DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR 1980

DOCUMENTS

MAY 24 1979

FARRELL LIBRARY
S STATE UNIVERSITY

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON HUD—INDEPENDENT AGENCIES

EDWARD P. BOLAND, Massachusetts, *Chairman*

BOB TRAXLER, Michigan
LOUIS STOKES, Ohio
TOM BEVILL, Alabama
LINDY (Mrs. Hale) BOGGS, Louisiana
MARTIN OLAV SABO, Minnesota
BENNETT M. STEWART, Illinois
LAWRENCE COUGHLIN, Pennsylvania
JOSEPH M. McDADE, Pennsylvania
C. W. BILL YOUNG, Florida

RICHARD N. MALOW, PAUL E. THOMSON, and DELACROIX DAVIS III, *Staff Assistants*

PART 2

	Page
Selective Service System	1
Department of the Treasury:	
New York City Loan Guarantee Program	73
Office of Revenue Sharing	127
National Consumer Cooperative Bank	269
Neighborhood Reinvestment Corporation	343
Federal Emergency Management Agency	453

Printed for the use of the Committee on Appropriations

AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR 1980

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON HUD—INDEPENDENT AGENCIES

EDWARD P. BOLAND, Massachusetts, *Chairman*

BOB TRAXLER, Michigan
LOUIS STOKES, Ohio
TOM BEVILL, Alabama
LINDY (MRS. HALE) BOGGS, Louisiana
MARTIN OLAV SABO, Minnesota
BENNETT M. STEWART, Illinois
LAWRENCE COUGHLIN, Pennsylvania
JOSEPH M. McDADE, Pennsylvania
C. W. BILL YOUNG, Florida

RICHARD N. MALOW, PAUL E. THOMSON, and DELACROIX DAVIS III, *Staff Assistants*

PART 2

	Page
Selective Service System	1
Department of the Treasury:	
New York City Loan Guarantee Program	73
Office of Revenue Sharing	127
National Consumer Cooperative Bank	269
Neighborhood Reinvestment Corporation	343
Federal Emergency Management Agency	453

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE

43-133 O WASHINGTON : 1979

COMMITTEE ON APPROPRIATIONS

JAMIE L. WHITTEN, Mississippi, *Chairman*

EDWARD P. BOLAND, Massachusetts
WILLIAM H. NATCHER, Kentucky
DANIEL J. FLOOD, Pennsylvania
TOM STEED, Oklahoma
JOHN M. SLACK, West Virginia
NEAL SMITH, Iowa
ROBERT N. GIAIMO, Connecticut
JOSEPH P. ADDABBO, New York
EDWARD J. PATTEN, New Jersey
CLARENCE D. LONG, Maryland
SIDNEY R. YATES, Illinois
DAVID R. OBEY, Wisconsin
EDWARD R. ROYBAL, California
LOUIS STOKES, Ohio
GUNN McKAY, Utah
TOM BEVILL, Alabama
BILL CHAPPELL, Florida
BILL D. BURLISON, Missouri
BILL ALEXANDER, Arkansas
JOHN P. MURTHA, Pennsylvania
BOB TRAXLER, Michigan
ROBERT B. DUNCAN, Oregon
JOSEPH D. EARLY, Massachusetts
CHARLES WILSON, Texas
LINDY (MRS. HALE) BOGGS, Louisiana
ADAM BENJAMIN, JR., Indiana
NORMAN D. DICKS, Washington
MATTHEW F. McHUGH, New York
BO GINN, Georgia
WILLIAM LEHMAN, Florida
JACK HIGHTOWER, Texas
JOHN W. JENRETTE, JR., South Carolina
MARTIN OLAV SABO, Minnesota
JULIAN C. DIXON, California
BENNETT M. STEWART, Illinois

SILVIO O. CONTE, Massachusetts
ROBERT H. MICHEL, Illinois
JOSEPH M. McDADE, Pennsylvania
MARK ANDREWS, North Dakota
JACK EDWARDS, Alabama
ROBERT C. McEWEN, New York
JOHN T. MYERS, Indiana
J. KENNETH ROBINSON, Virginia
CLARENCE E. MILLER, Ohio
LAWRENCE COUGHLIN, Pennsylvania
C. W. BILL YOUNG, Florida
JACK F. KEMP, New York
RALPH S. REGULA, Ohio
CLAIR W. BURGENER, California
GEORGE M. O'BRIEN, Illinois
VIRGINIA SMITH, Nebraska
ELDON RUDD, Arizona
CARL D. PURSELL, Michigan

KEITH F. MAINLAND, *Clerk and Staff Director*

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT—INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1980

WEDNESDAY, FEBRUARY 21, 1979.

SELECTIVE SERVICE SYSTEM

WITNESSES

ROBERT E. SHUCK, ACTING DIRECTOR
ARNOLD B. BRODSKY, FINANCIAL MANAGER
COLONEL MILTON G. DUNHAM, U.S. ARMY RESERVE

	Appropriations	Positions		Reserve officers
		Civilian	Military	
1978 actual	$6,633,000	78	20	715
1979 estimate	7,045,000	78	20	715
Supplementals:				
Program	1,735,000	37	13	64
Pay cost	306,000			
Total, 1979	9,086,000	115	33	779
1980 request	9,825,000	115	33	779
Increase	+739,000			

Mr. BOLAND. The Committee will come to order. I would like to welcome the Selective Service System witnesses—the Acting Director, Mr. Robert E. Shuck, and Mr. Arnold Brodsky, the Financial Manager is aboard. Colonel,—are you Colonel Dunham?

Col. DUNHAM. Yes.

Mr. BOLAND. Colonel Dunham of the U.S. Army Reserve is with us today. Colonel Browning could not be here.

How do you interface with Colonel Browning, Col. Dunham?

Col. DUNHAM. He is a National Guard Officer from Kentucky. I am a Reserve Officer from Minnesota.

INTRODUCTORY STATEMENT

Mr. BOLAND. I will begin the hearing with a short statement.

The purpose of the Selective Service System is to be prepared to supply to the Armed Forces manpower adequate to ensure the security of the United States. Since the transition to an all-volunteer force, the size and structure of the Selective Service System has been a subject of recurring debate. With the end of peace-time conscription, the Selective Service System has been reduced to a caretaker operation, conducting neither registration nor classification. The Administration believes that the current standby posture of the Selective Service System is unsatisfactory because it does not provide adequate assurance that it could meet the wartime induction requirements of the Defense

Department's most demanding scenario—a conventional war in Europe.

I should point out that only two years ago we were assured by both the Selective Service and the Pentagon that their manpower requirements, that is, the delivery of the first recruit within 110 days, was adequate to meet any potential military contingency in the world.

Let me point out some recent comments on the current manpower requirements issue. Army Secretary Clifford Alexander, the Joint Chiefs of Staff, Senator Sam Nunn and Senator Harry Byrd recommend the revival of registration. That, of course, is something the President can do under existing law.

Congressman Charles Bennett recommends that the Government compile a list of 18-year-old men from other records, in short, a non-formalized registration. This would require legislation due to the Privacy Act, I presume.

Congressman G. V. "Sonny" Montgomery recommends face-to-face registration and drafting persons for six months active duty and six years in the Reserves. Induction, of course, would require additional legislation.

Senator Stennis recommends ending the all-volunteer concept and the creation of a new type of Selective Service equitable to all. This, too, would require additional legislation.

Defense Secretary Brown recently stated that if registration and induction are resumed, women as well as men should be included.

To improve its readiness level, the Selective Service System is requesting $9,825,000 for Fiscal Year 1980. That will support 115 civilian positions, 33 military positions, and 779 Reserve Officers. The current 1979 appropriation of $7,045,000 supports 78 civilian positions, 20 military positions, and 715 Reserve Officers. The Selective Service is requesting a supplemental of $2,041,000 for Fiscal Year 1979. Of that amount, $1,735,000 is primarily for 37 civilian positions, 13 military positions, 64 Reserve Officers, and enhancement of computer capability. The remaining $306,000 is due to increased pay costs.

Last year, the Congress rejected the request for increased funding for the Selective Service System primarily because it appeared doubtful that the budget request would allow the Selective Service to meet the revised Department of Defense manpower requirements—particularly without some form of registration.

Your statement and budget justifications indicate that the present proposal will meet the manpower requirements. You discuss this and other matters in your statement, Mr. Shuck, and we would be pleased to hear it.

Incidentally, I get the feeling, reading these justifications, that I have read this before. The language is almost identical, in many aspects, to your justifications of last year.

Mr. SHUCK. Yes, sir. We have only modified it where we felt it was appropriate.

Mr. BOLAND. Okay. Fine.

Mr. SHUCK. Thank you, Mr. Chairman. What I thought I would do was to introduce the statement into the record and then to just read from the highlighted notes of the statement, instead of reading the total statement, if that meets with your approval.

Mr. BOLAND. That is fine.

[The statement referred to follows:]

General Statement

Mr. Chairman, I appreciate this opportunity to appear before you and the other distinguished members of the Committee to discuss the fiscal year 1980 appropriation request for the Selective Service System and a supplemental appropriation request for the current fiscal year. We desire to inform you of our fiscal needs and to discuss how we plan to use these resources in improving our readiness level, our response capability and our overall contribution to the nation's defense posture.

Much has happened since I appeared before you in February 1978. It has been a year of introspection, intense planning, and evaluation of response readiness activities. Selective Service has been the subject or topic of studies by the President's Reorganization Project, the General Accounting Office, the Congressional Budget Office and the Department of Defense. At the direction of the House Committee on Armed Services (report 95–1118), we reported on the formulation of plans for registration and classification. In addition, for the first time to my knowledge, the System has taken an active role in a joint military/civilian agency mobilization exercise of considerable magnitude.

The results of the studies and the exercise reflect a marked degree of unanimity in recognizing our present Selective Service capability and the imperative need for an increased state of readiness and improved capability. These studies and events have raised the profile of the System and, we believe, have alerted the Congress and the public to the risks of not having an adequate military manpower procurement system.

Selective Service System mobilization readiness, prior to October 1977, was based on our understanding of the manpower requirements of the Department of Defense which were defined following the publication of the study "The Guard and Reserve in the Total Force." Those requirements and the "acceptable risk" requirements were as follows: first inductee by M+110, 100,000 deliveries by M+150, 300,000 deliveries by M+200 and 480,000 deliveries by M+230. The decision to place the System in "Deep Standby" followed the agreement by DOD that with the initial reliance for augmentation of the active forces by the reserve forces, there would not be a need to provide an initial flow of inductees to the military establishment until four months after the decision was made to resume inductions. The System's organization and resources were designed to meet those "acceptable risk" requirements.

Over a year ago the Department of Defense levied new and unprecedented wartime manpower requirements upon the Selective Service System. These requirements call for first inductee by M+30, 100,000 deliveries by M+60 and 650,000 deliveries by M+180.

The System is not capable of meeting these revised requirements from our existing posture and with our present resources and capability. However, we have been developing and revising the plans, procedures and organizational structure needed to insure that the System will be able to meet the new DOD manpower requirements. We believe that Selective Service can develop and demonstrate a capability to register and deliver inductees within 30 days. Our studies and readiness exercises indicate that we can reduce the previous lead time of approximately 110 days for the System to reach operating capability and development of the first delivery capability at approximately M+30 days.

The present organization and resources were designed to meet the previous "acceptable risk" requirements. There is no doubt that the System can be easily restored to a capability to register and deliver within 30 days or less. I believe we have made progress in the last 12 months toward meeting the new requirements. The studies and our mobilization readiness exercises have given us greater insight in finding solutions to the attainment of increased readiness and improved response capability.

The supplemental appropriation we are requesting for FY 1979 will enable us to quickly initiate a number of essential actions which will improve our readiness capability. It will permit us a broader and improved organizational structure by expanding our Readiness Regions to ten. It will provide for the addition of 64 officers to our Reserve Mobilization Force, and it will enable us to improve our computer capability, so vital to the operation of the Emergency Military Manpower Procurement System.

The expanded regional structure will parallel the existing federal regions, facilitate better management and supervision of current and mobilization activities and reduce the span of control. It will provide a larger nucleus of trained personnel for mobilization and permit improved coordination with government agencies and organizations to achieve rapid and efficient response to a national emergency.

The increase in the authorized strength of our Reserve Forces will enhance our ability to rapidly reconstitute the field elements of the System, conduct emergency registration and initiate registrant processing. The additional officers will be invaluable in accomplishing pre-mobilization planning activities for reconstitution and registration made necessary by the accelerated delivery requirements placed on the System. The Reserve Forces officers assigned to Selective Service are aware of the vital functions they must perform during mobilization. They are in place, training on activities and responsibilities they must be prepared to perform, and I firmly believe they will be capable of carrying out their assigned responsibilities in the short timeframes placed upon them. Our Reserve Forces officers are some of the most outstanding individuals in this nation.

The supplemental appropriation will enable us to make improvements in what is perhaps our most critical area, computer capability. We are presently developing a comprehensive Automated Data System (ADS) plan. When our plan is fully developed, it will clearly identify the equipment and software requirements and the timetables to be followed in meeting our delivery requirements. This computer capability is essential for us to develop and demonstrate our ability.

In essence, the supplemental appropriation will enable us to make significant strides toward the attainment of the capability to meet the wartime manpower requirements of DOD. Our objective remains unchanged from last year, but our approach has been adjusted as a result of our own study and analysis and the insight gained from the studies and recommendations of others.

Our appropriation request for fiscal year 1980 will provide funding for the continuation of program levels initiated by the FY 1979 supplemental appropriation. Overcoming the deficiency in computer capability is the number one priority. Simultaneously, we will be involved in the implementation of our plan to recruit and train local and appeal board members. Additional high priorities are the development of a capability to conduct an emergency registration, including exploration and study of alternative methods of registration, continued development of our operational training programs and the mobilization readiness training of our Reserve Forces.

Our fiscal year 1980 requirements have not been finalized at this time. We are in the process of documenting and evaluating the computer equipment and software requirements, timetable and alternatives which will be defined in our Automated Data Systems plan. In the meantime, we are moving forward in modifying and enhancing the Emergency Military Manpower Procurement System programs to take full advantage of modern ADP techniques and technology. We are evaluating and exploring various means of resolving our computer hardware and data input problems.

We have recently embarked on a program to electronically link our computer with other personnel automated systems. Through this data linkage, we will be able to electronically update our records and adjust daily delivery schedules to the Armed Forces Examining and Entrance Stations (AFEES).

The need to establish our operational capability on a much more rapid timetable has caused us to examine very closely our organizational and personnel requirements. The recruitment of local and appeal board members during standby has a two-fold advantage for the System and is a vital key to rapid reconstitution: (1) it will afford the opportunity to concentrate our efforts during the early stages of an emergency toward hiring and training newly recruited personnel, and (2) it provides us with additional people who will provide valuable support and assistance in rapidly reconstituting the System. Local and appeal board members must be recruited, trained and ready to accomplish a variety of classification actions soon after registration.

Our readiness training program will continue to stress attainment of full mobilization readiness. The goals of our training program remain constant:

(1) Assure that all compensated and uncompensated personnel of the System are fully trained to carry out their responsibilities.

(2) Assure that Selective Service Reserve Forces officers are prepared to accomplish their mobilization assignment in accordance with revised plans and procedures;

(3) Assure that the three critical areas of (a) organizational structure of the System, (b) registration, and (c) commencement of registrant processing, receive attention in a comprehensive training program designed to insure an overall state of readiness;

(4) Assure that full operational status can be achieved in as expeditious a manner as possible; and

(5) Assure that the local and appeal board personnel receive training designed to prepare them to assume their responsibilities.

The training programs designed to achieve our goals are flexible and adaptable to local and regional circumstances. The attrition of senior officers and the assignment of inexperienced junior officers make imperative this quality of flexibility. Newly assigned officers will be given thorough indoctrination and orientation training immediately after assignment. Additionally, training programs will encompass cross-training and cultivate specialized areas of professional competency. These concepts include training designed to develop the unique skills required by the mobilization position; the new areas of competency necessitated by a vastly increased reliance on automatic data processing methods; and the multitude of overlapping duties and responsibilities arising from the heavy demands that will be made on Reserve Forces officers—particularly those with field reconstitution responsibilities on M-Day.

In addition to the activities I have just mentioned, we will continue the emphasis on other facets of our mobilization planning. This will require the concerted efforts of our employees, as we evaluate, analyze and adapt our state and national plans to insure that the System is prepared to fulfill its mission. Our plans for the rapid rebuilding of the System, for emergency and continuing registration and early induction processing of registrants need additional review and alterations. This is an ambitious program which must be conducted on a continuing basis to keep pace with the ever-changing conditions affecting our ability to respond.

In conclusion Mr. Chairman, let me reaffirm the need for increased capability for the Selective Service System. This System is a vital force in our country's defense readiness posture and as such, it must be provided with the necessary resources to meet the demands placed upon it. We are aware of what must be accomplished if we are to meet the revised Department of Defense requirements. We are confident that with the allocation of additional resources included in the supplemental appropriation rquest and FY 80 appropriation, we will be able to provide the capability which our nation's security interests require.

Mr. Chairman, this concludes my statement. I appreciate the opportunity to present this information. If you have any questions we are available to discuss our programs.

Highlights of General Statement

Mr. Shuck. I appreciate this opportunity to appear before you and the other Members of the Committee to discuss the Fiscal Year 1980 appropriation request for the Selective Service System and supplemented appropriation request for the current fiscal year. We desire to inform you of our fiscal needs and discuss how we plan to use these resources in improving our readiness level, our response capability, and our overall contribution to the Nation's defense readiness posture.

Much has happened since I appeared before you in 1978. Selective Service has been the subject or topic of studies by the President's Reorganization Project, the General Accounting Office, the Congressional Budget Office, and the Department of Defense.

For the first time, to my knowledge, this System has taken an active role in a joint military-civilian agency mobilization exercise of considerable magnitude. The results of the studies and the exercise reflect a marked degree of unanimity in recognizing our present Selective Service capability and the imperative need for an increased state of readiness and improved capability. These studies and exercises have raised the profile of the System and we believe have alerted Congress and the public to the risk of not having an adequate military manpower procurement system.

Selective Service System mobilization readiness, prior to October, 1977, was based on our understanding of the manpower requirements

of the Department of Defense which were defined following the publication of the study, "The Guard and Reserve in the Total Force." The decision to place the System in "Deep Standby," followed the agreement by DOD that, with the initial reliance for augmentation of the active forces by the Reserve Forces, there would not be a need to provide an initial flow of inductees to the military establishment until 4½ months after the decision was made to resume inductions.

The System's organization and resources were designed to meet those "acceptable risk" requirements. Over a year ago, the Department of Defense levied new and unprecedented wartime manpower requirements upon the Selective Service System. These requirements call for the first inductees by M+30, 100,000 deliveries by M+60 and 650 deliveries by M+180.

The System is not capable of meeting these new requirements from our existing posture and with our present resources and capability. However, we have been developing and revising the plans and procedures and organizational structure needed to ensure that the System will be able to meet the new Department of Defense manpower requirements. We believe that the Selective Service System can develop and demonstrate a capability to register and deliver inductees within 30 days. The present organization and resources were designed to meet the previous "acceptable risk" requirements. There is no doubt the System can be easily restored to the capability to register and deliver within 30 days or less. I believe we have made significant progress in the last 12 months towards meeting these new requirements.

The studies and our mobilization readiness exercise have given us greater insight in finding solutions to the attainment of increased readiness and improved response capability.

The supplemental appropriation we are requesting for Fiscal Year 1979 will enable us to quickly initiate a number of essential actions which will improve our readiness capability. It will permit us a broader and improved organizational structure. It will provide for the addition of 64 officers to our Reserve Mobilization Force and it will enable us to improve our computer capability.

Our appropriation request for Fiscal Year 1980 will provide funding for the continuation of program levels initiated by the Fiscal Year 1979 supplemental appropriation. Overcoming the deficiency in computer capability is the number one priority.

In addition to the activities I have mentioned, we will continue the emphasis on other facets of our mobilization readiness planning. Our plans for the rapid rebuilding of the system for emergency and continuing registration and early induction processing of registrants need additional review and alterations. This is an ambitious program which must be conducted on a continuing basis to keep pace with the ever changing conditions affecting our ability to respond.

In conclusion, Mr. Chairman, let me reaffirm the need for increased capability for the Selective Service System. This system is a vital element in our country's defense readiness posture and, as such, it must be provided with the necessary resources to meet the demands placed upon it. We are aware of what must be accomplished if we are to meet the revised Department of Defense requirements. We are confident that, with the allocation of additional resources included in the supplemental appropriation request and Fiscal Year 1980 appropriations,

we will be able to provide the capability which our Nation's security interests require.

I appreciate the opportunity to present this information. We are available to discuss our program.

INDUCTION CAPABILITY

Mr. BOLAND. Last year, you indicated that if given the additional funds requested, the Selective Service System would be able to perform by April, 1979. That performance, I take it, was to produce 100,000 people for induction within 60 days. Isn't this true?

Mr. SHUCK. Yes, sir, that was our plan.

Mr. BOLAND. As I remember and as is reflected in the hearings, the Committee questioned your ability at that time. It appears that you would not have been able to do what you said you could if we had provided the additional funds. Is that correct?

Mr. SHUCK. Well, no, sir, I wouldn't say that is correct. It would have taken us a little bit longer to have met that but I firmly believe that we would have been able to meet that because we are on target now and demonstrating that we will be able to meet that capability.

Mr. BOLAND. I notice that the Congressional Budget Office, in commenting on the Selective Service System, said that no improvement in induction capability would have resulted had the Congress appropriated those additional funds.

Mr. SHUCK. That may have been their opinion but I disagree with that opinion and I believe I could adequately demonstrate that that is not a correct statement.

Mr. BOLAND. So that if you had additional funds, you think you could have met that production schedule?

Mr. SHUCK. Yes, sir. What we have learned since we were here last February is that our computer is not adequate. We are in the process not only of upgrading our response capability, but also we are now in the process of upgrading the computer which would not have been able to handle the work load that would have been generated by a rapid registration and the issuance of induction orders simultaneously.

Mr. BOLAND. Let me review the 1979 submission. In your Fiscal Year 1979 submission to OMB you requested $15.4 million.

Mr. SHUCK. Yes, sir.

Mr. BOLAND. That was to support 305 positions and 1,150 Reserve Officers. That request was reduced to $9.5 million, 150 positions, and 904 Reserve Officers. As I mentioned earlier, Congress denied most of that increase because it felt it was doubtful that you could do what you said with the resources requested.

The 1980 budget requests $9.8 million, 148 positions, and 779 Reserve Officers. This is less than you requested last year.

FISCAL YEAR 1980 BUDGET REQUEST TO OMB

What did you request from the Office of Management and Budget for fiscal year 1980 in the way of funds, positions, and Reserve officers?

Mr. SHUCK. On our budget planning this year we started looking at what was denied last year and worked with the technology that we

have become aware of in the current planning. We did not request a large budget at this time. What we basically have is an agreement with the Office of Management and Budget that, when we complete the study on our computer technology requirements, we will be permitted to come back and ask for a supplemental to provide for the acquisition of those computers if they represent a significant cost.

Right now, we have identified all cost factors that we can identify and they are reflected in the $9.8 million figure.

Mr. BOLAND. And was that the figure that you submitted to the OMB last October?

Mr. SHUCK. That is it approximately. It is within a few thousand dollars. It wasn't—or few million dollars. There wasn't a significant difference of opinion at that stage.

Mr. BRODSKY. It was $9.4 million that we asked for which was amended on the first of October for pay costs and that makes the $9.8 million.

Mr. BOLAND. And the number of positions, 148 positions and 779 Reserve Officers, is that the same?

Mr. SHUCK. Well, we asked for the 904 Reserve Officers and we compromised at 779.

PROPOSED INDUCTEE DELIVERY SCHEDULE

Mr. BOLAND. In requesting funds last year, you were going to do certain things. You were programmed to have the first inductees and the delivery of certain numbers by particular days, and we will put the table in reflecting that.

[The table follows:]

	Current requirements	Previous requirements
1st delivery of inductees	M+30 days	M+110 days.
100,000 inductees	M+60 days	M+150 days.
480,000 inductees	Not applicable	M+230 days.
650,000 inductees	M+180 days	Not applicable.

Mr. BOLAND. How can you accomplish your goals this year with less than what you requested last year?

Mr. SHUCK. Well, sir, last year, if you remember correctly, we had not completed a study on an emergency registration program. We had planned to use our Reserves and National Guards and to recruit voluntary registrars to assist us in a registration as quickly as possible after the emergency occurred.

We were evaluating, at that time, the use of the election machinery, but we had not made any determination on how quickly we could use the election machinery. Since we were here last year, I have made contacts in all States. We have received assurance from all of the States that they will quickly assist us in the registration process. The longest timeframe in which any State responded was 2 weeks. We are now in the final stages of putting together an emergency registration plan that will provide for an emergency registration of at least 2-year birth groups of 4 million youths, somewhere between M+10 and M+15 and will then input that data using some of the technology that we are now testing. We have some results of that test that indicate that

this is a very viable concept. We'll begin the induction process somewhere around M+21 to M+22 at the latest so that the first inductees, non-volunteer inductees, will be reporting to the Armed Forces Examining and Entrance Stations somewhere around M+31.

Prior to that, we will be processing volunteer inductees, and we are working on those procedures so that the processing of voluntary inductees can begin somewhere around M+1 to M+2.

REVISED PLAN FOR USE OF RESERVE OFFICERS

Mr. BOLAND. Now, with respect to the Reserve Officers, your request was reduced to $9.5 million and 904 Reserve Officers last year. This year you are requesting $9.8 million and 779 Reserve Officers. How will you be able to accomplish your plan with fewer Reserve Officers than you requested last year?

Mr. SHUCK. All right, sir. Last year, I had planned to set up the State headquarters with a complement of approximately 300 officers at M day. Now, I will not set up the State headquarters at M day. I will go ahead and create the field elements of the Selective Service System, the area offices, and send some of the Reserve or National Guard Officers to the Armed Forces Examining and Entrance Stations to serve as liaison officers there. Then, once those are set up and operational, we will expand the State headquarters to its operational capability to meet the workload requirements.

The initial workload during the first 30 to 45 days of mobilization is in the area offices, where you deal with the registrants, input the registration data, and respond to the registrants' inquiries; and then, at the Armed Forces Examining and Entrance Stations where we send the inductees for processing. Following that, we need the State headquarters contingent, or a comparable contingent, to assist us in processing the alternate service programs, and in dealing with the Governor and the Adjutant General and the news media, and so forth.

So, initially, we are not giving that as high a priority because we don't have the resources available.

DEPARTMENT OF DEFENSE REVIEW

Mr. BOLAND. Who in the Department of Defense reviewed your plans to improve the mobilization readiness and delivery capability? Did the Department of Defense review your plans?

Mr. SHUCK. I am not sure that anybody in the Department of Defense has reviewed it, sir. The responsibility is ours. They levied the requirements upon us to begin delivering in 30 days and to meet a delivery requirement of 100,000 in 60 days.

Mr. BOLAND. After levying the requirements, did they offer judgment whether or not those requirements will be met by your particular plan?

Mr. SHUCK. I have had frequent communications with them concerning what I have done in the way of changes over the past year to meet their requirements; but no, they are not in the position of evaluating our plans.

Now, we did participate with them on exercise "Nifty Nugget" to demonstrate our capability with our current resources. We also in-

dicated to them what we would be able to do with the additional resources that we are requesting in this budget.

RECRUITMENT AND TRAINING OF LOCAL AND APPEAL BOARD MEMBERS

Mr. BOLAND. In your statement on page 2, you indicate that progress has been made in the last 12 months toward meeting the new requirements. Exactly what has been done? Let's look at recruitment and training of local and appeal board members.

Mr. SHUCK. All right, sir.

Mr. BOLAND. As I recall, there were 3,018 local boards at 626 locations.

Mr. SHUCK. Yes, sir.

Mr. BOLAND. The total number of local board members would come to approximately 10,000. Now, the justification on page 15 reads as if nothing much has really been done. It is difficult to see how 64 additional Reserve Officers will make much of a difference.

Mr. SHUCK. We plan, with the increased resources we will have available, to go ahead and recruit and train these local board and appeal board members before the emergency occurs so that we will not have to devote any resources to that activity after the emergency.

Mr. BOLAND. Now, how many local board members were signed up, so to speak, last year; I mean where you had a name and address, or whatever you needed to be sure that you had a local board member?

Mr. SHUCK. Actually signed up, sir, none, because our program was not approved. However, in our computer, we do have the names of former local board members and appeal board members. We have updated that list to determine how many would be eligible for reappointment. In each of our State reconstitution plans, we have the names and addresses of each of the members we had when we closed the local boards and appeal boards in 1976. We will use this list for contact points. We believe that within a 30 or 60-day time frame we would be able to staff all of the local boards and the appeal boards.

Mr. BOLAND. But you actually have not—again using the term—you actually have not signed up any local board members. You know who they were and you know their ages, but have they been contacted?

Mr. SHUCK. Some of my provisional State directors in the field have told me that they have been in close contact with some of the local board members and appeal board members.

Mr. BOLAND. Well, for example, give us the name of a State director and how many people he has contacted in his particular State. Can you supply that for the record?

Mr. SHUCK. I don't have specific numbers but, for example, last week in South Carolina there was a Selective Service reunion of former employees of the Selective Service System, both compensated and uncompensated. I got feedback from some of my Reserve Officers in South Carolina that they had a tremendous turnout. There is tremendous field support of the Selective Service System.

Since the increased publicity over the past three months, we have received numerous calls from former local board members, appeal board members, advisors to registrants, and registrars saying, "If you are going back into business, please consider me for reappointment."

NUMBER OF AREA OFFICES PLANNED

Mr. BOLAND. Let me ask you about your field or area offices, offices for local boards. How many do you plan to have?

Mr. SHUCK. We are completing the study on that right now. We had planned last year to have 626. We are reevaluating that based on the most recent population statistics for a given area and the estimated number of personnel between ages 18 and 26. We have used the best available data that our Reserve and National Guard Officers and provisional State directors, were able to obtain.

We believe that we will have somewhere around 500 to 550 area offices and somewhat less than the 3,018 local boards because the law permits us to combine up to five counties or jurisdictions.

Mr. BOLAND. I thought you were doing that with the money that you got last year. At the hearings last year, we talked about co-location and we talked about the number of offices. At that time, you indicated there would be 626 offices for local boards.

Mr. SHUCK. We did the study, sir. We are doing the study to determine if we can do it with less.

Mr. BOLAND. Well, in reality, you have completed the study. We now want to know whether you are going to have 626 or 500 or 3 local board offices.

Mr. SHUCK. I have the responses from about 35 of the 50 States and they are indicating how many offices they feel are essential. I have not attempted to complete the study yet because some aspects of the study require the States Governors' approvals. I have not made contact to ask each Governor's permission to reduce the number of offices in his State. So I do not have those figures available for the public at this time.

Mr. BOLAND. All of the locations have not been determined, as I understand it, and few, if any, plans have been made to staff these offices. Is that correct?

Mr. SHUCK. No, sir. The plans for staffing the offices have been laid based on the 626 figure. As we determine that we are not going to staff the same number of offices in a State, we adjust the necessary staff, or what we consider necessary, based on the estimated workload that we visualize will take place.

REGISTRATION METHODS CONSIDERED

Mr. BOLAND. Have you determined what method of registration will be used? Last year, you recited the use of election machinery methods but, apparently, you scrubbed that idea.

Mr. SHUCK. No, sir. Based on the responses I have received from each of the States, and there are only about three States that have not responded, we feel very comfortable with the use of the election machinery concept, which is very similar to the way it was done on October 16, 1940, when 16 million men were registered in one day. The use of the election process was also used twice in World War I and it was successful.

The responses that we have received to date indicate that they are willing to assist us. The only thing that remains to be done is establishing in each State how many of the election sites we are going to use and how many personnel we want to use including election officials

and other volunteers. We will finalize these plans on a state-by-state basis.

CBO'S VIEW OF ELECTION MACHINERY USE

Mr. BOLAND. Are you familiar with the Congressional Budget Office and its opinion on the use of State election machinery?

Mr. SHUCK. I read the Congressional Budget Office report; yes, sir.

Mr. BOLAND. It points out certain problems that you will face using election machinery. Do you want to comment on CBO's report?

Mr. SHUCK. Yes, sir. And again, I have made contact with all 50 States, with either the Secretary of the State or the chief election official in each of the States. All of these individuals have indicated they are willing to assist us, in the event of an emergency, in conducting a registration as early as possible.

I don't believe the Congressional Budget Office made these contacts, so, I believe that I speak with a little more authority. I know that people out there are willing to assist us. Once we get the actual sites identified, I am very comfortable that I can do an emergency registration within 10 to 15 days after the emergency occurs.

Mr. BOLAND. This is one of the CBO comments found in the report section entitled, "Inappropriate Number and Location of Polling Sites," I quote,

> Nearly 300,000 polling places are currently used for elections, far exceeding the 50,000 envisioned by the Selective Service registration plans. Just to reduce the number of registration places to a manageable level would require site selection standards tailored to the particular demographic characteristics of each area. With enough lead time, this would not be a difficult task but an incomplete and error-ridden registration could result if the task were attempted in haste.

I suppose your response is that you are not going to attempt it in haste?

Mr. SHUCK. That is correct. We are hoping that we are going to have plenty of time to complete our study so that we don't have to attempt it in haste.

TRAINING OF RESERVE OFFICERS

Mr. BOLAND. Last year, you indicated on page 73 of our hearings that it takes about one year to fully train a Reserve officer. How many of the 715 Reserve officers are fully trained?

Mr. SHUCK. Over the past year, I have lost approximately 120 officers due to retirement and job change or job interference. So, I would estimate, 550 of my Reserve officers are fully trained. Others are in various stages of training.

We just conducted a new officer orientation for approximately 100 officers who have been in the program less than six months so that we could bring them to a better state of preparedness, of awareness of what the Military Selective Service Act is, what the requirements of registration are, and how we would handle the processing, registration, induction, and appeals.

So, we just completed an orientation of over 100 officers in that category and I do have one of my Reserve officers here with me to answer questions relating to Reserve officer training and readiness.

Mr. BOLAND. Colonel, do you want to expand on that?

Colonel DUNHAM. Yes, sir, Mr. Chairman. In addition to the required training mandated by the national training plan, we continue

on our own individual service training and develop our own training schedule within that concept. Although we are monitored by the regions, our training helps us to be aware of our local conditions and merge that into Selective Service requirements so that, if the whistle were to blow, we would have already been out there, already have identified the places, already identified the people and would be ready to go.

As far as our readiness goes, each of us is committed on an annual basis to go, whenever the emergency comes, without further orders. We do not require advice from the State directors. Each of us has committed ourselves by our signature. There are four conditions under which he would release us from those. All of these conditions are not applicable once an emergency occurs.

I agree, as the record says, the 550 who are out there are well trained in that regard.

Mr. SHUCK. They are not only well trained but also highly motivated. We have the cream of some of the local communities' personnel, including civic leaders and individuals in very significant positions in the civilian community, who are willing to take that second responsibility as a citizen-soldier and make themselves available to the Selective Service System on a 72-hour notice.

Mr. BOLAND. Are you talking about lawyers and doctors and people like that who are in the Reserves and who are willing to do this, too?

Mr. SHUCK. Well, like Colonel Dunham, for example, is a Judge in one of the courts in Minnesota. Some of the other personnel in the Reserve program are lawyers, doctors, accountants. Some of them are farmers who have indicated a willingness to assist the Selective Service System in any way. Not only are they available for the one weekend a month that is required, but also many of these individuals provide extra services to us during the month. It is just amazing the dedication that these individuals give to their country.

Mr. BOLAND. Can you really train a Reserve Officer for the particular duties that he would assume with Selective Service in the one weekend a month and the two weeks active training he receives in the course of a year?

Mr. SHUCK. No, sir. Not in one year. That is the reason we conduct a new officer orientation training program. We also have some correspondence courses. After these officers have signed up, we require them to take the correspondence course on the background and history of the Selective Service System and the Military Selective Service Act. In addition to the responsibilities that we lay on them, their parent service lays the requirement on them to be branch qualified if they are going to attain any promotions within the military services.

ESTABLISHMENT OF DENVER REGIONAL OFFICE

Mr. BOLAND. The fiscal year 1979 budget contained $190,000 for computer software, that is the Emergency Military Manpower Procurement System, and funding to support an additional 52 positions with which to staff five additional regional offices. I understand that you opened a sixth regional office in October, 1978. Is that correct?

Mr. SHUCK. That is correct.

Mr. BOLAND. Where did you find the funds and positions to open the sixth regional office? It seems to me that action indicates that you gave a higher priority to opening one additional regional office than you did to enhancing your computer capability.

Mr. SHUCK. No, sir. What we did was take the funding that was available to us for fiscal year '79, and applied it where we felt we had a need to apply, based on what we had identified in our computer and the length of time that it would take us for upgrading the computer capabilities. One priority was expanding by one additional region to see what kind of a reaction or increased capability that would provide. Another was the study that we had done on the computer capability. Another was a study on the use of a Reserve Officer at the Armed Forces Examining and Entrance Station. Through this study, we identified the need for the 64 additional Reserve Officers we are requesting at this time.

We have been evaluating all facets of the responsibilities laid upon the Selective Service System and applying the resources we have available where we felt the most critical need.

UPGRADING COMPUTER CAPABILITY

Mr. BOLAND. I thought the most critical need was upgrading the computer capability? At least that was the priority that you had outlined last year.

Mr. SHUCK. It is critical, but the lead time on upgrading the computer capability is long. We found that we were running into difficulty in getting rid of the computer that we owned and getting another computer. So we have signed a time-sharing agreement with the Department of Commerce. We are in the process of developing a backup computer capability with the Department of Defense, so that we will have an assured computer capability even before we get another computer of our own.

Now, there are some cost offsetting factors. Time-sharing, for the amount of time that we use other than our own computer, isn't as costly as time-sharing without our own backup computer capability.

SUPPLEMENTAL FUNDS FOR COMPUTER

Mr. BOLAND. How much money do you have in the fiscal year 1979 supplemental to enhance your computer capabilities?

Mr. SHUCK. $698,000. That is going to assure our capability to deliver. The breakdown on that was $300,000 for ADP contract, $348,000 computer rental, and $50,000 for computer terminals. $698,000 dollars is included in this supplemental appropriation.

MOBILIZATION TIMETABLE

Mr. BOLAND. Okay. Now last year you included in the record a mobilization timetable. Will you update that table for the record?

Mr. SHUCK. Yes, sir.

Mr. BOLAND. The table should include: (1) "Deep Standby"; (2) the present capability; (3) the new capability as proposed in the budget; and (4) a column that assumes peacetime registration. Also update the

Other Services and the Emergency Military Manpower Procurement System expenditures tables. Those tables are found on pages 70 and 72 of last year's hearings.

Mr. SHUCK. But you asked for one additional one there. What was that other one? You said, "assume peacetime registration?"

Mr. BOLAND. Yes. Mr. Coughlin?

[The information follows:]

SELECTIVE SERVICE SYSTEM

Mobilization timetable	Completion date			
	Deep standby, fiscal year 1977–78	Current fiscal year 1979	Improved readiness, fiscal year 1980	With peacetime registration
Activate SSS National Guard/Reserve Forces	M+30	M+3	M+3	M+3
Reestablish State headquarters	M+40	M+3	M+3	M+3
Reestablish local boards	M+45	M+25	On board	On board
Reestablish area offices	M+45	M+25	M+15	M+15
Begin availability determination of Standby Reserves	M+45	M+25	M+20	M+15
Registration for 1st year-of-birth group	M+60	M+60	M+15	Completed
Lottery	M+75	M+65	M+18	Do.
Establish Selective Service liaison with Armed Forces Examining and Entrance Station	M+75	M+65	M+10	M+3
Issue induction orders to registrants	M+90	M+75	M+20	M+1
1st deliveries of registrants for induction	M+110	M+85	[1] M+30	M+11
100,000 inductions	M+150	M+105	M+60	M+35
650,000 inductions	NA	M+210	M+180	M+140

[1] Volunteers will report between M+3 to M+30.

OTHER SERVICES

	Fiscal year—		
	1978 actual	1979 estimate	1980 estimate
ADPE maintenance	96, 300	105, 000	95, 000
Office and training equipment repair	13, 384	20, 000	30, 000
Training services, tuition, audio-visual module development, etc	3, 995	6, 000	20, 000
Building repair and modifications of offices (regional and national)	5, 137	40, 000	100, 000
Security, guard services	4, 018	6, 000	8, 000
ADP, microfiche	1, 895	2, 000	5, 000
EMMPS analysis and enhancement, revisions, etc	28, 555	166, 000	342, 000
Employee health service	1, 859	2, 000	3, 000
Equipment storage	4, 513	4, 000	5, 000
Incentive awards program	1, 960	2, 000	3, 000
Regional office support	14, 448	45, 000	75, 000
Miscellaneous: official representation expenses, temporary storage, household goods, etc	3, 936	10, 000	25, 000
Total obligations	180, 000	408, 000	711, 000
Adjustment for change in undelivered orders	38, 000		
Total costs	218, 000	408, 000	711, 000
EMMPS expenditures:			
Printing	159, 082	176, 000	200, 000
ADP related	156, 320	292, 000	582, 000
Total	315, 402	468, 000	782, 000
Personnel (man-years)	7	10	12

DEVELOPMENT OF CONTINGENCY PLANS

Mr. COUGHLIN. Thank you, Mr. Chairman.

I have a difficult time getting it through my head exactly what you are doing. As I understand it, your mission is to develop a plan to

deliver the first inductee by M plus 30, 100,000 by M plus 60, and 650,000 by M plus 180. Is that correct?

Mr. SHUCK. Yes, sir.

Mr. COUGHLIN. Do you have the plan?

