levels in light of the focus on the severely disabled. HEW acknowledges the need to re-examine the proper funding of the DI-SSI vocational rehabilitation programs. For FY77, they would retain budgeting procedures used in prior years.

OMB Recommendation: Alternative #2. Our recommendation would increase the Basic State Grant program consistent with the Rehabilitation Act Amendments of 1974. However, we recommend a modest reduction in the Federal support programs with full funding of the authorization for the Basic State program. In addition, we recommend apportioning the SSI-DI transfers in FY76, holding the SSA transfers of funds to the FY75 level, and restricting their use to those eligible under SSA special criteria. If the projected levels of SSI/DI beneficiaries meeting the criteria are exceeded, we would provide added funding up to authorized levels. We recommend internal HEW review and evaluation of the effectiveness of the Federal support programs to assure they support an overall VR strategy.

Issue Paper
Department of Health, Education, and Welfare
1977 Budget
Issue #I-5: Social Services Program (Title XX)

Statement of Issue

Should the Social Services program (Title XX of the Social Security Act) be transformed into a block grant to give the States greater flexibility and responsibility, and to reduce Federal costs?

Background

In response to the rapid uncontrolled growth of the Social Services program in the early 1970's, Congress placed a \$2.5 billion ceiling on Federal matching costs for fiscal year 1973. This ceiling was allocated among the States on a population basis and required the States to put up \$1 for \$3 of Federal funds (i.e., a 75% Federal matching share). The States are entitled to as much Federal funds as they can match up to their allotment within the \$2.5 billion ceiling.

The recently enacted title XX, which superseded the old titles IV-A and VI of the Social Security Act, eliminated virtually all of HEW's ability to control the program substance, leaving only procedural checks on the State planning process. Under this new title, we expect the States to use approximately \$2.2 billion of their ceiling in 1976, \$2.4 billion in 1977, and practically all of the \$2.5 billion in 1978. Several larger States are already overmatching their allotment and are seeking to increase the ceiling.

A number of Governors, among others, have expressed dissatisfaction with Federal regulation and oversight of the programs the States administer, and they assert that they could manage such programs better without Federal interference.

Alternatives

- #1. Continue program with the expectation that most States will use their full allotment by 1978.
- #2. Re-propose legislation to reduce Federal matching share from 75% to 50% (HEW request).
- #3. Propose legislation to reduce ceiling from \$2.5 billion to \$2.0 billion and eliminate the States' 25% matching requirement (OMB recommendation).

Analysis

<u>Budget Authority/Outlays</u> (\$ Millions)	<u>1975</u>		<u>1976</u>		<u>July 1 - Sept.</u> <u>30, 1976</u>		<u>1977</u>		<u>1978</u>		<u>1979</u>		<u>1980</u>		<u>1981</u>	
	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>	<u>BA</u>	<u>O</u>
Alt. #1	1892	1959	2654	2213	580	580	2400	2400	2500	2500	2500	2500	2500	2500	2500	2500
Alt. #2 (HEW)	1892	1959	2654	2213	580	580	1000	1000	1100	1100	1200	1200	1300	1300	1400	1400
Alt. #3 (OMB)	1892	1959	2654	2213	580	580	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000

In the 1976 Budget, the Administration proposed legislation to reduce the Federal matching rate to 65% in 1976 and 50% in 1977. This proposal has not yet been introduced in the Congress, and it is highly unlikely that Congress will act on it. In his October 7 letter transmitting the HEW budget request, Secretary Mathews renewed this proposal to reach the Department's 1977 ceiling, although he noted that Congress would probably continue to ignore it.

Agency Request: Alternative #2. This is a pro forma proposal by HEW, with little hope of enactment.

OMB Recommendation: Alternative #3. States would obtain greater flexibility in the use of funds, including their own matching funds which they could transfer to higher priority activities if they choose to do so. Responsibility for program performance would be squarely on the States, and HEW would not interfere with or hinder their operations by unnecessary regulations, program review, and other controls.