Mr. SHUCK. Well, yes, sir. Let me explain the plans we have. We have a registration plan—

Mr. COUGHLIN. I want to know if you have the plan or if you don't have the plan?

Mr. SHUCK. In the final format today, no sir.

Mr. COUGHLIN. You have had more than a year to develop it, as I understand.

Mr. SHUCK. We are in the final stages of completing that plan.

Mr. COUGHLIN. When will you have the plan, if that is your mission?

Mr. SHUCK. Well, the completion of the plan when speaking of the number of area offices, for example, hinges on certain elements that require the Governors' concurrence. Before I would say, "Okay, this is the plan I am going to use," I would have to have the Governors' agreements.

Mr. COUGHLIN. When do you intend to have the plan?

Mr. SHUCK. As quickly as we can complete it, sir.

Right now I have a plan that I would use if the emergency occurred today.

Mr. COUGHLIN. You have something?

Mr. SHUCK. Yes, sir. It would require some modification because I have not received the Governors' approvals on certain changes that have taken place and I don't have the 64 additional Reserve Officers or the 50 additional employees that I have asked for in this budget. So, I am going to have to modify that plan because the plan isn't a valid plan when we don't have the resources that that plan calls for.

Mr. COUGHLIN. Your mission is to develop a plan?

Mr. SHUCK. Yes, sir. I have the plan.

Mr. COUGHLIN. You have the plan?

Mr. SHUCK. Yes, sir.

Mr. COUGHLIN. Then if you have the plan, why do you need additional personnel to develop the plan?

Mr. SHUCK. Not for development, sir, I need additional personnel if I am going to implement the plan.

You see, developing a plan without being able to implement the plan would be useless.

Mr. COUGHLIN. I thought your mission was to develop a plan?

Mr. SHUCK. No, sir. Our mission today is to develop the capability to begin delivery within 30 days and be prepared to deliver or assure delivery of 100,000 into the military services within 60 days and 650,000 into the military services within 180 days.

We must have that capability and be able to demonstrate possession of that capability.

PERSONNEL DEVOTED TO PLANNING

Mr. COUGHLIN. How many of the 115 positions that you have now would be involved in developing the plan?

Mr. SHUCK. In the actual development of the plan? My plans branch is approximately seven or eight people.

In addition, my Reserve Officers, my 715 today, and 779 that I am asking for in this budget, are involved in the plans. After we develop a plan, we must test it to assure the implementation of that plan in the field.

We conduct mobilization readiness exercises to determine whether we would be able to implement this plan effectively and to see if there are any changes needed in the plan. Many of the changes that we are in the process of doing right now are the results of exercise "Nifty Nugget" conducted last October and November. All of our Reserves went through the exercise. There, we identified some problems that have led us to modify our plan.

LOCATION OF PERSONNEL

Mr. COUGHLIN. How many of the current 78 civilian positions are here in Washington?

Mr. SHUCK. Approximately 43–44.

Mr. COUGHLIN. Okay. And the rest are in regional offices?

Mr. SHUCK. Yes, sir.

Mr. COUGHLIN. And how many of the twenty military positions are here in Washington?

Mr. SHUCK. Two.

Mr. COUGHLIN. The rest are in regional offices?

Mr. SHUCK. Yes, sir. I feel that is where I have to put as many resources as I can because that is where our mission accomplishment capability is going to be.

Mr. COUGHLIN. And how many of these 715 Reserve Officers are here in Washington?

Mr. SHUCK. Nineteen, sir. If we count the D.C. National Guard there are about 25. In addition to the D.C. National Guard unit, I have 19 Reserve Officers to assist in the National Headquarters.

FUNCTION OF RESERVE OFFICERS

Mr. COUGHLIN. What, exactly, is the function of the Reserve Officer in the field?

Mr. SHUCK. The function, today, is to train, to be prepared to assist the Selective Service System in setting up the organizational structure necessary to conduct a quick registration, the input of registration data, the issuance of induction orders, and the processing of the procedural rights of those persons who receive their induction orders.

Each individual who receives induction orders says, "Okay, what do I do now? Where do I go?" We have to have someone in each of these area offices prepared to issue a TR for travel to AFEES for a physical examination. We have to issue him a TR or charter a bus, whatever is necessary. So these officers have multi-faceted areas of responsibility that we are in the process of training them to meet.

Mr. COUGHLIN. And these are Reserve Officers but they are on your payroll. Is that correct?

Mr. SHUCK. Yes, sir. That is correct. They are members of all the Reserve components: Army, Navy, Marine Corps, Coast Guard, Air Force and Army National Guard. They are paid by their parent services and we reimburse the parent services for the total cost of their salaries.

Mr. COUGHLIN. If we had mobilization tomorrow, what would they do?

Mr. SHUCK. They would be mobilized within 72 hours. Each of them has a mission responsibility. Colonel Dunham could tell you what his responsibilities are on mobilization day, or I could tell you what some of the other officers' mobilization responsibilities are. Each of them has a basic responsibility to accomplish, with a backup or a secondary responsibility to accomplish.

SPECIFIC EXAMPLE OF RESERVE OFFICER'S FUNCTIONS

Mr. COUGHLIN. What is your basic responsibility?

Colonel DUNHAM. I am assigned to Minneapolis to reconstitute the area office of Minneapolis, some 500,000 people and some 42,000 registrants.

Mr. COUGHLIN. Your responsibility is to reconstitute?

Colonel DUNHAM. To reconstitute—to go out and get the local board members, get them appointed, sworn in, and set up.

Mr. COUGHLIN. Locate board members?

Colonel DUNHAM. Yes, sir, locate the board members. I will have done that, in all likelihood, prior to being mobilized. I would have at least identified them and had their commitment. But actually bringing them on duty and setting up the office, that is my responsibility. That is my individual responsibility because I assume during this time the provisional State director will have other duties and will not be able to supervise it.

Mr. COUGHLIN. Now the other Reserve Officers in the field, is that essentially their responsibility, to set up the different reserve boards, I mean draft boards?

Mr. SHUCK. Yes, over 500 Reserve Officers are basically responsible for setting up area offices. Now we are in the process of finalizing plans. Right now we know there are over 4,000 recruiting offices throughout the 50 States. We are working with the Military Enlistment Processing Command and the U.S. Army Recruiting Command to identify which recruiting office is going to go out of existence when the Selective Service System goes back into business during an emergency. We are identifying that office space, we have the office address and telephone number, and we know what equipment is there. We are working with GSA for pre-positioning additional equipment. We want our forms as close to the site where we need them when the emergency occurs. So we are pre-positioning everything we can to assist these officers in fulfilling their mission responsibilities.

Colonel DUNHAM. I would add to the list one additional duty. My duties also include training the people I recruit, because they have to be brought up to date, in many cases, and be taught how to use their——

Mr. COUGHLIN. Are we talking about potential board members?

Colonel DUNHAM. Yes, sir, potential board members——

Mr. SHUCK. And salaried employees. He has to recruit salaried employees also.

Colonel DUNHAM. I have to train compensated employees as well. I have to recruit and train them. Then, I also have to train someone to take my place should I be ordered elsewhere because, in addition to being assigned to Minneapolis, I am also assigned to the State of Min-

nesota. I am also available to the State director if he needs me elsewhere. My training is broad enough that I believe I have the capability to do that within a limited amount of time. So if I were to leave Minneapolis, I have to leave that office operation with someone who can go on with the training and the recruitment.

TESTING OF SSS PLANS (NIFTY NUGGET)

Mr. COUGHLIN. Then one of the reasons for the on-going increments is that you have your plan and you have to test the plan?

Mr. SHUCK. Yes, sir. And we are continually changing and updating it.

Mr. COUGHLIN. How do you test the plan?

Mr. SHUCK. All right, sir. Last October we ran exercise "Nifty Nugget."

Mr. COUGHLIN. What does that consist of?

Mr. SHUCK. Colonel Dunham, would you like to tell the Committee what you did during exercise "Nifty Nugget"?

Colonel DUNHAM. "Nifty Nugget" was which one?

Mr. SHUCK. The registration and induction exercise.

Colonal DUNHAM. We simulated an actual registration with everything short of actually calling in men to register. By using the demographics for our area, we were able to establish where our problem areas were and what changes needed to be made in the plan to meet the problem areas.

We actually simulated the registration process from the Presidential Proclamation to the registration.

Mr. COUGHLIN. Did you assemble the board?

Colonel DUNHAM. Yes.

Mr. SHUCK. We had the Reserve Officers serving as board members so they could later advise board members and assist in training board members.

Colonel DUNHAM. We recruited, trained, and assembled the board. Everything but literally going out to John Q. Citizen and saying, "Come with us now, we are going to register you."

Mr. SHUCK. To make this as realistic as possible, we took some of the data that is in our computer and issued some simulated induction orders. We used three X's for the first part of the last name so that there would be no invasion of privacy or any problems with the data that we have in our computer.

We created what we call exercise "incidents." One incident was about an individual who received his induction notice and claimed to be a sole surviving son whose father was killed in World War II or the Vietnam conflict. The participants had to determine whether the individual would be postponed, deferred, or required to serve.

PLAN REVISIONS

Mr. COUGHLIN. The words "planned", "revised" and "developed" and "tested" crop up all the time in your justification. At what point do you think that you will have the revised plan that will be the final plan to meet the mission that you have been assigned?

Mr. SHUCK. Well, sir, I think it depends on such factors as the technology in the world today, and the changing environment. The

1980 census is going to cause us to change some other plans because, as the demographics change and the population shifts, we are going to have to adjust our plans to meet our mission responsibilities. As we test a plan, we find some problems. We may find some of our Reserve or National Guard Officers were really not conversant on a given problem. So we crank into our training program the changes required to cover that—to make sure that all of the officers understand their responsibilities.

As a result of "Nifty Nugget" we prepared another 3 months' training schedule just to bring them up to date on the problems that were uncovered during that exercise and the changes that need to take place so that they can meet their responsibility.

We also required each of these officers to prepare an individual plan of action. Each of these officers has, more or less, a checklist of what he is going to be called upon to do and how he is going to accomplish each of those items

USE OF COMPUTER DURING MOBILIZATION

Mr. COUGHLIN. Let me ask you a question at this time. You put great emphasis on the computer and computerized concept. Now what exactly will that computer do?

Mr. SHUCK. All right, sir. If you will think back with me, in the 1968 through 1971 timeframe when the Selective Service System was in the process of inducting to meet the Vietnam requirements, we had approximately 9,000 employees in the Selective Service System. A lot of those employees were clericals, who typed the registration data, input data, and maintained files in the local boards in over 600 area offices. At that time, there were as many as 3,000 offices throughout the 50 States. As we were able to consolidate, we relied more on the computer to maintain the data file on each registrant.

Mr. COUGHLIN. So, you are not actually registering, all you are doing is setting up the system that will be doing it?

Mr. SHUCK. Yes, sir, that is correct. Not only setting up the system for maintaining the data file, but also monitoring how the flow of data would come in for changes. We would monitor the process starting the day a person received his induction order to see did he report to the AFEES, did he fail to report, are there any changes of addresses? These types of training requirements and input capabilities have to be developed and tested.

CONVERSION OF COMPUTER PROGRAMS

Mr. COUGHLIN. And how soon would you expect that system to be developed?

Mr. SHUCK. Well sir, we developed it on our Burroughs. When we ran the test we saw that our computer has approximately one-fourth the capability that would be required if the emergency occurred tomorrow. Now we are in the process of converting all of these Burroughs language programs to IBM computer language because we are time-sharing an IBM computer. Once we get that converted, which we anticipate we will have completed by May or June of this year, we will have the capability of running this not only on Burroughs but

on IBM computers as well. We will have time-sharing agreements so we can run the programs. Now what we have to do is go one step further. Originally, the input of this data from the field was going to be typed. Now I am evaluating computerized input and electronic transmission of that data from the field into Washington. We learned that there are a large variety of terminals in the States that could be made available to the Selective Service System pending an agreement with the owner or the possessor. We would use those terminals for key-to-tape or key-to-disc input and then electronically transmit the data into our computer in 2 to 5 days. The Congressional Budget Office says if we were going to do it manually it would take up to 29 days to do it.

Mr. COUGHLIN. Mr. Chairman, I have further questions, but let me yield at this time.

ELIGIBILITY FOR LOCAL BOARD MEMBERSHIP

Mrs. BOGGS. Thank you, Mr. Coughlin. Thank you, Mr. Shuck. I thank you very much for being here, particularly with this bad weather. I think you can accomplish almost anything if you can get here through all this snow. But, I would like to ask a question for information for myself, before I proceed.

Who is eligible to be a board member other than the persons who have served previously who are in this group of 10,000?

Mr. SHUCK. The eligibility criteria is anyone over the age of 18 and less than 65, and then there are certain other restrictions. They cannot be involved in enforcing criminal law, such as a judge or prosecuting attorney, for example. They cannot be a member of the military. There are certain restrictions like that that are built into the law and our regulations. Basically, citizens throughout the community who are willing to volunteer their time to assist us in administering the Military Selective Service Act are eligible.

Mrs. BOGGS. So that the same type of criteria that prevailed previously still prevails and you can go out and recruit new citizens?

Mr. SHUCK. Yes, ma'am.

Mrs. BOGGS. That is what I was puzzled about.

Mr. SHUCK. Yes, in fact it is set up so that a State director would identify individuals and submit names to the Governor for approval, and then the Governors can approve the nomination of these individuals for local board membership.

JOINT USE OF OTHER GOVERNMENT COMPUTERS

Mrs. BOGGS. I served on the Ad Hoc Committee on Computers in the House and I have a great respect for——

Mr. SHUCK. We could use your expertise.

Mrs. BOGGS. What we can do with computers. However, I also know there are certain human equations that can never go into computers. We, as Members of Congress, have discovered problems in Social Security computers, trying to nationalize them, trying to put them into larger and larger areas all of the time, using new and improved equipment, time-sharing with different industry groups with the hopes of spreading the Government largess around, et cetera. But you do, some-

times, get into a situation where you don't coordinate your national computer data with data in State terminals that you were talking about.

When you are setting up your computer for recruitment and planning purposes, will you coordinate and be compatible with the computers for Civil Defense? Will you utilize data from the various groups and civic organizations, all of whom have some type of computer that identifies persons eligible to serve, persons willing to serve, and their fields of expertise? It seems to me that we keep re-inventing the wheel if we don't use the information that has already gone into this type of pooled resource.

Do we do that? Do we gear our computers so that we are recruiting along with all of the other people who are already recruiting?

Mr. SHUCK. My computer center manager is a member of the ADP users group of the Inter-Agency Advisory Group for the Federal Government, so we do get some beneficial information from that group. Also, we are in very close coordination with the Department of Defense concerning the computers they have. Any Federal agency or military installation that uses the Defense logistics terminal to input their requisitions for supplies, equipment, food, or medical supplies, has terminals that are used less than 24 hours a day, 7 days a week. So we are identifying those. Instead of going out and renting one ourselves, we are inquiring if theirs can be made available to us via a joint use agreement, their computers would then be made available to the Selective Service System in the event of an emergency so that we could use that computer for the input of the data rather than renting one.

And yes, ma'am, that is what we are trying to do. Instead of buying all of these services, we are hoping to identify existing activities that can assist us in the accomplishment of our mission.

DECENTRALIZED INFORMATION PROCESSING

Mrs. BOGGS. That is very heartening to hear. But I also heard you say that you are enlarging your own national computer capability, that you are reaching out to IBM, Burroughs, et cetera, and that you hope to put your computer on a national system.

But we have discovered, for instance, in the Social Security System, where this has been done, it takes as long as 6 months after a person dies—in a survivor's benefit situation, at least 6 months—before anybody is able to pop information out of the computer to help a family with the social security benefits which were supposed to help immediately after death.

Also, we discovered that whatever goes on in the regional office or the local area office, sometimes does not jibe with what goes on in the national computer, and people get conflicting advice. Also, sometimes they are notified about whatever determination has been made after somebody else has already been notified. I just think that this type of confusion and enormous generalization may not be as effective as would be needed in your own situation. After all, the draft was deliberately put at the local level with local citizens running a local

situation, and that is why we have such esprit de corps. That is why you have all of those people who are willing to serve again. That is why you have all of the people that know that it is a good operation and who wish to be there and whom the recruits will respect.

I don't think you can have such a masterful sophisticated computerized system on a national level when you destroy that local input, that local outreach.

Mr. SHUCK. Yes, ma'am and we are hoping that we can maintain that same esprit de corps and support that we have in the local communities through the computerized concept we are using.

Basically, what we are planning to do is use the computer for the clerical work of maintaining the data on a registrant. Our regional offices, which we are asking permission to set up, will have a minicomputer or a terminal that will assist us in getting quick, direct service to each of the area offices in the local communities.

This way, we have current data when the members meet to classify a registrant, or determine whether an individual should serve. They have the most recent computer data available to them as the individual is sitting there asking to exercise his procedural rights—either by asking for a postponement, deferment, or disagreeing with our determination that he should serve. So, yes, we are going to try to maintain that local involvement of individuals and still provide for a centralized system so we can control this. We don't want someone from one State to serve when another person in another State with the same random sequence number hasn't been called upon to serve yet. We want uniformity throughout the 50 States.

Mrs. BOGGS. For instance, the school boards already have much information on their computers including most of the data that you would need to know about a great many 18-year-olds. There are all sorts of computers that are already fed this information. So it seems to me that a coordination of the individual efforts would be better than trying to mastermind an entire national operation. As you go on, you will have a very difficult time completing your plan and putting it into action because more sophisticated equipment is going to come onboard. I admire the fact that you have tried to have the best possible plan, so that you can go into operation in the easiest way with all of your operation segmented so that it melds together into a smooth operation. But I do think that the more you keep testing, the more you are going to discover that there are areas that can be improved. During that time, you are going to find more sophisticated equipment coming your way that you will have to try to accommodate and thereby delay putting the plan into action.

Mr. SHUCK. That is what we find every time we run a test on a plan; especially if we run it in the field of 50 States. Someone will come back with a concept or an idea and ask, "Have you considered this?"

Mrs. BOGGS. That is right.

Mr. SHUCK. Then we have a new concept to evaluate and to crank into the plan.

USE OF NEWS MEDIA

Mrs. BOGGS. You do have at your disposal the affirmative aspects of television, radio, and the printed media. I am sure you must have

geared your plans to have them coordinate with you about places for finding out about the recruitment possibilities and requirements, et cetera.

Mr. SHUCK. Yes, ma'am. We are trying to put together a complete package of what we would suggest as news media issuances on a local basis to gain the support of the local media throughout the 50 States.

Mrs. BOGGS. Civil Defense, of course, has a very good system in that regard.

Mr. SHUCK. Yes.

USE OF FEMA COMPUTER

Mrs. BOGGS. And hopefully, when FEMA gets into operation you will have another resource that is coordinated.

Mr. SHUCK. Yes, I have been in close contact with FEMA and I was hoping we could use their computer as a backup computer or to supplement our computer instead of having to procure one. Unfortunately, their computer is fully utilized, especially during an emergency. They have the same emergency mission responsibilities to accomplish that we would from the viewpoint that theirs is critical to their mission and our computer would be critical to ours. So we couldn't jointly use it at that time. That is the reason we are going down separate roads and developing our own inhouse capability.

Mrs. BOGGS. That is a very good explanation. Thank you.

Mr. SHUCK. Thank you.

HARRIS SURVEY ON REGISTRATION

Mr. BOLAND. Last November, the ABC News-Harris Survey asked a cross-section of adult Americans if they would favor or oppose registration of all military age young people in the country. It is interesting to note that sixty percent favored registration, thirty-one percent opposed and three percent were not sure. With that amount of support for registration, shouldn't the country return to registration? How do you feel about registration?

Mr. SHUCK. Let me qualify how I favor registration: If I can't get my plans completed to the point where I feel comfortable that I can meet the Department of Defense's requirements for our national security, then I am going to ask that we go back to peacetime registration. As long as I feel that I will be able to meet those requirements without requiring registration of 18 through 26 year olds, I would like to proceed along those lines. Now, if the Department of Defense changes their requirements, if they ask for an earlier delivery or a larger number of deliveries, there is going to be a saturation point and then the only way I am going to be able to meet their requirements would be with peacetime registration.

CHANGE IN DOD MANPOWER REQUIREMENTS

Mr. BOLAND. Has the DOD indicated that there might be a change? Was there any particular schedule of manpower requirements outside of the current schedule of M plus 30 for delivering the first inductees, M plus 60 for 100,000 inductees and M plus 180 for 650,000? That is the current requirement, is it not?

Mr. SHUCK. Yes, sir. That is the current interim requirement.

Mr. BOLAND. And I understand that is perhaps the heaviest responsibility that was levied upon the Selective Service System.

Mr. SHUCK. That is correct.

Mr. BOLAND. Well, now, what about the DOD? Has it ever indicated that the requirements might be less than M+30, M+60, M+180?

Mr. SHUCK. From an official position from DOD, no, sir. From some of the individuals that I have communicated with within the Department of Defense, I would say, yes, there is disagreement on the requirements that are currently laid upon the Selective Service System.

REPORTS ON SSS

Mr. BOLAND. There have been a number of reports on SSS in the last few months. You have testified before some of the Committees on the Hill. There have been reports by the Congressional Budget Office, by the Pentagon, by the General Accounting Office, by the President's Reorganization Project, and by various Congressional Committees. I presume you are familiar with practically all of those reports?

Mr. SHUCK. Yes, sir.

Mr. BOLAND. I wonder if you would indicate for the record what some of those reports entail and what your particular position is with respect to them?

Mr. SHUCK. Would you like for me to provide it for the record?

Mr. BOLAND. Yes.

Mr. SHUCK. Okay, sir.

[The information follows:]

I. CBO - The Congressional Budget Office Study, directed by the House Armed Services Committee, addressed the mobilization capabilities of the Selective Service System with respect to meeting the current Department of Defense manpower requirements. The report examined two questions: (1) can Selective Service meet proposed wartime induction schedules, and (2) if not, can any of the recently debated Congressional changes ensure that the requirement will be met. CBO then determined that there were three options the Congress may wish to consider in order to improve the System's responsiveness:

A. Option I: Maintain current posture, but revise post-M-Day registration plans and upgrade ADP support.
B. Option II: Reinstate peacetime registration and upgrade ADP support.
C. Option III: Reinstate peacetime registration and classification and upgrade ADP support.

The Selective Service System believes the report is essentially a well-researched study which generally supports Selective Service's position that it cannot meet the revised DOD manpower requirements from its current deep standby status with its limited fiscal and personnel resources. CBO positively confirms that our ADP system requires enhancement and upgrading to be adequate to meet any emergency mobilization situation. We disagree with the implications that the System was derelict in not taking corrective actions to improve its posture and capabilities since those actions were beyond the agency's control because of budgetary and directive constraints. In addition, various sections of the study provide data and statistics which cannot be supported by analysis of workload, geographical factors, or the necessary accessibility of the System to registrants and the general public. This is especially true on the subject of field structure of the System.

The three options face the issue squarely and cover three alternative courses of action. In addressing non-participatory (passive) registration i.e. use of other agencies' files, a possibility of as low as 85% registration is totally unacceptable morally as well as legally in that large numbers of persons in each age group could escape service by not being registered. In Option III, by stating that classification in peacetime would not significantly improve induction capabilities over Option II (registration only), the study completely ignores the issue of equity and seems to accept a 2-3 month delay in beginning to process judgmental deferment cases. This would allow potentially several thousands of registrants to appreciably delay induction by simply making claims for deferment even if frivolous; peacetime classification would prevent just such a situation.

II. DOD Report - In response to a request from the Senate Armed Services Committee, Department of Defense submitted "A Report on the All-Volunteer Armed Forces" dated December 31, 1978. The study was conducted to examine the all-volunteer policy vis-a-vis several questions which were relevant to the emerging debate as to the effectiveness of a volunteer total force concept.

One question in particular was especially relevant to the Selective Service System - Can the all-volunteer force, as presently conceived and organized, meet our total range of military manpower needs or must alternatives be considered? Naturally, when alternatives to AVF are considered, a study of Selective Service organization and functions is a necessary corollary.

In Part III, Alternatives and Conclusions, the report listed fourteen (14) alternatives which started from elimination of the Selective Service System, through reinstatement of peacetime registration to reinstatement of an Active Force draft, to a broadbased Compulsory National Service. The report discussed the alternatives, decided that several at the extremes were neither feasible nor cost-effective at this time, and recommended that alternatives (3) through (7) were the most logical courses of actions to pursue at this time. The programs were (3) improve SSS, (4) reinstate mandatory peacetime registration, (5) initiate testing, (6) reinstitute SSS classification, and (7) provide physical examinations to 300,000 youths. The study also estimated the possible costs of each alternative, indicating that in several of the alternatives there would be significant savings accruing from reduced programs in other areas, e.g., active and reserve recruiting, advertising, etc.

Selective Service closely reviewed the sections of the report relevant to the System. While there is some disagreement with the data and analysis, we do not have any objection to the report's recommendations, which discuss Selective Service improvement, peacetime registration, and peacetime classification.

III. GAO Report - The Comptroller General of the United States, through Government Accounting Office Report No. B-162111, reported to the Congress the results of a study entitled "What Are the Capabilities of the Selective Service System." The report discussed what GAO had determined to be Selective Service's problems in meeting DOD manpower requirements and presented recommendations as to alternatives to improve the System's capabilities.

GAO stated that basic to the System's problem was the apparent inability under the current posture to meet the drastically shortened timeframe in which to furnish inductees following M-Day. The study stated the key to a shorter delivery time was to have on file prior to M-Day a list of eligibles to be drafted in case of mobilization. The report maintained that a prior registration would be needed but that, in the event it was not authorized, the System should develop a list of draft eligible persons in a manner similar to that proposed in the CBO report, i.e., by obtaining personal data from the files of other federal, state, and local agencies. The report recognized the probable conflict with the Privacy Act and recommended that the agency seek an exception or waiver to the Act. The report also recommended that each officer in the System's Reserve Forces be assigned specific offices in which to work and that necessary supplies and forms be pre-positioned so that they would be immediately available to each location.

The Selective Service position with respect to the recommendation to compile a list of draft eligible persons by means of data collection from other government sources is the same as that referred to in our previous discussion on the CBO report - we feel that the proportion of names available to all those who should be registered is unacceptably low and adversely affects essential equity in treatment and obligation of individuals. We are evaluating the benefits of an exception to the Privacy Act should the authority be granted to begin compilation of a list of those eligible for service under the MSSA.

The final recommendation, which discusses officer assignments and registration supplies and forms, has already been acted upon by the agency. Each Reserve and National Guard Officer assigned to the System now has a specific mobilization assignment and, as officer attrition and replacement occurs, the assignment list is updated. Plans are being finalized with regard to determining the amounts and pre-mobilization locations of the necessary forms and supplies.

The complete text of the agency's response, submitted to the House Committee on Government Operations, is attached to this section.

IV. PRP Report - In December, 1978 the President's Reorganization Project published "Selective Service System Reorganization Study: Report of the Study Team". The report stated that it contained the research, findings, and recommendations of the study team; that the recommendations were at that time under review; and that the recommmendations did not represent an Administration position.

The report concluded that Selective Service, within the constraints imposed upon personnel, material, and fiscal resources by the FY 79 budget, cannot meet current DOD mobilization requirements. The study team made several recommendations with respect to structure, functions, and organizational location of the System which would involve significant changes in legislation governing the System and in the traditional operation and identification of the Selective Service System.

The study recommended that the System be merged into DOD during peacetime; but whenever registration or other active functions should resume, the System should be broken out of DOD and resume its independent status. The agency's position is that such an action would be most inefficient, unproductive, and unacceptable. Many segments of the American public would perceive an amalgamation of the supplier of military manpower and the user as immoral and/or unethical. In addition, it is difficult to see how the shortened timetable could be effectively complied with during the initial period when Selective Service would be going into immediate action while simultaneously leaving DOD to resume an independent function.

The report further recommends a drastic restructuring of the System which would result in a highly centralized organization depending on a regional concept to operate and eliminating the State Headquarters function mandated in the existing Act. In addition, a severe cutback in the number of local boards and area offices was recommended on the premise that the smaller the number of offices and boards that were involved, the greater would be the improvement in efficiency and productivity. Such a course ignores the traditional concept of a system of conscription which is "grass-roots" oriented and necessarily community-based in order to maintain the desired relationship between registrant, family, and the Selective Service System. We disagree with the recommended concept and believe that its implementation would run counter to all the improvements in equitable registrant processing and community acceptance which have been built into the System.

The agency does agree with three recommendations of the study team - (1) improvement of the System's ADP capabilities, (2) transfer of the Standby Reserve availability determination function to DOD from SSS, and (3) review and modernization of alternative service policies and procedures.

COMPUTER—KEYSTONE TO OPERATIONS

Mr. BOLAND. You have stated that if we had provided the additional funds last year you would have met the goals that were outlined.

How could you do that without adequate computer capacity? Is the computer really the keystone of the plan.

Mr. SHUCK. Yes, sir. The computer is the keystone. But since I don't own a computer that is powerful enough to do it, I have a current agreement with the Department of Commerce where I can use their computer for a portion of the time. I am just completing an agreement to use the Department of Defense computer outside Washington, D.C. as a backup.

I have been in close contact with some time-sharing corporations who have submitted some unsolicited proposals to provide me with backup computer capability.

Mr. BOLAND. Now, with all of that information and all of that assistance from so many sources, you should be interested in the conclusion of the Congressional Budget Office Report, which says that the SSS ADP hardware and software is fully inadequate to meet the high volume processing needs of the quick reaction organization that Selective Service is supposed to become.

Mr. SHUCK. Yes, sir. We do not possess that today.

Mr. BOLAND. You don't possess it?

Mr. SHUCK. No, sir.

Mr. BOLAND. But you will possess it if all of these things you talk about come together?

Mr. SHUCK. Yes, sir. Correct.

NEED FOR 10 REGIONAL OFFICES

Mr. BOLAND. You are requesting for your 1979 program a supplemental appropriation of $1,735,000 to expand the field structure to ten regional offices. You now have six. You are going to increase them by four. You also want to improve the data processing system. The funds requested will support 50 additional positions and 64 additional Reserve Officers. Why do you want ten regional offices? The President's Reorganization Project Study recommends eight to ten regional offices and the National Advisory Commission says that eight ought to be enough. Why do you need ten?

Mr. SHUCK. Well, sir, the Federal Government is organized along the lines of ten standard Federal regions. With the ten regional offices I have the capability, should one of the regions go out of existence due to sabotage or whatever, to utilize another regional office in close proximity as a backup. With the ten regional offices, I would have closer supervision of the Reserve and National Guards in each of the States, a lesser number of States for supervision by each office, and the ability to be more responsive to the people within a State because the regions will be dealing with less personnel. I feel this is going to be essential if we are going to meet our mission responsibility.

DEVELOPMENT OF ADP PLAN

Mr. BOLAND. Let me ask you, how much of the $1,735,000 is going to be used to improve the data processing system?

Mr. SHUCK. As much as I can squeeze out of it. Right now, I figure approximately—$698,000 which is the figure in the $1.7 million supplemental; almost $700,000 will be for just computers alone.

Mr. BOLAND. How much will it take to develop the automatic data processing system plan that you envisage?

Mr. SHUCK. I brought with me materials we are working on in our ADP study. This is the study that we put together over the past five months on computer technology, federally-owned computers, and possibilities for our use in meeting our responsibilities.

Mr. BOLAND. All right. After the plan is completed, how long will it take to implement?

Mr. SHUCK. After completion of the plans, we hope to be able to move right into demonstrating the usage of that plan.

IMPACT OF PRP ON CURRENT PLANS

Mr. BOLAND. Now, does the President's Reorganization Project Study impact at all upon these particular plans?

Mr. SHUCK. They recommend that we not have our field structure as quickly as we planned. They recommend further that we not have a State organization, as we had planned. Yes, it will have somewhat of an impact although not as it relates to meeting the initial delivery requirements or the responsibilities of the 180 day-650,000 delivery requirement. What it might cause me to do is shift some of the resources that I had planned to use in the States for dealing with State problems. For example, we will need to find jobs for personnel who are conscientious objectors under the alternate service program. I am going to have to shift some of those resources and pick that up through some other avenue.

Mr. BOLAND. Which leads to the question, why should the Selective Service System be funded above the current level until your computer plans are known and the Administration comes forth with its recommendations regarding the President's Reorganization Project Study? When is the Administration going to finish the review of the study and make its recommendations?

Mr. SHUCK. I don't have a target date on that, sir. At this time, what I am fearful of is not getting the resources to carry out our responsibilities today of developing the capability to deliver within 30 days and to have the capability of delivering 100,000 within 60 days. Unless we get additional resources to permit us to complete these plans and to set up the field structure that we would plan to use, we may never be able to meet those requirements. So, the resources we are asking for are to give us the capability of getting the System organized and to get personnel onboard and trained and to demonstrate that we will be able to meet those requirements.

SSS ACTION IN EVENT OF IMMINENT CRISIS

Mrs. BOGGS. Mr. Boland, excuse me.

Mr. BOLAND. Yes?

Mrs. BOGGS. If an emergency arose next Monday, what would you do?

Mr. SHUCK. Pray. In the United States, we are fortunate we have many dedicated individuals who would be responsive. When we went

out of existence as an operational agency in 1976, we separated, through adverse actions or reductions-in-force, close to 7,000–8,000 individuals. Many of those individuals are out in the communities today and they have indicated to us in the past six months, "If you need me, call me." All we have to do is call and I think this nation is going to respond with whatever is required.

Mrs. Boggs. Are there some contingency plans?

Mr. Shuck. We plan to ask those dedicated individuals to come back on our roles as quickly as possible. We believe we will be able to meet the requirements whatever they are.

Mrs. Boggs. In 1941, I was here during debates about extending the draft—just before Pearl Harbor.

We debated about lend-lease capabilities and joining the lend-lease program. Remember the difficulties that we encountered then because the populus was willing to think about how we should go to war? I belong to that generation of protesters.

I do think that it is very important that you haven't answered that you have a contingency plan that will go ahead with what you tried before, incorporating improvements that you have discovered and not waiting for final research.

Mr. Shuck. Yes, ma'am. Our Reserve and National Guard Officers put together, 18 months to two years ago, what we call a reconstitution plan for each State and a registration plan for each State. We have been constantly updating and changing those. Those plans provide for specific contact, not only office phone numbers, for example, but home phone numbers in the event an emergency occurs on a Saturday night or a Sunday afternoon. We have, in our computer, data that we could print out at any time listing former local board members and appeal board members. We have the wholehearted support of the Adjutant General of each of the States. Most of the Governors in the States have indicated, "If you need me, let me know how I could assist you." I believe in this Nation, we are going to meet the requirements, whatever they might be.

Mrs. Boggs. Thank you.

PURPOSE OF FISCAL YEAR 1979 SUPPLEMENTAL

Mr. Boland. In 1979, the SSS request was reduced by $2,455,000 by the Congress. You are now asking us to restore $1,735,000 of that amount. Is the $1,735,000 essentially for identical purposes as those funds cut from the original 1979 request?

Mr. Shuck. Not identical, no, sir. A significant additional amount here is for computer enhancement.

Mr. Boland. Well, can I take it that the request of $9.5 million for fiscal year 1979 was not very believable?

Mr. Shuck. No, sir. I don't believe that at all. What I would like to say is that during the past 12 months we have not been sitting on our duffs waiting for the funds so that we could start doing things. We have been doing things for the past year and, as we have come across an improved system or another concept, we have evaluated that concept and have made plans to utilize that concept. Many of the things we are going to do in the next year may help us identify some other innovative ideas that will enable us to meet these requirements, maybe even with the $9.8 million the following year or less.

COMPUTER SYSTEM FUNDING REQUIREMENTS

Mr. BOLAND. On page 30 of the justifications is the statement that the supplemental budget request does not include funding for the total computer capability. That is in the second paragraph. Does the Fiscal Year 1980 request contain the total funding requirements?

Mr. SHUCK. No, sir, it does not because we haven't identified exactly what the cost is to improve the computers.

Mr. BOLAND. You have not identified it?

Mr. SHUCK. No, sir. We had the study and we have come far since we started this study last September. I am comfortable with the figures that are in it so far, but there may be some supplemental funding that we will ask for in Fiscal Year 1980. However, depending upon how some of the study comes out, we may not be asking for anything. At this stage, I don't have an answer.

Mr. BOLAND. In the next paragraph on page 30, you mention converting to a more powerful computer until the new system is designed and implemented. The paragraph says that you will lease the equipment. Is that correct?

Mr. SHUCK. We are time sharing a computer today.

Mr. BOLAND. And what will happen to your present computer?

Mr. SHUCK. We still own it, sir. We are planning to discontinue use of our own computer beyond this fiscal year.

Mr. BOLAND. Would you buy or lease the new system?

Mr. SHUCK. I would like to lease it, sir, because I don't believe that we should own a computer with the changing technology that is taking place. We need the ability to update as the technology changes.

INTERIM COMPUTER SYSTEM

Mr. BOLAND. You also discuss an interim system on this page. I think you mentioned the interim system previously. What sort of a system is it? When will this system be active?

Mr. SHUCK. We have the interim system right now. We are in the process of converting all of our programs to IBM language and we have a time-sharing agreement on one IBM computer with the Department of Commerce. We are in the process of finalizing another agreement for an IBM system in Texas. We believe that we could move into that very rapidly.

If an emergency occurred tomorrow, we would start running the programs on the Burroughs and then go time-sharing. In some of the time-sharing technology today, you can run a Burroughs program through a converter and then use the IBM machine to monitor the data or to maintain the data that you need to maintain. So we are saying that we could move tomorrow if we had to. At our present pace, it will probably be the end of May before we will have converted all of the programs.

Mr. BOLAND. How much is being spent to develop and implement the interim system? Please supply that for the record.

Mr. SHUCK. Yes, sir. I will supply that for record.

[The information follows:]

Funds obligated in fiscal year 1979 to develop the interim computer system are estimated at $65,000.

ATTAINMENT OF REQUIRED MOBILIZATION CAPABILITY

Mr. BOLAND. Let me ask you this final question: If Congress were to provide the resources requested, when would the Selective Service System be able to meet the DOD manpower requirements?

Mr. SHUCK. We have budgeted the supplemental appropriation to be available on April 1. If we get those resources on the first of April, we are anticipating now that by the first of October, we would be able to demonstrate possession of the capability.

THE PRESIDENT'S REORGANIZATION PROJECT STUDY RECOMMENDATIONS

Mr. COUGHLIN. The Chairman mentioned a number of studies that have been done over the past year and has asked you to supply some information for the record. I would like to discuss a couple of them now. At this time last year, the President organized a task force to study the Selective Service System's organization and management, ability to meet Defense manpower requirements, and to study the possibility of merging the Selective Service System with the DOD. The report was due in the fall of 1978. What recommendations were made?

Mr. SHUCK. Well, that task force recommended that we not plan to reconstitute the field structure as quickly as we planned to reconstitute it. It recommended that, while in a "Deep Standby" status without registration or induction processing taking place, the Selective Service System should cease to be an independent agency and go under the Department of Defense. Then, any time that we started registration or induction processing, we would again become an independent agency. Those are the most significant recommendations that I can think of.

Mr. COUGHLIN. Does the budget request reflect those?

Mr. SHUCK. There was no cost factor associated with those recommendations, sir.

Mr. COUGHLIN. So, in other words, you plan to go ahead despite the fact that they recommended that you don't increase the field force. Have you gone ahead with an increased field force?

Mr. SHUCK. No, sir. They said that we should not plan to create the State headquarters and as many field offices as we had planned to when that study started, but we were in the process at that time of evaluating whether we really need 626 area offices and 3018 local boards. So, they more or less said, "We don't believe you need that many."

Mr. COUGHLIN. How many did they say you should use?

Mr. SHUCK. They said we should use 300 to 500.

Mr. COUGHLIN. And how many do you plan to use?

Mr. SHUCK. Well, it is not finalized right now, but if I remember correctly, it is approximately 500 that we are considering.

Mr. COUGHLIN. Why isn't it finalized?

Mr. SHUCK. Well, sir, because the Selective Service Law provides that when we set up an office or change offices or jurisdictions within the States that the changes have the concurrence of the Governors. I have not attempted to contact the Governors to obtain concurrence for some of the changes in the organizational structure that I would use in their States.

DOD STUDY ON ALL-VOLUNTEER FORCE

Mr. COUGHLIN. The Senate Armed Services Committee requested the Secretary of Defense to submit, by December 31, 1978, a study of the cost and consequence of alternatives to the current all-volunteer force. What recommendations were made in that study?

Mr. SHUCK. Well, sir, they had 15 recommendations in that study. The first recommendation is to eliminate the Selective Service System, but then they said that wasn't a viable alternative. Nevertheless, that was one that they provided for in the study.

The second alternative is to remain with our present organizational structure. The third is to provide $9.8 million, and so forth. I think it got up as high as $500 million for various readiness capabilities or delivery capabilities for the Selective Service System.

They recommended, among all of their options, somewhere between option three and option eight as the most desirable and submitted it to the Senate Armed Services Committee for their further consideration.

Mr. COUGHLIN. In the light of these various proposals that would affect this System, should Congress do anything at all until the question of the draft is resolved?

Mr. SHUCK. Well, sir, our Nation at this time has identified a need for moblization capability in the event the whistle blows tomorrow or an emergency occurs. We have to be prepared to meet that need and I feel very strongly that we should not delay our preparedness to ensure our survival if we are threatened at any time. That is the reason that I am asking for the funds in this budget.

PROPOSED LEGISLATION—UNIVERSAL SERVICE

Mr. COUGHLIN. On another subject, a number of Members of Congress, including Congressman McCloskey and others, have proposed a Youth Service Plan which would give men and women who turn 18 a number of options. They could volunteer for two years of military training, in which case they would receive 36 months of GI Bill type benefits. They could volunteer for six months of active duty followed by five and a half years in the active Reserve units. They could give one year of service in existing civilian government programs, community work and things like that, or be placed in a lottery pool which would make them subject to a two year draft for military service for anyone between the ages of 18 and 24. In this case, they would receive 18 months of educational and training benefits. How do you look upon such a program?

Mr. SHUCK. I have copies of each of the bills that have been introduced. To my knowledge, there have been four different bills introduced: two in the House and two in the Senate. I have sent them to my planning section and requested an analysis to determine what impact it would have on the Selective Service System if Congress decides to go the route that this Congressman or Senator has recommended. So we are "blue skying" the bills to see what impact they would have. This bill you just mentioned, for example, reduces the eligible ages from 18-to-26 to 18-to-24, but it includes males and females in the consideration.

Mr. COUGHLIN. How, in general, do you look at such a universal service type of plan?

Mr. SHUCK. Well, I look at it as it relates to the Selective Service System. As I visualize the bill, it would require us to register and monitor individuals and determine who should serve, whether in the military service or in a national health or safety interest category. We must determine who should be excused from serving due to physical, mental, or moral disability.

I look at our responsibility to see how we would administer that plan if it were implemented.

Mr. COUGHLIN. Do you favor a universal service plan?

Mr. SHUCK. I have no objection to it. I have some difficulties with it from the viewpoint that there would be a great many people to screen. Each year birth group reaching age 18 would have to be screened. In 1979, for example, there are 1.9 million males and approximately 2 million females reaching age 18, so there would be approximately 4 million individuals for that year of birth group. Multiplying those seven year birth groups times four, you have 28 million people that we would have to register and monitor to determine who should serve and who should not serve and——

Mr. COUGHLIN. You are saying, regardless of how this program is set up, you would have to screen 4 million people a year in order to determine whether they are physically or mentally qualified?

Mr. SHUCK. Yes, sir. I look at the fact that my basic responsibility, my most important responsibility at this time is providing personnel for the military services for whatever level they need above the all-volunteer force. The first priority is military preparedness and meeting that need and the second one is meeting any other national responsibilities that would be placed upon the Selective Service System.

Mrs. BOGGS. Would the gentleman yield?

Mr. COUGHLIN. I would be happy to.

YOUTH CONSERVATION CORPS

Mrs. BOGGS. I was reading an editorial in agreement with this type of program yesterday. One of the suggestions was, of course, that they could serve in the Youth Conservation Corps. Yet, when we were being briefed on the President's budget, we discovered that the Youth Conservation Corps had been severely cut. So I think that we are going to have to make adjustments in a great many other areas before we can think of this universal service program.

Mr. SHUCK. Yes, ma'am, I agree with you. There are many other facets that we have to evaluate once we get into universal or national service.

Mr. COUGHLIN. Generally, this raises a very significant question concerning the motivation of young people and whether, at this particular moment in history, they are motivated to serve considering the events in the world that are going on around them.

Mrs. BOGGS. If the gentleman will yield, I believe very strongly in the Youth Conservation Corps. I am very hopeful that we would not cut it because we have high youth unemployment, particularly the minority youth. It seems like one of the logical ways of making splendid Americans out of them is through the Youth Conservation Corps.

The practical problem is that the Administration's budget cuts many of the programs that we should be channeling these young people into. If they don't go into the military service, then they can go into the Youth Conservation Corps, Vista, the Peace Corps, et cetera.

FISCAL YEAR 1979 AND FISCAL YEAR 1980 RESERVE PROGRAM FUNDS

Mr. COUGHLIN. Can you tell me, how much money is in the 1979 supplemental and 1980 budget for additional Reserve Officers? Can you provide that for the record if you don't have it?

Mr. SHUCK. Yes, sir, I will provide that for the record. It is not a significant amount.

[The information follows:]

Fiscal year 1979 Supplemental	$78,000
Fiscal year 1980	211,000

Mr. COUGHLIN. OMB cut the number of Reserve Officers from 904 to 779 but did not reduce the funding. What does the decrease of 125 Reserve Officers amount to in funds? Can you provide that for the record?

Mr. SHUCK. Yes, sir. The OMB wanted us to put more emphasis on our computer capability and directed that we use that funding for improving our computer capability.

Mr. COUGHLIN. Would you provide that for the record?

Mr. SHUCK. Yes, sir, will do.

[The information follows:]

Funds reprogramed by OMB from the reserve program to EMMPS were	$325,000

COST OF PEACETIME REGISTRATION

Mr. COUGHLIN. What level of funding would you require if the Selective Service System were to conduct peacetime registration?

Mr. SHUCK. I provided that for the record to the House Armed Services Committee. If I remember correctly, it was around $16–$18 million.

Mr. COUGHLIN. And could the Selective Service be ready on a non-emergency basis to register young people during Fiscal Year 1980?

Mr. SHUCK. Could we be ready to register on a non-emergency basis? Yes, sir.

STATUS OF SSS DIRECTOR'S POSITION

Mr. COUGHLIN. Finally, I note that you are the acting director of the Selective Service?

Mr. SHUCK. That is correct, sir.

Mr. COUGHLIN. Is that because a director has not been appointed? What is the status on that?

Mr. SHUCK. Well, sir, I was offered the job pending completion of the studies and determination whether there would be a director's position once the President's Reorganization Project Study is complete. That study has not been finalized and so I have been sitting in the role of the acting director.

Mr. COUGHLIN. How long have you been with the Selective Service?

Mr. SHUCK. I first came with the Selective Service System in 1970

as a Reserve Officer. I was with the Civil Service Commission at that time. I was on loan to the Selective Service System in civilian employment from '71 through '73 and then went back to the Civil Service Commission. I came back to Selective Service in 1974 and have been with them since 1974.

Mr. COUGHLIN. Thank you, Mr. Chairman.

GS RATING OF LOCAL BOARD CLERKS

Mr. BOLAND. I presume that the 500 area offices would have a clerk of the board? Is that correct?

Mr. SHUCK. Yes, sir. At least a clerical staff.

Mr. BOLAND. A clerical staff? Some of the offices only had one clerk. What would be the GS rating of that particular clerk?

Mr. SHUCK. Well, sir, none of the offices that we plan to set up will be a one person office to my knowledge at this stage. I might be wrong on that. In some of the States, we may have found a place that, because of geographical separation from other activities has less than two people in it. But, generally speaking, we would have an area office manager, probably at the GS–5, 6 or 7 level, and clerical personnel for dealing with the registrants, getting data, and responding to inquiries. Those personnel would be at the GS–3 or 4, possibly GS–5 level, again depending on the work. They would be under Civil Service classification and the duties of those positions could fluctuate between a GS–3 and a GS–5.

LIAISON WITH STATE GOVERNORS

Mrs. BOGGS. You have contacted most of the State offices?

Mr. SHUCK. Yes, ma'am, I have been in contact with them, usually through my provisional State directors. The provisional State director is nominated by the Governor and appointed by the President. I have been in communication with them and they, in turn, have contacted their Governors. So, I have not had actual contact myself, except in three or four instances.

Mrs. BOGGS. Is there any special reason why all of them haven't reported in?

Mr. SHUCK. They have reported back when I have asked them to accomplish something. In some States, you may be aware, the provisional State director is the State's Adjutant General. Often the Governors have then delegated whatever authority might be necessary for helping Selective Service. So in these cases, the Adjutant General hasn't gone to the Governor other than possibly to inform him or one of his staff members. That is the reason that I didn't want to say that we had contacted every State Governor because it may have been delegated to his staff. Nonetheless, we have served the purpose that we sought to accomplish.

Mrs. BOGGS. I understand that in 35 out of the 50 States you have complete approval?

Mr. SHUCK. It is greater than 35 for which we have complete approval. The others have come back and indicated that we have concurrence. We are in the finalization of that concurrence. We have no State at this stage that has told us that we could not use the election machinery in their State.

Mrs. BOGGS. Thank you very much.

Mr. SHUCK. You are welcome.

Mr. BOLAND. Thank you very much, Mr. Shuck and Mr. Brodsky. Thank you, Colonel Dunham, for your appearance here. I want to congratulate you on your knowledge of and your enthusiasm for the job that has been levied upon you. It is a terribly difficult job and you can't do it without staff, I guess. If you don't have the wherewithall to implement the plans that are developed then, of course, you get nowhere. It is terribly important to the security of this Nation that we have the kind of a system that will work and work when it is most needed. So thank you very much for you appearances. We appreciate it.

Mr. SHUCK. Thank you very much.

Mr. BOLAND. The Committee stands adjourned.

Your justification will be placed in the record at this point.

[The justification referred to follows:]

SELECTIVE SERVICE SYSTEM

Fiscal Year 1980 Budget Justifications

TABLE OF CONTENTS

Page

INTRODUCTION

Narrative Statement on Program and Performance 1

SUMMARY STATEMENT

Program Highlights 3

DETAILED MATERIAL FOR APPROPRIATIONS

Appropriation Language Sheet 6
Program and Financing Schedule 7
Schedule of Object Classification 9
Personnel Summary 10
Detail of Permanent Positions Schedule 11

JUSTIFICATIONS AND EXPLANATIONS

Mobilization Readiness 12
Administration.....22
Reserve Program.....24

FY 1979 SUPPLEMENTAL

Appropriation Language Sheet.....25
Program and Financing Schedule.....26
Schedule of Object Classification.....27
General Justification.....28

OTHER MATERIAL FOR ANALYSIS

Comparison by Activities 31
Readiness Region Areas 32
Organization Chart 33

PROGRAM AND PERFORMANCE

The Selective Service System must continue to improve its capability to respond rapidly and efficiently from its standby posture to meet the revised manpower delivery requirements of the Department of Defense. The response capability is founded upon the concept that a higher degree of readiness can be attained with an improved readiness organization, a local and appeal board structure, a special program for emergency registration, and refined automated data processing capabilities.

1. Mobilization Readiness. - This activity includes all facets of national and regional operational planning, development and maintenance of an emergency registration capability, maintenance of a trained force of uncompensated local and appeal board members, and a comprehensive training program for the Selective Service Reserve Forces. The processing procedures employed by the Emergency Military Manpower Procurement System will continue to be tested and refined. We must develop and demonstrate the ability to fully satisfy the emergency manpower needs of the armed forces.

2. Administration. - This activity includes the Office of the Director of Selective Service, personnel administration, fiscal management, logistics, data processing support and other necessary administrative services in support of the mobilization readiness planning and training programs.

3. Reserve Program. - This activity includes special utilization and training of Reserve Forces officers who constitute the Selective Service Reserve Forces. During scheduled training periods and the annual active duty period, the Reserve Forces will undergo comprehensive training in the administration of the Military Selective Service Act and the varied duties each officer will be expected to perform during and after mobilization, registration, and induction activities of the Selective Service System. This training will include a thorough understanding of the policies and procedures in appointing and training compensated and uncompensated employees and local and appeal board members, classification and appeal procedures, coordination actions necessary to conduct rapid registration, and special mobilization exercises to test and refine mobilization plans for rapid reconstitution and registration activities. Special emphasis training of the Reserve

Forces officers will focus on individual responsibilities and duties in the implementation of mobilization plans, so that these plans can be carried out quickly and efficiently. This force of experienced, well trained Reserve Forces officers is an essential resource of the Selective Service System in standby.

PROGRAM HIGHLIGHTS

The Selective Service System must be prepared to furnish the projected wartime manpower requirements to the Department of Defense. In order to achieve the necessary capability the System must improve its readiness posture and add a new dimension to its standby role. Many activities, previously planned for accomplishment after an emergency mobilization situation, must now be accomplished prior to the emergency. Activities that cannot be accomplished before mobilization is authorized must be reevaluated or modified so they can be performed more quickly and more efficiently. The change in posture and added dimension will result in a shift in the state of readiness from deep standby to a more capable and responsive agency with increased readiness to meet the increased demands created by the revised Department of Defense wartime manpower requirements.

FY 1979 (supplemental). In order to improve our organizational structure and strengthen our rapid response capabilities, a supplemental appropriation is required. The funds will permit the expansion of the System to ten Readiness Regions and the addition of 64 officers to the Reserve Mobilization Force. Also, a substantial amount of the supplemental funds are earmarked for improvement of computer capability associated with the Emergency Military Manpower Procurement System (EMMPS).

The present Department of Defense manpower delivery requirement and timetable require a rapid response capability never envisioned when the System was placed into deep standby posture. Thus, a comprehensive review and analysis of all conceivable options and the feasible technological means of acquiring an assured readiness posture was essential. We are developing a comprehensive Automated Data Systems (ADS) plan which will provide identification of equipment capabilities required. The funding will permit us to improve and strengthen our capability to provide the revised wartime manpower requirements in the greatly reduced time period.

The field operations of the System, which will be expanded to ten Readiness Regions, will facilitate better management and supervision of current and emergency mobilization activities by reducing the span of control and increasing supervision over our Reserve Forces sections and units. The ten Readiness Regions will provide a larger nucleus of trained personnel for

mobilization and permit essential coordination with government agencies and organizations to facilitate rapid and efficient expansion for meeting our mission responsibilities.

The increase in Reserve Forces authorized strength enhances our ability to quickly accomplish the activities needed to bring the System to rapid operational status and specifically to improve the efficient and rapid processing of registrants through the System. The mobilization readiness training of the reserve and national guard officers continues as a high priority.

FY 1980. A funding increase of $739,000 over the total budget authority for fiscal year 1979 is required to annualize the initial costs of the System expansion provided in the FY 1979 supplemental. No additional positions or organizational increases are requested.

In order to achieve a faster registration and induction delivery capability, we plan to accomplish the following activities during standby.

-Recruit, appoint and train uncompensated local and appeal board members to ensure immediate post M-Day operational capability.

-Develop and analyze various concepts of registration which will ensure the System will be able to meet a vastly accelerated registration and induction schedule.

-Develop and test automatic data processing plans and procedures which will replace or improve time consuming programs and systems.

-Participate in readiness exercises to test mobilization capability.

We must modify and refine many administrative and operational activities and procedures and provide new and innovative approaches to meet the urgent demands in a reduced timeframe.

A comprehensive program of mobilization planning and training, attuned to the improved capability, will be conducted as a vital part of achieving the required level of effectiveness. This will include an in-depth evaluation, extensive testing and simulation exercises to identify each of the programs which must be developed, updated and refined.

Detailed plans providing for the emergency reconstitution of the System, and special procedures for rapid limited registration, followed by continuous registration of those liable or becoming liable for processing under the Military Selective Service Act will be developed and revised in line with the revised requirements. These plans must be maintained, tested and updated at regular intervals.

During fiscal year 1980, plans and operational guidelines will be reviewed, maintained and updated to provide for the processing of availability determinations on members of the Standby Reserve in accordance with Section 672(a)(2) of Title 10.

The FY 1980 ADP effort will depend on the alternatives defined in the ADS plan developed in the current year. Thus, at this time, we cannot fully identify all computer hardware and software required for the EMMPS capability envisioned for emergency implementation of the registration and induction processes.

Selective Service efforts are being directed toward identification and development of a modern data entry system with telecommunications capability and possession or availability of the computer equipment essential to an assured quick delivery capability. This is essential for us to be prepared to meet our mission responsibilities.

The System's improved readiness posture will provide a responsive and effective base of readiness from which we can expand to accelerated operations on short notice in a national emergency.

SELECTIVE SERVICE SYSTEM

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Selective Service System, including expenses of attendance at meetings and of training for uniformed personnel assigned to the Selective Service System, as authorized by law (5 U.S.C. 4101-4118) for civilian employees; and not to exceed $500 for official reception and representation expenses; [$7,045,000] *$9,825,000: Provided*, That during the current fiscal year, the President may exempt this appropriation from the provisions of subsection (c) of section 3679 of the Revised Statutes, as amended, whenever he deems such action to be necessary in the interest of national defense: *Provided further*, That none of the funds appropriated by this Act may be expended for or in connection with the induction of any person into the Armed Forces of the United States. *(Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1979.)*

6

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

Program and Financing (in thousands of dollars)

Identification code 90-0400-0-1-054	1978 actual	1979 estimate	1980 estimate
Program by Activities:			
1. Mobilization Readiness.....	2,216	2,696	4,587
2. Administration.....	1,299	1,423	1,533
3. Reserve Program.....	3,132	3,408	3,705
Total program costs, funded 1/	6,647	7,527	9,825
Change in selected resources (undelivered orders).....	-61	-176	
10.00 Total obligations.....	6,586	7,351	9,825
Financing:			
25.00 Unobligated balance lapsing....	47	---	---
Budget Authority.....	6,633	7,351	9,825
Budget Authority:			
40.00 Appropriation.....	6,633	7,045	9,825
44.20 Supplemental now requested for civilian pay raises.....	---	95	---
44.30 Supplemental now requested for military pay raises.....	---	211	---
			7

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

Program and Financing (in thousands of dollars)

Identification code 90-0400-0-1-054	1978 actual	1979 estimate	1980 estimate
Relation of obligations to outlays:			
71.00 Obligations incurred, net.....	6,586	7,351	9,825
72.40 Obligated balance, start of year.....	2,449	2,651	2,663
74.40 Obligated balance, end of year.....	-2,651	-2,663	-2,911
77.40 Adjustments in expired accounts.	-262	---	---
90.00 Outlays, excluding pay raise supplemental.....	6,122	7,091	9,519
91.20 Outlays from civilian pay raise supplemental.....	---	90	5
91.30 Outlays from military pay raise supplemental.....	---	158	53

1/ Includes capital investment as follows: 1978, $216 thousand; 1979, $40 thousand; 1980, $75 thousand.

8

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 90-0400-0-1-054	1978 actual	1979 estimate	1980 estimate
Personnel compensation:			
11.1 Permanent positions	1,425	1,666	2,612
11.3 Positions other than permanent	40	60	95
11.5 Other personnel compensation	---	---	---
11.8 Special personal services payments	3,830	4,132	4,920
Total personnel compensation	5,295	5,858	7,627
Personnel benefits:			
12.1 Civilian	221	252	346
13.0 Benefits for former personnel	39	12	---
21.0 Travel and transportation of persons	162	186	253
22.0 Transportation of things	7	12	19
23.1 Standard level user charges	293	245	260
~~25.0 Rent, communications, and utilities~~			
23.2 Comm. utilities & other rent	67	74	149
24.0 Printing and reproduction	120	367	250
25.0 Other services	218	408	711
26.0 Supplies and materials	62	70	131
31.0 Equipment	163	43	79
~~32.0 Lands and structures~~			
~~33.0 Investments and loans~~			
~~41.0 Grants, subsidies, and contributions~~			
~~42.0 Insurance claims and indemnities~~			
~~43.0 Interest and dividends~~			
~~44.0 Refunds~~			
Total costs, funded	6,647	7,527	9,825
94.0 Change in selected resources	-61	-176	---
99.0 Total obligations	6,586	7,351	9,825

9

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

PERSONNEL SUMMARY

Identification code 90-0400-0-1-054	1978 actual	1979 estimate	1980 estimate
Total number of permanent positions	78	78	115
Full-time equivalent of other positions	4	6	9
Total compensable work years	72	84	124
Average GS grade	9.18	9.35	9.00
Average GS salary	19,779	21,186	20,022
			10

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS

	1978 actual	1979 estimate	1980 estimate
Executive Level IV	1	1	1
GS-18	---	---	---
GS-17	1	1	1
GS-16	1	1	1
GS-15	4	4	5
GS-14	5	5	7
GS-13	6	6	7
GS-12	3	7	8
GS-11	14	10	18
GS-10	4	4	4
GS-9	6	8	16
GS-8	1	1	1
GS-7	4	4	4
GS-6	12	12	16
GS-5	12	10	16
GS-4	2	3	9
GS-3	2	1	1
GS-2	---	---	---
Ungraded	---	---	---
Total permanent positions	78	78	115
Unfilled positions, end of year	-13	---	---
Total permanent employment, end of year --1/	65	78	115
1/ Worker-Trainee Opportunity Program positions included above	---	---	---

I. MOBILIZATION READINESS

The most demanding requirements ever placed for military manpower needed in a national emergency have been levied on the Selective Service System by the Department of Defense. The System must improve its capability during standby to meet these requirements. Many activities essential to quick delivery capability planned for execution following M-Day, must be accomplished now to substantially reduce reaction time. Activities that cannot be accomplished prior to M-Day must be modified so that they can be performed more rapidly and efficiently to further reduce reaction time after an emergency is declared.

IMPROVEMENTS TO CAPABILITY

The wartime manpower requirements of the Department of Defense cause the System's mobilization timetable to be completely revised. The organization of an emergency national registration and the recruiting and appointing of local and appeal board members previously planned for accomplishment after emergency mobilization must now be accomplished prior to mobilization because of the accelerated delivery schedules. Other activities which cannot be accomplished in standby, such as hiring and training of compensated personnel, acquiring space, property and equipment for field offices must now be compressed into an extremely short timeframe. The essential improvements to the capability of the Selective Service System do not represent a shift in purpose or mission of the agency, but rather a shift in the degree of readiness: from a deep standby organization to an agency with an improved readiness posture prepared to expeditiously execute requisite operational functions.

Improvement of Computer Capability. We must place additional emphasis on the development and utilization of automated data processing (ADP) procedures for future registrant processing operations under the Emergency Military Manpower Procurement System (EMMPS). This automated system must be developed and tested before resumption of inductions is necessary. The revised emergency registration and delivery schedules exceed our current computer equipment capabilities and require analysis and identification of the needed hardware and software for operations, production scheduling and quality control. As a part of an ongoing program to develop and enhance the computerized aspects of registrant processing, we are exploring various alternatives in the electronic

transmission of registrant processing data in an effort to reduce delivery time and improve our capability.

EMMPS is an interrelated set of procedures, computer programs and ADP equipment for the accelerated delivery of inductees to the armed forces. In late 1974 the President ordered the development of a computerized concept which would permit the System to move from a deep standby configuration and provide for the delivery of military manpower. In response to this directive, the EMMPS was developed to provide a manpower delivery capability based on the 1975 delivery schedules and System resources. Starting in 1977 we initiated a complete review of the computerized concept and initiated actions to refine and perfect this automated capability within the limits of our financial and manpower resources.

The large volume of deliveries within the severe time constraints in the new schedules were not envisioned by the developers of the EMMPS delivery System in 1975. Consequently, we were faced with the need to completely review and revise all computerized procedures, to develop a rapid means of encoding a massive volume of registration data into machine processable form. We learned that we must have an advanced computer capability to process the data, issue induction orders, and maintain the actual status of every registrant from date of registration until termination of liability under the Military Selective Service Act. This critical need for review and improvement of our computer capability was recognized by the Congressional Budget Office in their study of our System capability.

The impact of the new schedules has been so severe upon all aspects of the Selective Service System that we initiated a comprehensive review and analysis of the computerized concept, scheduling, ADP hardware and software, input and output products, and management information requirements. The ADS plan will clearly identify and document equipment and software needs. Thus, at this time, we have not fully identified everything that will be required for the EMMPS capability envisioned for emergency implementation of the registration and induction processes.

The FY 1980 ADP effort will depend on the alternatives defined in the ADS Plan we are developing. The EMMPS software was initially designed in 1975 around magnetic tape, batch-oriented concepts. Although many enhancements and modifications have been made to the

original programs, several areas of the EMMPS had to be redesigned to utilize more modern ADP techniques and to more fully utilize newer computer capabilities. Funds are included in this budget request to utilize computer time on time-shared computers for operational testing and enhancement of the EMMPS.

A procurement or time-sharing concept must be initiated for an assured emergency data input System. The previously planned optical character reader (OCR) input system was designed to accommodate a continuous or annual registration, requiring physical shipment of input documents to the computer center for processing. This concept will not permit the System to have an assured capability to meet the revised delivery requirements. We are evaluating a concept for utilization of terminals throughout the United States for keying the data for transmission. This input data would be edited and transmitted electronically from the regional offices to the EMMPS computer. The essential computer hardware and peripheral devices needed for an assured delivery capability will be identified in the ADS plan. Selective Service efforts are being directed toward identification and development of a modern data entry system with telecommunications capability and possession or availability of the computer equipment essential to an assured quick delivery capability. This is essential for us to be prepared to meet our mission responsibilities.

Realignment of Reserve Officer Mobilization Assignments. The increased numbers of inductees needed and accelerated delivery schedule for the Department of Defense wartime manpower requirements necessitates that our field offices be operational much sooner than previously planned. Selective Service Representative (AFREP) offices at the Armed Force Examining and Entrance Stations must also be established immediately following M-Day. The expanded Selective Service Reserve Force, combined with the realignment of officer mobilization assignments, will enable the System to establish the field offices and bring them to an operational posture much more rapidly than previously planned. These individuals will be trained and ready to establish essential field offices and to augment regional and national Headquarters. In conjunction with the reconstitution and establishment of the field offices, revisions are being made to post M-Day administrative procedures to expedite securing office space, property and equipment. This is discussed under budget activity II, Administration.

Recruitment of Local and Appeal Board Members. The appointment of these members during standby has a two-fold advantage for the System and is a vital key to rapid reconstitution: (1) it affords the opportunity to concentrate our efforts during the early stages of an emergency toward hiring and training the newly recruited personnel, and (2) it provides the System with additional people who will provide valuable support and assistance in the rapid reconstitution. Local and appeal board members must be recruited, trained and ready to accomplish a wide variety of classification actions soon after the registration process is completed. When we start the induction process, we must be prepared to expeditiously process the large volume of requests for deferment, postponement, reclassification, etc.

These board members are citizen volunteers who represent the ethnic and socio-economic characteristics of the area they serve. While the minimum strength of a board is three members, an intercounty board requires representation from each county or political subdivision and may require up to five members.

We plan to call on former local and appeal board members who are still eligible for reappointment. Those willing to serve will be nominated for reappointment. We believe a large number of those eligible will respond affirmatively. All elements of the System will be actively involved in this effort. Readiness Regions will monitor and supervise this program and provide assistance or support to both the Reserve Forces and the Provisional State Director.

MOBILIZATION PLANNING AND READINESS

Mobilization planning activities during fiscal year 1980 will be given additional emphasis as contingency plans are adapted to a concept of operations based on the revised wartime manpower requirements. The development of each plan requires a corresponding development of procedures for implementation. The total program must be analyzed and evaluated for adequacy and effectiveness. The reconstitution and registration plans require revision and modification to ensure compatibility with a variety of possible delivery schedules. Plans for registrant processing also must be revised to ensure a more rapid and efficient reaction time.

In the area of mobilization readiness, the

System will develop and evaluate activities designed to enhance its capabilities to the highest possible degree. This will include all facets of operational and administrative planning and a comprehensive training and testing program for the System's Reserve Forces. In addition to these activities corollary actions will be taken to improve our capability to meet the wartime manpower requirements. These activities include the evaluation of various alternatives for routine or emergency national registration and the use of mobilization exercises to evaluate the System's readiness.

Reconstitution Plans. Reconstitution planning includes the requirements and actions necessary to expand the organization to an operational posture with personnel, office sites, property, and equipment. The plans which were initially developed must be revised to reflect a variety of essential changes in post M-Day schedules, reconstitution requirements and procedures and mobilization assignments. As a part of the continuing effort to analyze and simplify the administrative actions in reconstitution, procedures which will eliminate the need to complete some forms and allow for pre M-Day completion of others are being developed. The geographical structure of local boards and area offices is currently under study. In cases where realignment or consolidation is desirable, the individual characteristics of the state will be taken into consideration.

Registration Plans. Registration plans cover all aspects of registration from preparation for a routine national registration, emergency registration, establishment of continuous registration procedures and include the administrative and computer support required. A pilot program is being developed which will solidify aspects of the registration program, including the general approach and the details regarding requirements for sites, registrars, instructions for registrars and pre-stockage of registration forms. Guidelines for any required revisions to the registration plans and implementation of new or revised programs will be developed and issued in fiscal year 1980. Implementation of each plan or program to improve our response readiness will involve all echelons of the System.

The input of registration information to establish a computerized data base is an essential element of our registration plan. Development and simplification of implementing procedures as well as exploration and testing of various input methods, including electronic

transmission, is under study to attain the most efficient means to establish the data base from which the induction orders will be issued.

The necessity to drastically reduce the System mobilization timetable requires an emergency registration to be conducted in the M+10 to M+15 period. The use of an organization with established locations and an existing workforce which will be available and ready during that period is essential. Success with the use of the election machinery in the past caused us to evaluate the possible use of this system for a future registration. Preliminary studies to work out the details with state and local officials concerning the locations of registration sites (polling places), determination of personnel needs for each site, pre-positioning and final distribution of forms, method of training registrars and timeframes for implementation are in progress and will continue. National Headquarters and the Readiness Regions will supervise and support this effort by the Provisional State Directors and Reserve Forces. Since all polling places will not be required for registration, we will determine which will best suit our needs. We are also evaluating sites for the prepositioning of registration materials to permit rapid distribution following mobilization. Finally, we are evaluating various other alternatives for routine or emergency registration to permit us to quickly develop a usable data base to begin induction processing in the shortest possible timeframe.

Planning for Registrant Processing. The timely, effective and equitable processing of registrants for induction in a mobilization environment is the fundamental planning objective of the System. All planning must be supportive of and contribute to the attainment of this objective so that the wartime manpower requirements of the Department of Defense can be satisfied. Planning for registrant processing will continue to be directed toward enhancement of alternative data processing procedures to provide increased reliability and effectiveness in the use of EMMPS, the highly automated system to be employed in registrant processing in a national emergency.

Procedures and computer equipment considered adequate to meet previous manpower requirements are not adequate for the revised requirements. We must identify and obtain the equipment and procedures we will utilize to meet the most demanding requirements ever placed upon the System. One method of electronic transmission of registration and registrant processing data to permit us

to rapidly develop a data base is being explored with field testing at this time. Procedures based on this method of data transmission can be integrated into EMMPS to substantially improve the responsiveness of the System. Conversion and testing of EMMPS programs to ensure compatibility with another computer system are underway and will be completed in fiscal year 1980.

Techniques for alternative means of rapid and effective processing of registrant data will be analyzed and developed. This must include procedures for quality control and production scheduling, as well as procedures and written guidelines for present and future employees who must become proficient in an extremely short span of time after M-Day.

Current planning for emergency operational status identified the desirability of linking EMMPS with military personnel automated systems, such as the AFEES Reporting System (ARS). We must carefully explore and develop plans and a capability to provide a more rapid exchange of data on requirements, deliveries and dispositions of registrants. Through this data linkage we will be able to electronically adjust or update activities as necessary for effective operation and control of our resources.

NIFTY NUGGET/REX-78. The Selective Service System participated in a mobilization exercise with the military departments and approximately 30 other federal agencies. The exercise was national in scope and was the first such exercise of this magnitude. It was called NIFTY NUGGET/REX-78, conducted in October 1978, and sponsored by the Joint Chiefs of Staff and the Federal Preparedness Agency. The exercise was designed to test and evaluate the mobilization plans, policies and procedures of the Department of Defense and participating agencies. Interaction between agencies in a simulated mobilization setting was also examined. A number of lessons were learned, the prime lesson being that Selective Service cannot meet the current wartime manpower requirements of the Department of Defense with its present organization and resources.

The System's participation in this exercise emphasized the need for involvement in future readiness and mobilization exercises. We understand an additional exercise has been tentatively scheduled and we plan to participate.

Standby Reserve. Mobilization exercise NIFTY NUGGET/REX-78 identified the need for a further review of the statutory requirement for Selective Service to determine the availability of members of the Standby Reserve prior to recall to active duty. The present requirement for Selective Service to make such determinations would serve to create an additional burden on the Selective Service System at a time when we must devote our near-total resources to meeting the unprecedented requirements for non-prior service personnel. Selective Service, while maintaining its existing plans for making availability determinations on Standby Reservists, supports efforts of the Department of Defense to return full control of Standby Reserve processing to the military services.

MOBILIZATION READINESS TRAINING

In the mobilization readiness training of all elements of the System, emphasis has been and will continue to be placed on the development of needed skills, areas of understanding and awareness, and in further development of a clear definition of responsibilities that would be required to enable us to assess and address the System's state of readiness to meet the increased wartime manpower requirements. All training activities are designed to enhance our readiness and ability to accomplish specific objectives.

The goal of mobilization readiness will be achieved when the organization can be quickly mobilized and is fully prepared to commence operations immediately upon receipt of notification to do so.

Specifically, these goals are:

-assure that all compensated personnel of the System are fully trained to carry out their responsibilities;

-assure that all Reserve Forces officers are prepared to accomplish their mobilization assignments in accordance with revised and updated plans and procedures;

-assure that the three critical areas of (1) reconstitution of the System, (2) registration, and (3) commencement of registrant processing, receive attention in a comprehensive training program designed to elevate the overall state of readiness;

-assure that operational status can be achieved in as expeditious a manner as possible;

-and, assure that our uncompensated personnel receive training designed to fully prepare them to assume and discharge their responsibilities.

National Training Plan, Programs and Priorities. We will develop training policies commensurate with mission objectives and publish a national training plan. Necessary training direction and guidance will be prepared and distributed to all organizational elements establishing priorities for the training requirements. We will continue to develop and distribute training documents such as manuals, program agendas for training sessions, audio-visual aids, correspondence courses for home study and scenarios for appropriate training exercises. The total training program will be designed to provide the guidance to attain the maximum readiness of all personnel.

Each Readiness Region will actively participate in the development of training schedules for the Reserve Forces based upon the annual training program and will ensure that these training schedules are tailored to meet the needs of specific individuals and units. They will also review and approve lesson plans prepared by Reserve Forces sections and units to supervise, monitor and evaluate training activities and provide training support, guidance and assistance. In addition to training of the Reserve Forces, the regional offices will maintain close coordination with the Provisional State Directors and assist in the recruitment and training of uncompensated local and appeal board members.

The System has previously developed and administered a correspondence course program to supplement other types of training. These courses were designed for home study on an individual basis and provide basic information on operational programs. Although most of these courses were originally designed for completion by Reserve Forces officers, some will be revised and adapted for the benefit of Provisional State Directors, uncompensated personnel and newly acquired compensated personnel.

An effective and proven method of training and evaluation of readiness is mobilization readiness exercises where participants gain practical experience by simulating the required actions which would be necessary in a real emergency situation. The exercises will include field tests of mobilization plans and programs. In

addition to the valuable training provided to participants, these exercises provide the opportunity to evaluate mobilization readiness and the need for modification of plans and training programs.

The simulated field testing of many operational concepts are undertaken during the Reserve Forces annual training periods. Emphasis is on the attainment of a thorough familiarity with the provisions of the law, regulations, operational/functional guidance manuals, and an awareness of the means by which these directives are implemented in an on-going operation of the System. Annual training provides an opportunity for a comprehensive assessment of mobilization readiness. Simulated organizational, procedural, and operational problems are presented and discussed. The Reserve Forces officers then perform a critical analysis and evaluation of proposed solutions to problems. Insofar as possible, annual training simulates a practical "learning by doing" approach and represents an imperative to the maintenance of mission readiness.

Audio-Visual Training Aids. The revised wartime manpower requirements and quicker delivery timetables have necessitated major changes in registrant processing procedures and the proposed field organizational structure. The use of slide-tape modules and illustrated lesson plans complete with narrative and transparencies as training aids have proven value in training programs for organizations like Selective Service. We must revise and update our training aids to permit the expeditious training of large numbers of personnel who would have to be hired and trained quickly in an emergency.

II. ADMINISTRATION

This activity includes the Office of the Director and the operational support activities. The routine administrative and technical functions of personnel management for both civilian and military employees and the Reserve Forces, as well as financial operations, data processing and logistics support are the principal functions combined into this activity.

In addition to the routine daily transactions essential to ongoing support of the agency's operations, employees actively participate in the development and evaluation of plans for emergency reconstitution as it affects their respective areas of responsibility and expertise. The continuing emphasis on rapid reconstitution capability requires a viable plan and concerted effort to obtain people (including recruitment and necessary personnel actions for the local and appeal board members), space, equipment, funds, supplies, forms and directives. The timely implementation of operational functions when the System is reconstituted will be dependent upon these administrative activities being effectively planned and executed.

It is essential that we review and improve all of our administrative, financial and logistics functions to ensure the use of the current state-of-the-art in the application of transition procedures from standby to an active operation with the least trade off in efficiency and effectiveness. This critical analysis process has already resulted in the development of many modifications to our reactivation and operational procedures. The Civil Service Commission has granted the System emergency hiring authority to recruit and appoint personnel on short notice without processing through a federal employment register. In order to ensure the immediate recall of officers of the reserve and national guard, the parent military services have been contacted and agreed to expedite the issuance of orders. Depending on the nature of the emergency, all Reserve Forces officers are now on notice that they must be available within 72 hours after an emergency occurs. We are reevaluating and assessing the distribution of manpower authorizations with a view toward redistribution to ensure that these limited Reserve Forces officer resources are most effectively allocated among key areas based upon potential registration and mobilization requirements. Procedures have been developed with the Treasury Department for wire transfer of emergency funds to the Selective Service Liaison Officer who will be

located at each of the 66 Armed Forces Examining and Entrance Stations (AFEES) to pay registrants' travel expenses. Other financial management procedures are being prepared and revised to provide for effective implementation of emergency payroll and travel requirements and for the management of funds. Computer programs and reports required to provide management control of financial transactions for active nationwide operations are being modified and refined. A computerized uncompensated personnel data system (UPDS) is being established for the maintenance of membership records and quick retrieval of information on local and appeal board locations, personnel assignments and membership eligibility criteria -- age, citizenship, residence, years of service, minority, Spanish-speaking, etc. An agreement has been completed with the General Services Administration for expeditious acquisition of space for field office locations. Additional agreements are being developed with the General Services Administration to provide immediate availability of communications, equipment, transportation and supply support. Acquisition of the forms required on M-Day is proceeding on schedule. Plans for the pre-positioning of these forms and special supplies needed for rapid operational capability is already underway.

A special handbook outlining and providing procedural guidance for a variety of administrative activities and processes is being developed for use now and during the early stages of an emergency rebuilding of the System. This handbook will bring together a variety of administrative reconstitution processes that must be accomplished now or immediately after M-Day. To facilitate a smooth transition from standby to operational readiness this handbook is being designed for use at all field locations and it will be utilized in training sessions to improve the readiness of the Reserve Forces officers.

III. RESERVE PROGRAM

The funds required for the Reserve Program activity in fiscal year 1980 are for the direct training and operational utilization of 779 Reserve Forces officers during their active duty training and scheduled training assemblies. The ceiling of 779 officers remains unchanged from that requested in the FY 1979 supplemental appropriation. These officers, specially trained in Selective Service matters, comprise the Selective Service Reserve Mobilization Force and are an essential resource of the Selective Service System in standby.

The need for 779 officers is directly related to the shortened time frames in the current DoD delivery schedule which requires the first induction orders to be issued prior to M+30. Under the previous schedule, induction orders were to be issued at M+90 and it was planned that Reserve Forces officers would have multiple mobilization assignments because the timeframe permitted such assignments.

Under the current delivery requirements, field offices must be opened by at least M+15. These officers will provide on-site supervision in the field offices since the majority of the employees will have been on the job for two weeks at the most, and the volume of work and problems associated with the first induction call will be overwhelming. The AFREP offices must be established concurrently with the area offices.

Our Reserve Forces officers will be wholly engaged in reconstitution duties: establishing the field offices, coordinating and supervising the registration, recruiting and training new employees and commencing operations.

The Reserve Forces structure meets the provision set forth in Section 10(h) of the Military Selective Service Act and is vitally necessary to the System's capability to meet the Department of Defense wartime manpower requirements.

43-133 O - 79 - 5

SELECTIVE SERVICE SYSTEM

SALARIES AND EXPENSES

(Supplemental now requested, existing legislation)

For an additional amount for "Salaries and expenses", $1,735,000.

SUPPLEMENTAL NOW REQUESTED, EXISTING LEGISLATION
SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

Program and Financing (in thousands of dollars)

Identification code 90-0400-1-1-054	19 78 actual	19 79 estimate	19 80 estimate
Program By Activities			
1. Mobilization Readiness	—	1,634	—
2. Administration	—	23	—
3. Reserve Program	—	78	—
Total program costs, funded 1/ obligations	—	1,735	—
Financing:			
40.00 Budget authority (appropriation)	—	1,735	—
Relation of obligations to outlays:			
71.00 Obligations incurred, net	—	1,735	—
72.40 Obligated balance, start of year	—	—	295
74.40 Obligated balance, end of year	—	295	—
90.00 Outlays	—	1,440	295

1/ Includes capital investment as follows: 1979, $80 thousand.

SUPPLEMENTAL NOW REQUESTED, EXISTING LEGISLATION

SELECTIVE SERVICE SYSTEM
SALARIES AND EXPENSES

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 90-0400-1-1-054	1978 actual	1979 estimate	1980 estimate
Personnel compensation:			
11.1 Permanent positions	—	440	—
11.3 Positions other than permanent	—	—	—
11.5 Other personnel compensation	—	—	—
11.8 Special personal services payments	—	336	—
Total personnel compensation	—	776	—
Personnel benefits:			
12.1 Civilian	—	43	—
13.0 Benefits for former personnel	—	—	—
21.0 Travel and transportation of persons	—	43	—
22.0 Transportation of things	—	9	—
23.1 Standard Level User Charges	—	—	—
~~23.0 Rent, communications, and utilities~~			
23.2 Comm., Utilities & Other Rent	—	374	—
24.0 Printing and reproduction	—	5	—
25.0 Other services	—	379	—
26.0 Supplies and materials	—	17	—
31.0 Equipment	—	89	—
~~32.0 Lands and structures~~			
~~33.0 Investments and loans~~			
~~41.0 Grants, subsidies, and contributions~~			
~~42.0 Insurance claims and indemnities~~			
~~43.0 Interest and dividends~~			
~~44.0 Refunds~~			
Total costs, funded	—	1,735	—
94.0 Change in selected resources	—	—	—
99.0 Total obligations	—	1,735	—

U.S. GOVERNMENT PRINTING OFFICE : 1980 O—320-035

GENERAL JUSTIFICATION

This supplemental appropriation would permit the expansion of the Selective Service System field structure to the ten standard federal regions and the improvement of data processing systems and capability to meet the revised emergency manpower needs of the Department of Defense.