1977 Budget
 Department of Health, Education, and Welfare
 Summary of Recommended Program Reductions
 (\$ in millions)
 Income Maintenance Programs

	<u>1976</u>	<u>TQ</u>	<u>1977</u>		<u>1978</u>
	<u>0</u>	<u>0</u>	<u>BA</u>	<u>0</u>	<u>0</u>
Current base	88,324	24,229	95,631	101,057	110,453
Recommended level	<u>88,052</u>	<u>23,039</u>	<u>94,380</u>	<u>96,151</u>	<u>102,440</u>
Reduction	272	1,190	1,251	4,906	8,013
<hr/>					
Program reductions:					
<u>Social and Rehabilitation Services,</u>					
Social Service re-estimates	39	1	22	23	0
AFDC re-estimates	+62	101	237	237	0
All other SRS	11	8	98	106	71
<u>Social Security Administration,</u>					
Cost-saving package (<u>legislation</u> <u>required</u>)	210	192	0	1,348	1,725
OASDI 60% cap (<u>legislation required</u>) ...	0	840	0	2,240	5,100
SSI 60% cap (<u>legislation required</u>)	0	35	140	140	205
<u>Social and Rehabilitation Services,</u>					
AFDC cost-savings (<u>legislation</u> <u>required</u>)	0	0	337	337	337
Social Services reduced ceiling (<u>legislation required</u>)	0	0	400	400	500
<u>Office of Human Development,</u>					
Vocational rehabilitation program	74	13	17	75	75
<hr/>					
Total reductions	272	1,190	1,251	4,906	8,013

1977 Budget

Department of Health, Education, and Welfare

Health Programs
(\$ in millions)

		1973	1975	1976			1977			1978
		Actual	Actual	President's Budget	Exp. Cong. Action	OMB Recom.	Exp. Cong. Action	HEW Request	OMB Recom.	OMB Est.
Medicare	BA	11,248	16,890	18,573	18,532	18,668	22,399	22,218	22,218	26,900
	O	9,479	14,781	14,990	17,464	16,723	21,659	20,962	18,749	21,600
Medicaid	BA	5,764	6,996	7,156	7,766	8,262	9,292	8,992	--	--
	O	4,591	6,840	7,156	8,184	8,184	9,292	8,992	--	--
State Health Revenue Sharing	BA	--	--	--	--	--	--	--	10,000	10,500
	O	--	--	--	--	--	--	--	9,000	10,450
Health Resources Admin- istration	BA	630	814	626	910	517	954	833	431	442
	O	1,008	1,110	978	1,242	1,163	1,297	1,027	966	911
National Institutes of Health	BA	1,531	2,093	1,805	2,306	1,980	2,536	2,188	2,166	2,166
	O	1,516	1,889	1,832	2,225	2,095	2,453	2,238	2,188	2,156
Health Services Admin- istration	BA	1,032	1,213	1,007	1,297	1,007	1,384	1,493	531	523
	O	875	1,035	1,091	1,291	1,126	1,340	1,415	507	523
Alcohol, Drug Abuse, and Mental Health Admin- istration	BA	743	848	702	924	714	1,041	954	561	437
	O	606	950	786	924	877	900	865	680	617
Center for Disease Control	BA	146	152	133	166	133	174	213	99	99
	O	136	154	150	176	157	164	181	122	119
Food and Drug Admin- istration	BA	150	201	203	203	203	226	257	220	220
	O	143	201	215	216	216	224	247	219	220
Assistant Secretary for Health	BA	76	72	70	69	69	78	82	78	86
	O	57	66	93	84	84	90	94	90	90
Total	BA	21,320	29,279	30,275	32,173	31,553	38,084	37,230	36,304	41,373
	O	18,411	27,026	27,291	31,806	30,625	37,419	36,021	32,521	36,686

Budget
Department of Health, Education, and Welfare
Issue #H-1: Medicare

Statement of Issue. What measures should be proposed to limit the rise of Medicare program costs?

Background. Medicare provides health insurance coverage for 24 million aged and disabled persons. From 1974 to 1977, program outlays are expected to rise from \$11 billion to \$22 billion, and a further rise to \$36 billion is projected by 1981. These increases largely result from rising health costs. As a result of inflationary trends, the hospital insurance (HI) trust fund is underfinanced and is expected to be depleted by about 1990.

For the past two Congresses, the Administration has submitted cost-sharing proposals to restrain the growth of Medicare outlays: (1) a requirement that beneficiaries pay 10% of hospital charges from the 2nd to 60th day of care to reduce overutilization; and (2) an increase in the SMI deductible for physicians' services to reflect Social Security cash benefit increases. Hospital care is now free from the 2nd to 60th day of care and the deductible for physician insurance is fixed by law at \$60. Under the proposals, separate \$750 cost-sharing limits would be placed on cost-sharing for both hospital and physicians services to provide catastrophic protection. The Administration has also requested legislation to deny excessive rates of increase in hospital costs paid by Medicare.

HEW Request. The HEW proposal is for levels of \$17.5 billion in 1976 (the same as current law) and \$21 billion in 1977 (a \$600 million saving). HEW recommends dropping the cost-sharing reform proposal. Secretary Mathews has stated that it has a "measure of programmatic justification, but, in our opinion, stands no chance of being seriously considered by Congress, much less adopted."

HEW proposes, instead, a national system for Federal regulation of all hospital reimbursements from Federal and non-Federal payors. The Federal government would encourage States to assume these functions, but would regulate hospitals permanently if States did not do so. The hospital industry includes about 7,000 hospitals with \$50 billion of annual expenditures. No limit would be set on physician fees.

HEW argues that a national control system is the only effective measure for coming to grips with the hospital inflation problem. In HEW's view, limits on Federal reimbursement rates--which comprise about 35% of hospital revenues--would deal only with a symptom of the problem and would be insufficient to affect overall health inflation. The Administration's health insurance program (CHIP) required State regulation of hospital costs under Federal guidelines. HEW believes initiating a control system now is consistent with a requirement that States adopt such a system under any national health insurance plan.

The HEW proposal would limit rises in hospital per diem costs to an average of 10% in 1977, in contrast to an expected 15% rise, with 1977 savings of \$600 million.

OMB Recommendation. The OMB level would be \$16.7 billion in 1976 (\$740 million less than HEW) and \$18.7 billion in 1977 (\$2.2 billion less than HEW). OMB recommends continued support of the cost-sharing proposals with 1977 savings of \$1.7 billion. These proposals have a relatively strong programmatic justification in terms of incentives against overutilization of services and they would put the hospital trust fund on a sounder financial footing. The proposals are already before the Congress and would not have to be reintroduced.

V Federal regulation of all hospital income would inevitably lead to Federal review of individual hospital operations. HEW is unable to provide explicit standards for judging that hospital costs are too high or too inflationary in relation to the value of the services. Thus, such hospital regulation would be highly judgemental, controversial, and far more difficult than regulation of other industries. It would also require substantial increases in Federal employment.

The OMB alternative would place a limit of 7% ^(increase) on Medicare per diem hospital rates (\$810 million in 1977 savings) and 4% on Medicare physicians' fees ~~(\$ 178 million in 1977 savings)~~. Hospitals would not be permitted to charge inflation above the 7% increase to Medicare patients. The 7% limit is about the same as the projected 6-7% rise in the consumer price index (CPI). Over the past ten years, increases in hospital daily costs have averaged 13% annually--about 7% per year faster than the CPI. In view of these extraordinary increases, we do not believe that a 7% limit would prevent delivery of essential services or quality improvements.

HEW maintains that hospitals should not be held to CPI increases because they are labor intensive. Moreover, HEW argues that too tight a limit would incite hospital opposition to the necessary legislation.

HEW and OMB agree that, whatever the limit policy initiated, it should be continued in order to prevent later "catch-up" inflation.

The OMB recommendation of a 4% cap on physicians' fee increases would be substantially less than the 10.8% rise expected in the absence of limits. Physicians have been among the major beneficiaries of the Medicare program, and some limits are appropriate in a period of budget restraint. HEW opposes limits on Medicare physician payments because physicians might (1) pass costs to patients or (2) refuse to see Medicare patients

The hospital and physician limits would be retained for two years during which HEW would be directed to develop reimbursement policies for longer term implementation.

The OMB recommendation would also tighten administrative cost screens on routine hospital costs for 1977 savings of \$100 million. The present screens exclude routine costs if they are higher than those incurred by about 85% of comparable hospitals. The proposed action would lower the screen to 75%, the same as used for physicians' fees.

1977 Budget
 Department of Health, Education, and Welfare
 Medicare
 (Outlays in \$ millions)

	1976			1977		
	1975 Actual	February Budget	Expected Congressional Action	OMB Recom.	HEW Request	OMB Recom.
Present law	14,781	16,369	17,463	17,463	21,562	21,562
• Proposed legislation						
-- Cost-sharing reform	--	-1,279	--	-740	--	-1,700
-- Reimbursement limits	--	-100	--	--	-600	-988
(Hospitals)	--	(-100)	--	--	(-600)	(-810)
(Physicians)	--	--	--	--	--	(-178)
Administrative savings						
-- Tighter limits on routine hospital costs	--	--	--	--	--	-100
-- Other	--	--	--	--	--	-25
Total	14,781	14,990	17,463	16,723	20,962	18,749

1977 Budget
Department of Health, Education, and Welfare
Issue #H-2: Medicaid/Special State Health Revenue Sharing

Statement of Issue. Should the 1977 budget propose State Health Revenue Sharing--the consolidation of Medicaid and the narrow categorical health services, planning and construction programs into a new formula grant?