Since October 1977 the paramount concern of Selective Service has been to develop feasible and effective plans to meet the most demanding manpower requirements ever placed on us by the Department of Defense: 100,000 inductees by M+60; 650,000 inductees by M+180. The military services' need for increased untrained manpower in a drastically shortened timeframe during national emergency conditions imposes a significant challenge to move rapidly from our standby posture to a position of improved readiness capability. The amount requested in this supplemental budget, estimated for enactment by April 1, 1979, will permit us to take the necessary transitional actions to move toward the required response readiness.

The broader base of standby operations -- increased field structure to ten regional offices -- is the same as previously requested for FY 1979. We are firmly convinced that this is the best organizational structure from which to emerge to active operations. However, we have identified and are testing a revised concept of improved ADP operations. A concept of modernization has been formulated which will facilitate the rapid and efficient processing of registrant data. These enhancements are the first step toward achieving the objective of providing manpower in the quantity and timeframes required by the Department of Defense. The need for these enhancements has been affirmed by the Congressional Budget Office in their study of the Selective Service System.

REGIONAL EXPANSION

The expanded field organization is fundamental to achieving an improved and reliable operational readiness capability. It will provide a broader operational base and a larger nucleus of trained personnel more capable of effecting a smooth, rapid, and efficient transition to fully operational status. Expanding the present field structure from six to ten Readiness Regions will reduce the geographical area of responsibility for each headquarters and vastly improve the span of control.

The regional offices are fully responsible for all operations and training within their boundaries, directing the activities of field offices after M-day and are the cornerstone for successful implementation of all mobilization actions. The increase in the number of Reserve Forces officers permits us to develop the plans and operational readiness of officers to establish a Selective Service liaison (AFREP) at each of the Armed Forces Examining and Entrance Stations (AFEES) immediately on M-day. These AFREP offices will initiate the processing of inductees and must be prepared to handle volunteers for induction as early as possible after M+1. Additional activities, which presently include evaluation and development of procedures for the use of election machinery for an emergency registration, will be expanded to include the investigation of alternate methods for completing national registration.

Mobilization and operational plans must be revised and up-dated to permit us to meet the timetables and schedules dictated by the revised wartime manpower requirements. The requested increase in personnel strength will assist us to meet our vital objective. The revision and modification of all contingency plans to ensure compatibility with the requisite delivery schedules will be supervised, analyzed, and evaluated by the Readiness Regions.

ENHANCED COMPUTER SUPPORT

The funds in this supplemental budget request will permit us to progress toward the achievement of an assured emergency (M-day) capability in all areas of processing, using the Emergency Military Manpower Procurement System (EMMPS).

A comprehensive review and analysis of all avenues and options and the feasible technological means of acquiring an assured readiness posture were essential. Funds are included in this supplemental budget request to permit the development of essential elements of an Automated Data System (ADS) plan. A number of essential elements of this ADS Plan have already been identified.

The Department of Defense desires that Selective Service be prepared to begin the delivery of inductees by M+30. This delivery schedule would require computer issued induction orders to be in the hands of the first group of potential inductees no later than M+20. The

challenge that faces the Selective Service System is, from a standby posture, to register at least one year group of two million potential registrants, encode the data into machine processable form, deliver the data to a computer site to establish an automated registrant data base, determine the first priority selection group, and issue the first contingent of induction orders -- all within a maximum of 18 or 19 working days.

Our studies of data entry processes indicate that a regional key-to-disk encoding capability with an associated telecommunications transmission facility will provide the needed rapid and assured registrant data entry capability. This supplemental budget request does not include funding for the total capability at this time. The ADS plan is being developed and will provide identification of equipment capabilities required. Also, we are conducting a field test of modern data entry and transmission procedures including workload and volume studies. These studies and analysis are essential for identifying a full key-disk data entry and associated means of electronic data transmission which will provide the assured capability in this area of the EMMPS.

We have a critical need for a more powerful, modern computer processing capability in order to meet our mission responsibilities. Since entering deep standby status, we have developed, revised and improved the automated EMMPS System. We have conducted ADP workload studies and have defined the range of computer capability required to execute the EMMPS. In addition, we are in the final stages of converting the essential programs to run on a more powerful computer. The conversion will permit us to utilize an interim, contingency M-day capability until an assured capability system can be acquired. Although a specific computer has not yet been identified for processing the EMMPS programs, we have estimated the funding needed for lease of an advanced computer system, and for interim rental of processing time for large scale testing of the EMMPS on time-shared or leased computers.

In summary, the supplemental appropriation is a vital requirement to improve the Selective Service System's response capability and to develop an assured delivery posture to meet the very demanding emergency manpower needs of the Department of Defense.

SELECTIVE SERVICE SYSTEM

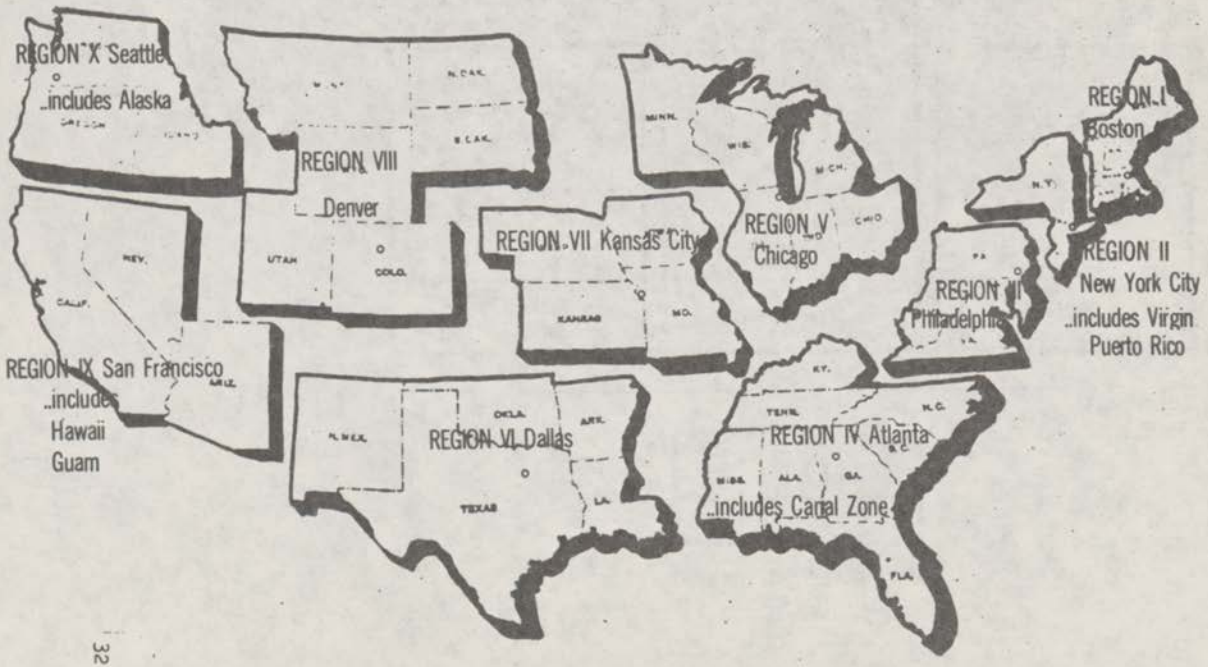
Salaries and Expenses

COMPARISON BY ACTIVITIES
($000)

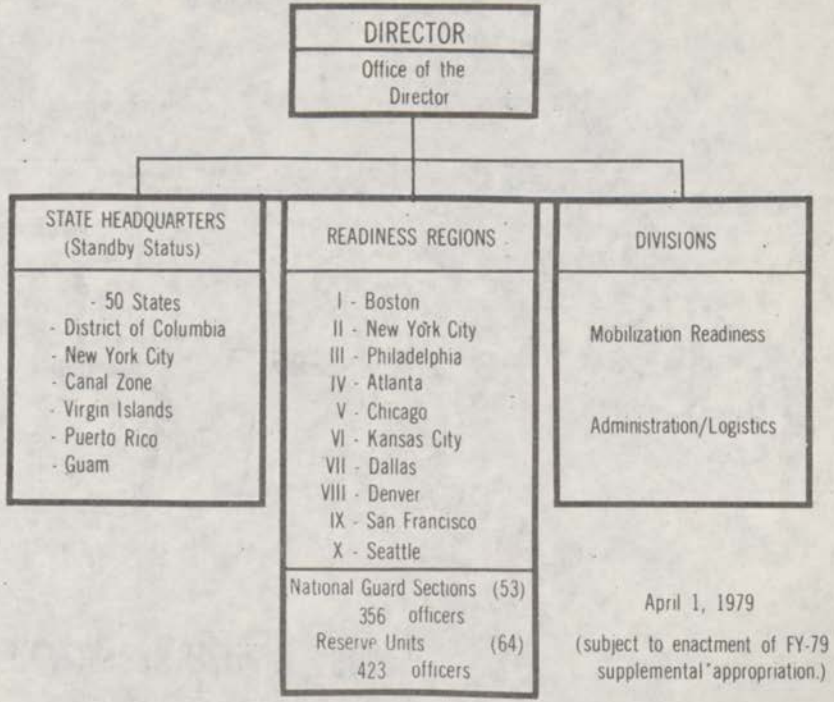
	FY 1978		FY 1979		FY 1980	
	Avg. Empl.	Amount	Avg. Empl.	Amount	Avg. Empl.	Amount
1. Mobilization Readiness.	52	2,155	82	4,154	108	4,587
2. Administration.	39	1,299	47	1,446	49	1,533
3. Reserve Program.	. . .	3,132	. . .	3,486	. . .	3,705
Unobligated Balance Lapsing. . . .	. . .	47	. . .	. . .	. . .	. . .
Total	91	6,633	129	9,086	157	9,825

SELECTIVE SERVICE SYSTEM

READINESS REGION AREAS



FY–80
ORGANIZATION
OF THE SELECTIVE SERVICE SYSTEM



April 1, 1979

(subject to enactment of FY-79 supplemental appropriation.)

DEPARTMENT OF THE TREASURY

Office of the Secretary

NEW YORK CITY LOAN GUARANTEE PROGRAM

(Administrative Expenses)

Thursday, March 1, 1979.

WITNESSES

HON. ROGER C. ALTMAN, ASSISTANT SECRETARY, (DOMESTIC FINANCE)

CHARLES V. McFADDEN, DEPUTY FINANCIAL MANAGER, OFFICE OF THE SECRETARY

Appropriation	
1978	$1,150,000
1979	[1] 1,084,000
1980	1,034,000
Decrease	—50,000

[1] Includes $34,000 proposed to be transferred from the "Administering the Public Debt" appropriation due to increased pay costs.

Mr. Boland. The Committee will come to order.

New York City's Seasonal Financing Act was signed into law December 19, 1975. This legislation was intended to prevent New York City bankruptcy and restore the City's financial health by providing up to $2.3 billion a year to cover seasonal short falls in revenues. At the end of the three-year authorization period, June 30, 1978, New York City was supposed to have a balanced budget and be able to meet all its financing needs through borrowing in the public credit markets.

Despite some degree of success, Congress found it doubtful whether New York City could maintain solvency and do even a minimal amount of capital borrowing in the next two years without additional Federal financial assistance. So, to facilitate New York City's access to conventional credit markets, the New York City Loan Guarantee Act of 1978, Public Law 95-339, was signed into law on August 8, 1978.

That act authorized the Secretary to issue, in the four years ending June 30, 1982, Federal guarantees up to $1,650,000,000 of City long-term debt.

The authority was limited to the amount provided in advance in appropriation acts. Last year, the Committee recommended—this Committee actually took the lead—and Congress passed the appropriation bill providing the entire $1,650,000,000 in loan guarantee authority for the four period year. Now, the administrative expenses account is the only part of the New York City Loan Guarantee Program that the Subcommittee acts upon. The request before this Subcommittee is for administrative expenses of $1,034,000. That is a decrease of $50,000

from fiscal year 1979. During the testimony concerning administrative expenses, we will review a variety of aspects of New York City's Loan Guarantee Program.

So, we are delighted to have you, Mr. Altman. You have had plenty of experience in this general area and, more specifically, with the Office of Revenue Sharing. Furthermore, you are assisting in the implementation of another credit program that was established during the last session of Congress, aren't you?

Mr. ALTMAN. Yes, the National Consumer Cooperative Bank?

Mr. BOLAND. Yes. Will that arrive in your shop too?

Mr. ALTMAN. Well, I am Chairman of the Task Force to determine the necessary work to implement the legislation. Eventually, the Bank will be established, as it was intended to by the Act, as an independent entity, with its own Board of Directors. There will be seven directors from the Administration or, rather the Executive Branch and six independent outside directors. So, my role for the time being will be just the implementation of the Bank. Eventually it will be an independent entity.

Mr. BOLAND. Okay, Why don't you go ahead with your statement and we will get into the justifications in a minute.

GENERAL STATEMENT

Mr. ALTMAN. I am pleased to be here again and, with your permission, Mr. Chairman, I would like my statement introduced in full in the record and would simply like to summarize it briefly here this morning.

[The complete statement follows:]

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
NEW YORK CITY LOAN GUARANTEE PROGRAM

INTRODUCTORY STATEMENT OF THE HONORABLE ROGER C. ALTMAN
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE HOUSE SUBCOMMITTEE ON HUD - INDEPENDENT AGENCIES
OF THE HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman and Members of this distinguished Subcommittee:

I appear before you today to discuss the activities and plans of the Treasury Department as they relate to the administrative expenses of its Office of New York Finance. My testimony this morning will cover three major areas:

-- A brief history of the New York City Loan Guarantee Act and its administration by Treasury's Office of New York Finance;

-- A review of Treasury's additional responsibilities imposed by P.L. 95-497 in monitoring pension fund participation in the City's Four Year Financial Plan; and

-- The level of appropriations Treasury believes necessary to enable it to effectively carry out its statutory responsibilities in the 1980 fiscal year.

The Guarantee Act

The New York City Loan Guarantee Act of 1978 (P.L. 95-339), authorizes the Secretary of the Treasury, during the 1979 - 1982 period, to issue up to $1.65 billion of Federal guarantees of City long-term debt. These Federal guarantees are the core of an overall four-year $4.5 billion long-term borrowing plan. Only $750 million of the Secretary's guarantee authority is actually scheduled to be used as part of the $4.5 billion plan. The balance of $3.75 billion in long-term financing will be provided on an unguaranteed basis by the local clearinghouse banks, City and State employee pension funds, local savings banks and insurance companies, and by the public markets. The remaining $900 million of guarantee authority, therefore, is on a standby basis in 1981 and 1982, to be used only if the public markets are not available to the City or MAC long-term bonds in those years. Table I presents this four year borrowing Plan in detail:

Table I
Bond Issues per Four Year Plan
($ in millions)

	1979	1980	1981	1982	Total
Guaranteed City:	$ 500	$ 250	--	--	$ 750
Unguaranteed City:	--	--	$300*	$650*	950
MAC Private Placements:	401	537	537	325	1,800
MAC Public Issues:	500	500	--	--	1,000
Total	$1,401	$1,287	$837	$975	$4,500

*Backed up by standby guarantee authority up to $900 million if City and/or MAC bonds cannot be sold publicly.

On November 17, 1978 Treasury issued the first $200 million of guarantees and issued the next $150 million on February 15, 1979. Prior to the extension of each round of Federal guarantees, the Guarantee Act requires that the Secretary make a series of fourteen findings the most important of which are as follows:

-- the City has the capacity to repay the Federally guaranteed City indebtedness;

-- the City is unable to obtain credit elsewhere in sufficient amounts and on reasonable terms;

-- that a financing plan satisfying the City's short- and longterm needs exists and is sound; and

-- that the City is making substantial progress towards truly balancing its budget in accordance with generally accepted accounting principles (GAAP) by its fiscal year 1982.

The Guarantee Act also requires the City to obtain both its long- and short-term financing in the public credit markets as soon as practicable. The City recently re-entered the public credit markets for the first time in four years by successfully selling $125 million of its short-term notes. A public sale of another $200 million in notes is imminent.

Treasury has provided the staff of the Subcommittee with copies of the Secretary's findings, and supporting documentation, prepared in connection with the most recent issuance of $150 million of Federal guarantees on February 15, 1979. The same determinations must be made anew in May when another $150 million in guarantees are scheduled to be issued, and thereafter whenever the Federal guarantees are requested pursuant to the Guarantee Act.

In order to carry out these responsibilities, the staff of the Office of New York Finance must monitor, on a continuous basis, the fiscal activities of the City, the State and Federal governments as they relate to the City. This involves:

-- review and analysis of monthly and quarterly City financial statements and related reports;

-- tracking the City's daily cash flow requirements and assessing the time schedule and amounts required for seasonal financing;

-- studying the effects of urban legislation enacted by the 95th Congress and proposed to the 96th Congress;

-- contact with (1) credit rating services with respect to investment grade rating of City securities and (2) the financial community and the City's financial advisor with respect to receptivity of the public markets to the City's debt securities;

-- meeting with the City and agencies assigned to monitor the City, e.g., Financial Control Board, Office of the Special Deputy Comptroller (State), MAC and GAO; and

-- liaison with New York State officials with regard to the State's commitment of continued support for New York City, along with other cash flow and budgetary matters.

The Secretary's November 9, 1978 report to Congress covering Treasury's activities under the Guarantee Act is included as Exhibit I.

Companion Legislation

The companion legislation to the Guarantee Act is P.L. 95-497. This affords certain City and State pension funds with protection in purchasing City and MAC indebtedness pursuant to the City's Four Year Financing Plan. The funds' tax exempt status for failure to satisfy certain sections of the Internal Revenue Code is assured, provided they comply with the requirement of P.L. 95-497. Without this legislation, the pension funds would not have committed to purchase securities as part of the City's $4.5 billion of the Four Year Financial Plan.

Treasury's responsibilities under P.L. 95-497 are several. Initially, the Secretary was required to not disapprove the purchase agreements entered into by each of the participating City and State pension funds for the purchase of City or MAC indebtedness. P.L. 95-497 imposes standards that must be satisfied in order for the Secretary to make that determination.

The two most significant are:

-- that the issuance of indebtedness by the City will not jeopardize their ability to make future pension fund contributions; and

-- that the purchase of City indebtedness will not endanger the ability of the pension funds to pay future pension benefits.

The staff of the Subcommittee has been provided with copies of the determinations made by the Secretary in regard to the Guaranteed Bond Purchase Agreement, the Bond Purchase Agreement, and the Loan Agreement. These agreements put into place the City's $4.5 billion Four Year Financial Plan.

In addition, the Treasury has an ongoing monitoring function under P.L. 95-497. Whenever an acquisition of City or MAC indebtedness is made pursuant to one of the purchase agreements, the Secretary must find that the aquiring fund does not hold more than 50 percent of its assets in City and MAC indebtedness, and does not have a negative cash flow. This, too, requires extensive monitoring by Treasury's Office of New York Finance.

Structure of the Office of New York Finance

In order to carry out its responsibilities, Treasury's Office of New York Finance maintains two offices-one in Washington and one in New York City. In addition, the services of an accounting consultant--currently Arthur Andersen & Co. are used, although reliance upon such outside services, has decreased and will continue to do so.

The Washington office has several responsibilities:

-- Analysis of Federal aid to New York City;

-- Economic forecasting and impact of national economic trends on New York City's economy;

-- Preparation of the Secretary's determinations with respect to the Guarantee Act and P.L. 95-497;

-- Preparation of testimony and background materials in conjunction with Congressional oversight and requests; and

-- Administration of the office, e.g., budget, contracts, procurement.

The staff located in New York City has primary responsibility for Treasury's day-to-day dealings with the City, State, and State agencies monitoring the City's finances. In addition, the New York Office conducts reviews of the City's budget and programs, audits and verifies the reports received from the City and its monitors and, if necessary, recommends changes and improvements to the reports. In addition, the office inspects accounts, books, records and other financial documents of the City or any financing agency participating in the financing needs of the City.

Administrative Expenses

Our appropriation under the New York City Loan Guarantee Act of 1978, in fiscal year 1979, is $1.050 million. In addition, we are requesting a supplemental of $34,000 to accommodate the FY 1979 civilian pay increase as authorized by Executive Order 12087 dated October 7, 1978. The Administration is requesting that you appropriate only $1.034 million to fund fiscal year 1980 requirements. As detailed above, Treasury's responsibilities under the Guarantee Act and P.L. 95-497 are numerous. Presently, our professional, secretarial and clerical staff totals 24. Of our $1.034 million FY 1980 budget request, approximately 70 percent, $700,000 is allocated for personnel compensation and benefits, $25,000 for travel, and approximately $309,000 for rent, utilities, communication, supplies, services provided to the Office by Treasury budget and personnel offices, and consultants.

Last year, before this Subcommittee, I committed to decreasing Treasury's dependence upon outside experts while increasing the internal capabilities of its Office of New York Finance. So far in 1979 I am pleased to report that consulting expenditures contracted to date have been reduced.

Finally, let me note that the Guarantee Act requires the City to pay to the Treasury a guarantee fee of .5 percent per annum on the outstanding principal amount of Federally guaranteed City bonds. Over the period the guarantees will be outstanding, FY 1979 - FY 1993, it is anticipated that approximately $25 million in guarantee fees will be paid by the City to the Federal Government. This should more than offset the Treasury's administrative expenses under the Act over that same period.

This concludes the prepared portion of my testimony. I will be pleased to respond to any questions.

Thank you.

EXHIBIT I

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

NOV 9 1978

Dear Mr. Chairman:

On August 8, 1978, President Carter signed the New York City Loan Guarantee Act of 1978 (Public Law 95-339). Section 108 of the Guarantee Act entitled "Reports to Congress" requires that "within three months after the date of enactment of this title, ... the Secretary shall transmit to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Finance, and Urban Affairs of the House of Representatives a report containing a detailed statement of his activities under this title."

I welcome this opportunity to relate the efforts of the Department of the Treasury in connection with the Guarantee Act over the past three months.

Background

In the spring of 1978 the Administration requested Congressional authority, subsequently granted in the form of the Guarantee Act, to provide Federal guarantees for New York City indebtedness based on the following principles:

-- Preserving New York City's Solvency: We were convinced that the effects of a bankruptcy would be extremely serious for the residents of the City and State, the market for all municipal securities, and for foreign confidence in the United States. A concerted effort in the form of the City's $4.5 billion Four-Year Financial Plan, the cornerstone of which was the availability of Federal guarantees up to $1.65 billion of City indebtedness, was generated to prevent bankruptcy and to allow the City to achieve financial self sufficiency within a reasonable time.

-- Maximum Budget and Financing Efforts by the Local Parties: Primary responsibility for New York City's financing rests with the local elected officials and the relevant private parties at the City level. Beyond that, the City is the responsibility of New York State. The Federal financing assistance in the form of guarantees was provided only under extraordinary circumstances and was limited to issuance over a four-year period.

-- A Truly Balanced City Budget is a Prerequisite to Ending this Crisis: New York City lost access to conventional borrowing sources because it incurred large budget deficits, financed operating expenses with capital borrowings, could not control its chaotic record keeping systems and otherwise lost control of its finances. In the past three years, these deficits have been reduced significantly. The City has also installed an integrated, data-based financial reporting and record keeping system. We believe that achievement of true budget balance is the key to restoring the City's access to the credit markets. The financing plan is conditioned upon achievement of a budget balanced in accordance with Generally Accepted Accounting Principles ("GAAP") by 1982.

-- The New York City Financing Crisis Should be Resolved Once and For All: The only acceptable plan for future financing of the City is one which will restore permanently the ability of New York City to finance itself.

Four-Year Plan - Financing

The overall objective of the Four-Year Financing Plan is to enable the City to return fully to the credit markets for seasonal and long-term needs after Guarantee Act authority expires on June 30, 1982. In order for this to occur, it was necessary for the City to take several fundamental steps to reform its finances. These include:

-- An accelerated phase-out of the "capitalized expense items" over a period of three years instead of the eight permitted under State law. This would enable the City to return to the capital markets that much earlier by reducing the time the City would be operating at a deficit, according to GAAP. This is one of the key factors restricting market access.

-- Elimination of the need for the State to advance $800 million in aid in the last quarter of each City fiscal year (which, in fact, was the rolling over of prior years' deficits). This action would also reduce to below $1 billion annually the amount of City seasonal borrowing. The exceedingly high level of short-term borrowing is another element blocking market access.

In addition to these basic reforms, the City needed sufficient long-term funds during the Plan period in order to maintain its physical plant and to make needed investments for future economic development. Funds were also needed by MAC in order to issue refunding bonds so as to lower MAC debt service in the later years of the Plan and, thus, reduce the City's overall debt service burden during FY 1979-1982.

The Four-Year Financing Plan, covering FY 1979-1982, has evolved to include the following elements:

Purpose	Amount ($ in millions)
City expenditures for bricks and mortar	$2,300
Phase-out of capitalized expense items	900
MAC Refunding bonds	600
Bonding out the State advance	400
Bonding the MAC capital reserve fund	300
Total City Financing Plan	$4,500

Most significantly, the participants reflect the overwhelming involvement of local parties. In fact, over 80 percent of the $4.5 billion will be privately placed with or underwritten by New York institutions. The components of the $4.5 billion in financing will be supplied in the following approximate amounts:

Sources	Amount ($ in millions)	
MAC Bonds		
New York Financial Institutions:		
City & State Pension Funds	$625	
Clearinghouse Banks	625	
Savings Banks	300	
Insurance Companies	250	
		1,800
Public Issues		1,000
City Bonds		
Public Issues		950
Guarantee Bonds purchased by City and State Pension Funds		750
Total		$4,500

Last week, agreement was reached on the remaining major open issues in the Four-Year Financing Plan. All parties are proceeding to complete the formal documentation as soon as possible and the first closing is expected during the next two weeks. Copies of all the final documents will be forwarded to you when available.

Finally, a discussion of the City's short-term, seasonal financing is appropriate. The City's seasonal financing is no longer of the large dimension ($3 billion) it was in the recent past. The reduced seasonal needs of the City are now estimated to peak at $800 million for FY 1979.

Four-Year Plan - Budget

The Treasury's Office of New York Finance commenced its review of the City's FY 1979 Budget and Budget Plan for the subsequent three years with the submission of the initial Plan to me on January 20, 1978. My staff and our consultants, Arthur Andersen & Co., reviewed both the assumptions underlying the projections of baseline estimates and the estimates, themselves. Reports prepared by the New York State Financial Control Board and by the Special Deputy State Comptroller for New York City were also analyzed. Similar studies have been conducted of the Executive Budget and Budget Plan, issued by the City on April 25, 1978, as well as the major updates to that Plan issued on August 24, September 25 and on October 6, 1978.

The latter two modifications were in response to my requests for the formulation of detailed, recurring programs for City initiated actions to close projected budget gaps instead of reliance on third party actions, such as Federal or State aid. The Financial Control Board has scheduled a meeting for November 9, 1978 to review the last two plan revisions.

In conducting budget reviews our staff assesses the reasonableness of the budget gaps presented and the City's plans to close those gaps. Our consultants have confirmed to us that the plans and modifications were developed on a consistent basis especially as related to assumptions made by the City and methodologies used.

Our staff has participated in many meetings with key City internal accountants, staff of the City's independent auditors and staff from the various other monitoring agencies to discuss and resolve accounting

issues raised relative to the City's budget and treatment of items therein. Most of these issues have been resolved and are reflected either in the City's Audited Financial Statements for its fiscal year ended June 30, 1978 (appended hereto) or in the revised Plans.

Current General Activities

During the past three months, the Treasury has been especially active in assisting efforts to formally implement the City's Four-Year Financing Plan in conformity with the requirements of the Guarantee Act.

The Deputy Secretary, the General Counsel and the Assistant Secretary for Domestic Finance have been actively involved in the negotiating process. Indeed, this $4.5 billion massive undertaking with over one hundred participants has required and will continue to require coordination by many of the most seniorTreasury officials.

A Special Assistant to the General Counsel has devoted all of his time to the drafting, preparation and review of the various financing documents, certifications, legal opinions and other corrollary instruments. He also participated on numerous occasions in key stages of negotiation, tracked the enactment of relevant local, State and Federal legislation and had discussions with members of the underwriting industry and the rating agencies. Among the parties to this negotiation are the following:

1. New York City
2. Municipal Assistance Corporation
3. 11 Commercial Banks
4. 36 Savings Banks
5. 10 Insurance Companies
6. 6 Pension Systems
7. Financial Control Board
8. New York State
9. Advisors and counsel to all parties

The Acting Assistant General Counsel for Domestic Finance is now working full time on final arrangements for the closing of the financial agreements.

The professional staff of the Office of New York Finance also has been actively monitoring the progress of the negotiations and participating in them as its own market access, economic or budgetary analysis was required. It is performing the following tasks on a

continuing basis, all of which involve responsibilities of the Treasury under the Guarantee Act:

(a) liaison with committees of the Congress;

(b) review and analysis of the City financial statements and related reports;

(c) assistance in completion of the City's audited financials for FY 1978 and review of relevant municipal accounting issues for the FY 1979 audit;

(d) compliance determinations concerning the conditions of eligibility under the Guarantee Act;

(e) contact with (1) credit rating services with respect to investment grade rating of City securities and (2) the financial community and the City's financial advisor with respect to accessibility of the City's debt instruments to the public markets;

(f) liaison with New York State officials with regard to the State's commitment of continued support for New York City, along with other cash flow and budgetary matters;

(g) study the impact of urban legislation enacted by the 95th Congress; and

(h) tracking the City's daily cash flow requirements and assessing the time schedule and amounts required for seasonal financing.

The Director of the Office of New York Finance, and other senior members of my staff will be delighted to meet with your staff at their mutual convenience to amplify information contained in this report.

Sincerely,

W. Michael Blumenthal

The Honorable
William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Attachment

I will touch on three aspects of our activities in New York: First, the Guarantee Act itself and what our responsibilities are under it. Second, the companion pension fund legislation and what Treasury's responsibilities are under it. And, lastly, our budget request itself.

NYC LOAN GUARANTEE ACT

The Guarantee Act, as you said in your opening remarks, authorizes Treasury, over a four year period ending in June 1982, to issue up to $1,650,000,000 of Federal guarantees on New York City's long term debt. These guarantees are the core of the City's overall $4.5 billion, four year, long term financing plan. Our intention, Mr. Chairman, is only to issue $750 million in guarantees of the $1,650,000,000 in authority. Only that $750 million is included in the overall $4.5 billion financing plan. The balance, namely $3,750,000,000 in long-term financing is scheduled to be provided on an unguaranteed basis by a consortium of local lenders, including city banks and pension funds.

And so, the remaining $900 million of our guarantee authority—$1,650,000,000 less the $750 million we plan to use—is on a standby basis for city fiscal 1981 and 1982. It would be used only if the public markets are not willing to accept city or Municipal Assistance Corporation debt.

On November 17 last year, we issued the first $200 million of guarantees under this Act and then another $150 million two weeks ago.

Mr. BOLAND. Were both guarantee issues short term?

Mr. ALTMAN. No, they are both guarantees of 15 years city serial bonds. As you know, the Act allows us to extend guarantee authority to the city for up to 15 years. The Act itself essentially intends to give the City Federal assistance on its long term financing and leave the short term financing to the City. We are not helping them on short term financing.

At any rate, before we extended each of those two rounds of guarantees, we were required by the Act to make 14 separate findings, a copy of which I have made available to your staff. It is a very important process. It is a very exhaustive process and, among those findings which we have to make each time are, four major ones, namely; that the city has the capacity to repay the Federal guaranteed debt, that the city is unable to obtain credit elsewhere in sufficient amounts and on reasonable terms and conditions, that the city is making substantial progress toward the 1982 goal of true budget balance, and, finally, that there is a four-year financing plan in place for its long and short term financing needs.

We have a major set of responsibilities to fulfill under this Act before we can issue any guarantee.

I mentioned that your staff has received copies of our findings and that same approach, of course, will be taken in regard to subsequent guarantees. The next issuance of guarantees is scheduled for May 24th.

COMPANION LEGISLATION

The second basic point I will just touch on, Mr. Chairman, is the companion legislation to this Guarantee Act, entitled PL 95-497

which is essentially an act passed last year by Congress to exempt the New York City and New York State employee pension funds from the provisions of the IRS code in connection with their purchases of New York City and MAC debt. I won't go into a long discussion of the Act. It simply is intended to protect them against investing undue amounts of their assets in City or MAC debt and to be sure that the City is meeting certain standards on its budget and other things so that the underlying investments of pension funds are secure.

The point is that the Treasury also has its share of responsibilities under that Act which, of course, add to the workload for our staff and increase our expenses.

OFFICE OF NEW YORK FINANCE

In terms of how we are organized, Mr. Chairman, we have two offices; one in Washington and one in New York. We have a total staff at the moment of 24 people. In Washington, essentially, we perform five fuctions; we analyze trends in Federal aid to the City; we analyze various economic forecasts, both national and local and how they would affect the City's fiscal condition; we prepare the findings, which I just referred to, which Secretary Blumenthal has to make under both the Guarantee Act and the Pension Fund Act; and we prepare testimony and background materials in connection with the numerous Congressional oversight hearings and Congressional requests that we answer.

The New York City staff, on the other hand, has principal responsibility for our day-to-day dealings with the City and the oversight of the City's finances. They conduct reviews of the City's budget and its programs, as well as the reports received from the City and other monitoring entities. Essentially, it is in New York that we do the budget analysis and the cash flow analysis which is so central to our mission under this Act.

Finally, in terms of our budget requests, our appropriation under this Act for the current fiscal year, Mr. Chairman, as you know, is $1,084,000. We are essentially on track in terms of that spending this year. In other words, we have not spent any more than the proportionate amount that relates to the amount of the year which has already elapsed.

ADMINISTRATIVE REQUEST

We are requesting $1,034,000 for fiscal year 1980. I have described in some detail our reponsibilities under both the Guarantee Act and the Pension Fund Act and I would simply point out that, of that $1,034,000, $683,000 is for personnel compensation and benefits, $25,000 is for travel, and $326,000 for outside consultants, utilities, supplies, and the like.

Let me just close by pointing out a few interesting statistics. One is that the Guarantee Act requires the Treasury to charge New York one-half of one percent a year on the amount of guarantees outstanding. In fiscal year 1980, we estimate the Treasury will receive $2.5 million of such guarantee fees, or 2½ times the amount of administrative expenses that we are requesting Congress to appropriate.

I don't normally like to look at it this way because we would all like New York to get back onto its feet and not require Federal assistance but, for the moment, we are essentially in a profit position under the Act, earning $2½ million a year and spending only a million dollars to administer the program. In addition, $1,034,000 represents about 1/20th of one percent of the Federal Government's potential credit risk, the $1,650,000,000 guarantee authority, and I don't think that is an outlandish or large insurance policy against that risk.

Another thing I would say is that, in 1976, our budget was $1,250,000 and in 1977, it was $1,150,000. So, we have pared it as the years have gone by. I want to say I don't think we have had any drastic reductions but it has gone down instead of up and I am pleased about that. I think all of us in the office are pleased about that, and that is not easy in a time of high inflation and general pressures on our expenditures.

That concludes my prepared remarks. I would be happy to answer any questions that you may have.

STAFFING

Mr. BOLAND. Thank you, Mr. Secretary. You indicated in your statement that your professional, secretarial and clerical staff is 24. How is this split between New York and Washington?

Mr. ALTMAN. The number of slots authorized is 24. The number of people employed is 18.

Mr. BOLAND. How is that split between the Washington and New York offices?

Mr. ALTMAN. I believe it is 6 in New York and 12 in Washington.

NYC 1979 BUDGET

Mr. BOLAND. You indicated in your statement that, on November 17, 1978, the Treasury issued the first $200 million of guarantees pursuant to the Loan Guarantee Act of 1978. On February 15, 1979, the next $150 million of guarantees were issued. Sometime in May another $150 million in guarantees are scheduled to be issued. You allude to this in your statement on Page 3.

Is the 1979 budget for New York City in balance?

Mr. ALTMAN. Yes, it is in balance, Mr. Chairman, according to State law and according to the requirements of the Guarantee Act. It is not in balance on the basis of generally accepted accounting principles. The Guarantee Act requires that, between now and 1982, it get into true balance, which will be subject to an annual independent audit in accordance with generally accepted accounting principles. So, yes, they are on track, but, no, they are not clear yet.

BUDGET GAP

Mr. BOLAND. What is the gap in the 1979 New York City budget?

Mr. ALTMAN. Well, there is no gap. As I said, on the basis of State law and on the basis of the Guarantee Act, the budget is in balance. But, on the basis of generally accepted accounting principles, the gap approximates $600 million in FY 1979.

Mr. BOLAND. Is the 1980 budget of New York City in balance?

Mr. ALTMAN. Well, of course, Fiscal '80 hasn't started yet. It won't start until July 1st but the City has submitted a plan.

Mr. BOLAND. Isn't that plan going to show a considerable gap of over $400 million?

Mr. ALTMAN. The City submitted a financial plan on January 15th for FY 1980 which we and the Financial Control Board studied and evaluated very carefully and requested certain changes which have been made. As of now, we have concluded the City's plan to close the gap in FY 1980 will indeed result in balance in FY 1980 under State law and, therefore, result in the elimination of the potential $433 million gap.

Mr. BOLAND. What were some of the suggestions made in order to eliminate the gap?

Mr. ALTMAN. I can't think of a short answer to this but basically——

Mr. BOLAND. Provide this for the record.

[The information follows:]

Program to Eliminate the Gap

On January 15, 1979, the City submitted its fiscal 1980 Program to Eliminate the Gap ("PEG"). This is a detailed program for eliminating the estimated $433 million potential 1980 budget deficit. The program outlined by the City includes:

-- $141 million of City deficit reduction actions after taking into account the funding of a proposed $57 million special contingency reserve ("Level I");

-- $192 million of increased State aid;

-- $100 million of increased Federal aid;

-- A contingent plan involving $52 million of further deficit reduction actions at the City level ("Level II").

City Deficit Reduction Actions:

Level I involves an attrition program aimed at saving $141 million by cutting 6,033 City-funded jobs (3.6 percent of the current work force) and $57 million of deficit reduction actions, other than attrition, as follows:

-- A reduction of $23 million in previously budgeted procurement of equipment and supplies;

-- Increases in licensing fees and other revenues of $9 million;

-- A $25 million reduction in the reserve against disallowed claims against the State and/or Federal Government.

Level II involves net attrition of 2,842 more City-funded jobs to save $52 million. This additional attrition would occur primarily in agencies largely untouched by the Level I attrition program.

State Actions:

The PEG program estimates a $192 million increase in State aid in fiscal 1980. The City has detailed, however $632 million of possible State actions that could be taken with a resultant reduction in the City's projected fiscal 1980 budget gap. It is uncertain which of these actions will actually be taken, however, it is fairly certain the $192 million in increased State aid to the City will be forthcoming in their fiscal 1980.

Federal Actions:

The PEG program estimates that the City will receive an additional $100 million in recurring Federal aid in its fiscal 1980. The City details $121 million worth of legislative actions such as countercyclical aid and welfare relief, and $56 million of administrative actions, out of which the additional $100 million in increased Federal aid will come.

Mr. ALTMAN. The city estimated a $433 million gap and planned to close it with up to $250 million of City cuts plus increases in State and Federal aid. Now, the major debate took place over whether or not they would be required to do the full $250 million in cuts or do less in cuts and rely upon State aid increases or Federal aid increases to close the gap.

To make a long story short, we took the position that they would have to do the maximum amount, the full $250 million, because the outlook for increased Federal aid was not good and the outlook for State aid increases was only fair, which we agreed on. So in other words, the City is committed to cut another $250 million out of its budget in FY 1980 provided that at the time the budget is submitted, on May 1st, there is no basic change in the revenue outlook which would make the amount needed go down or go up. So they have committed up to another $250 million to close the gap. That is a large amount for a city to cut out of its expense budget. We concluded that the 1980 budget will again be in balance on the basis that it is required to be. I might say that they are really not going to have an unusually difficult time in 1980 based on existing assumptions. That is not a tough year coming up for them. Their initial outlook for that year is not bad so I don't view this $433 million gap closing process as extremely difficult or in jeopardy.

ISSUING GUARANTEES

Mr. BOLAND. So you don't see any problem in the Treasury Department issuing the $150 million guarantees in May?

Mr. ALTMAN. Well, I want to emphasize that the Act requires us before making any guarantee to go through this very long thorough process of 14 separate findings. The Secretary has to sign his name to these and provide the Congress with the related documentation. We don't issue any guarantee until we make these findings each and every time. It was that finding process which caused us to exact the type of commitment from the Mayor to make the necessary cuts in FY 1980. We have taken the position that we are not going to be able to make the necessary findings on the budget unless the full $250 million of budget cuts on the City level are committed, and unless the State commits up to $200 million more in aid for the City. It is only on the basis of these commitments that we are able to proceed and make the necessary findings and then issue the guarantee.

Mr. BOLAND. What about the $250 million in guarantees scheduled for 1980? What if the 1979 budget shows a large deficit? Will you still issue the $250 million guarantees?

Mr. ALTMAN. Well, unless the City is in compliance with the Act——

Mr. BOLAND. You won't do it.

Mr. ALTMAN. We can't do it under the Act.

Mr. BOLAND. As I understand the law, either body of Congress can block Treasury from issuing guarantees after July 1, 1979; is that correct?

Mr. ALTMAN. A one House veto.

Mr. BOLAND. When are the $250 million guarantees scheduled to be issued in 1980? Early?