Background. In 1975, HEW spent \$7 billion on Medicaid in addition to \$1.6 billion on 16 separate health services, planning and construction programs. In the past, the Administration has sought to reform the Federal Medicaid matching formula and to consolidate and reduce funding for a number of health service programs. The Congress has not accepted the proposals and has added new categorical programs and funding.

- Inappropriate Federal Role and Inequities. There is no sound conceptual basis for either selecting or distinguishing among existing categories centered on population groups, types of services, diseases, and delivery mechanisms. In the absence of a valid conceptual framework for determining the Federal role, there will always be pressure to create new categorical programs that increase the Federal role, and Federal spending.

The design and funding of these programs raise serious questions concerning national health strategy to assist the poor. These programs inequitably single out for special Federal subsidies certain States and communities, diseases, organizational mechanisms, and individuals from others similarly situated.

Federal assistance to States per poor person ranges from \$921 in New York and \$953 in the District of Columbia to \$166 in Florida and \$76 in Arizona. In general, wealthier, urban States receive disproportionately large amounts of Federal funds, reflecting those States' ability to meet matching requirements under Medicaid, as well as "grantsmanship" in obtaining project grant funds. The narrow categorical health service programs are also inequitable in providing a wide array of services to certain groups, generally without the needs and eligibility tests of Medicaid. A number of these programs by-pass State and local governments, thus depriving them of discretion in setting priorities.

- Duplication and Inefficiency. The narrow categorical health service programs also duplicate many services provided by existing community health resources and financed by Medicaid; they frequently provide "medical social services" in addition to "traditional" health services. These additional services and personnel--combined with lower productivity than in the private sector--contribute to higher costs. Some governors have estimated they could reduce program costs by 10% to 15%, if the funds were allocated to the States by formula.

HEW Request. HEW proposes continuing Medicaid without major reform (\$9 billion) and accepting across the board congressional increases in 1976 and seeking further increases in 1977 for the other programs (\$1.5 billion). HEW believes that additional Federal spending under a comprehensive national health insurance plan will ultimately address most of the problems identified above and that, in the interim, HEW must "build capacity" to address "unmet needs" through the categorical programs.

OMB Recommendation. As indicated above, the problems attending current programs require reform.

The OMB recommendation folds Medicaid, health services, planning, and construction programs into a single \$10 billion State Health Revenue Sharing program (Attachment A). Federal funds would be allocated to States based solely on the number of poor in each State, i.e., \$400 per capita or \$1,600 per family of four. An alternative level of \$9 billion would provide \$360 and \$1,440, respectively. In 1975, national health spending amounts to \$420 per capita for the general population; existing programs at current levels would amount to \$378 per poor person in 1976.

The current debate focuses on overall funding levels for narrow program categories promoted by special interest groups. Consolidated State Health Revenue Sharing, on the other hand, will permit a discussion of the Federal role in terms of an identifiable per capita Federal contribution to the States for the poor and will sharpen the issue of relative State and Federal responsibilities for funding and priorities. This approach offers an equitable and easily comprehensible Federal policy for contributing to the health care of the poor.

The proposal also places a "cap" of \$10 billion on Federal health service spending. Medicaid has grown over 16% annually and is estimated to grow from \$9.3 billion in 1977 to \$14.9 billion by 1981. Thus, substantial Federal savings will result if a "cap" can be maintained or if growth can be limited to 5% per annum or the CPI. A "cap" will encourage States to control health care costs through health planning, licensure, prospective hospital budgeting and rate regulation.

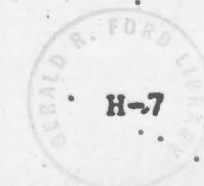
Attachment B shows the proposed State distribution of existing categorical and Medicaid programs and State Health Revenue Sharing. The Southern, Midwestern and Mountain States generally gain from the new distribution, e.g., Texas and Florida would gain over \$200 million apiece. The wealthier, urban States generally lose funds, e.g., New York loses nearly \$1 billion and California more than \$250 million. Shifts of these magnitudes in the distribution of Federal funds indicate the irrationality and inequity of current programs. A 3-5 year phase-in may be desirable to soften the impact.