Mr. ALTMAN. Well, we don't have a final financing schedule on either the guarantees or the amounts of unguaranteed long-term loans which are a part of the overall $4.5 billion program. So it is not determined yet and until that take-down schedule is resolved I can't be sure. But essentially, the guarantees go hand-in-hand with unguaranteed debt in terms of timing. The two schedules on long-term financing are more or less contemporaneous but I don't know yet exactly what point in the year it will start.

FORECAST OF CITY BUDGET DEFICITS

Mr. BOLAND. What does the city forecast as potential budget deficits in 1981 and in 1982? Include the probable cost of labor contracts in your estimate.

Mr. ALTMAN. Well, the potential deficit for those years is large. It exceeds $1 billion, but that is a little misleading. Every dollar that the city cuts now and every dollar they eliminate either by a savings which is a recurring savings or by a revenue increase which is a recurring increase, like a tax increase, reduces that potential budget gap. So, for example, when the 1980 budget gap of $433 million is eliminated, the 1982 figure of $1 billion goes down by that amount. So, though people talk about a $1 billion 1982 gap, unless the City gets way off track, they are not going to be sitting the night before the fiscal year begins with a billion dollar gap. They are going to be cutting it along the way in 1980, so by the time it gets there it will be smaller. I think most of the public discussions on those gaps is misleading because they do not recognize that cuts will be made along the way. They are large gaps, however, even looked at on this basis. That is why we took the position that the city had to make major cuts this year for 1980 and that is why we took the position that the State had to continue to increase its aid to the city. Furthermore, in 1980, they have committed up to $200 million more themselves.

We have to look at it over a 4-year basis. Unless we can find that they are making progress toward true balance in 1982, we aren't permitted to issue the guarantee.

Mr. BOLAND. There has been some concern expressed by people who have been involved in this problem. The former chairman of MAC, Felix Rohatyn, urged further cuts in 1980 to avoid really drastic surgery in 1981. Carter administration aides voiced similar warnings. We called the retiring New York State Comptroller, and he said, "As yet, New York City has no plans for achieving a truly balanced expense budget by 1982." In a letter to Secretary Blumenthal, Senators Proxmire and Garn said and I quote:

"In our view, there is every advantage to pushing New York City to make larger budget reductions earlier on and considerable disadvantage to permitting the city to follow its more customary course of backloading such reductions in later years and hoping for the best."

CONTRACT NEGOTIATIONS

Mr. BOLAND. What about the city's labor contracts? Didn't they expire last year? What was the effect of those contract negotiations?

Mr. ALTMAN. Well, they negotiated 2-year contracts last June. So

they don't expire again until June of 1980. Actually, they begin to expire in the March through June period and new contracts will have to be negotiated then.

It is unrealistic to think that there will be no increases, but last year's contract really was quite restrained by any standard of recent private or public sector wage increase. They had a 2-year agreement which essentially increased city wages 4 percent on an annualized basis. While the city is in difficult fiscal straits, as we all know, that was really a fairly restrained settlement. No one knows what the 1980 settlement will look like; they haven't begun negotiations. But, again, the city's fiscal condition is such that there are obviously major limits on what it can afford to pay. Anyone's hope would be that there would again be a restrained settlement, but it is too early to know.

Mr. BOLAND. Actually, I suppose labor contracts are probably the most significant issue that New York City faces.

Mr. ALTMAN. Yes, I would say labor contracts and State aid.

PLANS FOR NYC POLICE DEPARTMENT

Mr. BOLAND. An article in the Washington Post on January 16, 1979, indicated some contingency plans to balance the budget. One paragraph in the article stated that the police will lose 500 uniform positions even without the contingency plan, but Mayor Koch said these will be replaced by the same number of civilians so that street patrols will not be reduced. It sort of puzzles me to know how money can be saved by reducing the number of uniform police and replacing them with civilians.

Mr. ALTMAN. Well, I would have to give you an answer for the record as to the City's exact plans with the police department. I guess the only point I would make beyond getting an answer for the record is that attrition is running high in New York City. They have had major attrition particularly in the Board of Education in the last couple of years. While I don't think City services have dramatically suffered, there has been some suffering. What the Mayor is saying is that he hopes that they can continue to take this level of attrition, including in the police department, and through management improvements not reduce sharply the quality of police protection in the City.

But I would like to get you an answer for the record as to their exact plan in that area.

[The information follows:]

POLICE

As part of the program to eliminate its projected fiscal 1980 budget gap, the City plans to take certain personnel actions in the Police Department. Most important is the civilianization of non-patrol positions by the reduction through attrition of 500 police officers offset entirely by the addition of 1,180 civilian personnel (500 funded by the City and 680 funded through CETA). The net savings from this action results from the substitution of lower paid civilians for higher paid police officers who are presently carrying out non-patrol functions. This action also results in an increase in the number of patrol units of approximately 300. This action plus certain other personnel and management actions contemplated by the City with regard to the Police Department is estimated to save the City approximately $4.9 million in FY 1980.

HEALTH AND HOSPITAL CORPORATION

Mr. BOLAND. There was an indication that the cuts that were made public at the time that this article appeared in the Washington Post do not include reductions in the semiantonomous Health and Hospitals Corporation. Isn't the Health and Hospitals Corporation one of the chief targets for municipal economy?

Mr. ALTMAN. Well, I think the article, in that regard, is not accurate. The City is proposing to reduce its subsidy to the Health and Hospitals Corporation rather substantially over the next few years. Basically, the Health and Hospitals Corporation is a so-called "covered" agency. It has its own board of directors, in effect. The City subsidizes its deficit or offsets its deficit with subsidies. In that regard, it is like the Transit Authority of New York. They are both similar in terms of their organization.

You are right that the Health and Hospitals Corporation has been losing a lot of money. There is a major over-supply of hospital beds in New York. There is currently a raging debate in the City over whether some of the 17 municipal hospitals will be closed. The City is proposing in its plans to reduce its subsidy to the Health and Hospitals Corporation. What that really means is that the Health and Hospitals Corporation has to find ways to save money because it is going to get less money from the City. So, I don't think that article is exactly accurate.

Mr. BOLAND. Let me ask whether or not most of the population of the City of New York is covered by Medicaid or other insurance programs? This is a difficult area to reduce, isn't it?

Mr. ALTMAN. You are absolutely right, it is a very difficult area to reduce because most of the expenses of the Health and Hospitals Corporation are labor in the hospitals themselves. So closing a hospital, actually closing the doors, doesn't save that much money. You only save money if you reduce the payroll accordingly. So you are quite right, the savings aren't in the area of City expenses for health care; they are in the area of City expenses for the labor associated with those hospitals.

NEW YORK CITY ENTERING PUBLIC CREDIT MARKETS

Mr. BOLAND. On page 3 of your statement, mention is made of New York City reentering the public credit markets. They have already done that in two instances, haven't they?

Mr. ALTMAN. Yes, sir.

Mr. BOLAND. And you are pleased with that, aren't you?

Mr. ALTMAN. Very pleased. It is the first time the city has reentered the public markets since 1975. It was a very major step. Both of those offerings went much better than was expected. They were oversubscribed. You know, it is a real sign of progress.

Mr. BOLAND. You must have been pleased with the interest rate. What was it? Eight percent the first issue and 7.5 the second?

Mr. ALTMAN. That is right.

Mr. BOLAND. Was one six months and the other five?

Mr. ALTMAN. That is about right. Actually the January issue was due in five months; the February was due in four months.

LONG TERM BORROWING

Mr. BOLAND. What about entering the market for other than short-term borrowing?

Mr. ALTMAN. Well, of course, that is the Holy Grail in this situation. The reason that we are all here is that New York City can't fully borrow all of its own needs without Federal help. They have now shown that they can satisfy their short-term needs, both through these public sales and through back-up lines of credit which are negotiated in place with the banks and the pension fund.

So the remaining problem, and it is a big one, is financing their long-term needs, their needs for capital construction roads, sewers, and schools.

Mr. BOLAND. Revenue anticipation notes are safer, I would think.

Mr. ALTMAN. Oh, yes, the short-term notes are much safer because they are shorter maturity and they are directly backed by large amounts of State aid. They are more secure from an investor point of view.

So, the remaining question is when can the City regain its ability to borrow all of its long-term needs. And the Guarantee Act is essentially intended to bridge them through the next three years when we estimate they will be able to borrow on their own for their long-term needs. The recent success of their note sale shows progress, but no one should be mislead. It is a lot easier to sell a six month note than a 15 year bond. It is much easier. So they have a long way to go.

SEC FINDINGS

Mr. BOLAND. What about the report on the City of New York by the SEC? Has that been filed?

Mr. ALTMAN. Yes, the SEC released its report about two weeks ago.

Mr. BOLAND. Can you indicate for the record what the significant findings were? You may do that briefly now.

[The information follows:]

SEC REPORT

The Securities and Exchange Commission issued its final report on February 5, 1978, entitled "In the Matter of Transactions in the Securities of the City of New York". This report terminated their investigation and called for new legislation to deal with the disclosure problems which still exist in the municipal securities markets.

The Report essentially did three things: It endorses the SEC's Staff Report which was issued in August 1977, (and also provided an updated supplementary staff report); it concluded that no enforcement actions would be brought, and that the public interest would be best served by the SEC's efforts in support of legislation setting standards for reliable and accurate municipal disclosure.

No need for enforcement action

The issuance of the comprehensive staff reports; the change in the City's administration since the issuance of the initial staff report, remedial action taken by those cited in that report (particularly the City itself) and Federal and State legislation enacted during 1978 which imposes financial controls over the City and requires, among other things, audited financial statements, and, finally, the fact that any enforcement action would not only be protracted and a drain on limited staff resources, but also would have only limited additional remedial

value, were the reasons cited in the Report for not going forward with enforcement.

Need for new legislation covering municipal securities

While there are certain non-statutory voluntary guidelines (e.g. Municipal Finance Officers Association) as well as a few State regulatory Acts (e.g. North Carolina and Oregon), the Commission felt that despite these and other voluntary efforts, the extent and quality of municipal disclosure still varies widely and that, in order to protect the investing public, a uniform system of disclosure utilizing a standardized method of municipal accounting and presentation "should be accorded the highest legislative priority."

Mr. ALTMAN. I will do it as best I can and add anything for the record. Essentially, the SEC concluded that the City had made a lot of progress since the onset of this crisis in 1975 in terms of improving its accounting standards and its disclosure standards.

The SEC decided that no further action made sense from a SEC enforcement point of view and so it is closing the case. It also recommended that the Congress pass legislation setting standards for municipal disclosure of municipal finance and municipal accounting. That is a thumb-nail sketch of its findings, but the case is closed and the SEC's report was generally upbeat.

CLOSING OF BUDGET GAP

Mr. BOLAND. The President and some of his aides have indicated a number of times that they would do whatever the Administration could do to close a gap between the New York City's revenues and its expenses. Exactly how is the Administration going to channel more funds into New York City? If that is done, I would think other large cities might be short-changed.

Mr. ALTMAN. Well, the White House has been handling that more than the Treasury, but I will do my best to answer you. There are a series of areas in which the city has had requests, mostly long-standing requests, for administrative changes which would save the City money. I will give you an example: The City of New York is so large, seven and a half million people, so much larger than most other cities, and has such a high concentration of poor individuals who are recipients of assistance under the Food Stamps Program, Medicare, or welfare, that its local administrative expenses in relation to Federal aid programs are very, very high. There are a lot of Federal programs which mandate benefits, like welfare, where the City has to have companion administrative machinery, whether or not it can afford it. Welfare is a good example. New York City pays 25 percent of the total benefits paid to recipients. It is the only City in the country which pays anything like that share.

Well, if the welfare case load goes up, the City has to increase its administrative expenses accordingly whether or not it can afford it. Well, there are some areas, like food stamps, where the City has asked the Agriculture Department to absorb a greater portion of its administrative expenses. No city has as many food stamps recipients as New York. As a result, they have this large machinery to distribute the stamps that they can't afford.

While there are very narrow areas in which the Agriculture Department or other departments can help, we are trying our best to make fair decisions as to whether or not New York is bearing an undue bur-

den of the administrative expenses of a program like Food Stamps. And if we concur that they are, we will try to slightly change the Department's expense budget to help the City out.

I don't think that effort should be over emphasized though because the amounts of money we are talking about in terms of potential savings to the City are really small. I mean you are talking maybe about $30 to $40 million in a year, which we might be able to redirect compared to New York's $13.5 billion budget and the $532 billion Federal budget. So it is really very small. I wish the administrative actions were larger.

TOTAL ACCUMULATED DEFICITS

Mr. BOLAND. What about the total accumulated deficit for the City? What is the total accumulated deficit for fiscal year 1978?

Mr. ALTMAN. I am not sure I understand the question. You are asking me what the deficit was in fiscal '78 itself? It was in the area of $712 million under generally accepted accounting principles. That figure is different than the deficit accumulated over the past several years.

Mr. BOLAND. Why don't you supply for the record, if you will, a table showing the estimated accumulated deficits for fiscal years 1975, 1976, 1977 and 1978 and also the actual deficits for those specific years?

[The information follows:]

CITY OF NEW YORK ACCUMULATED DEFICIT

[Dollars amounts in millions]

	1975	1976	1977	1978
Beginning fund balance (deficit) [1]	($5,077)	($6,246)	($7,119)	($7,338)
Surplus (deficit) for the year	(996)	(1,168)	(1,039)	(712)
Other changes, net	(173)	295	820	309
Fund balance (deficit), end of year	(6,246)	(7,119)	(7,338)	(7,741)

[1] Balances for 1975 and 1977 are adjusted and restated, for accounting policy and other errors, from original comptroller's reports.

Mr. BOLAND. Mr. Coughlin?

Mr. COUGHLIN. Mr. Chairman, thank you. I would like to know, for my own information, is the budget in balance in New York for fiscal 1979 and fiscal 1980?

STATUS OF BALANCING BUDGET

Mr. ALTMAN. Mr. Coughlin, the budget is in balance on the basis that it is required to be under both State law and the Federal Guarantee Act. It is on track. In fact, the City has met every budget goal, the Federal Seasonal Loan Act and now the Guarantee Act, required it to make.

The City's budget is not yet in balance on the basis of generally accepted accounting principles. The Guarantee Act requires that by fiscal 1982 the City get into balance under GAAP. The Act also re-

quires us to find each time we issue a guarantee that they are making "substantial progress" toward that goal. So the City is doing what they are required to do. They are on track toward that 1982 goal, but it is only by 1982 that the budget will finally be in balance on the basis of generally accepted accounting principles.

Mr. COUGHLIN. How much is it out of balance?

Mr. ALTMAN. Approximately $600 million this fiscal year.

Mr. COUGHLIN. Six hundred million dollars in 1979? And how much in 1980?

Mr. ALTMAN. Well, the 1980 deficit—let me answer that this way: The City recently submitted a plan which, after some negotiation with them, we approved. They made changes which would also balance the 1980 budget on the basis of State law and on the milestone basis, thus making progress toward 1982.

So the 1980 budget in our judgment, just like this year's budget, will be in balance on the basis it is required to be under the Act.

Mr. COUGHLIN. I want to know how much under generally accepted accounting standards will the 1980 budget be unbalanced? Is the 1979 budget out of balance by $600 million?

Mr. ALTMAN. Yes, and by approximately $400 million in fiscal year 1980.

Mr. COUGHLIN. So we are talking about being a billion dollars in the hole for those two years, basically?

Mr. ALTMAN. I don't think so. You are talking about deficits which have been limited. 1979 is here; it is the middle of the year and the budget—well, right, 1979 will have a deficit of approximately $600 million on a generally accepted accounting principles basis, but 1980 will be smaller, about $400 million. We go from there on track, as I say, toward the 1982 goal.

Mr. COUGHLIN. How will this deficit be made up?

Mr. ALTMAN. Well, how do the financiers do it? They finance it with long-term debt.

Mr. COUGHLIN. So the City will have approximately an additional billion dollars in long-term debt for those two years?

Mr. ALTMAN. That is right.

Mr. COUGHLIN. And then how about 1981? What is the projection for that deficit under generally accepted accounting principles?

Mr. ALTMAN. Approximately $200 million.

(Additional information follows:)

New York City Four Year Plan
FY 1979 - 1982

To clarify the issue for the record, it should be noted that under the Four Year Plan the City's deficits on a GAAP basis for the period 1979 - 1982 are accounted for as set forth below:

New York City 1/
Surplus (Deficit) under GAAP
FY 1979 - 1982 ($ in millions)

	1979	1980	1981	1982	Total
Estimated Pension Accrual 2/	(150)	(125)	(75)	---	350
Capitalized Expenses . . .	(445)	(300)	(150)	---	895
Total	595	425	225	---	1,245

What is significant about the City's projected budget results under GAAP is that it tends to overstate the City's actual cash deficits. This is because the pension accrual is only an accounting issue and thus does not have a cash impact on the City's operating budget or fund balances. More fundamentally since the pension accrual does not require cash it does not have to be financed as does the capitalized expenses, which are for operations. Thus over the period FY 1979 - 1981, that portion of the City's deficit which has to be financed is only $895 million and not the full $1.2 billion under GAAP. This cash need is being met annually by the issuance of MAC bonds in the amount set forth above, which will be retired over a period of years.

1/ This assumes that the City's budget will be balanced under state law through FY 1982; if converted to GAAP during those years the deficits set forth above would result.

2/ These are current estimates of the pension accrual. The cost of the pension accrual in FY 1980 and 1981 has not yet been finalized and may change substantially from the amounts shown above. The issue is still being discussed.

OFFICE OF NEW YORK FINANCE—STAFFING

Mr. COUGHLIN. On another subject, you indicated that the professional, secretarial and clerical staff working on the New York City Loan Guarantee Program presently number 24. Can you furnish a breakdown by title and description of duties?

Mr. ALTMAN. The number of positions authorized is 24. Currently we have 18 onboard and essentially among our professional staff we have four people engaged in budget analysis; one full-time on cash flow; one full-time on Federal aid trends to the City; one full-time on the whole question of market access, the City's access to note and bond markets and the factors that affect it; one full-time on trends in the City economy; one full-time legal; and then the Director of the Office itself, plus eight secretarial and clerical personnel.

Mr. COUGHLIN. Have any other Treasury employees been working on New York City issues?

Mr. ALTMAN. I work on it, although I am not paid out of the fund. Of course, the Secretary and the Deputy Secretary also spend considerable amounts of time on this and are not paid out of the fund, nor is the General Counsel. So, yes, there are other senior Treasury officials who work on it and are not paid out of the office funds, but they are not full-time.

Mr. COUGHLIN. Last year, we discussed the misuse of money intended for the New York City Seasonal Loan Program. Both the House and the Senate directed this practice be stopped. Do you intend to continue doing under the Loan Guarantee Program the practice which you were doing during the Seasonal Financing Program?

Mr. ALTMAN. No.

Mr. COUGHLIN. Last year, you indicated that the borrowing of non-New York City personnel was needed because of the heavy workload of preparing the legislation. What has happened now that this legislation has been prepared?

Mr. ALTMAN. Well, one of the things that has occurred in general in this operation is that we have reduced our dependence on outside consultants, both legal and accounting. Correspondingly, we have built up our internal staff. We have done this even though, as I said in my statement, there are major increases in responsibility due to the way the Guarantee Act is written. When the work under the companion pension fund legislation is taken into consideration, we have much more to do, in effect, than we did under the Seasonal Lending Act.

We are able to handle it with the people we have internally augmented by less amounts of accounting consulting time.

Mr. COUGHLIN Mr. Chairman, that is all I have at this time.

Mr. BOLAND. Lindy?

PAY RAISE SUPPLEMENTAL

Mrs. BOGGS. Thank you, Mr. Chairman. Talking about the administration of the program, you are requesting that $34,000 be transferred from administering the public debt appropriation to cover increased pay costs in 1979. Why do you need these additional funds for increased pay costs in 1979?

Mr. McFadden. $34,000 is for the 5.5-percent pay increase Federal employees received this past October.

Ms. Boggs. Then you haven't needed these funds in the past?

Mr. McFadden. No, we haven't.

Ms. Boggs. And what would happen if Congress didn't provide the $34,000?

Mr. McFadden. Well, we would spend less in other areas of administrative expenses. We would have no choice because the people have to be paid.

INCREASED PRODUCTIVITY

Ms. Boggs. On page three of Tab C is mentioned a $50,000 savings in 1980 due to increased productivity.

Mr. Boland. We always tell people that is very laudable. How do you do it?

Ms. Boggs. It is extremely laudable.

Mr. Altman. Well, basically, it reflects two things. It reflects a lesser dependence on outsiders, as I just said. When the New York City crisis broke in 1975, it caught many people off-guard including the Treasury. The Treasury didn't have time to build up an internal staff to follow the crisis and deal with the related legislative proceedings in the Congress which resulted in the Seasonal Financing Act. They really had no choice but to go, in this case, to Arthur Anderson for accounting advice regarding the shape of the city budget, how big the deficit was and what could be done.

For example, even just last year, we spent—and this is a lot less than we spent in 1976—$625,000 on outside consultants and that was less than the year before and less than the year before that.

In fiscal 1980, we are budgeting only slightly more than $300,000 for outside consultants. What we are in the process of doing is building up good internal capability with the existing staff and doing this job more cheaply than if we were spending $625,000 on outside consultants. In addition, we have had time now to set up a more organized and efficient office. We are slowly moving more of our staff to New York where they really ought to be because we are talking about monitoring a budget and monitoring cash flow and it is easier to do it first-hand than from down here. In addition, this will thereby reduce our travel back and forth. It really reflects a chance to organize better now that it is clear that there will be a Federal presence in New York for at least four years.

Ms. Boggs. Thank you, Mr. Chairman.

NYC DEBT

Mr. Sabo. I assume that when you talk about the debt of New York City you are talking about operating debt, not capital debt?

Mr. Altman. Well, no. They have a large capital funding program because it would be capital funding——

Mr. Sabo. But that is in addition to the debt we have been discussing?

Mr. Altman. That is right.

Mr. Sabo. Okay, so it is operating deficit.

Mr. Altman. That is right. For example, in fiscal 1979 the total city capital budget is about $1.4 billion. Of that amount, $400 million

will be for bonding out the State advance, thus reducing the City's seasonal needs; $382 million will be for true capital expenditures and the remaining $150 million for filling the MAC capital reserve fund. The only funds to be used in financing the deficit will be $445 million in MAC debt.

Mr. SABO. I assume they are making provisions in the future for repaying that long-term debt?

Mr. ALTMAN. Of course, surely. I mean every dollar incurred to finance the deficit is just as much an obligation as a dollar currently financed for a school.

Mr. SABO. Let me ask you another question. What has happened with aid from New York State to New York City? Has that increased substantially?

Mr. ALTMAN. It has gone up every year since 1975. Last year it went up $15 million and next year, fiscal 1980 it will go by an amount which may get as high as $200 million.

Mr. SABO. What are the totals though?

Mr. ALTMAN. One would say over $3 billion but let me check. It is huge. It is $2.8 billion.

Mr. SABO. And how much is it going up?

Mr. ALTMAN. Well, it went up, it is going up this fiscal year, the year that we are now in the middle of, by $162 million.

Mr. SABO. That is less than seven percent. So, we see no dramatic increase in aid from the State of New York to the City.

Mr. ALTMAN. I personally think $162 million is pretty substantial. That is faster growth than the overall growth in the State budget.

Mr. SABO. Well, they are cutting taxes on the State level at the same time. Clearly, the major responsibility for City government rests with the State.

Mr. ALTMAN. Well, let's look at it this way. We had this discussion before you came in. In 1980 we have to find that the City is making substantial progress toward balancing its budget by 1982. Under the provisions of the Act, we must find that the budget is going to be in balance.

So, the entire budget gap, potential gap, in fiscal 1980 in New York City has to be reduced to accommodate the City cuts and State aid increases. The City has pledged to cut up to $250 million next year and the State to provide up to $200 million. The total potential gap is $433 million. So we have some $200 million, plus $250 million, about $450 million against the $433 million potential gap.

It is all being done on the City and State level. I am not here to represent the State, but I think $162 million in 1979 and $200 million in 1980 potential increase is generous given that the State budget is balanced. As you know, it is not going up that much and they are cutting taxes, which I think is necessary in order to promote economic development.

NYC PENSION FUNDING

Mr. SABO. I wouldn't categorize that as generous, I guess. What is happening with pension funding in New York? Have they made changes?

Mr. ALTMAN. Yes. There was a report commissioned by the Mayor three years ago which recommended that the pension funds revise

certain actuarial assumptions as well as make other changes in funding the city pension fund systems.

The City committed to do that and State enabling legislation was passed. As a result, the City has been increasing their pension fund contributions in the last couple of years, and by FY 1982 will comply fully with the recommendations of that Commission report in terms of updating the actuarial assumptions.

Mr. SABO. Are they still on final year earnings for pension benefits?

Mr. ALTMAN. I will answer that for the record. Paradoxically, New York City's pension funds are almost as fully funded as any major city in the country. The city's pension funds are in pretty good shape. You know, many cities are on a pay-as-you-go system, like the District of Columbia.

And, I guess it goes without saying that pay-as-you-go is a less sound approach than an actuarially funded system as in New York City.

Mr. SABO. What is their funding ratio, do you know?

Mr. ALTMAN. I can give you some basic statistics on it for the record. We have a lot of them. It totals about 45 to 50 percent.

Mr. SABO. That is not bad, but I am still curious whether they are on final year earnings.

Mr. ALTMAN. I will get that for the record.

[The information follows:]

Level of Retirement Benefits

Retirement benefits paid by the New York City retirement system are calculated on the basis of three different formulas pegged to time periods (termed "tiers") in which employment began. Furthermore, within each tier the level of benefits may differ between civilian and uniformed members:

-- Tier 1 applies to employees prior to July 1, 1973: benefits are calculated for civilian members upon the basis of the last years' salary and for uniformed members upon the basis of the salary on the last day of employment. Approximately 86 percent of all retirement system members fall into this category;

-- Tier 2 applies to employees entering the City work-force between July 1, 1973 - June 30, 1976: benefits for both civilian and uniformed members are calculated upon the basis of the last three years' salary provided that no one year's salary is more than 20 percent greater than the average of the other two. Any overage is excluded from the benefit calculation. Approximately 12 percent of all retirement system members fall into the category;

-- Tier 3 applies to employees entering the City work-forde beginning on July 1, 1976: benefits for civilian members (by contract no uniformed employees fall into this category regradless of when employment began) are also calculated upon the basis of the last three years' salary, however, the actual benefit paid is adjusted downward by the amount the retiree receives from Social Security. Only approximately 1 percent of all retirement system members fall into this category.

City Retirement System Finding Status

There are five major actuarial systems comprising the New York City retirement system--the New York City Employees retirement system, the Teacher's retirement system, the Board of Education retirement system, the Police Pension Fund and the Fire Department Pension Fund--of which only four of will purchase Federally quaranteed City bonds. The Fire Department Pension Fund is not a party to any of the agreements putting into effect the City's $.5 billion financing plan.

As the attached table, provided by the City Actuary, indicates, as of June 30, 1978, approximately 46.9 percent of the total accrued liabilities of all the retirement systems are funded. The table provides a breakdown of the funding status of each retirement system.

New York City Retirement Systems
Projected Funding Status as of June 30, 1978

Attachment G

(dollars in millions)

	NYCERS	Teachers	Police	Fire*	Board of Education	Total
1. Liability for retired members . . .	$3,650	$2,150	$1,530	$ 850	$120	$8,300
2. Liability for accrued benefits of active members (including vested terminations)	4,480	3,735	1,875	850	160	11,100
3. Total accrued liability - Item 1 and Item 2.	8,130	5,885	3,405	1,700	280	19,400
4. Assets on hand (excluding two years' appropriation due and unpaid) . . .	4,150	2,900	1,400	500	155	9,105
5. Unfunded accrued liability - Item 3 less Item 4	3,980	2,985	2,005	1,200	125	10,295
6. Percent of total accrued liability funded i.e., $\frac{\text{Item 4}}{\text{Item 3}} \times 100$	51.0	49.3	41.1	29.4	55.4	46.9

Note: Accumulated contributions of active members are excluded from assets and liabilities figures shown in the above table.

* Liabilities on "Shinn Basis"

Source: Office of the Actuary
10/3/78

Mr. SABO. The pension benefits are very substantial.

Mr. Chairman, thank you.

OFFICE STAFFING

Mr. BOLAND. Let me ask another question of the Red Sox fan who runs the Washington office. I want Mr. McLaughlin to discuss how he gets along with only 12 people. You said that the 18 people are split—12 in Washington and 6 in New York. You have got a lot more than 12 people in that cubby hole down in the Treasury Building, haven't you? The hearings last year clearly show you have personnel who are not paid out of the $1,034,000 administrative funding you are requesting this year.

Mr. MCLAUGHLIN. We have a lot of resources available to us.

Mr. BOLAND. A lot of bodies too, aren't there?

Mr. MCLAUGHLIN. There are a lot of people in the Treasury Department program.

Mr. BOLAND. Mr. Coughlin was pursuing this point earlier. I, too, am a little confused about the number of people involved here. You use an awful lot of Treasury people in this area.

Part of their time is spent on the New York City problem. I presume out of this long list, I have counted more than 24 here from the hearings last year—that a number of them spent a considerable amount of their time in this area. Could it run to 80 or 90 percent of their time?

Mr. MCLAUGHLIN. Well, I think, Mr. Chairman, now that we are in the administration and compliance phase, that a lot of those people formerly involved in preparing testimony are not really involved now.

I think we are pretty much within our bounds in terms of our use of personnel.

Mr. ALTMAN. Yes, but let me just add to that. I don't mean to cut you off. Even Secretary Blumenthal periodically spends a lot of time on this issue. In the course of reviewing the New York City FY 1980 budget and in relation to our findings under the Guarantee Act, he and I recently went to New York. After a lot of internal briefings for him, in terms of where the budget stood, he subsequently met with Mayor Koch and others to discuss the budget outlook. Thus he has to personally review each of these findings before he can sign his name to them. The General Counsel is also very much involved in this, as well as the Deputy Secretary, Mr. Caswell. So Mr. McLaughlin is right; there are fewer people than we had last year when we were in the middle of this enormous legislative effort to get the Guarantee Act passed.

Several senior Treasury officials, particularly those I have mentioned and including myself, are not paid out of that account but spend a lot of time on it. For cost accounting, you could probably add another several hundred thousand dollars in expenses which are not being paid out of this fund.

PROFITS MADE BY FEDERAL GOVERNMENT

Mr. BOLAND. The profit made from this program by the Federal government is about $2.5 million in 1980, isn't it?

Mr. ALTMAN. Next year. The revenue is $2.5 million, and the expenses about $1 million.

Mr. BOLAND. The City is charged one half of one percent for whatever the amount of the loan, correct?

Mr. ALTMAN. One half of one percent for the amount of guaranteed debt outstanding.

Mr. BOLAND So, soon it will amount to about $2.5 million which looks great when you are only asking for $1,034,000 for your administrative expenses, except that a great number of employees, as Mr. McLaughlin and the Secretary know, are paid for out of other accounts.

Please submit for the record a table showing personnel positions funded under the New York City Program and a list of the positions involved in the New York City Program but not funded from it. Similar lists were provided last year. Many of the latter positions I guess, would be from the Office of the Secretary, would they not?

Mr. ALTMAN. That is exactly right. It is really no different than that portion of Secretary Blumenthal's time which is spent on negotiating the frozen assets issue in China right now, or whatever else. It is not, you know, subject to cost accounting and allocated to particular accounts, but nonetheless he spends time on those things, including this.

[The requested information follows:]

DEPARTMENT OF THE TREASURY
NEW YORK CITY PROGRAM PERSONNEL
February 28, 1979

A. Positions funded under New York City program authority:

Name	Position	Grade	Salary	FY 1979 % of time on NYC Program	Description of Duties
John J. McLaughlin	Director	GS-15	$44,520	100%	Supervises and manages the Office of New York Finance.
David Herships	Deputy Director	GS-15	39,432	100	Provides policy recommendations for senior Treasury officials and assists in the formulation of Treasury policy relating to New York City Finance.
Cornelius Healy	Supervisory Auditor	GS-15	40,704	100	Manages the New York City office and prepares budget and financial reviews of New York City. (Employed in New York)
Luke Lynch	Attorney Adviser	GS-15	47,500	100	Provides legal assistance on matters relating to New York City.
Lawrence Kieves	Program Analyst	GS-14	33,523	100	Provides administrative and management support for the Office of New York Finance. Assists in the preparation of budget and financial reviews of New York City. (Employed in New York)
Allen Kone	Financial Analyst	GS-14	32,422	100	Assists in the preparation of budget and financial reviews of New York City. (Employed in New York)
Jonathan Stein	Program Analyst	GS-13	34,773	100	Assists in the preparation of budget and firancial reviews of New York City's covered agencies.
Diane Mazur	Financial Analyst	GS-12	23,087	75	Assists in financial and economic reviews of New York City and other municipal governments and assesses the financial impact of Federal assistance programs on these governments.
David Hack	Financial Analyst	GS-12	23,087	100	Provides staff report in the Washington office on pension fund, capital budget and cash flow matters.
Marion Medley	Secretary	GS-09	19,106	100	Provides secretarial support to the Office of New York Finance.
Richard Allridge	Financial Analyst	GS-09	15,920	100	Provides staff report in the Washington office on issues relating to Federal Aid to New York City.
Annette Cooper	Secretary	GS-07	15,184	100	Provides secretarial support to the Office of New York Finance.
Sylvia McGee	Secretary	GS-07	13,448	100	Provides secretarial support to the Office of New York Finance. (Employed in New York)
Sonia Jones	Secretary	GS-05	10,507	100	Provides secretarial support to the Office of New York Finance.

DEPARTMENT OF THE TREASURY
NEW YORK CITY PROGRAM PERSONNEL
February 28, 1979
(continued)

A. Positions funded under New York City program authority:

Name	Position	Grade	Salary	FY 1979 % of time on NYC Program	Description of Duties
Cathy Jordan	Admin. Clerk	GS-05	$10,507	50	Provides clerical support to the Office of New York Finance.
Fredrecia Evans	Clerk Typist	GS-04	9,391	60	Part-time employee providing clerical support to the Office of State and Local Finance, particularly on New York City matters.
John Blaha	Clerk Typist	GS-03	8,366	100	Provides clerical support to the Office of New York Finance. (Employed in New York)
Shirley Hixon	Clerk Typist	GS-03	8,366	100	Provides clerical support to the Office of New York Finance.

B. Positions not funded from the New York City Program:

Name	Position	Grade	Salary	FY 1979 % of time on NYC Program	Description of Duties
Roger C. Altman	Ass't Secretary	EXL IV	$50,000	70	Supervises and manages the Office of Domestic Finance which includes the Office of DAS for: Debt Management; Capital Markets Policy; and State and Local Finance and the Office of Revenue Sharing.
Nancy Fiester	Secretary	GS-10	19,284	60	Provides secretarial support to the Assistant Secretary for Domestic Finance.
David Pickford	Special Assistant	GS-14	32,442	50	Serves as special assistant to the Assistant Secretary for Domestic Finance.
Lucille Dickinson	Financial Research Analyst	GS-12	23,087	50	Assists Treasury officials in the preparation of policy with regard to matters relating to urban and regional economic development.
Donald H. Haider	Deputy Ass't. Secretary	GS-17	47,500	50	Supervises and manages the Office of State and Local Finance which includes the Office of Urban and Regional, The Office of Municipal Finance, and the Office of New York Finance.

43-133 O - 79 - 8

DEPARTMENT OF THE TREASURY
NEW YORK CITY PROGRAM PERSONNEL
February 28, 1979
(continued)

B. Positions not funded from the New York City Program:

Name	Position	Grade	Salary	FY 1979 % of time on NYC Program	Description of Duties
Betty Green	Secretary	GS-09	$18,575	50	Provides secretarial support for the Deputy Assistant Secretary for State and Local Finance.
Elaine Kearney	Secretary	GS-07	15,618	15	Provides secretarial support within the Office of State and Local Finance.
Barnett Kress	Special Assistant	GS-15	38,160	10	Assists Treasury officials in consultation with members of Congress and their staffs; follows the pertinent Congressional hearings, legislative proposal and other activities; and participates in the development of Dept'l policy as it relates to the legislative process.
Arlin Winefordner	Clerk Typist	GS-04	9,391	5	Provides clerical support for the Office of Legislative Affairs activities.
Sandra Knuth	Budget Analyst	GS-12	23,087	10	Reviews all budgetary materials: formal submissions, apportionments, technical schedules, etc. Serves as budgetary back-up for program officials at meetings and hearings.
Barry Hudson	Budget Analyst	GS-07	13,014	15	Prepares all budget documents for execution and formulation phases, including development of financial plan; status reports; Dept'l, OMB, and Congressional budget submissions; and review of all obligating documents.
Karen Hockenberry	Accounting Tech.	GS-05	10,623	35	Develops all required accounting documents, issues payments for bills, reconciles all account balances.
Thomas O'Malley	Ass't Director	GS-15	39,789	7	Prepare, negotiate, maintain and review all contracts.
Charles Schaefer	Supervisory Procurement Analyst	GS-14	31,775	13	Prepare, negotiate, maintain and review all contracts.
Edward Yadeski	Procurement Analyst	GS-12	23,341	38	Prepare, negotiate, maintain and review all contracts.
Renea Morton	Secretary	GS-06	11,101	15	Provide secretarial support for procurement activities.
Brian Freeman	Financial Counselor	GS-14	30,750	50	Provides legal support on matters relating Domestic Finance.
Hazel Backus	Secretary	GS-06	11,841	60	Provides secretarial support for legal personnel.
John Plum	Public Information Specialist	GS-15	38,583	15	Provides public information support on mattern relating to Domestic Finance.

FEDERAL LENDING ASSISTANCE

Mr. BOLAND. Last year you said, and I will quote you, "No other city in the country today has need for Federal lending assistance, nor in the foreseeable future will have such need." Do you want to repeat that again?

Mr. ALTMAN. I would repeat it again.

Mr. BOLAND. If any other cities like Cleveland, or Detroit, or Newark had financial difficulties, I imagine the Administration would then take the same position?

Mr. ALTMAN. I don't think so and, here is the reason. Cleveland is a good case in point. As Mr. Sabo has said, the principal responsibility for any city's finances is the city itself, and beyond that under our basic system of Federalism in America, the responsibility lies with the State.

Now, in the case of Cleveland, or Detroit, or Newark, to pick the three you mentioned, the State is involved. Ohio, Michigan and New Jersey are all, at the moment, much, much larger as financial entities then the cities, and are in good shape financially. They have good bond ratings and they have a ready access to bond markets.

So, if any of those cities got in trouble, the position we would take would be that it is the responsibility of the State. By the way, that is the position we have taken with Cleveland. By anyone's measure, the State of Ohio has the financial resources, keeping in mind that State is 10 times the size of the city, financially to solve that problem if the city can't solve it. So, the position we have taken in Cleveland, and would take in the others, is that the State can handle it.

Now, if it should be proven to us that the State has exhausted its resources, and the problem is even bigger than the State can handle, then we would consider a Federal role.

You see, New York is unique because it is the only city in the country which is larger financially than its State. It has a $13.5 billion budget, and New York State's budget is roughly $11.5 billion. This is the only case of its kind in the United States.

So, I don't think there is likely to be repetition of a direct Federal vis-a-vis a city, even if one of the cities itself should lose access to the credit markets.

Mr. BOLAND. Larry?

FINANCIAL PLAN REQUIREMENTS

Mr. COUGHLIN. Thank you, Mr. Chairman. Was the requirement of a sound financial plan going to apply to the Seasonal Loan Program in addition to being part of the determination on the Guarantee Program?

Mr. ALTMAN. Yes, that was built into the Guarantee Act as one of the major findings that we have to make before we can issue a guarantee.

Mr. COUGHLIN. And, this provision has been met, is that correct?

Mr. ALTMAN. Yes, it has been met in regard to the first two issuances—the November issuance and the February issuance.

Mr. COUGHLIN. How sound a financial trend do you forsee?

Mr. ALTMAN. Well, Mr. Coughlin, the city had a plan to eliminate their budget deficit over four years, and the Act requires us to find that

they are making substantial progress toward that goal. It is a plan that we think is sound. Obviously there are unforeseen things that can happen, like a national recession of some depth or something else. But, to the best of our ability we think that the plan will work, and the 1982 goal will be met, and the City will be able to regain access to the credit markets and the Guarantee Act will have worked. That is what I mean by the term "sound."

COUNTER-CYCLICAL AID PROGRAM

Mr. COUGHLIN. You indicated reviewing effects of proposed urban legislation is part of the New York City staff's duty. Have you reviewed the President's new Targeted Counter-cyclical Aid Program?

Mr. ALTMAN. Yes.

Mr. COUGHLIN. What is your recommendation?

Mr. ALTMAN. Well, I hope you will support it.

Mr. COUGHLIN. Is it ready to be put in place?

Mr. ALTMAN. Yes; the report will be sent to Congress next Monday, but I can say that under the targeted fiscal assistance in Title One, eligibility will reflect local unemployment conditions. The same will be true under the so-called counter cyclical program of Title Two. So, unemployment is the index of the stress in this program.

Mr. COUGHLIN. Is there any demonstrated correlation between unemployment and the ability of cities to raise revenues?

Mr. ALTMAN. I think there is a clear correlation of unemployment and fiscal strain, and since part of fiscal strain is the ability to raise revenues, I would say yes. That will be one of our objectives in the upcoming hearing.

CHANNELING FEDERAL FUNDS INTO NYC

Mr. COUGHLIN. It is reported the President is moving to channel from $20–35 million into New York City through unilateral actions which do not require Congressional approval, like favorable CETA rulings, HUD help with public housing, and so forth. I understand the Mayor is seeking $100 million. Is this actually necessary given the magnitude of assistance already available through loan guarantees?

Mr. ALTMAN. Well, our position is that the 1980 budget target, the New York City target for next year, has to be met entirely through City and State actions. In other words, there has to be a plan which only relies on City and State actions.

Another way of saying that is they cannot count on any increases in Federal aid.

Now, having said that and their having agreed to that in writing, we are hopeful of being able to increase somewhat, it can't be very much, but somewhat, Federal aid to New York.

New York City needs fiscal assistance. It is very distressed, and our view in the Administration is that there ought to be a program to reach the City, and certain other cities like it to help it through the present fiscal distress that they are in.

That is why we proposed again to the Congress the so-called counter cyclical revenue sharing program, to target fiscal assistance to the cities.

The intent of the program is not to spend a lot of money, by the way. It calls for only a national total of $250 million in 1979 and $150 million in 1980.

Mr. COUGHLIN. How much of that will go to New York?

Mr. ALTMAN. We estimate approximately $40 million in 1979, and about $28 million in 1980.

Mr. COUGHLIN. So, New York will be getting money from that, as well as other Federal programs. How about the UDAG program, for example. How much?

Mr. ALTMAN. Well personally I don't know how much the city will get under that program because it is a discretionary grant program administered by HUD and depends on allocations and project decisions. I just don't know.

Further, those funds are private project funds. They don't go into the City budget, and they don't help the City immediately close its budget gap. Over the long term, however, they help rebuild the private sector.

Mr. COUGHLIN. Can you provide for the record the total amount of Federal funding that went into New York City last year? Do you have those figures?

Mr. ALTMAN. I will give it to you for the record in detail, but for the moment it is in excess of $3.5 billion in total grants for the City's expense budget and its capital budget, as well as other City authorities including entitlements. Keep in mind over $2 billion of that is Medicaid and welfare entitlements. That is money to people, not money to the City.

Mr. COUGHLIN. It is $3.5 billion, of which about $1 billion is entitlement?

Mr. ALTMAN. It is more than $1 billion, but it is at least $1 billion.

Mr. COUGHLIN. What generally happens to the other $2.5 billion?

Mr. ALTMAN. Well, there are about 20 major programs—everything from waste water treatment to community development block grants, to public housing subidies—which really span a large number of Federal programs.

[Additional information follows:]

ESTIMATE OF FEDERAL FUNDS RECEIVED BY NEW YORK CITY[1/]

FEDERAL FY 1978

($ in millions)

	FY 1978
CETA	
Title I/II ABC	64
Title II/II D (PSE)	51
Title VI	225
YETP	18
Other	41
	$399
H.U.D.	
CDBG	223
Urban Dev. Action Grants	3
Section 8 Rent Subsidy	88
Rent Supplement	20
Subsidy for Debt Service	101
Subsidy for Operations	102
Rehab. Loan Grants	3
Section 236	49
	$589
H.E.W	
Medicaid	837
AFDC	681
Title XX	161
WIN	20
	$1,699

	FY 1978
EDUCATION	
Title I - ESEA	147
Impact Aid	22
Vocational Aid	12
Handicap Aid	7
Student Assistance	7
Adult Education	2
Emergency School Aid	9
	$206
TRANSPORTATION	
UMTA	
Section 3 Capital Grants	235
Section 5 Operating Sub.	93
Federal Highway Grants	
Interstate Grants	145
Primary Roads	65
Secondary Roads	12
Urban Systems	71
Bridge Construction	16
Integrated Motor System	0
Other	29
	$666

	FY 1978
E.P.A.	
Section 201 Wastewater Treatment Construction Grants	0
Section 208 Planning Grants	0
	0
OTHER	
LEAA-Direct City	22
LEAA-State Pass-Thru	32
Community Health Centers	23
HEW-Aging-State Pass-Thru	39
FAA-Airport Construction	12
	$128
UNRESTRICTED	
General Revenue Sharing	308
Countercyclical	15
	323
	$4,010

1/ All figures in this report are either rounded off or are estimates based upon information provided by the various federal agencies involved. It should be noted that the agencies did not report figures for some of the smaller programs. Thus, the totals may be understated. Entitlement programs and based on reimbursements.

It should be noted that all these funds do not flow into the City's expense budget. Aproximately $1 billion goes to various authorities including: the City Transit Authority, Housing Authority, Port Authority as well as the City's capital budget.

Mr. COUGHLIN. Speaking of water and waste water, does New York charge for its water now?

Mr. ALTMAN. Yes.

Mr. COUGHLIN. Thank you, Mr. Chairman.

REORGANIZATION PLANS

Mr. BOLAND. As you know, the President submitted a plan, for the National Development Bank. Roger, you are familiar with that, are you not?

Mr. ALTMAN. Yes, as I understand it, and I am not sure that I know every element in this decision, the decision has been not to propose any independent or quasi-independent agency, but to proceed with the financing tools, grants and the guarantee authority, and other things, which were originally contained in the proposal, and to seek Congressional approval of them as amendments to the EDA statute. We still would like to be able to in effect, to conduct that program given the tools, but we do not think it should be conducted in an agency. I am not sure I know every detail.

Mr. BOLAND. It ought not to be conducted by an independent agency, is that it? Will most of the responsibility lodge in the Commerce Department?

Mr. ALTMAN. Yes, as I understand it.

Mr. BOLAND. Was there any recommendation to determine whether or not it ought to be in HUD instead of Commerce?

Mr. ALTMAN. We looked over this, and our view all along was that that was not an issue appropriate for us to get into.

Mr. BOLAND. We would like to thank you, Mr. Secretary, and you, Mr. McFadden, for appearing before this Subcommittee. Your justifications for the New York City Loan Guarantee Program will be inserted in the record at this point. The Subcommittee stands adjourned.

[The justification follows:]

New York City Loan Guarantee Program

Current Services Estimates

The Office of Management and Budget furnished current services' estimates for fiscal year 1980 to the Congress in January of 1979. The current services' budget is sent to Congress each year according to the Congressional Budget and Impoundment Control Act of 1974. These estimates for 1980 reflect estimated outlays and proposed budget authority for FY 1980 if all programs and activities were carried out during the year at the same level as 1979 without policy changes in the program and activities concerned and without any adjustment for possible cost changes.

These estimates were provided to furnish a base from which different alternatives might be analyzed. They do not represent recommended amounts or estimates as to what the figures for 1980 would actually turn out to be.

The New York City Loan Guarantee Program, Administrative Expenses 1980 budget estimates are compared with the current services' estimates in the following table:

	Current Services		1980 Budget	
	1979 Base	1980 Estimate	1979 Estimate	1980 Estimate
Budget Authority	1,050	1,050	1,084 1/	1,034
Differences from current services' estimate	---	---	+34	-16
Outlays	1,235	1,375	1,268 2/	1,090
Differences from current services' estimate	---	---	+33	-285

The current services' estimates differ from the estimate in the FY 1980 budget due to a reduction in nonrecurring costs and savings resulting from increased productivity.

1/ Includes pay raise supplemental.
2/ Includes outlays from civilian pay raise supplemental.

January 15, 1979

New York City Loan Guarantee Program

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1979
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
FY 1979 Appropriation Enacted by Congress	---	---	$1,050
Adjustments:			
Supplemental Appropriation Required for Pay Increase	---	---	34
Proposed Authorized Level for 1979	---	---	$1,084
Estimates, FY 1980	---	---	$1,034

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1980

	Appropriation FY 1978		Authorized Level FY 1979		Budget Estimate FY 1980		Increases (+) or Decreases (-) for FY 1980					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
Administrative Expenses	---	$1,123	---	$1,084	---	$1,034	---	$ -50	---	$ ---	---	$ -50
Unobligated balance lapsing	---	27	---	---	---	---	---	---	---	---	---	---
Total appropriation, authorized level and budget estimate	---	$1,150	---	$1,084	---	$1,034	---	$ -50	---	$ ---	---	$ -50

January 15, 1979

New York City Loan Guarantee Program

Summary Explanation of Changes Requested for Fiscal Year 1980
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
Program Changes:	---	---	$ ---
Other Changes:			
Increases necessary to maintain current levels:	---	---	---
Subtotal, Other Increases	---	---	$ ---
Reductions, nonrecurring costs and savings:			
Increase Productivity	---	---	-50
Subtotal, nonrecurring costs and savings	---	---	-50
Total, Other Changes	---	---	-50
Total Increases or Decreases 1980 compared with proposed authorized level	---	---	$ -50

New York City Loan Guarantee Program

SUMMARY JUSTIFICATION OF FY 1980 BUDGET ESTIMATE

General Statement

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short-term Federal loans so that essential City government services could be financed and maintained. The Act also authorized the appropriation of administrative funds for the management of the seasonal loan program which expired on June 30, 1978. Federal financial assistance beyond June 30, 1978, was determined necessary in order to facilitate New York City's access to conventional credit markets. Therefore, in order to assure the financial solvency of New York City, the New York City Loan Guarantee Act (P.L. 95-339) was established, authorizing the Secretary of the Treasury, in the four years ending June 30, 1982, to guarantee up to $1.65 billion of New York City debt for a period of time not to exceed fifteen years.

It should be noted that, since its inception, the New York City loan program has cost the U.S. Government nothing. Under the law, Treasury was required to charge the City a one percent premium above Government borrowing costs. These loans have been repaid by the City promptly and it is anticipated that this sum will exceed $30 million when all loans are repaid.

The activities of this program are carried out in the Office of the Secretary of the Treasury. Since no personnel, travel or other normal operating expenses are authorized directly in this appropriation, the Office of the Secretary performs the work through its reimbursable program.

New York City Loan Guarantee Program

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short term Federal loans so that essential City government services could be financed and maintained. The Act also authorized the appropriation of administrative funds for the management of the seasonal loan program which expired on June 30, 1978. The New York City Loan Guarantee Program (P.L. 95-399) was established, authorizing the Secretary of the Treasury, in four years ending June 30, 1982, to guarantee up to $1.65 billion of New York City debt. It is assumed that the administering and monitoring requirements involved in the Loan Guarantee Program are no less important than those mandated through the expired Seasonal Loan Program.

In order to provide any necessary information to the Secretary of the Treasury and for those reports to Congress mandated within the Act, continued monitoring and review efforts will be necessary. Assessing the probable impact of alternative solutions to New York City's financing problems, and identifying the City's future fiscal and financing sources through the State, the Federal Government and within the City to foster New York City's solvency would be particularly important in making those determinations required of the Secretary prior to the extension of these federal guarantees. Further, the Treasury Department is required to closely monitor the implementation of P.L. 95-497, that special legislation which permits City and State pension funds to purchase large quantities of City indebtedness while maintaining their tax-exempt status. In order to fulfill these commitments, it will be necessary to continue, on a regular basis, to:

1. Review and analyze the City's processing of financial data (IFMS system);
2. Review of the 1980 New York City Financial Plan and implementation thereof, and review and analyze monthly statistics on changes in employment levels and payroll expenditures;
3. Analyze the fiscal resources and operations of New York State;
4. Monitor the City's progress toward access to public credit markets; and
5. Ensure that financing commitments are "in-place" and maintained.

Expenses associated with this program will be $1.03 million in fiscal year 1980. The Office of the Secretary will perform this work through its reimbursable program. This submission does not reflect an increase over FY 1979.

The purpose of the Office will be to carefully monitor and analyze information to assist the Secretary of the Treasury in assessing the extent to which New York City's fiscal and financial problems are being solved. Analysis of the detailed financial reports submitted to the Treasury Department by the City on a monthly, quarterly and annual basis as well as those reports prepared at the specific request of the Financial Control Board and the Secretary, will be central to this purpose. To handle this task the office is organized along two basic lines.

First, with regard to Treasury Department personnel, there is a divison located in New York City which is responsible for cost reviews and systems analyses. This division audits and verifies the reports received from the City and, if necessary, recommends changes and improvements to the reports. Involved in this is the inspection of accounts, books, records, and other financial documents of the City or any financing agent that could help solve the financial problems of New York City. The division located in Washington, D. C. is charged with the policy responsibility for providing the Secretary with up-to-the-minute information with regard to the solvency of New York City and the appropriate role of the Federal government in City financial affairs. To execute its functions, the Office maintains liaison with other Executive agencies, the Congress, the General Accounting Office, the private sector and representatives of the City, State and other agencies of New York. Responses to inquiries and correspondence, Congressional testimony, briefing papers, other documents and position papers are prepared by this Office to keep all interested parties informed.

Second, although our dependence on them is declining, the utilization of experts in the private sector remains an important part of our organizational structure. It would not be reasonable or cost effective to establish within the Treasury Department all the needed expertise to conduct this activity; therefore, a portion of the funds requested will be for contractual services. In FY 1979, a private accounting firm has been contracted to perform two tasks. Task one consists of reviewing monthly Financial Plan Statements, the June 30, 1978, Audited Financial Statements and related reports as to the adequacy of the City's financial controls, and other related monitoring services. Task two consists of reviewing certain information furnished to Treasury by the City of New York and the City's retirement systems. Other contract services which may also be needed include reviewing and evaluating the accuracy of financial reports currently generated by the City of New York, reviewing and evaluating the City's revenue and expenditure forecasting systems, reviewing the City's progress in the implementation of an automated accounting system, reviewing principal pension fund investments and actuarial assumptions, reviewing the extent to which the State of New York might further assist New York City in its financial needs and reviewing the adequacy of certain City actions to close its budget gap.

New York City [Seasonal Financing Fund, Administrative Expenses] *Loan Guarantee Program*

For necessary administrative expenses as authorized by the New York City [Seasonal Financing Act of 1975 (31 U.S.C. 1507(c)), $1,050,000] *Loan Guarantee Act of 1978 (Public Law 95-339),* [*$1,050,000*] *$1,034,000.*

[*Resolved by the Senate and House of Representatives of the United States of America in Congress assembled.* That the Secretary of the Treasury is authorized to guarantee the payment of principal and interest on loans in accordance with the provisions of the New York City Loan Guarantee Act of 1978 in amounts not to exceed $1,650,000,000 in principal outstanding at any time, and there is hereby appropriated effective October 1, 1978, such amounts as may be necessary for payment of principal and interest on loans in default and guaranteed pursuant to the New York City Loan Guarantee Act of 1978, to remain available until September 30, 1998.] *(31 U.S.C. 1521 and 1531, New York City Loan Guarantee Act, 1978, Public Law 95-339, providing financial assistance for the city of New York; Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1979.)*

EXPLANATION OF LANGUAGE CHANGES: NONE

DEPARTMENT OF THE TREASURY

OFFICE OF REVENUE SHARING

THURSDAY, MARCH 1, 1979.

WITNESSES

HON. ROGER C. ALTMAN, ASSISTANT SECRETARY (DOMESTIC FINANCE)
DR. BERNADINE N. DENNING, DIRECTOR, OFFICE OF REVENUE SHARING
DR. KENT A. PETERSON, ACTING DEPUTY DIRECTOR, OFFICE OF REVENUE SHARING
DELBERT D. MATHESON, JR., BUDGET OFFICER, OFFICE OF THE SECRETARY

	1978	1979	1980	Difference
Salaries and expenses	$7,500,000	$7,200,000	$6,337,000	−$863,000
General revenue sharing	6,854,924,000	6,854,924,000	6,854,924,000	
Antirecession financial assistance fund	1,400,000,000			
Targeted fiscal assistance (proposed)		250,000,000	150,000,000	−100,000,000
Total	8,262,424,000	7,112,124,000	7,011,261,000	−100,863,000
Permanent positions	209	185	158	−27
Average positions	187	183	163	−20

Mr. BOLAND. The committee will come to order. I would like to introduce Congressman Marty Sabo from Minnesota, who is a new member of the committee and a very valuable committeeman. You already know the ranking Republican member, Mr. Coughlin, who was here last year.

Let me give a brief overview of the Office of Revenue Sharing. The Office of Revenue Sharing was established in 1972 to implement the General Revenue Sharing program as authorized by the State and Local Fiscal Assistance Act of 1972, and renewed October 1976, by enactment of the State and Local Fiscal Assistance Amendments of 1976. The Act, as amended, will provide approximately $55 billion to more than 39,000 units of State and local governments over a period of eight years and nine months.

This period ends September 30, 1980. In accordance with the 1976 Act Amendments, the entitlement funds are appropriated to a Federal fund. These funds are then deposited in the State and Local Governments Fiscal Assistance Trust Fund. It is from this trust fund that funds are made available to the localities.

One-third of the funds appropriated are allocated to the States, and two-thirds are allocated to local jurisdictions. 39,162 units of government which are eligible receive revenue sharing funds. This includes the 50 States; the District of Columbia; 3,108 counties; 18,871 cities;

43-133 O - 79 - 9

16,798 towns and townships; and 334 Indian tribes and Alaskan native villages.

The Office of Revenue Sharing also administered the Antirecession Fiscal Assistance Program. That program expired September 30, 1978.

We want to welcome you. This is Dr. Denning, the Director of the Office of Revenue Sharing and Dr. Kent A. Peterson, who is the Acting Deputy Director of the Office of Revenue Sharing, and Delbert D. Matheson, who is the Budget Officer of the Office of the Secretary.

There are two areas in which you are now requesting funds for this fiscal year: $6,337,000 for salaries and expenses and $6,854,924,000 for payments to the State and Local Government Fiscal Assistance Trust Fund, which is the same as 1979.

The budget also contains $250 million in 1979 and $150 million in 1980 for a new proposal: Targeted Fiscal Assistance. You are requesting 158 positions for 1980, a reduction of 27 from 1979. The average positions are estimated to be 163 in 1980, which is a decrease of 20 from 1979.

GENERAL STATEMENT

So, Dr. Denning, we are delighted to have you with us and we will recognize you for your general statement.

Dr. DENNING. Thank you, Mr. Chairman. Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the fiscal year 1980 appropriation request for the Treasury Department's Office of Revenue Sharing.

Appearing with me are Kent Peterson, Mr. Delbert Matheson, and we anticipate Assistant Secretary Roger Altman. All of these individuals have appeared before this Committee in the past.

MAJOR TOPICS

Mr. Chairman, I included in my testimony today a statement on three major topics. The first is a brief summary of the responsibilities assigned to the Office of Revenue Sharing, which I hope will be of benefit, especially to the new Members of the Committee. Next, I have included the plans and directions in which the Office is moving by highlighting some of our more recent accomplishments and concerns. Finally, I have addressed the principal activities reflected in the two requests pending before this Subcommittee: a request of $6,854,924,000 for the General Revenue Sharing Trust Fund; and a request for $6,337,000 for the salaries and expenses appropriation for ORS for the fiscal year 1980. I shall refer briefly to the first two topics.

PROGRAM MISSION AND RESPONSIBILITIES

As a result of the passage of the State and Local Fiscal Assistance Act of 1972, the Treasury Department's Office of Revenue Sharing was established to administer the general revenue sharing program.

This program provides general purpose assistance to State and local governments. Legislation enacted in 1976 extended the program through September 1980. Over 39,000 units of government received benefits. Federal controls are limited primarily to assurances of nondiscrimination, citizen participation in spending decisions, and audit-

ing requirements for governments receiving entitlement payments of $25,000 or more in any one year.

Funds are distributed on the basis of a statutory formula. States receive one third of the amount appropriated. Local governments receive two thirds of the amount appropriated. Prior to the passage of the revenue sharing renewal legislation in 1976, entitlement funds for the program were made available from permanent appropriations authorized by the State and Local Fiscal Assistance Act of 1972. However, the 1976 amendments to the revenue sharing law require that annual appropriations be made by the Congress.

Annual appropriations are approximately $6.8 billion per entitlement period. Allocations to over 39,000 governments are made each year using updated data, and entitlement payments are distributed quarterly to each of the eligible governments.

RECENT ACCOMPLISHMENTS

Some of our recent accomplishments and plans talk about effective public participation monitoring. Recognizing that the requirements for public participation have been modified greatly because of the amendments of 1976, the prime thrust of our public participation compliance effort includes efficient processing of compliance cases, developing contacts with communities and citizen interest groups as an outreach tool, and initiating reviews to expand geographical coverage of the compliance activity. A public participation handbook for citizens is now being printed.

We have a program of increased public awareness. To get maximum exposure for a new publication called, "What Is General Revenue Sharing?" the Public Affairs staff coordinated the publication of a Spanish version, which is being circulated now.

On our data acquisition and improvement program, the Office of Revenue Sharing and the Bureau of the Census are jointly funding a study to evaluate the Census Bureau's method of estimating population and incomes below the county level. Recommendations from this evaluation are expected to be completed in fiscal year 1980 and should result in improving the Census Bureau's estimating techniques for small areas.

LEGAL ACTIVITY

In our legal assistance and regulatory development activity, due to the 1976 amendments, the regulations governing the general revenue sharing program required changes and expansion. The Act also encourages ORS to enter into cooperative agreements for civil rights enforcement with other agencies, which is currently underway. The Office of the Chief Counsel established a plan to revise all regulations and release them for publication by August 20, 1979. Our handicapped regulations, a new class of protected people under the amendments of the Act, were submitted to HEW for review and comment, as required by the Act.

RESEARCH AND EVALUATION

Prior to the passage of the 1976 Amendments, the Office of Revenue Sharing was required to respond to an enormous number of requests

for information from all quarters, including numerous Congressional requests for data for analysis and evaluation.

During 1978, OMB requested that studies be commenced to draft legislation for renewal. To meet the August 1978 deadline, an Evaluation Renewal Task Force was formed. A reservoir of literature dealing with the compliance provisions of the Act have been summarized, and a limited survey of 40 jurisdictions was performed under contract to measure the impact of the audit, public participation, and nondiscrimination provisions of the 1976 Amendment. We expect to continue with this endeavor through 1980.

APPROPRIATIONS REQUEST

Let me finally address our specific appropriations request, Mr. Chairman, the amount of $6,337,000 which is requested for fiscal year 1980 salaries and expenses for the Office of Revenue Sharing represents a reduction of $863,000 from fiscal year 1979.

Based on anticipated increases in productivity stemming from the activities previously described in our longer statement, which you have, and the phasing out of the antirecession activity, we are able to submit this request for this reduced amount. Our fiscal year 1980 request is for 163 average positions and 158 permanent positions, a decrease of 20 average and 27 permanent positions.

Mr. Chairman, in executing the responsibilities of this office, we are guided by the philosophy upon which the Revenue Sharing Act was founded, the philosophy that prevailed in subsequent renewal legislation; the philosophy which maintains that intergovernmental relationships can be better cemented by the removal of artificial red tape and strings which tend to divide rather than bind.

The programs administered by the Office of Revenue Sharing generally are considered to be the most objective, impartial, reliable, cost-effective methods of providing Federal assistance to States and units of local government. Our office continues to operate with a relatively small staff performing a large and important mission. Never in the six-year history of the operations of this office have we failed to issue a payment on time. Within five working days from the end of each quarter, payments are made to nearly all 39,000 plus eligible units of government. The administrative cost of operating this program is still less than one tenth of one percent. To the taxpayer this does represent an unbeatable bargain. Our fiscal year 1980 request testifies to no burgeoning bureaucracy, and resists excessive Federal control over the responsibilities of State and local governments.

Mr. BOLAND. I am not sure that everyone would agree with that last sentence, I will tell you that. (Laughter.)

Ms. DENNING. Well, we would be happy to respond to any further questions and with your permission Mr. Chairman, I would like my statement introduced in full in the record.

[The complete general statement follows:]

DEPARTMENT OF TREASURY

OFFICE OF REVENUE SHARING

INTRODUCTORY STATEMENT OF BERNADINE N. DENNING

DIRECTOR, OFFICE OF REVENUE SHARING

FOR PRESENTATION TO THE SUBCOMMITTEES ON APPROPRIATIONS

Mr. Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the Fiscal Year 1980 Appropriation request for the Treasury Department's Office of Revenue Sharing (ORS).

Appearing with me are:

1. Roger Altman, Assistant Secretary (Domestic Finance)
2. Kent A. Peterson, Acting Deputy Director, ORS
3. Delbert D. Matheson, Jr. Budget Officer, Office of the Secretary

All of these individuals have appeared before this subcommittee in the past.

Mr. Chairman, my testimony today will focus on three major topics. First, I would like to provide a brief summary of the Office's responsibilities for the benefit of those new members who may not be familiar with our organization. Next, I shall

discuss the plans and direction in which the office is moving, by highlighting some of our more recent accomplishments and concerns. A more comprehensive discussion of accomplishments during 1978 is furnished in our Sixth Annual report to Congress - due to be delivered on March 1. Finally, I shall address the principal activities reflected in the two requests pending before this subcommittee: a request of $6,854,924,000 for the General Revenue Sharing Trust fund and a request of $6,337,000 for the Salaries and Expenses appropriation of the ORS for Fiscal Year 1980.

PROGRAM MISSION AND RESPONSIBILITIES

The Treasury Department's Office of Revenue Sharing was established by the State and Local Fiscal Assistance Act of 1972 to administer the General Revenue Sharing Program. This program provides general purpose assistance to State and local governments. Legislation enacted in 1976 extended the program through September 1980. Over 39,000 units of government receive benefits. Federal controls are limited primarily to assurances of nondiscrimination, citizen participation in spending decisions and auditing requirements once every three years for governments receiving entitlement payments of $25,000 or more in any one year.

Funds are distributed on the basis of a statutory formula which takes into account total population, urban population, per capita income, income tax collections and general tax effort of States which

receive one-third of the amount appropriated. Allocations are made to local governments within States on the basis of population, per capita income, tax effort. Local governments receive two-thirds of the amount appropriated.

Prior to passage of the revenue sharing renewal legislation in 1976, entitlement funds for the program were made available from permanent appropriations authorized by the State and Local Fiscal Assistance Act of 1972. However, the 1976 Amendments to the revenue sharing law require that annual appropriations be made by the Congress. Annual appropriations are approximately $6.8 billion per entitlement period. Allocations to the nearly 39,000 governments are made each year using updated data and entitlement payments are distributed quarterly to each of the eligible governments.

To distribute federally collected funds to States and local governments under authority of PL 92-512, the principal responsibilities of the Office of Revenue Sharing include development of regulations; verification of data used to compute payments; determination of allocation amounts; accounting for funds distributed; development, distribution, receipt and processing of assurance forms from recipient governments; development of auditing, public participation and civil rights compliance guidelines; dissemination of technical information to recipients of revenue sharing funds, public interest groups, news media and Congress; monitoring and enforcement of compliance with provisions of the law and general administrative and management support activities

The latter include executive direction, public communication, planning, review, research and evaluation activities.

To accomplish our mission, our office is divided into three basic functional components.

MAJOR AREAS OF RESPONSIBILITY

I. LEGAL AND SUPPORT

The functions of the Chief Counsel for Revenue Sharing are to draft and interpret the legislation; to prepare regulations, policy statements and rulings in cooperation with appropriate operating divisions and other Federal agencies and to issue opinions.

The Chief Counsel and staff of eleven attorneys and support personnel render legal advice and counsel to the Director and the managers of respective operating divisions; institute and arrange for the conduct of administrative proceedings before an administrative law judge; coordinate and cooperate with the Department of Justice in matters of litigation and conduct conferences with State and local officials and their counsels regarding issues of law and fact.

The Chief Counsel makes recommendations to the Director regarding matters of policy and assists in the development and evaluation of new policies ensuring consistency and compatibility with the Act. The

Chief Counsel works with other agencies to endeavor to enter into cooperative inter-agency agreements. Our intent is to maximize resources and avoid duplicative and burdensome activities on jurisdictions.

Support in general administration is provided by an Administrative Services staff of seven. Responsibilities comprise initiating action documents and providing liaison for all administrative and fiscal matters, which are centralized within the Office of the Secretary of the Treasury. These include office-wide personnel actions; acquisition, allocation and utilization of space; procurement, leasing and utilization of furniture and equipment; facilities maintenance; property and records accountability and disposal.

In the area of public communications, support is provided by the Public Affairs staff of three individuals. Printed matter of general interest, including press materials and speeches, are prepared by personnel of this Division who also handle contacts with the media, citizens' groups, other Federal agencies, research groups and the Congress. Through constant monitoring of major newspapers, periodicals and books and through exhibition materials, displays and attendance at conferences, meaningful avenues of communication are maintained.

II. OPERATIONS AND TECHNICAL ASSISTANCE

To ensure that all funds are distributed equitably, consistent with the intent of the Congress, it is imperative that all data used by the Office of Revenue Sharing in the formula allocation process be of the highest quality. This means that all data used must be not only current but accurate. Responsibility for the receiving and compilation of such data resides with the Data and Demography Division consisting of twelve employees.

Because of the relative importance of various data elements to the amount of funds allocated to each government, very careful vigilance is maintained over changes in data elements. This is accomplished through close working relationship with the Bureau of Census and through a system of review which allows each government to examine and challenge their data factors prior to determination of allocations.

From its inception, the Office of Revenue Sharing has relied on extensive utilization of computer and related automated systems in performing many of its operations. Computers play an important role in the determination of allocations and in the distribution of revenue sharing payments to the vast number of eligible governments. These payments are made in quarterly allotments. In addition to processing all payment vouchers, the Systems and Operations Division prepares and maintains all associated accounting records; issues and processes required

forms and reports; arranges for necessary printing; produces computer 72(7) generated communications and assists the various operating divisions in computer systems development efforts to provide reports and information to aid in responding to inquiries from the Congress, governments and the public. Services are performed by a total staff of 29 personnel.

Through the Intergovernmental Relations and Technical Assistance Division, the Office is able to provide technical advice and assistance to States and local governments regarding various aspects of the program. The liaison activities of this group of 21 analysts and support personnel are extended to public interest groups and organizations in an effort to broaden and foster better understanding of the revenue sharing program requirements. Included in this Division's responsibility is the enforcement and monitoring of the public participation provisions of the Act as amended.

III. MONITORING AND ENFORCEMENT

Responsibility for monitoring and enforcing nondiscrimination provisions of the State and Local Fiscal Assistance Act lies within the Civil Rights Division. These provisions were enlarged by the 1976 amendments to include additional protected groups; specifically those subject to discrimination on the basis of religion, age and handicapped status. This staff of 51 investigators and support personnel receive, record and analyze all complaints and reports alleging noncompliance by recipient governments. They conduct investigations, most of which are

on site, and encourage voluntary compliance as a means of rectifying apparent noncompliance. The findings produced by the Division are used to support determinations of violations issued by the Director. In addition, whenever voluntary compliance cannot be achieved, administrative hearings or litigations are initiated. Cooperative working arrangements with other federal, state and local agencies are fostered in an effort to maximize effectiveness of a very limited staff complement when compared to the size of workload.

The 1976 amendments considerably enlarged the audit requirements of the Act requiring independent audits of the financial statements of approximately 11,000 local governments and states. The audits must cover all accounts whether or not revenue sharing funds are used and must be performed according to generally accepted auditing standards. Responsibility for auditing compliance is assigned to a staff of 27 auditors and support personnel which comprise the Auditing Division.

In summary this Division's responsibility consists of receiving and reviewing audit reports, monitoring the auditing practice of State auditors and independent public accountants, processing cases of alleged violation of the Act and regulations arising from audit reports and complaints, answering auditing and accounting questions and providing appropriate guidance to facilitate conformance with generally acceptable auditing standards and compliance with the auditing provisions of the Act.

RECENT ACCOMPLISHMENTS AND PLANS

During FY 1979, this office has set for itself several objectives. If accomplished, many of the benefits should be realized in FY 1980. These objectives address four major areas and describe the direction in which the Office is moving with regard to public, governmental, legislative and administrative concerns.

Public

Effective Public Participation Monitoring

Recognizing that the requirements for public participation have been modified greatly because of Amendments in 1976, the prime thrust of our Public Participation compliance effort includes efficient processing of compliance cases; developing contacts with community based citizen interest groups as an outreach tool and initiating reviews to expand geographical coverage of compliance activities.

A Public Participation Handbook for citizens is now being printed. At the beginning of the first quarter of FY 1979 the Public Participation unit had a backlog of 91 cases. During the quarter, 16 new cases were opened and 15 cases were closed. While attemptimg to keep the backlog under control, we are not neglecting to continue with an active program of public education. Also during the quarter, 70 contacts with community based citizen interest groups were established. A program of site visits was begun during the quarter. The success of that program will be evaluated as more experience is obtained.

During FY 1978, our Intergovernmental Relations and Technical Assistance staff handled over 90,000 telephone calls, responded to approximately, 350 Congressional inquiries and wrote more then 2,500 letters which have been praised by recipients for their clarity and helpfulness.

The goals and activities of this and the other two compliance areas in the Office of Revenue Sharing were the subject of a major management evaluation begun in the final quarter of fiscal year 1978. Using the services of a management consulting firm, management of the compliance activities was thoroughly examined and measured. A final report is now under preparation and recommendations are being evaluated. Several recommendations speak to the processes performed in the Public Participation unit and may result in changes in scope and emphasis leading to further streamlining of procedures.

Increased Public Awareness

The Public Affairs staff of ORS is active in dealing with public inquiry and information dissemination on a daily basis. Review and development of general publications for use by the public is a key task. Preparation and staffing of exhibits at major conferences where the likelihood of maximum public exposure - particularly when representation of recipient governments is assured - is a significant part of their mission. Responding to media inquiries in a timely manner is also a goal of the staff.

To get maximum exposure for a new publication called "What is General Revenue Sharing," the Public Affairs staff coordinated the publication of a Spanish version. This publication is now in circulation.

The staff has identified and made preparations to participate in nine major national conferences this year. Others are being evaluated for potential targets of opportunity.

The staff reports that all media inquiries are responded to within a day of request where possible.

Governmental

Efficient Payment Administration

Timely quarterly payments to over 39,000 governments is dependent on the efficient interaction of activities involving collection and updating of data; maintenance of accounting records; receipt and processing of statements of assurances; preparation of pay documents; payments made by direct check or electronic funds transfer; and distribution of payment books to Governors and the Congress.

All activities for the second quarterly payment in April are progressing as planned. The first quarterly payment was made on January 8. Accounting records for Fiscal Year 1978 were closed on November 7, 1978.

Other projects to implement a computerized allocation adjustment system and prepare initial and final allocations for each entitlement period are on target. Payments for 67% of recipient governments are being received via Electronic Funds Transfer.

Data Acquisition and Improvement

As economic conditions erode the level of services which many governments can provide to their citizens, sources of revenues become more important. The Office of Revenue Sharing is acutely aware of the increasing scrutiny of the data elements from which allocations are derived and the importance of these resources to smaller units of government. The Office of Revenue Sharing and the Bureau of the Census are jointly funding a study by the National Academy of Science/National Research Council on Small Area Estimates of Population and per capita income. This study will evaluate the Census Bureau's methods of estimating population and income below the county level. Recommendations from this evaluation are expected to be completed in FY 1980 and should result in improving the Census Bureau's estimating techniques for small areas.

In response to our annual Data Improvement Program, conducted in April 1978, approximately 1,500 governments challenged one or more individual data elements. As a result of this program and the Census Bureau's ongoing data review, nearly 2,000 data revisions were made.

With improved estimating techniques it is anticipated that fewer number of challenges will result in revisions. By reducing the number of revisions, the costs associated with manual payments adjustments will also be reduced.

Technical Assistance

The Intergovernmental Relations and Technical Assistance Division (IGR & TA) provides outreach to recipient governments to help them comply with the requirements of the Act. Some governments are not paid each entitlement period because of failure on their part to file the required statements of assurances or because the reports required by statute are late.

Other governments may be in noncompliance with the Auditing, Civil Rights and Public Participation requirements which have been altered considerably by the 1976 amendments to the Act. The IGR & TA Division prepares quarterly letters to recipients who will receive funds and who will not. Each letter provides detailed information on requirements of the Act. IGR & TA also prepares informative simple fact sheets and handouts on key provisions of the law and tips on how to comply. A summary "Executive Pocket Guide" and eight fact sheets were distributed in calendar 1978 with non-technical explanations of key aspects of the program.

43-133 O - 79 - 10

The staff conducts technical workshops in states where a significant number of ineligible governments or noncomplying governments are located. Several of these workshops are scheduled each month. They are designed to be given at a time and in a location where a maximum number of participants can be included - frequently on weekends. At least 26 workshops were held during the first quarter of Fiscal Year 1979. During FY 1978, over 45 seminars were conducted in cooperation with municipal leagues, county associations and state agencies.

As of December, 1978, at the end of the quarter, there were 1,272 governments ineligible to receive payments under the program for failure to respond to ORS forms or other noncompliance. It is our goal to reduce this number through remedial and educational efforts.

Reports on Use of Funds

For Fiscal Year 1978, the Office of Revenue Sharing cooperated in the joint collection of actual use, tax and intergovernmental revenue for General Revenue Sharing (GRS) purposes with the Bureau of the Census in its annual survey of governmental finances. Combining the request for GRS data with the Census Bureau's Annual Finance Survey prevented needless duplication of forms and resulted in considerable reduction of the reporting burden for many governments. The information requested in the composite GRS/Census Bureau Survey is necessary for formula allocations and for measuring the impact of the General Revenue Sharing Program on State and local government finances. This subject was of major interest to Congressional Committees having oversight responsibilities for the program.

Legislative

Legal Assistance and Regulatory Development

Due to the amendments to the Act in 1976, the regulations governing the General Revenue Sharing Program required changes and expansion. The Act also encouraged ORS to enter into cooperative agreements for Civil Rights enforcement with other agencies.

The Office of Chief Counsel established a plan to revise all regulations and release for publication by August 20, 1979.

The handicap regulations, a new class of protected people under the amendments of the Act, were submitted to HEW for review and comment as required under the Act. The proposed draft was submitted on September 22, 1978 and ORS is awaiting results of their review.

The Office of Revenue Sharing entered into an enforcement agreement with LEAA on February 7, 1979. The Justice Department is reacting to several drafts submitted to it for review. Agreements with DOT, EEOC, HUD, OPM and HEW are at various stages of development. Success of this project depends on timeliness of response from the agencies.

Program Research and Evaluation

Prior to the passage of the 1976 amendments, the Office of Revenue Sharing was required to respond to an enormous number of requests for information from all quarters including numerous Congressional requests for data for analysis and evaluation of various alternative proposals. These requests placed heavy demands on operating personnel who were required to provide rapid responses. During 1978, OMB requested that studies be commenced to draft legislation for renewal. In an effort

to meet the August, 1978 deadline, an intensive and concentrated effort was undertaken by ORS which resulted in the formation of an Evaluation Task Force.

The goal of the task force is to provide impact analyses of various aspects of general revenue sharing for consideration in determining the program's future. The research already completed has examined fiscal, economic distributional and compliance impacts of the GRS program. These efforts have been carried out by contractors such as the Brookings Institution and the Urban Institute as well as by a small inhouse staff. Additional background studies addressed such subjects as the fiscal condition of State and local governments, their dependency on GRS funds, trends in intergovernmental fiscal assistance and the effect of revenue sharing on GNP, employment and prices. The effects of major formula changes considered have been documented and papers have been written covering formula issues such as price adjustments to the GRS allocations and incentives in the current formula for wider use of State income taxes.

A vast reservoir of literature dealing with the compliance provisions of the Act have been summarized and a limited survey of 40 jurisdictions was performed under contract to measure the impact of the audit, public participation and nondiscrimination provisions of the 1976 amendments. We expect to continue with these endeavors in 1980.

Administrative

General Management

Several initiatives undertaken during FY 1979 are expected to continue during FY 1980 and should result in improvements and refinements in many aspects of our operations.

Implementation of ZBB. During preparation of our budget for Fiscal Year 1979 and 1980, our Office has welcomed and made every possible effort to comply with the Zero Base Budgeting procedures established for the Treasury Department. The process of establishing and tracking objectives has been adopted by our office. We are beginning to see some gains from these early experiences with the process. It has allowed us to reexamine and re-evaluate our objectives and operational costs. In FY 1980, we expect to continue the ZBB process with the same degree of zeal. We believe these efforts would eventually evolve into a valuable mechanism for effective management and control of our resources.

Financial Reporting. Changes in the level of reporting of financial data have been introduced to enable our Division managers to become more involved in the budgeting process and in the monitoring and allocation of resources.

Work Plan and Performance Standards. Our office has recently instituted steps to promote the concept of Work Planning and establishment of Performance Standards initiated by the Office of the Secretary. Though still in the embryonic stage, we see these procedures as opportunities to introduce significant improvement in productivity among our employees. By starting at this time, we expect that some benefits would be realized during 1980 and beyond.

Compliance Management:

Improved State and Local Auditing Practices. The 1976 amendments to the General Revenue Sharing Act included a requirement that each recipient receiving $25,000 or more annually in revenue sharing payments must have an independent audit of its financial statements in accordance with generally accepted auditing standards not less often than once every 3 years.

Based on evaluation, the professional practice of 11 state audit agencies was unacceptable for performing audits of recipient governments. Further, an undetermined number of local auditors and independent public accountants (IPA's) were not in conformity with generally accepted auditing standards.

The Audit Division set priorities for informing recipients of the requirement for an independent audit; improving the quality of practice of the 11 state agencies; and sampling the performance of IPA's to assure compliance with the provisions of the Act. The Audit Division will continue to work with these agencies and auditors to achieve acceptable status.

For continued monitoring, the Audit Division has determined that it will complete a second round of state Auditors offices during the current fiscal year. A goal of 10 completed reviews was set for the end of the first quarter. The Division has completed 12.

The Division also set a goal to maintain "Current Status" for reviewing audit reports submitted to them. "Current Status" was defined as a backlog of no more than 200 at any time. At the end of the quarter the Division recorded a backlog of 209. However, the Division has completed its review of 715 such reports in the same quarter.

The management and processes of the audit compliance activity was one of the subjects under thorough examination by an outside consulting firm. The firm evaluated all three areas of compliance and a final report, including recommendations, is now under preparation. Recommendations for action will be assessed during the second quarter of the fiscal year and will be acted upon in the coming fiscal year (1980).