Attachments

1977 Budget
 Department of Health, Education, and Welfare
Special State Health Revenue Sharing
 (\$ BA in millions)

Attachment A

Program and HEW Agency	1976				1977		
	1975 Actual	February Budget	Expected Congressional Action	OMB Recommendation	Expected Congressional Action	HEW Request	OMB Recommendation
<u>State Health Formula Grant</u>	--	--	--	--	--	--	10,000
<u>Medicaid</u>	6,996	7,156	7,766	8,262	9,292	8,992	--
<u>Alcohol, Drug Abuse and Mental Health Administration</u>							
CMHC	214	160	235	160	267	217	--
Alcohol--projects	65	45	70	45	75	68	--
--formula	52	46	56	46	60	52	--
<u>Center for Disease Control</u>							
Rat Control	13	5	13	5	13	7	--
Lead-based Paint	9	4	9	4	9	8	--
Immunizations	6	5	6	5	6	8	--
Venereal Disease	28	20	28	20	28	28	--
<u>Health Services Administration</u>							
Comprehensive Health Centers	200	155	197	155	200	197	--
Family Planning	101	79	101	79	101	101	--
Migrant Health	24	19	24	19	24	34	--
State Formula Grants	90	--	90	--	90	90	--
Maternal and Child Health	295	211	305	211	295	315	--
Emergency Medical Services	37	25	37	25	37	37	--
<u>Health Resources Administration</u>							
Health Planning	90	66	86	66	90	137	--
Construction	136	100	222	--	217	84	--
<u>Office of Human Development</u>							
Developmental Disabilities	54	54	56	54	56	56	--
Totals--BA	8,410	8,150	9,301	9,156	10,860	10,431	10,000
0	8,610	7,546	8,346	8,566	9,874	9,584	9,000



Attach
it B

Total Obligations (\$ millions)

Per Low Income Individual

H-8

	1976	1977		1976	1977	
	Current	Revenue		Current	Revenue	
	Law	Sharing	Difference	Law	Sharing	Difference
Alabama	\$164	\$316	\$152	\$208	\$400	\$192
Alaska	16	13	-3	503	400	-103
Arizona	19	97	78	76	400	324
Arkansas	111	193	82	230	400	170
California	1,050	792	-258	530	400	-130
Colorado	96	97	1	396	400	4
Connecticut	105	78	-27	537	400	-137
Delaware	15	21	6	287	400	113
District of Columbia	108	45	-63	953	400	-553
Florida	167	402	235	166	400	234
Georgia	240	341	101	282	400	118
Hawaii	33	25	-8	516	400	-116
Idaho	32	34	2	384	400	16
Illinois	459	409	-50	449	400	-49
Indiana	150	182	32	330	400	70
Iowa	72	118	46	246	400	154
Kansas	71	101	30	281	400	119
Kentucky	155	265	110	234	400	166
Louisiana	156	344	188	181	400	219
Maine	67	48	-19	551	400	-151
Maryland	151	143	-8	423	400	-23
Massachusetts	386	174	-212	885	400	-485
Michigan	410	302	-108	543	400	-143
Minnesota	198	147	-51	540	400	-140
Mississippi	133	283	150	188	400	212
Missouri	103	248	145	166	400	234
Montana	31	34	3	370	400	30
Nebraska	51	69	18	291	400	109
Nevada	14	16	2	357	400	43
New Hampshire	25	24	-1	422	400	-22
New Jersey	248	212	-36	469	400	-69
New Mexico	42	84	42	198	400	202
New York	1,690	734	-956	921	400	-521
North Carolina	187	367	180	204	400	196
North Dakota	26	34	8	303	400	97
Ohio	298	383	85	311	400	89
Oklahoma	144	171	27	336	400	64
Oregon	77	87	10	356	400	44
Pennsylvania	456	453	-3	402	400	-2
Rhode Island	59	37	-22	635	400	-235
South Carolina	107	219	112	195	400	205
South Dakota	26	44	18	231	400	169
Tennessee	130	308	178	169	400	231
Texas	494	756	262	261	400	139
Utah	41	43	2	378	400	22
Vermont	32	19	-13	677	400	-277
Virginia	137	255	118	215	400	185
Washington	146	124	-22	471	400	-71
West Virginia	47	140	93	135	400	265
Wisconsin	275	155	-120	709	400	-309
Wyoming	8	14	6	223	400	177