Caseload Control of Auditing Violations. The Audit Division also receives complaints concerning violations of the audit provisions of the Act. These complaints are investigated and resolved. To keep current with the backlog, the Division set a goal which states that all open cases will not exceed 225 at any time and further, that no more than 25 of these cases will have an age of 12 months. At the end of the quarter the Division reported a backlog of 170 cases. Those cases with the age of 12 months or more, however, accounted for a total of 62. As you can see, even though progress is made in one direction, it is still very difficult to keep all flanks covered. Nonetheless, we continue to believe that massive efforts and innovation will help us achieve these goals.

Caseload control and tracking in the Audit Division was the subject of an intensive review and results have not been assessed.

Improved Processing Rate for Investigations. The 1976 amendments to the Revenue Sharing Act required that investigations of Civil Rights complaints be completed within 90 days. As the number of complaints received is uncontrollable but staffing levels remain relatively static, the Division has developed objectives to increase the productivity of its investigative work force. The Division determined that one month or 160 investigative staff hours, on the average, were required to complete the investigation of each complaint as of the end of FY78. A goal to reduce the time from 160 to 107 investigative staff hours was set for FY79. This means that instead of investigating 1 complaint per month, an investigator would complete 1.5 per month - a productivity increase of 50% if obtained.

The ratio for the end of the first quarter of FY79 is 1.41: 160 hours. This is clearly an improvement. We will continue to observe this measure carefully as it has staff resource consequences.

At the beginning of the Fiscal Year, there existed a backlog of 198 cases begun before the amendments took effect in 1977. The Division set a goal to reduce this old backlog by 10 per month. At the end of the first quarter, there was a backlog of 166 cases representing a reduction of 32 for the quarter and within the goal set.

As the Amendments required completion of investigations within 90 days, the Division has watched the elapsed time to bring a case to the finding stage. At the end of Fiscal Year 1978, a review of 30 cases in the finding stage disclosed that the average number of elapsed days to reach findings stage was 195 days. The goal for the end of the fiscal year was 215 average days.

At the end of the First quarter of Fiscal Year 1979, 36 cases brought to the finding stage in the first quarter were examined. This included 4 cases from the pre-1977 group and 32 from the post amendment group. For the post amendment cases (those falling under the 90 days requirement) the average was 349 days. This is clearly a retreat from previous measurements. However, it also illustrates the tug-of-war we have been experiencing in attempting to allocate limited resources to satisfy competing objectives.

Again, as we demonstrate progress in achieving one set of objectives, we find ourselves doing so to the detriment of another. There are many reasons accounting for this and the solution is not clear cut. From the inception of the program, our office has been inadequately staffed to handle complaints of discrimination. To date an estimated 1150 complaints have been received for processing. For several years, the rate of inflow has far exceeded the means to process them. In FY 1977 and FY 1978 the office was allocated an additional 19 positions. Despite these additions, the office finds itself hard pressed to cope with the mounting volume. Although some progress has been made, it has been slow and often obscured by a number of counter productive factors, many of which are not within our control, for instance, personnel turnover.

We have been compelled to consider filling some of our positions with trainees. Time for recruiting and training has prevented us from closing the gap as rapidly as expected since it takes approximately 12 to 18 months for a trainee to become fully productive. Also, with the addition of the three protected categories based on age, religion and handicapped status, there is every reason to expect that the rate of complaints will continue to accelerate at unpredictable levels. To contemplate eliminating our current backlog of 640 cases and simultaneously keeping pace with incoming volume increases while complying with the statutory time limit of 90 days to issue findings, we would require resources significantly larger than we presently have. It should be emphasized that these compliance activities will be the areas most affected by the reductions reflected in our budget. We are hopeful that initiatives directed towards refining and improving our methods, together with voluntary compliance and cooperative agreements will compensate in some measure. Only time will tell.

To develop a more accurate data base and to establish an active tracking system to help us evaluate use of resources relative to our Civil Rights workload, a project to develop an automated Management Information System is underway. It is expected that the basic system will be operational by March 15, 1979. As discussed previously, the Civil Rights Division, along with the other two compliance activities, was the subject of an exhaustive management evaluation by an outside management consulting firm. A final report, with recommendations, is now being prepared. Any improvements or changes in the Civil Rights Division activities resulting from this evaluation will be acted upon within the coming year.

Technological Improvements

Computer Systems Development. To aid in the internal operations of the ORS, three computer systems are being developed for office wide use.

The Recipient Information Summary System (RISS) is expected to enable ORS staff to retrieve specific data stored in the computer through a demand terminal. Use of this system should reduce the requirement for printed reports and expedite responses to inquiries from Congressional, recipient governments and the public.

The Civil Rights Compliance Tracking System (CRCTS) will also be used to provide ready access to case data and will permit information to be entered via computer terminal devices showing completion of each stage of processing. This system, when fully implemented, should result in considerable improvement over manual methods of logging and tracking and should facilitate development of statistical and other management information.

The development of a similar Auditing Reporting System (ARS) will provide assistance in monitoring the status of external audit reports.

Office Equipment Upgrading. During 1979, as in 1978, the Office is exploring ways to exploit the full capabilities of all available equipment in handling most of its correspondence and typewritten materials. Particular attention will be given to improving text editing functions in those areas where the volume of typed documents is large and where more up-to-date word processing and transcribing

equipment will improve the quality and cost of materials produced. For example we are contemplating using such equipment to reduce the requirement for on site visits by Civil Rights investigators if interrogatories could be taken by phone.

To summarize, these accomplishments attest to our commitment to improving management practices by exploring ways to increase efficiency in all operating areas while holding costs to a minimum. These developmental initiatives which are currently underway are essentially non-recurring activities. The systems once implemented should require only minimal level of effort for maintenance purposes.

ORS SALARIES AND EXPENSES

Let me, finally, address our specific appropriations request. Mr. Chairman, the amount of $6,337,000 which is requested for Fiscal Year 1980 Salaries and Expenses for the Office of Revenue Sharing represents a reduction of $863,000 from Fiscal Year 1979. Based on anticipated increases in productivity stemming from the activities previously described and the phasing out of the Antirecession activities, we are able to submit this reduced amount.

Our Fiscal Year 1980 request is for 163 average positions and 158 permanent positions for the Office of Revenue Sharing, a decrease of 20 average and 27 permanent positions.

Mr. Chairman, in executing the responsibilities of this Office, we are guided by the philosophy upon which the revenue sharing act was founded, the philosophy that prevailed during subsequent renewal legislation - the philosophy which maintains that intergovernmental relationships can be

better cemented by the removal of artificial red-tape and strings that tend to divide rather than bind.

The programs administered by the Office of Revenue Sharing generally are considered to be the most objective, impartial, reliable and cost-effective methods of providing Federal assistance to States and units of local government. Our Office continues to operate with a relatively small staff performing a large and important mission. Never in the six-year history of the operations of the Office have we failed to issue a payment on time. Within five working days from the end of each quarter, payments are made to nearly all 39,000 plus eligible units of government. The administrative cost of operating this program is still less than one tenth of one percent. To the taxpayer, this represents an unbeatable bargain. We know of no other public or private agency that can make a similar claim. Despite our record in this respect, however, and despite some setbacks that have threatened to impair our productivity, we are continuing to strive to increase efficiency and economy in all our operations.

In short, Mr. Chairman, our FY 1980 request, testifies to no burgeoning bureaucracy and resists excessive Federal control over the responsibilities of State and local governments.

We would be happy to respond to any questions you may have.

INVESTIGATION TIME REQUIREMENT

Mr. BOLAND. Well, I am sure that you are not a burgeoning bureaucracy, but I am not sure whether the resistance by State and local governments to control is such a good thing.

With respect to the 1976 amendments as noted on page 21 of your general statement, the government requires completion of investigations within 90 days. At the end of fiscal year 1978, a review of 30 cases in the finding stage disclosed that the average number of elapsed days was 195. The goal for the end of the fiscal year had been 215 average days. What is the goal now?

Ms. DENNING. In some instances we are down to about 175 or 180 days.

PROBLEMS IN ACHIEVING OBJECTIVES

Mr. BOLAND. In the last paragraph you say, "Again, as we demonstrate progress in achieving one set of objectives, we find ourselves doing so to the detriment of another. There are many reasons accounting for this, and the solution is not clear cut. From the inception of the program, our office has been inadequately staffed to handle complaints of discrimination."

That is a serious charge against the Administration, isn't it? Well, was that a fair statement? Who determines the level of the number of people that are going to work for the Office of Revenue Sharing?

Ms. DENNING. Well, we were given a supplemental 50 additional slots by the Congress for fiscal year 1978.

PROBLEMS OF PROCESSING COMPLAINTS

Mr. BOLAND. I'll continue to quote your statement, "To date, an estimated 1,150 complaints have been received for processing. For several years, the rate of inflow has far exceeded the means to process them." You say for "several years." What are you talking about? Most of the problems with respect to this area I would think would stem from the 1976 Amendments.

Mr. PETERSON. Through about December 12, 1976, we received a total of something like 547 cases. Through February 1979 we have received 658 cases. So there has been a considerable increase in the rate at which the cases have been coming in.

Mr. BOLAND. All right. What are the most serious complaints?

Ms. DENNING. The most serious complaints that we get are in the areas of human and civil rights and relate to employment and services. They seem to be in the area of employment and based on race and sex.

Mr. BOLAND. How many would actually be in the area of employment?

Ms. DENNING. Well, we have——

Mr. BOLAND. You didn't have any affirmative action programs planned for this year, did you?

Ms. DENNING. We don't demand them; we encourage them. Up until December 1978, in the area of employment, in race and sex we had received 961 cases.

FAILURES TO RESPOND TO ORS FORMS

Mr. BOLAND. On page 14 of your statement you mention that as of the end of December 1978, there were 1,272 governments ineligible to receive payments under the program for failure to respond to the ORS forms or other noncompliances. What types of failures are we talking about?

Ms. DENNING. We have actual use reports that are required to be submitted to show what they do with the revenue sharing funds.

Mr. BOLAND. What do most of them do with these funds?

Ms. DENNING. The State governments do things a little differently than the counties; funds go into education, into fire protection, hiring, the police department, and public welfare.

APPLICATION OF GRS MONEY

Mr. BOLAND. So it is mostly local spending. Where do most of the States apply the money—in what types of activities?

Ms. DENNING. Education, but this is mostly for the States; about 50 percent.

Mr. BOLAND. This information is found in the actual use report?

Ms. DENNING. Yes; it is what they report to us.

Mr. BOLAND. What would be the amount of money that the State of California got in the last year? How many millions of dollars?

Ms. DENNING. I happen to have that here, Mr. Chairman. It is $760.6 million.

Mr. BOLAND. This is the State share. Mr. Secretary, is that correct?

Mr. ALTMAN. No, that is the total amount.

Mr. BOLAND. Then one third of that is about $253 million. Do you have any evidence concerning what the State of California did with that?

Ms. DENNING. For that particular State, I guess we would have to submit that for the record.

[The information follows:]

ORS PAYMENT TO CALIFORNIA

For fiscal year 1977, which is the most recent data available, the State of California reported that it spent its total general revenue sharing funds of $215 million for education.

NEW YORK CITY'S USE OF GRS FUNDS

Mr. BOLAND. What did the State of New York do with its share?

Mr. ALTMAN. Well, I can speak about that. The State of New York passes through a higher share of total budget to localities, I believe, than any other State in the country. Some 45 to 50 percent of its budget or its revenues, including intergovernmental transfers, are passed through directly to local accounts. So, as a rough rule of thumb, half of the State share received by New York went into aid to localities, and therefore those localities are getting not only their share directly in the revenue sharing fund as local recipients, but also half of the State's share.

Mr. BOLAND. Would that be true of the majority of the States, do you think?

Mr. ALTMAN. Well, I know that New York would be either the highest or one of the highest at about 50 percent. I think it is 46 percent. So most of the States' budgets involve lesser percentages of the total in local aid. But it differs from State to State, and I would say that while we will try to give you an answer for the record on California, it is rather difficult because these funds are co-mingled.

Mr. BOLAND. Yes.

Mr. ALTMAN. And it is as impossible to trace a revenue sharing dollar as it is to trace a State income tax dollar.

Mr. BOLAND. Except that if funds were not co-mingled or the one-third share for the State was eliminated, we would know pretty quickly where those funds have been spent, because the squawk would be considerable. Do you understand the flow of the questions here? It is a question of whether or not the States ought to be receiving one-third of the general revenue sharing funds. If they were not, we could eliminate something like $2.25 billion from the Federal budget. As you know, and as all of us know, Federal grants to States and local communities have increased from $20 billion in 1968 to $82.9 billion in fiscal year 1980. That is not to say that this dramatic increase is not necessary because many of the programs that are operating in the States and local communities are programs that have been mandated by the Congress. Congress has indicated to them that if you want to share in a Federal program's benefits, then you have to spend some of your money and we will be glad to match some of your grants or pick up the whole tab for you.

Mr. PETERSON. Mr. Chairman, in looking at some of the actual increases, it is not only a question of how much of the revenue sharing money is transferred to local governments, which is something around 25 to 30 percent they tell us.

Mr. BOLAND. 25 to 30 percent?

ACCURACY OF ACTUAL USE REPORTS

Mr. PETERSON. Actually, this is across the board. These actual use reports that we mentioned earlier, come up with something like 40 percent. I would tend to rely more on the lower number myself because, as Mr. Altman pointed out, the reports don't really account for the indirect tax and revenue effects.

Mr. BOLAND. I would say that the reports from the States are not very accurate.

Mr. PETERSON. Well, I think it is probably true that they reflect how they account for their money. But, as Mr. Altman suggested, they don't really tell the total impact of the funds. I mean they do not reflect the indirect efforts of the money, whether it goes into tax stabilization or what have you.

Mr. ALTMAN. Well, there are a lot of recipients, Mr. Chairman, who literally don't check the funds. For example, I don't think that New York State knows, and I am not sure they should know, just what happens to over $200 million that it gets as its State share as compared to all of the rest of its revenues. I really don't think that they account for it that way, and I know that a lot of other governments don't either; no more than they could tell you, I think, where income tax receipts went or where intergovernmental transfers went. They really don't manage themselves that way.

Mr BOLAND. Except, as I said a moment ago, that if the $2,250,000,000 were wiped out for one-third of the States, we would know rapidly where it was going. There is no question about that. This, of course, is a policy question, which we got into last year. The question is, since we have a deficit of $29 billion this year and a deficit of $38 billion last year, should we really be in the business of making revenue sharing grants to States where there are surpluses? My guess is the Administration simply doesn't know how to deal with it.

Mr. ALTMAN. I do not know. Our position is at the moment that the General Revenue Sharing Program, which, as you know, expires September 30, 1980, ought to remain in its present form until then. Our position on its future, I think, may be quite a different matter. We are involved in some very exhausting work right now, and have been for some months, trying to develop our conclusions for the Congress.

But while we do not yet have an official position in response to the Bentsen Bill, we are not likely to officially respond any differently. I might say it is a very legitimate question that has been raised and to which you are referring We are not committed to maintain the States' share or to maintaining any other element of this program after its current expansion. I do not say we are going to propose changes here or there. We are just going to bear in mind about the future and——

Mr. BOLAND. I do not really buy the argument that is often given by Congressmen or our leaders in the Administration that we can balance the budget; we just wipe out the Federal grants for States and local communities. Too many of those particular programs are a yardstick to human and community needs.

But the argument can be made that this is one area where you could really save $2,250,000,000 and it would not seem to hurt. Furthermore, it would really target in on the leaders of the States, the Governors of the States, who are taking the lead and calling for a Constitutional convention for a balanced budget by 1980.

We are going to be close to having a balanced budget by 1981 anyhow, are we not? The 1980 budget reflects about a $1 billion deficit in 1981, and I think, indicates that we will have a surplus of some $38 billion in 1982.

However, I do not argue that we ought to take this action. This would make many people unhappy, particularly the Governors.

Well, anyhow, your position is we ought to continue at least until September 30, 1980, which ends the extension of the General Revenue Sharing Act amended in 1976.

Mr. ALTMAN. I might say that it is obvious that the debate in Congress over the future of this program has already started. We probably will send our recommendations up on its future at least a year in advance; in other words, by this September. I am not committed to that but I think that is our current thinking. This will obviously be a very active issue, maybe one of the biggest issues facing the Congress, and will be debated all through next year. Even though the program does not start until September 30, the "debate of the future" is essentially at hand.

Mr. COUGHLIN. Mr. Chairman?

Mr. BOLAND. Yes, go ahead Larry.

Mr. COUGHLIN. The Administration is going to set up another program subject to Congress at the same time, isn't it?

Mr. ALTMAN. Yes, but as I said this morning, we are going to ask to extend the authority through September 30, 1980, so the two programs would expire at the same time so that Congress would have an opportunity to assess the whole issue of unrestricted Federal fiscal assistance to State and local government at the same time. We are not proposing anything that would extend beyond the date of general revenue sharing.

Mrs. BOGGS. Mr. Chairman, that seems to more or less go along with the President's campaign statements about revenue sharing. He said he would favor an approach that would give funds directly to local cities and communities rather than to the States and he favored it for two reasons:

First, it's a means of giving local governments more control over programs that affect them daily. It is a mechanism that effectively combines local needs and decisionmaking processes with Federal Government's powers of coordination and revenue sharing. Second, and more important, local communities do not have the capacity to generate extra income through taxes and other methods that the States have. That was the President's campaign stance, and I would say that the new Urban Reinvestment Fund is in accordance with his thinking in that regard.

TARGETED FISCAL ASSISTANCE

Mr. ALTMAN. Well, in fact the bill we will be sending up on Monday on Targeted Fiscal Assistance is a small program which will last through September 30, 1980. It is for particularly hard hit communities and does not include the States as recipients in its principal target. I would also add that the President was very interested, I am sure you know, in the future of revenue sharing and is still skeptical over the role of the States in it. He has made no final decisions, of course, on its future but I do not think his thinking is all that different.

Mr. BOLAND. Do you know whether or not the Targeted Fiscal Assistance Program includes any money for the States? Is there a breakdown?

Mr. ALTMAN. It will have two titles, Mr. Chairman. Title I will propose to spend $250 million in a form of a 1979 supplemental, and $150 million in 1980. So, this does not include the States as recipients. Title II, is a standby program to be used in the event that the national unemployment rate exceeds 6 and one-half percent before the end of 1980. This, by the way, is not our projection, so we do not expect it to operate; we do not expect it to kick in. Title II would include States as recipients simply because it mirrors in many ways the general revenue sharing format. We did not think that it made sense to change relevant States until we get to this mutual termination date of September 30. The title of this bill which we expect to actually function does not include the States as recipients.

DISTRIBUTION OF FUNDS

Mr. BOLAND. How will the funds be distributed?

Mr. ALTMAN. They would be distributed according to a formula; the index of eligibility would be 6 and one-half percent local unemployment. In other words, the community not be eligible unless it's unemployment rate was 6 and one-half percent or more. The actual allocations from among the pool of eligibles would based on the excess unemployment reflect a formula of each communities' unemployment above a 4 and one-half percent base. But the unemployment index of 6 and one-half percent is the trigger. 1,230 local governments around the country, some large and some small, would be eligible on that basis as of the most recent quarter for which we have statistics. So you can see it is pretty targeted. Now we have 39,000 recipients of general revenue sharing and we are proposing a bill which would only send money to 1,200 of them and so it is quite targeted.

Mr. BOLAND. Do you——

Mr. ALTMAN. It is not a lot of money, $250 million.

ADMINISTRATIVE REQUIREMENTS

Mr. BOLAND. Do you have any idea what the cost would be for this program or the number of people associated with it that would be required?

Mr. MATHESON. Well, Mr. Chairman, we have not at this time sat down and priced out the administrative cost, primarily because we have not seen the final legislation yet.

Mr. ALTMAN. It has, of course, not been sent. It will be sent on Monday.

ANTIRECESSION PROGRAM

Mr. BOLAND. You ran the counter-cyclical program, did you not?

Ms. DENNING. Yes.

Mr. BOLAND. How many personnel slots did you have connected with that?

Ms. DENNING. We had 30 authorized positions.

Mr. BOLAND. Above and beyond these positions associated with ORS revenue sharing?

Ms. DENNING. Right.

Mr. BOLAND. Okay. Larry, do you have any questions?

Mr. COUGHLIN. Generally, can we expect that by the time the bill gets through Congress everyone will be included in the action?

Mr. ALTMAN. Well, I do not expect that because the President does not favor an approach which gets to that. I do not think we would want to see a bill passed which spread funds around so thinly that they really had no effect. So unless the program which emerges from Congress is quite targeted, and our proposal is 1,230 out of 39,000, I do not think the President will sign. Like any other bill, it will depend on exactly its final form but there is not enough interest in a bill which is not targeted. It would serve no purpose.

PHASE-OUT OF ANTIRECESSION

Mr. COUGHLIN. Along the lines of the question the Chairman was asking, have all 30 positions been phased out?

Ms. DENNING. No, not all of them. We still have six.

Mr. COUGHLIN. What are they doing?

Ms. DENNING. Well, they are phasing down the program but still have reports that are due and still have compliance cases that are being worked on. We still have payments to be made on them.

Mr. COUGHLIN. Did any of these staffers work on the new plan?

Ms. DENNING. Yes.

Mr. COUGHLIN. And they have been working on the New York City Loan Guarantee Program?

Ms. DENNING. No.

[Laughter.]

TARGET CRITERIA

Ms. BOGGS. I was interested in the other aspects of the formula for the special Targeted Fiscal Assistance Program. Overall it is geared to unemployment figures. Are there other criteria as well?

Mr. ALTMAN. Well, are you asking about the criteria to determine who is eligible?

Ms. BOGGS. Right.

Mr. ALTMAN. That is only unemployment. For example, New Orleans, La., which has a high unemployment rate substantially above 6 and one-half percent, is eligible. There are several other major towns and communities in Louisiana which are eligible. I was just looking at those a couple of days ago. So the determination of eligibility is just unemployment. The determination concerning what you get in exact dollars once you are eligible involves all the factors because it is an arithmetic formula, one of these is the general revenue sharing allocation. General revenue sharing, of course, reflects tax effort and other things. So, in part, there are other factors like tax effort. But the key index is unemployment.

Ms. BOGGS. But within the scope of those other factors, are there any formulas that, for instance, are based on post-1940 housing?

Mr. ALTMAN. No.

Ms. DENNING. No.

Ms. BOGGS. What about pre-1940 housing?

Mr. ALTMAN. The exact factors of the revenue sharing formula are, besides taxes——

Mr. PETERSON. Per capita income, if you have lower income it gives you more money. And you have tax effort which takes into account how much wealth you have to collect taxes from——

Mr. ALTMAN. It takes into account population too. Those are the three things that are most important.

Ms. BOGGS. Does any aspect of the formula concern loss of population?

Mr. ALTMAN. Yes.

Ms. DENNING. Yes.

Mr. ALTMAN. There are three key elements: population, tax effort and——

Mr. PETERSON. It does not account for loss of population really. We regularly update the population statistics within the formula and by and large if your population is——

Ms. BOGGS. Well, I have handled block grants, of course, in which we have a formula based on pre-1940 housing and loss of population. That impacts very adversely on Southern communities. As somebody said the other day, Sherman burned down all our houses and we could not afford to build any back until after 1940.

[Laughter.]

Ms. BOGGS. I'm just teasing, of course, but those are two factors that have been very instrumental in some of the programs in the South and South Central States.

Ms. BOGGS. Did you take into account, within the overall unemployment, the high unemployment among minorities and youth?

Ms. DENNING. Yes.

Ms. BOGGS. The overall unemployment may be below 6 and one-half percent but contain pockets of high employment among minorities and youth.

Mr. ALTMAN. No, it counts in——

Ms. BOGGS. It counts in the overall figures.

Ms. DENNING. But that is the only way it can.

DETERMINATION OF ELIGIBILITY

Mr. ALTMAN. But in our perspective targeted fiscal assistance program, the determination of eligibility is the local government's overall unemployment rate. So, for example, even though Houston had certain——

Mr. BOLAND. Pockets of distress?

Mr. ALTMAN. It is the overall unemployment rate for Houston which determines whether or not that city is a recipient under this program. Frankly, we have made a particular effort to keep this program simple in its design. We tried last year unsuccessfully with a much more complicated approach, taking into account a lot of other factors besides unemployment. The complexity proved to be a very negative element from the standpoint of passage.

Ms. BOGGS. Yes?

Mr. ALTMAN. So we reverted to a more simple approach. It is not a large amount of money, nor a long program. We are talking about $250 million this year and $150 million next year and the program would end September 30, 1980. Only 1,200 recipients would be involved. Simplicity has been a major element in this, but I repeat, just taking Louisiana for example, there are a number of recipients, high unemployment communities, and they would be eligible.

MINIMUM PAYMENTS

Ms. BOGGS. So the size of the city would make no difference?

Mr. ALTMAN. With one exception. We have tentatively agreed on a minimum annual payment, below which the community would not be eligible. It is tentatively set at $20,000 a year. A particular local government is not going to receive that much however; we have proposed

that it not be eligible so that we should have a program which is administratively simple. Less than $20,000 reflects, generally speaking, less than even two jobs. So, with that exception, size makes no difference.

Ms. BOGGS. But it would apply to cities that were 50,000 and under in population?

Mr. ALTMAN. Yes, if they were eligible otherwise.

UNEMPLOYMENT EFFECTS ON ELIGIBILITY

Ms. BOGGS. If the county is the local government recipient, are the pockets of poverty not considered?

Mr. ALTMAN. Well, only again to the extent that the high unemployment in that area means that the total unemployment rate is above the middle. I should point out that there is a second title to our proposed bill, which would be a standby program of fiscal assistance in the event that our economic projections prove to be too rosy, and national unemployment, which is now, as you know, about 5.9 percent goes up to 6 and one-half percent. In that case, a lot more governments would become eligible, because our local eligibility trigger would be 5 percent.

Ms. BOGGS. I see.

Mr. ALTMAN. But during this period of limited national prosperity and certainly, with certain local governments still distressed, we are proposing to really target this money very narrowly.

Ms. BOGGS. Then, of the total eligible recipients of over 1,200, 548 could be counted. Thank you very much. Thank you, Mr. Chairman.

TARGETED FISCAL ASSISTANCE

Mr. SABO. I have a tough time understanding what you are trying to accomplish concerning the Targeted Fiscal Assistance Program. Frankly, I think the concept of Targeted Fiscal Assistance makes a good deal of sense. One can argue about the merits or demerits of States involving general revenue sharing, but I think to exclude States from Targeted Fiscal Assistance when they have high unemployment makes no sense at all. Basically, fiscal relationships in this country start with the Federal Government, but then the bulk of money flows from State governments to local governments. If you look at the various tax resources available, the tax revenues at the State level are those that are most affected by unemployment; namely, the income tax and the sales tax. Of course, local government is impacted by unemployment and slowdown of the economy but that has a much different time impact on local revenues. This is because most of their revenues come from the property tax. So, you are going to find a lag in the impact of the slowdown in the economy on local communities.

TIMING OF IMPACT

If you want to do something for local communities, it is fine to target funds where there is a high rate of unemployment, but I think once a community is targeted, you actually have to keep it going for a year or two after our economy begins to turn around because it is then

that they are going to feel the impact of unemployment and will continue to feel it, even after the economy has turned around, in terms of their revenues.

Now with State government, the reaction is the opposite. Here the change in the economy is going to have dramatic impact, especially on the States that have high unemployment and must continue to provide the funds for their local community governments.

Mr. ALTMAN. Well, I disagree.

Mr. SABO. Well—where do States, what is their revenue——

NEED FOR TARGETING

Mr. ALTMAN. Well, let me try to make this argument and we will come back to that. It seems to me that where we have identified a rather small number of local governments and communities around the country which are in fiscal distress, it makes a lot more sense to take this very small amount of money we are proposing and put it directly where the need is rather than giving some of it to a State, only a very small portion of whose total residents are in distress. If you have a State with five or six major communities which are in distress out of several hundred, we would prefer to take this limited amount of money, and put it directly into those five or six communities rather than giving it to the State, where it becomes co-mingled with other funds and where not all of it will go into areas that are in distress.

This is a temporary program. It is a very small amount of money and we want to put it just where the need is and not diffuse it.

Mr. SABO. Well, Mr. Chairman, I guess in my judgment, the basic concept calls for an on-going program, whereas this program is only for one year.

PHASE-OUT PROPOSAL

Mr. ALTMAN. What happened was that the counter-cyclical program was abruptly terminated. We were against it's being terminated and that is why we came out last year with a bill which would have phased it out rather than just cutting it out abruptly. A whole series of communities which were already in difficulty were forced to lay off people, in some cases, raise taxes; in other cases, to cut services very abruptly. Our theory here is that they should have been phased out rather than just cut off and we are trying to come back with not much money, but enough to enable them to adjust gradually instead of doing what Newark did, which was immediately upon notice to lay off 300 policemen.

Mr. SABO. Mr. Chairman, I guess if it's a one year program with limited goals, it might make sense, but I see a potential in the whole concept for a long term program.

FUTURE OF FEDERAL FISCAL ASSISTANCE

Mr. ALTMAN. Well, I do not want to associate myself with it and I disagree with you on that. I said earlier that in asking for authority only through September 30, 1980, a year and a half from now, the whole question of unrestricted Federal fiscal assistance to State and local governments, general revenue sharing and this temporary Tar-

geted Fiscal Assistance Program can be dealt with by the Congress at the same time so that if we all sit here or you all sit here over the next 18 months, you will decide what the future is of this whole area.

As far as a long term strategy is concerned, States will have to be given very careful consideration. We have not yet decided whether the States will or will not be in, *i.e.*, what we will recommend to the Congress after September 30, 1980. We have made no decision on that. I agree that that is a very key question.

ACTUAL USE REPORTS

Mr. SABO. Mr. Chairman, this looks like a basic revenue chart. Is there any good reason why—let me just simply state my conclusion. The money spent by the Federal Office of Revenue Sharing collecting use reports is an utter waste.

Another waste of money is money spent by State and local governments, first compiling them, and then spending postage forwarding them to the Federal Government—utterly meaningless. You know the answer to the Chairman's question, I have been in State government when we were all trying to decide what we would do with revenue sharing. You know, it is like having a three-quarters full glass of water, pouring a little bit, filling it up, and taking a drink. I always tell people if they like revenue sharing they can pick the programs they like and say that is what paid for them. If they do not like it, they can pick the programs they do not like and say revenue sharing paid for them. And they are both right. We went through the use reports and found them totally irrelevant. We just assumed it was part of our total revenue, and we would go through and pick out programs we would make sure would be the easiest and the most certain to meet whatever crazy Federal requirements there were. And so that is what revenue sharing went for. You cannot trace it or pretend one can trace it.

Ms. DENNING. They are according to the Statute, we have no choice but we have tried to improve upon it.

Mr. SABO. Do we have a choice of not funding it?

Ms. DENNING. Well we have a——

COST OF ADMINISTRATION

Mr. SABO. How much money do you spend administering that portion of it?

Ms. DENNING. About $400,000. Last year we cooperated with the Bureau of Census. When we went out we tried to collect data to make it more meaningful. I think it is a little bit more meaningful now, and we are in the process now of receiving the data.

Before there were some figures on the actual-use report and they would give census figures on Census government reports and they were not even the same figures. At least now, maybe they will be the same figures.

Mr. PETERSON. It is also collected in terms of the same categories as Census uses and on the same forms that Census collects their other information which means at least the definition is used a little more uniformly, but I agree with your basic conclusion.

PRINTING

Mr. SABO. It serves no useful purpose that I can see.

I see you are going to print a book on general revenue sharing that you are going to distribute. I can think of no good reason for your office to be printing those books.

Ms. DENNING. I guess I have to disagree a little bit. I think it has been very helpful to the public awareness and the public information program that we try to administer. Our books have been very well received, as have the Executive Pocket Guide and the Fact Sheets. We get complimentary letters from all across the country saying thank you for making it so clear, so simple and it helped.

Mr. SABO. I don't know who it helped. Again, this is one part of the total revenue that you have to appropriate in hundreds of ways.

Mr. PETERSON. But your State and local recipients do have to meet somewhat complicated Federal requirements under the 1976 Amendments. That is basically why we have to carry on these outreach programs, because the laws are fairly complicated. The law touches upon civil rights, audit, public participation requirements, the use of certain forms and so forth. And that is the basic reason for the outreach programs.

Mr. SABO. All our pretenses try to make the program categorical when it isn't categorical——

Mr. PETERSON. Well that was a legislative decision.

Mr. SABO. I know, and we are wasting an incredible amount of money both on the Federal and State level, trying to make a categorical program out of something that isn't. You cannot be categorical in concept.

STATUTE REQUIREMENTS

Mr. BOLAND. Of course, we can put a limitation on these reports. We could say none of the funds provided can be used——

Ms. DENNING. Yes, but how can we meet the Statute requiring us to report in our annual March 1 report on how funds are spent?

Mr. PETERSON. And also, there is a specific requirement in the Statute.

AUDITING REQUIREMENTS

Mr. BOLAND. How accurate are the reports? You have an auditing requirement. Section 51.101(B)(3) of the Revenue Sharing Regulations deals with auditing. This regulation provides that in order to be considered independent, audits of local recipient governments must be made by a permanent auditing officer employed on a full-time basis.

I understand that in your opinion, an auditor not employed full-time does not possess the necessary training to perform this type of an audit. You do have a requirement, don't you, to audit anyone who gets $25,000 over a certain period of time? Is it a three year period?

Ms. DENNING. No, the $25,000, Mr. Chairman, is for one entitlement period. But they do have to file an audit.

AUDITOR QUALIFICATIONS

Mr. BOLAND. Okay, now, let me return to the question of the auditors that are hired. Let me say again that I understand that, in your opinion, an auditor not employed full-time does not possess the necessary education and technical training to perform this type of audit. That is not a very good position to take, is it?

Ms. DENNING. Well, but it is what we found in our reviewing. The auditing that is required is the compliance auditing and financial auditing. Most of them are doing efficiency and economy auditing.

Mr. GARY. One of the problems, too, is that in some States they have elected auditors. These people are really not trained in accounting and auditing, and the law requires that the audit be made in accordance with generally accepted auditing standards. The elected auditors are not qualified to make this type of audit.

ASSESSMENT OF AUDITORS

Mr. BOLAND. Why shouldn't there be a more active assessment of the auditor's ability rather than whether or not he is part-time or full-time? It ought to be easy to assess whether or not he has the ability to perform an audit, the kind of an audit that you require.

Mr. GARY. Well, the problem we have is that you have a State that has the law under which you have an elected auditor. There is one State in particular, in which we have found 800 jurisdictions to be involved.

For us to look at every one of those audits in 800 units with the small staff we have, would just be impossible. We wouldn't be able to do that and the rest of our work. We have to do it on a broad scale, and on the basis of eliminating those types of people who are not required to have professional qualifications. The person on a full-time basis is generally a qualified accountant. The job itself requires that——

Mr. PETERSON. Well, Jack, this position is being——

Ms. DENNING. Especially by the AICPA.

Mr. GARY. GAO has been making a review of not only our auditing of the Federal assistance programs, but all of the Federal agencies involved in Federal assistance. They told me that in this particular State they had some questions about this limitation until they had reviewed CPA audit reports containing deficiencies that the CPA found that had not been found by the elected auditors.

So I think that experience proves that——

Mr. BOLAND. I still don't understand why you can't work with auditors who just work part-time. There are part-time auditors who have as much ability as an auditor who works full-time. If you assess their qualifications and abilities and experience, I think that ought to be sufficient.

PROBLEMS IN IDENTIFYING QUALIFICATIONS

That leads us to the problem, does it not, regarding the number of recipients under the Revenue Sharing Program?

Mr. GARY. There is one State in particular that has many of these problems and there are a few others. It is not a widespread thing, we are not talking about a CPA, for instance, who might practice part-

time. We are talking about these people who are elected in these towns and townships as auditors, and by and large they have no qualifications.

Mr. BOLAND. Make them prove again that they have the qualifications. If they don't have the qualifications, then scrub them.

Mr. PETERSON. It is those 11,000 governments that have those people, and we have 27 people.

Mr. GARY. We do not have the strength. We might have the strength——

Mr. PETERSON. It would be ideally——

Mr. GARY. That is the problem. We have to paint with a broad brush. Then again, I don't think we would find but maybe 25 of the 800 that would be eligible and it would take a long time to find those 25, and also more staff than what we have to do it with.

ACCEPTABLE AUDIT PRACTICES

Mr. BOLAND. Do all auditors currently have acceptable audit practices?

Mr. GARY. No, sir. I believe that you——

Mr. BOLAND. I am talking about the auditors you use. I am not talking about the——

Mr. GARY. We do not choose the auditors. The——

Mr. BOLAND. I understand. The local community does.

Mr. GARY. When we make the audits that are required to conform to the Act, we then, on a sample basis, review their practice. And we have found there are some of those who do not have an acceptable practice.

Mr. BOLAND. Well, what have you done with those? Do you cut off funds because of non-acceptable audit practices?

Mr. GARY. No.

Mr. PETERSON. We work very closely with them.

Mr. BOLAND. You can cut off funds, can't you, because of the law?

Mr. GARY. We really haven't gotten to 1979 when we can do it. But up until now we have been able to say you have to have an acceptable audit by fiscal year 1979. However it is getting to be a more difficult problem as we approach fiscal year 1979. When we can find the ones that are non-acceptable, we write a letter to them and tell them what their problem is. If we don't get a reply to the first letter, we send a second letter, and if no reply is made to this then we advise the recipient that their audit is not acceptable and the recipient must get another audit.

Mr. BOLAND. The 1976 Act does require a certain audit practice standard to be maintained by 1979, does it not?

Ms. DENNING. Once by the end of 1979.

Mr. GARY. We cannot say they have not complied until they have gotten through the 1979 audit period. We see it is unacceptable, and advise that they need to present an acceptable audit by fiscal year 1979.

Mr. BOLAND. How do you rate your audit systems for the City of New York and the City of Cleveland?

Mr. GARY. Cleveland has a waiver under the Act as being not auditable. We have received the audit report of the city of New York, which is unqualified, therefore we accept New York, although they have not yet given us a compliance audit. But that fi-

nancial audit is acceptable because it is made by a national CPA firm and contains an unqualified report.

Cleveland is still working on their accounting system. They haven't reached—we don't know right now whether we will be working with the City or the State.

IMPROVEMENT OF AUDITING PRACTICES

Mr. BOLAND. I presume that the Office of Revenue Sharing has done whatever it can to encourage State and local communities to improve their auditing practices, have they not? What have you done?

Ms. DENNING. Yes.

Mr. GARY. We have reviewed the practice of every State auditor in the United States that has anything to do with making audits that are related to the Act. We found 11 of those which are not acceptable. We are working with them, and I might say that in every case they are working toward attaining an acceptable standard.

I think that the reviews we have made have done more to improve the caliber of State and local government audits than anything that has been done recently.

Mr. PETERSON. Your reviews of the 159 independent auditors really intended to do that too. Of those, as Jack suggested, about 70 were unacceptable, and about 62 of these have already adopted some procedures to improve their practices. So really our approach, as Mr. Gary has suggested, is one of trying to bring them into compliance by helping them but not by bludgeoning them.

Mr. GARY. We reviewed 159 and we found 70 of them are not acceptable. Now the GAO, in making its reviews, selected 20 of those who have written us and told us that they are taking corrective action, to determine whether they have or not. It is my understanding that the GAO found that they had taken corrective action to improve and to bring their practice up to acceptable standards.

REVISIONS OF REGULATIONS

Mr. BOLAND. In last year's hearings, on page 624, Dr. Denning, you said that during the past year we have completed regulations which clarify the recently amended Statutes for both programs. These regulations have been published and distributed to all recipient governments. On page 15 of your statement this year, you mention that all revised regulations, due to the 1976 amendments, will be released for publication by August 20, 1979.

Those amendments became law in October 1976, so why did it take almost three years to revise the regulations?

Ms. DENNING. Well, no, some of them are in final form, and some of them—the non-discrimination provisions were in interim form. But we felt it was important to touch base with the people who were using the regulations to see if they made sense to them.

It has been our feeling, and in talking with them and meeting with the various public interest groups, that there were some changes that needed to be made. Then we had to, of course, come up with the handicap regulations, and so we thought, now is the time to take a look at them and see where we have had some things in there that were absolutely unworkable and burdensome for the jurisdictions. We are making some changes, and Mr. Schwartz, who is the Chief Counsel and is working on that, could elaborate on that a little bit more.

NON-DISCRIMINATION REGULATIONS

Mr. SCHWARTZ. Our regulations in the non-discrimination area are under revision at the moment. Part of these have to do with the handicapped law. That is because we are waiting for HEW, and there is nothing we can do with those until we hear from them.

We will also have to deal with the aged. There again, we are waiting for HEW.

The remaining revisions represent an effort to try to learn from the experience that we have had of a year or two of administering what is a very new kind of civil rights enforcement. There were a lot of gaps in the Statute, and because the Statute required regulations within something like 90 days after it became effective, the interim regulations were put together very quickly. We are now trying to learn what it has been like to live with those regulations for a year or two.

The changes that we have in mind are largely technical changes about the procedures we use.

RENEWAL LEGISLATION

Mr. BOLAND. On pages 15 and 16 of your statement there is mention of OMB requesting studies to draft renewal legislation. The deadline for this effort was August 1978. Were there any significant findings from those studies? You might detail that for the record, but summarize the findings for us now.

Mr. PETERSON. Well, basically the areas in which the studies were sponsored were the following: First of all, the fiscal impact of the program, second, the economic impact, and finally we did some in-house work on analyzing and summarizing what we know about the distributional impact of the program.

Mr. BOLAND. Were major formula changes considered?

FORMULA STUDIES

Mr. PETERSON. By and large at this point, what we have tried to do is catalogue and look at all of the things that we considered during the past review. We tested over 100 different adjustments to the formula during the last review.

So at this point we are just getting up to the point where we are now starting to try to think about what other new things we might consider.

Mr. BOLAND. Have you considered whether our local governments ought to get more than two thirds of the funds, for instance?

Mr. PETERSON. Well, you know—we are considering all options.

Mr. BOLAND. What would be the effects of giving large cities more funds?

Mr. PETERSON. I think any broad based look at——

Mr. BOLAND. Should the Sunbelt receive more funds?

Mr. PETERSON. Well, I——

Mr. BOLAND. I just wondered whether that is an area that has been thoroughly explored?

Mr. PETERSON. We would be happy to provide you with a summary document, which is, in a sense, an annotated bibliography of the work that has been done.

[The information follows:]

SUMMARY OF THE INITIAL RESEARCH OF THE GENERAL REVENUE SHARING EVALUATION TASK FORCE

Department of the Treasury
Office of Revenue Sharing

February, 1979

PREFACE

This volume summarizes the research and evaluation efforts of the General Revenue Sharing Evaluation Task Force completed between April and the end of 1978. These projects represent the initial work undertaken in preparation for consideration of the future of the General Revenue Sharing (GRS) program by the Administration and the Congress. Additional studies are currently under way.

The General Revenue Sharing Evaluation Task Force was organized in April, 1978 at the Office of Revenue Sharing (ORS) in the Treasury Department. It includes policy officials from the Office of the Secretary and staff level members. These latter members are primarily staff of ORS, but have included at times other persons from the Office of Domestic Finance and the Office of Economic Policy. The Assistant Director for Evaluation at ORS has provided the staff level coordination for the project under the general direction of the Director of ORS. Both in-house and contracted projects have been undertaken.

The contents of this volume are divided into five sections, the first being background research, and the other four representing the main areas of program impact that have been considered. We have attempted to summarize what we have found in each area and to provide synopses of the individual research items completed. It is hoped that not only will the reader be able to make use of the summary findings, but that he or she may also be able to identify which projects he or she would like to look into further.

Office of Revenue Sharing
Department of the Treasury
2401 E St. N.W.
Washington, D.C. 20226

(202) 634-5157

GENERAL REVENUE SHARING EVALUATION TASK FORCE

Bernadine Denning, Director Office of Revenue Sharing
Kent A. Peterson, Assistant Director (Evaluation)
Office of Revenue Sharing, and Project Director
Joan Bannon, Office of Economic Policy (formerly)
James Bieler, ORS
George Cato, Office of State and Local Finance (formerly)
Dana Curry, ORS
Robert Dinkelmeyer, ORS
J. Walter Lund, ORS
Diane Mazur, Office of State and Local Finance
Marcella Peterson, ORS
Barbara Schwartz, ORS
Autheryne Taylor, ORS
Susan Torrence, ORS
Albertha Whittley, ORS

Ex-Officio Treasury Department Members:

Roger C. Altman, Assistant Secretary (Domestic Finance)
Donald Haider, Deputy Assistant Secretary (State and Local Finance)

Table of Contents

	Page
I. Background Studies	
Individual Synopses of Studies	1
1. General State and Local Government Fiscal Condition.*	1
2. Comparison of State Fiscal Condition with Local Fiscal Condition.	2
3. State and Local Dependency on General Revenue Sharing.	4
4. Evaluation of the State Government role in General Revenue Sharing.	5
(The above four papers have been printed in a volume entitled "State and Local Government Fiscal Condition and Relative Dependence on General Revenue Sharing".)	
5. Trends in Intergovernmental Assistance and Other Federal Spending Affecting State and Local Governments.	6
6. Proposition 13 - Impact and Relation to GRS.	12
II. Fiscal Impact	
A. Summary of Findings	13
B. Individual Synopses of Studies	15
1. Review of Fiscal Impact Studies on GRS.	15
2. Fiscal Impact of Revenue Sharing in Comparison to Other Federal Aid: An Evaluation of Recent Empirical Findings (contracted with Urban Institute).	17
3. The Fiscal Impact of General Revenue Sharing on Local Governments (contracted with Brookings Institution - a preliminary report).	19
III. Economic Impact	
A. Summary of Findings	21
B. Individual Synopses of Studies	22
1. Economic Impact of GRS.	22
2. Economic Impact of General Revenue Sharing (staff paper of the Office of Economic Policy, Treasury Department).	23
IV. Distributional Impact	
A. Summary of Findings (Much of these findings are derived from three ORS staff papers - "Analysis of the Distribution of GRS Funds Under the Present Formula"; "Comparison of the Distribution of	25

43-133 O - 79 - 12

Page

General Revenue Sharing with Other Federal Grant Programs," and "Distributional Impacts of Formula Alternatives and Alternative Data Sources" printed in a volume entitled "The Distributional Impact of General Revenue Sharing.")

B. Individual Synopses of Studies 28

1. The Distributional Impact of General Revenue Sharing 28
2. Use of a Service Needs Index in the GRS Formula Allocation 30
3. Price Adjustments to the GRS Formula Allocations for Geographic Variation in the Cost of Government. 31
4. Yield of a Representative Tax System as an Effort/Capacity Measure 32
5. General Revenue Sharing as an Incentive for Greater Use of State Income Taxes: Rational and Incentives. 33
6. Targetting Options (The SFA Experience) (staff paper of the Office of State and Local Finance, Treasury Department). 35

V. Compliance or Process Impact

A. Summary of Findings 37

B. Individual Synopses of Studies 38

1. Impact of the Public Participation, Civil Rights and Audit Provisions of the General Revenue Sharing Law: A Review of the Literature. 38
2. An Analysis of the Impact of General Revenue Sharing Compliance Requirements (Contracted with Peat, Marwick, Mitchell and Co.). 42
3. Uniform Grant Requirements and General Revenue Sharing. 44

---

*Those items not otherwise identified are Office of Revenue Sharing in-house staff studies. Available from Office of Revenue Sharing, Washington, DC.

I. Background Studies

Individual Synopses of Studies

1. General State and Local Government Fiscal Condition
Department of the Treasury, Office of Revenue Sharing - September, 1978

An evaluation of the current and projected fiscal and economic condition of the State-local sector is essential in determining whether the continuation of General Revenue Sharing is vital to the future financial health of such governments. This analysis seeks to provide such an evaluation. Data are based upon estimates of the National Income Accounts.

Public sector expenditures as a percent of gross national product (GNP) increased from 23.0% in 1949 to 34.8% in 1975. Federal expenditures accounted for more than one-half of this public sector increase, while State and local expenditures increased from 7.0% to 11.5% of GNP over this same period. However, expenditures on all levels, as a percent of GNP, have slightly declined since 1975. Data Resources, Incorporated (DRI) estimates that by 1980 public sector expenditures will have declined to 32.3% and State and local expenditures to 10.7% of GNP.

State and local revenues and expenditures, as a percent of public sector revenues and expenditures, are projected to remain at the 1977 level through 1980.

The operating account surplus/deficit is the difference between State and local receipts and expenditures less social insurance funds. The State-local sector operating accounts showed a deficit from 1948 to 1972. However, with the addition of General Revenue Sharing funds in 1972 and 1973, the operating accounts reflected a surplus. Chase Econometrics projects that the surplus will decline between 1978 and 1980, resulting in a deficit of $1.2 billion by 1980. DRI and the Federal government Troika (Treasury, CEA and OMB) also predict that the surplus will decline during this period. Each of the three projections also indicate that expenditures will grow at a greater rate than revenues over the 2-year period-close to an average of 2.0%.

The Chase forecast takes into account the California tax limitation (Proposition 13) and similar type legislation nationwide, and projects a continued State and local tax reduction in future years, particularly in the area of property and sales taxes.

In the long run (1981-1985), expenditures are not projected by DRI to grow much faster than revenues, which indicates an increasing trend toward State-local budgetary balance, lower expenditure growth, and reduced growth in tax burdens.

2. Comparison of State Fiscal Condition with Local Fiscal Condition
Department of the Treasury, Office of Revenue Sharing September, 1978

Although this analysis is not able to cite sources that have developed projections for the State and local sector on a disaggregated basis, considerable research is drawn upon which treats the current and past fiscal condition of State and local governments.

There are no direct comparisons between State and local fiscal condition. However, the disaggregated National Income Accounts' data, as reported by the Bureau of Economic Analysis, show that in terms of operating account balances, local governments were in relatively better fiscal condition than State governments from 1972 to 1976. The average annual growth for States was 10.3% in revenues, and 10.5% in expenditures. For localities, the average growth was 10.8% and 11.0% in revenues and expenditures, respectively.

The most current ACIR report on State-local tax effort, "Measuring the Fiscal Blood Pressure of the States - 1974-1975", reveals that the rates of change from 1964 to 1975 were sporadic; however, some States such as New York, Massachusetts, and California are under relatively extreme fiscal pressure. In addition, Table 1 shows that States in the Northeast and Midwest regions are generally experiencing increased pressure, while the sunbelt States are generally experiencing a lower degree of fiscal pressure. This is an indication that interregional fiscal tensions may increase and cause additional demands for changes in the system of Federal grants.

The National Association of State Budget Officers and the National Governor's Association conducted a survey of State governments in fiscal year 1978. The data indicate that the general operating budgets of the majority of State governments show an aggregate surplus of $5.5 billion. This survey, therefore, indicates that only a few States are experiencing severe financial difficulty. The budget officers indicate, though, that there is no "windfall" growth in State funds or balances to finance Federal withdrawals from current program responsibilities, mandated increase in services, or additional contributions to social insurance funds.

Although the National Income Accounts data show that local governments are in good fiscal condition, the aggregate data mask the distressed condition of some cities. There is limited information on the condition of smaller local governments - under 100,000 population. In January, 1978, the U.S. Treasury Office of State and Local Finance developed an index of fiscal strain for 48 large urban governments which revealed the significant disparities in local fiscal condition. Also, the Department of HUD identified approximately 300 economically distressed metropolitan cities and 1,800 distressed small cities which qualify for its Action Grant Program. Of the 162 largest cities (over 100,000 population), 64% met these criteria. Approximately 5% of the 40,000 governments eligible for General Revenue Sharing funds are economically distressed based on the UDAG criteria.

Table 1

A Two-Dimensional Measure of Relative State-Local Fiscal Pressure Using the Representative Tax Method to Estimate Fiscal Capacity: Dividing the States Into Quadrants: 1964–75 (Indexed on Median)

High and Falling		High and Rising	
Hawaii	130[1]/ 99[2]	New York	171/537
Wisconsin	126/ 29	Massachusetts	146/381
Vermont	119/ 20	California	132/310
Washington	109/ 95	Minnesota	127/173
Utah	103/ 65	Rhode Island	124/281
North Dakota	102/ –3	Maryland	121/347
Indiana	101/ 98	Michigan	118/241
		Maine	114/143
		New Jersey	113/324
		Pennsylvania	112/244
		Illinois	111/362
		Arizona	108/102
		West Virginia	106/242
		Mississippi	106/163
		Connecticut	106/149
		Virginia	102/396
		District of Columbia	101/419
		Delaware	101/377
Low and Falling		**Low and Rising**	
Colorado	100/–37	South Carolina	99/169
Iowa	99/–16	New Mexico	98/105
Oregon	98/ 66	Kentucky	96/205
Louisiana	98/ 62	Ohio	95/196
South Dakota	97/–94	Missouri	94/186
Kansas	96/–18	Nebraska	88/195
North Carolina	94/ 76	Wyoming	86/130
Idaho	94/ 12		
Montana	93/ 4		
Georgia	92/ 92		
Alabama	90/ 71		
Tennessee	89/ 14		
Nevada	86/100		
Alaska	88/–95		
Texas	84/ 41		
Florida	80/ 24		
Arkansas	79/ 68		
Oklahoma	79/ -3		
New Hampshire	79/–27		

[1]Fiscal pressure for 1975.

[2]The index of change is from 1964–75.

Source: ACIR staff estimates based on U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business*, various years; and U.S. Bureau of the Census, *Governmental Finances*, various years.

3. State and Local Dependency on GRS
Department of the Treasury, Office of Revenue Sharing - September, 1978

This paper analyzes State and local reliance on General Revenue Sharing. This dependency is measured by the amount GRS represents as a fraction of State and local revenues and expenditures.

On the basis of National Income Accounts data for 1973 through 1979 (projected), revenue sharing has declined as a fraction of total State and local sector revenues from 3.4% in 1973 to 1.9% projected for 1979. Total revenue sharing outlays remained nearly constant over this period, increasing from $6.6 to $6.9 billion. The annual average growth in outlays is .6% while the State and Local Implicit Price Index grew at an average annual rate of 8.0% from 1973 to 1979. As a result there has been a decline in the constant dollar total outlays of 6.8 per cent between 1973 and 1979.

Based on data from the Bureau of Census for the years 1972-73 through 1975-76, State and local government reliance on revenue sharing is analyzed by type of government using several measures of revenues and expenditures. For all types of recipient governments - States, counties, municipalities, and townships - revenue sharing has been a declining proportion of general revenues, own source revenues and direct general expenditures. Though GRS has declined as a proportion of State and local intergovernmental revenues and tax revenues, it remains a significant amount relative to some revenue sources. In 1975-76, GRS averaged 30.6% of Federal revenues to localities and 5.9% of Federal revenues to States. Undoubtedly, GRS represents a much larger proportion of uncommited funds since most Federal aid is mandated for particular purposes such as education, health, and welfare. Compared to major revenue sources in 1975-76 GRS averaged 7.7% of State sales taxes, 7.3% of State income taxes, and 7.6% of local property taxes.

Analysis of revenue sharing as a percent of own source revenues and of general expenditures in 1975-76 by type of government and by population size, shows revenue sharing to be a larger part of revenues for the less populous counties and jurisdictions. GRS averaged 5.3% of own source revenues for counties with population of 300,000 or more compared to 11.2% of own source revenues in counties of population of 100,000 or less. For municipalities, GRS was 4.2% of own source revenues of cities with population of 1 million or greater which is about half that of cities with less than 50,000 population (8.5% of own source revenues). GRS also represents a smaller proportion of own source revenue of cities under high fiscal strain (5.2%) than of own source revenues of moderate (6.3%) or low (7.2%) strained cities under a Treasury study's classification of fiscal strain for the 48 largest cities.

4. Evaluation of the State Government Role in General Revenue Sharing
Department of the Treasury, Office of Revenue Sharing - September 1978

This paper evaluates the uniform one-third and two-thirds split of revenue sharing funds between the State and local governments from the perspectives of the revenue raising ability and the fiscal and functional responsibilities of State governments relative to local governments. In reviewing the legislative background of GRS, the uniform one-third and two-thirds split seems to have been an inadvertent choice rather than a matter of preference or policy.

Generally, State governments have greater legal authority to tax revenue sources, less reliance on intergovernmental revenues, broader tax bases, and more elastic revenue sources than local governments. With less than 30% of total State revenue from intergovernmental aid, on average States are less reliant on such aid than local governments which depend on intergovernmental aid for over 40% of their revenues. Since intergovernmental aid is often mandated to certain purposes or requires matching funds, local governments may have less flexibility in their use of funds than States. Moreover, local governments are becoming increasingly dependent on intergovernmental revenues which were 37.8% of total revenues in 1972 and 42.8% of total revenues in 1976.

States and localities have varying relative degrees of fiscal responsibilities, depending on the definition chosen. By most definitions based on relative shares of total revenues or expenditures, the State responsibility relative to localities is far greater than is reflected in the one-third share of GRS. Also, the data indicate an increasing State responsibility over the period 1971-72 to 1975-76. The current one-third, two-thirds split most closely approximates the division of fiscal responsibility as measured by direct general expenditure for all units of government, 37% for States and 63% for all localities.

The division of functional responsibility between States and localities varies widely among States. The average division of functional responsibility by function also shows wide variation, from primarily State funding for some functions to completely local funding for other functions. State intergovernmental transfers to local governments as a percent of direct local expenditures also vary widely by function. State intergovernmental aid was highest in 1975-76 in the areas of education, 48%; highways, 36%; and public welfare, 84%. Overall, State aid to localities as a percent of local expenditures has increased by 3% over the period 1971-72 to 1975-76. As noted in the research on fiscal impacts of revenue sharing, approximately one quarter of revenue sharing funds were used by State governments for intergovernmental assistance.

5. Trends in Federal Intergovernmental Assistance and Other Spending Affecting State and Local Governments

Department of the Treasury, Office of Revenue Sharing - September, 1978

The dependence of State and local governments upon federal sources of revenue has been the focus of numerous studies in recent years. This study enumerates the major changes that have taken place in the structure and financing of federal intergovernmental assistance. It describes the significant features of the various kinds of Federal aid mechanisms - categorical grants-in-aid, block grants, general revenue sharing, local public works grants, antirecession fiscal assistance, New York City seasonal financing program, direct loan programs and other subsidies, and State assistance - and their impact on total federal outlays.

In fiscal year 1979, federal grants will comprise one-sixth of the total federal budget and an estimated 26.2% of State and local expenditures. Federal grants-in-aid to State and local governments have steadily increased from $2.25 billion or 5.3 percent of federal outlays in 1950 to $49.7 billion or 15.2 percent in fiscal year 1975. However, since fiscal 1976, the percentage increase relative to total federal spending appears to have stabilized. Federal grants as a percent of federal outlays for fiscal years 1976, 1977, 1978, and 1979 (est.), was 16.1, 17.0, 17.4, and 17.0 percent, respectively.

Federal grant-in-aid outlays to State and local governments are estimated to be $85.0 billion in 1979 which is 6% higher than the estimated 1978 total, and 24% greater than the 1977 amount. This substantial increase reflects the $15.8 billion economic stimulus programs that were instituted in early 1977 to facilitate the economic recovery of State and local governments from the 1974-75 recession. Outlays for these programs will level off or decline as the economy regains stability. During the decade 1967 to 1977, the average annual increase in grants was 16.2% in comparison with the annual growth of 9.8% and 9.0% in total Federal outlays and gross national product (GNP), respectively.

There have been significant changes in the structure of federal intergovernmental assistance in the 1970's. Five new block grant programs, General Revenue Sharing and Antirecession Fiscal Assistance have been incorporated into the federal aid network. Federal aid outlays for block grants has increased from 1% in 1972 to an estimated 9.5% in 1979. Outlays for categorical grants have decreased from 97% to an estimated 79.2% during the same period.* No new block grant programs, however, have been approved by the Congress since 1974. The Carter administration has proposed legislation to consolidate 42 categorical programs in the transportation area in the 1979 Budget.

*(See Table 2)

Table 2

Federal Aid Outlays by Type, Selected Fiscal Years, 1968-79

(in millions)

Type	1968		1972		1975		1977		est. 1978		est. 1979	
General Revenue Sharing	--	--	--	--	$ 6,130	12%	$ 6,758	10%	$ 6,827	8.5%	$6,852	8.1%
General Support Aid 1/	$ 294	2%	$ 490	1%	$ 841	2%	$ 2,748 1/	4%	$ 2,996	3.7%	$2,707	3.2%
Block Grants 2/	$ 57	--	$ 415	1%	$ 5,393	11%	$ 7,063	10%	$ 8,244	10.3%	$8,127	9.5%
Categorical Grants 3/	$ 18,248	98%	$ 35,035	97%	$37,359	75%	$51,827 4/	76%	$62,221	77.5%	$67,334	79.2%
Total Federal Grants	$ 18,599	100%	$ 35,940	100%	$49,723	100%	$68,396	100%	$80,288	100%	$85,020	100%
Percent Federal Grants	10.4%		15.4%		15.2%		17.0%		17.4%		17.0%	
Total Federal Outlays	$178,833		$232,021		$236,092		$401,902		$462,234		$500,174	

1/ Includes $1,699 Antirecession Financial Assistance and $276 federal payment to the District of Columbia.

2/ Includes totals for block grants (Partnership for Health, Safe Streets, Social Services, Comprehensive Employment and Training (CETA), and Community Development), although a portion may be granted for specific projects under the discretionary allocation provided for by statue.

3/ Includes target grants like Model Cities and the Appalachian Regional Commission Program.

4/ Includes funds for two countercyclical programs, Local Public Works..$577, and CETA (Titles II and VI)..$3,524 (est.).

Source: Office of Management and Budget, Special Analyses: Budget of the United States and Budget Appendix, Washington, D.C., US Government Printing Office, various years.

General Revenue Sharing represents a major federal government innovation to assist State and local governments. It differs significantly from categorical and block grants in that it does not require any matching funds or program proposals, but is distributed on the basis of a formula which encompasses population, per capita income, and tax effort. Based upon the principle of sharing the national tax base as an intergovernmental source of revenue, the State and Local Fiscal Assistance Act has distributed an average of over $6 billion a year since 1972. Recommended budget authority for fiscal 1979 is $6.85 billion.

Another innovative form of intergovernmental assistance, and an integral part of the economic stimulus program (ESP), is Title II of the Public Works Employment Act of 1976, as amended by P.L. 95-30, Intergovernmental Antirecession Assistance Act of 1977. This countercyclical aid provided direct federal support to State and local governments to counter the adverse effects of economic recession, such as increases in unemployment and service reductions which could contribute toward further decline. Funds are distributed on a formula based upon unemployment rates and the relative size of general revenue sharing payments. Between July 1, 1976, and September 30, 1977, $1.25 billion was authorized for distribution to State and local governments, and an additional $2.25 billion was provided for by the reauthorization of this temporary program through September 30, 1978.

Another form of Federal assistance to State and local governments is direct loans - short - and long-term. The major current loan program is the New York City Seasonal Finance Program. The U.S. Department of the Treasury was authorized to lend New York City over $2.3 billion in a fiscal year. Although this program expired on June 30, 1978, new legislation, the New York City Loan Guarantee Act of 1978, provides the city up to $1.65 billion in federal loan guarantees for four additional years. Other short-term and long-term direct loan disbursements in fiscal 1979 include Rural Development Insurance Funds ($815 million), Department of Housing and Urban Development low-rent public housing loans ($600 million), and District of Columbia loans for capital outlays ($120 million). Loans are purchased by the off-budget Federal financing bank, therefore, the outlays do not show in the budget totals.

Growth in federal outlays during the last decade has been phenomenal - from $184.5 billion in fiscal 1969 to $500.2 billion in fiscal 1979. Budget increases have occurred largely in the areas of domestic transfer payments and grants-in-aid to State and local governments. Distribution of federal grant outlays by function has also changed significantly over the years as shown in Table 3. The greatest growth has occurred in the education, training, employment, and social services function, which has increased from 8% in 1957 to an estimated 26% in 1979. Outlays for health has also increased substantially from 4% to an estimated 17% over

TABLE 3

PERCENTAGE DISTRIBUTION OF FEDERAL GRANT OUTLAYS BY FUNCTION

Function	Actual						Estimate	
	1957	1962	1967	1972	1976	1977	1978	1979
Natural resources and environment	1	2	2	2	5	6	6	7
Agriculture	9	6	3	1	1	1	*	*
Transportation	24	36	27	15	14	12	12	12
Community and regional development	1	3	6	10	6	7	8	7
Education, training, employment and social services	8	8	25	26	24	23	26	26
Health	4	5	10	17	18	18	16	17
Income security	49	38	25	26	18	18	17	17
General purpose fiscal assistance	3	2	2	1	12	14	12	11
Other	1	1	*	1	2	2	2	2
Total	100	100	100	100	100	100	100	100

*8 less than 0.5 percent.

Source: Special Analyses, Budget of the United States Government, Special Analysis H. p. 182.

the same period. However, the most drastic decrease has occurred in the area of income security, falling from 49% to an estimated 17% which is primarily due to the assumption by the Federal government in 1974 of the public assistance program for the aged, blind, and disabled.

Table 4 shows the relatively steady growth in federal grant-in-aid outlays since 1950. Federal grants as a percent of State and local expenditures have more than doubled since 1950. This percent has increased from 15% in 1965 to 26% in 1977, and is expected to remain steady at more than one-fourth of total State and local expenditures for fiscal 1978 and 1979. Although it is felt by many that the States have attained sound fiscal status, the cities, particularly the larger and older central ones, continue to need fiscal assistance. Since 1968, locally raised money has dropped from two-thirds of total city revenues to slightly more than one-half, while funds from the federal government increased from about one-twentieth to one-fifth. The ACIR estimates that between 1968 and 1978, in the 48 largest cities local own-source revenue has grown about 2½ times while federal funds have grown at a rate four times greater. During the 95th Congress, the administration set forth a national urban policy with a strategy basically designed to adjust levels of federal spending to encourage State governments to play a greater role in urban revitalization.

State fiscal assistance to local governments is a common feature of our decentralized form of government. About 45 States have adopted general assistance programs to local governments. As of 1972, there were 209 State revenue sharing programs as compared with 141 in 1957. The recent "tax revolt" or Proposition 13 phenomenon in California has resulted in the distribution of a large portion of the State government's surplus budget funds to local governments in anticipation of a short-fall caused by new requirements to limit the property tax.

TABLE 4

HISTORICAL TREND OF FEDERAL GRANT-IN-AID OUTLAYS

(Fiscal years; dollar amounts in millions)

	Total grants	Composition of grants-in-aid: Grants for payments to individuals	Composition of grants-in-aid: Other	Federal grants as a percent of Federal outlays: Total	Federal grants as a percent of Federal outlays: Domestic[1]	Federal grants as a percent of State and local expenditures[2]
1950.....	$2,253	$1,421	$ 832	5.3	8.9	10.4
1955.....	3,207	1,770	1,437	4.7	12.1	10.1
1960.....	7,020	2,735	4,285	7.6	15.9	14.7
1965.....	10,904	3.954	6.950	9.2	16.6	15.3
1970.....	24,018	8,867	15,151	12.2	21.1	19.4
1971.....	28,109	10,798	17,320	13.3	21.4	19.9
1972.....	34,372	13,421	20,951	14.8	22.8	22.0
1973.....	41,832	13,104	28,728	16.9	24.8	24.3
1974.....	43,308	14,030	29,278	16.1	23.3	22.7
1975.....	49,723	16,106	33,618	15.2	21.3	23.2
1976.....	59,037	19,511	39,526	16.1	21.8	24.7
TQ.....	15,909	5,122	10,787	16.8	22.7	25.7
1977.....	68,396	23,002	45,394	17.0	22.8	26.4
1978 estimate.	80,288	25.151	55,137	17.4	23.1	27.5
1979 estimate.	85,020	27,190	57,830	17.0	22.7	26.2

[1]excludes outlays for the national defense and international affairs functions.

[2]as defined in the National Income Accounts

SOURCE: Special Analyses, Budget of the United States Government, Fiscal Year 1979, Special Analysis H, p. 184.

6. Proposition 13 - Impact and Relation to GRS
Department of the Treasury, Office of Revenue Sharing - December, 1978

In June 1978, California passed Proposition 13 which limits State and local governments' capabilities to raise tax revenues. In November, twelve other States adopted various forms of tax-expenditure limitations, two of which - Nevada and Idaho - were modeled after Proposition 13. This study analyzes these measures and their likely relation to General Revenue Sharing.

Since State and local governments are restricted in their ability to spend and to tax, these limitations will have a fiscal impact on governments' budgets as well as an economic impact on employment, output and prices. The long run effects of the limitations will depend on how state and local governments (and the federal government as well) react and the discretionary policies that will be adopted in response to these limitations.

General Revenue Sharing funds are allocated according to entitlement formulas which include among the formula factors: (a) a relative income tax factor and (b) a relative tax effort factor. A rollback in property tax revenue, without other compensating tax increase, will lower a government's tax effort factor, thereby affecting its GRS allotment adversely. Any increase in income tax or sales tax revenues (or other tax revenues) will positively affect the tax effort factor. In the case of an increase in income tax receipts, the relative income tax factor may also be affected in the interstate 5 factor formula. Like Proposition 13, tax-expenditure limitations will affect the recipient governments' tax effort factor and the States' relative income tax factor, thus affecting the distribution of GRS funds.

On a more aggregate level, such limitations may require adjustments by governments in the form of redefining their roles, responsibilities and capabilities, as it is evident in the case of Proposition 13. In the long run, tax-expenditure limitations will not only affect the distribution of GRS funds, but will raise the question of the fiscal responsibilities of the various levels of governments.

II. Fiscal Impact

A. Summary of Findings

GRS affects the revenue and expenditure patterns of State-local governments. GRS may add to government spending when used to expand or maintain capital or operational programs, or it may be a substitute source of funds and used to stabilize or reduce own source revenue and borrowing. General revenue sharing funds may also be used to increase surplus cash balances of recipient jurisdictions.

Numerous studies have been conducted to examine the fiscal impact of General Revenue Sharing. Methodologies used vary from monitoring approaches, survey with large samples, to trend and econometric analyses. Data used in these analyses are generally for the pre-1976 period of the program.

Theoretically, a dollar increase in a lump sum grant, for example GRS, would induce an increase in expenditure by the recipient government between the range of $0 and $1.00. Economic theory suggests that the grant response rate (i.e. the ratio of changes in total expenditure by the aided government to the changes in intergovernmental grant) for both open-ended and closed-ended matching grants would be higher than that rate for lump sum grants.

In general, the pattern of GRS fund uses changes over time. Initially, funds flow into surplus balances, and are drawn down in subsequent periods. About 50 to 70 percent of GRS funds were found to be used for expanding and maintaining expenditures, while about 25 to 30 percent of GRS funds have been used for revenue and debt stabilization.

When GRS was first initiated, the extra revenue might have been considered as a windfall by recipients, and normal budgetary patterns were not followed. This may account for the large proportion of GRS used for capital outlay in the program's early years. For 1973-1976, about half of all GRS funds were used for new capital spending by local governments. Capital projects funded were primarily transportation, environmental protection and public safety functions.

Large cities have consistently used a higher percentage of funds for program maintenance and revenue stabilization. In 1976, the total of these uses is estimated to be 1.8 times of shared revenue received in that year, suggesting that large central cities might in fact be over-extended relative to their capacity. The shift of GRS use away from capital spending in 1976 was also evident for small cities, which used around three-fifths of GRS received for revenue stabilization.

Other than by size, fiscal impacts of GRS also vary by types of governments, by region, and by the fiscal pressure characterizing the

recipients. State governments, in general, used proportionately less GRS on capital expenditure, program maintenance or expansion. For fiscal 1974 and 1975, over 26 percent of State GRS were transferred to local governments. State GRS funds were primarily used for education, health and social service programs.

Jurisdictions under extreme or no fiscal strain used a relatively large proportion of GRS for tax stabilization and borrowing avoidance, while those under intermediate fiscal pressure spent a larger proportion on maintaining programs. However, for all recipients, the use of funds to avoid cutbacks was significant during 1975-76.

Compared to other federal grant programs, GRS is found to have similar revenue and expenditure impacts as Antirecession Fiscal Assistance. Like GRS, other grant funds are accumulated initially as surpluses. Matching grants such as welfare and highway grants may have total expenditure impacts larger than that of GRS.

B. Individual Synopes of Studies

1. Review of Fiscal Impact Studies on GRS, Department of the Treasury, Office of Revenue Sharing September, 1978

This review summarizes the findings of the following studies on the fiscal impact of general revenue sharing:

- Brookings Institution (1975): Monitoring Revenue Sharing.
- Brookings Institution (1977): Revenue Sharing: The Second Round.
- Juster, T. Editor. (1976): The Economic and Political Impact on General Revenue Sharing.
- Lovell, et al. (1975): The Effects of General Revenue Sharing on Ninety-Seven Cities in Southern California.
- Anton and Larkey, et. al. (1975): Understanding the Fiscal Impact of General Revenue Sharing.

Emphasis is placed on findings of the following impacts of GRS: the expenditure impact including additions to expenditures and maintenance of expenditures; the impact on revenue tax stabilization and reduction, borrowing, and fund balance accumulation. The review also summarizes the program impact of GRS.

Major findings on the fiscal impact of GRS are listed below.

- o Survey data indicate that the direct impact of GRS on the public sector exceeds that on the private sector. Econometric studies generate results suggesting the opposite.
- o The dominant impact of GRS on local governments' expenditure was on capital rather than current outlays. The percent of GRS for capital expenditure dropped in the third year of the program.
- o Statistical analyses find a relatively higher tax stabilization impact of GRS. Also, the portion of GRS funds devoted to tax stabilization increased over time.
- o GRS funds are added to surplus balance initially, and are drawn down subsequently.
- o About 25 to 30 percent of GRS funds were used for tax stabilization.
- o For fiscal 1973-75, between 50 to 70 percent of GRS were used by recipient government to expand and maintain expenditures.
- o About half of State and local spending of GRS was for capital purposes.

- The use of GRS specifically to increase pay and benefits of public employees is insignificant.

- There is a positive correlation between the fiscal pressure experienced by cities and their use of GRS. Cities under greater fiscal stress use a large proportion of GRS for program maintenance.

- For jurisdictions under no fiscal pressure and those under extreme fiscal pressure, the revenue stabilization impact of GRS is greater than the expenditure impact.

- For fiscal 1974 and 1975, the percentage of GRS funds used for operating expenditures were positively correlated with the size of municipalities.

- State governments spent proportionately less on capital outlay, program maintenance or expansion.

- In fiscal 1974 and 1975, over 26 percent of State GRS were transferred to local governments.

- Local governments allocate a higher percentage of GRS for borrowing avoidance than state governments.

- In general, functional areas most affected by expenditure use of GRS are: public safety, environmental protection, transportation and recreation.

2. Fiscal Impact of Revenue Sharing in Comparison with Other Federal Aid: An Evaluation of Recent Empirical Findings

Ray Whitman and Robert J. Cline of the Urban Institute Under Contract with the Office of Revenue Sharing, Department of the Treasury - November 1978

The study evaluates recent empirical research on the fiscal impact of GRS. The Brookings monitoring study, the Institute of Social Research survey, and the Adams-Crippen statistical analysis are emphasized. The study also compares the fiscal impact of GRS with fiscal impact studies of: three block grants-ARFA, CETA, and CDBG (Community Development Block Grant); one open-ended matching grant - welfare grant; one closed-ended matching grant - federal highway grants; and education grants.

Findings of the fiscal impact of General Revenue Sharing are as follow:

- o According to survey and monitoring studies, 60 to 70 percent of GRS were added to spending. Trend analyses and econometric studies suggest a smaller expenditure impact.
- o About half of the expenditures from GRS were for capital outlay, but the expenditures did not take place until the third or fourth year of the program.
- o During the first two years, a large share of GRS funds went into augmented cash balances, to be drawn down in the third and fourth years. Only a small fraction of GRS funds was added to cash balances permanently.
- o Localities devoted a larger share of total spending out of GRS funds to capital outlay (55 to 60 percent) than States.
- o Survey and monitoring studies generally show that localities devoted 25 to 30 percent of GRS funds to current expenditures. For 1975, this use increased to 39 percent of GRS funds, a likely effect of the 1974-75 recession.
- o Available data show that GRS had very little impact on the wage rates of state and local employees.
- o Survey and monitoring data show that localities used about 30 percent of GRS for tax and debt substitutions. About three-quarters of the substitutions were for tax abatement. Trend analysis shows a larger substitution use of GRS.
- o Local governments, particularly small cities, concentrated heavily on property tax abatement.

- Survey and monitoring studies show the four leading functional uses of GRS to be public safety, transportation, environmental protection, and recreation and libraries.

- GRS altered at least temporarily ordinary budgeting patterns, perhaps because it was a substantial windfall.

- Fiscal impact varies by type and size of unit and by region. The proportion of GRS funds used to maintain or increase spending was highest for counties, next highest for cities, followed by towns and States.

- Large Northeastern cities devoted a very large share of GRS to operating expenditure, practically nothing to capital outlay and only a little to tax abatement, which reflects their high levels of fiscal stress.

The fiscal impact of other federal-aid programs are as follow:

- The overall expenditure impacts of ARFA are very similar to those of GRS.

- Most studies show relatively little job creation by CETA, from 25 to 50 percent or less. However, since a large portion of CETA funds may add to government expenditure for other purposes, the expenditure impact of CETA may be similar to that of GRS.

- Both ARFA and CETA, like GRS, flow initially into augmented cash balances.

- CDBG is estimated to have a high expenditure impact of about 85 percent, and the degree of substitution does not vary greatly among communities according to fiscal pressure.

- Federal welfare grants have a very small impact on welfare expenditure: $0.30 for each $1.00 of aid. Presumably the remaining $0.70 has fiscal impacts similar to GRS.

- The highway expenditure response to highway block grants is about $0.55 for each $1.00. The remainder $0.45 presumably has fiscal impacts similar to GRS.

- Lump sum educational grants are used to reduce taxes as well as to increase total expenditures, with an expenditure impact of about $0.50.

3. The Fiscal Impact of General Revenue Sharing on Local Governments
Charles Adams and Dan Crippen of the Monitoring Studies Group of the Brookings Institution Under Contract with the Office of Revenue Sharing Department of the Treasury - November, 1978

The study is comprised of three parts. Part I presents findings from the three rounds of Brookings monitoring research. The third round of observations (July 1974 through December 1975) concentrated only on 56 local governments.

Part II presents results of a statistical analysis to estimate the fiscal impact of GRS based on time series data for cities over and under 300,000 population.

Part III is a cross-sectional statistical analysis based on data for 1970-76 for a sample of 1400 local governments.

The major findings of the report are summarized below.

- o Over the period 1973 to 1976, GRS has had a greater direct impact on the public sector as a whole (via capital and current expenditures by governments) than on the private sector (in the form of tax abatement and borrowing avoidance).
- o New spending accounted for a relatively larger proportion of GRS for smaller jurisdictions than for larger localities, but new spending uses declined for both type of jurisdictions during the third round.
- o During the third round, there was significant increase in GRS use for program maintenance, especially in the case of large local jurisdictions. This increase almost offset the decline in new capital use.
- o There was also an increase in tax stabilization use of GRS funds during the third round (about 25% of GRS).
- o The shift in expenditure impact may be the result of a deterioration in the fiscal conditions of governments.
- o Small governments' use of GRS on capital outlay may be due to their uncertainty of the life length of GRS.
- o For large cities (over 300,000 in population):
  - About three quarters of total GRS over the 1973-76 period were used for program maintenance (43.8%) and revenue stabilization (31.8%).

- In 1976, the total of these uses is estimated to be 1.8 times of GRS money received in that year.

o For small cities (under 300,000 population):

- Approximately two-thirds of total GRS for 1973-76 were used for new capital spending (49.5%) and borrowing avoidance (15.1%).

- By 1976, there was a shift toward greater use of GRS for revenue stabilization, accounting for about three-fifths of GRS received by these governments.

o There is little evidence to suggest any general tendency among cities to use GRS funds for new or expanded operating programs.

o There is a tendency for counties to use GRS to expand operating programs. Such use has increased over the third round.

o There is less distinction between large and small counties in the fiscal impact pattern associated with revenue sharing.

o For all types of jurisdictions, fiscal impact patterns varied with the degree of fiscal pressure characterizing the recipient jurisdictions.

- Jurisdictions under relatively high fiscal pressure used GRS for program maintenance and revenue stabilization. Program maintenance uses were particularly pronounced during the 1975-76 period.

- Jurisdictions under relatively little fiscal pressure used GRS for new spending and revenue stabilization.

- Jurisdictions in the intermediate range of fiscal pressure used GRS for new spending (primarily capital) and program maintenance.

o Revenue stabilization uses were particularly pronounced among jurisdictions at either end of the fiscal pressure spectrum. Such uses are evident beginning in 1974 and they occurred primarily in the case of property tax. For cities, GRS funds have been used to stabilize own-source non-tax revenues.

o GRS funds were initially accumulated in fund balances. However, these additions to fund balances in 1973 and 1974 were only temporary.

III. Economic Impact

A. Summary of Findings

General Revenue Sharing was designed to be a program giving general fiscal assistance to State and local governments. Thus, most impact studies of the program have concentrated on the fiscal impacts of GRS - expenditure impact and impact on revenue. Few studies have been conducted on the economic impact of GRS on aggregate variables as the Gross National Product (GNP), price levels, and employment levels.

Since GRS funds are used differently by recipient governments, the economic impact of GRS depends on the degree state-local governments (a) spend the funds to expand and maintain expenditures, (b) use the funds to stabilize or reduce revenue and borrowing, and (c) accumulate the funds in surplus balances.

Two recent analyses on the macroeconomic impact of GRS have been conducted by the staff of the Department of the Treasury. Estimates have been made using the simple fiscal multiplier model as well as by means of econometric simulations.

Historical simulations show that one billion dollars of GRS increased the current dollar level of GNP by $2.3 billion, and increased full-time public employment jobs by about 18,000 after 8 quarters. Total employment which includes both private and public employment increased by about 67,000 jobs.

If GRS is discontinued in fiscal 1980, current GNP is projected to decline from between $7.2 billion to $15 billion at the end of 1981. Total employment will drop by 188,000 to 330,000 jobs.

The impact of GRS on inflation is not clear. Estimates indicate that the impact may be minimal. The use of GRS for government expenditures may spur inflation. But, to the extent that GRS is used to stabilize or reduce sales or property taxes, GRS may in fact lower the consumer price index (CPI).

Since part of GRS funds may be temporarily accumulated as surplus balances, the impact of GRS on GNP is estimated to be smaller than an equal amount increase in federal purchases or categorical grant-in-aid programs.

As the GRS impacts on aggregate economic variables are estimates, they differ depending on the assumptions used in the estimation and simulation processes. The specific estimates of the GRS economic impact are detailed in the following individual summaries.

B. Individual Synopses of Studies

1. Economic Impact of GRS

Department of the Treasury, Office of Revenue Sharing - September, 1978

This report analyzes the macro-economic impact of GRS on the Gross National Product (GNP), employment and prices. It also examines the economic impact of the capital expenditure use of GRS, and the impact of GRS on state-local budgets.

The simple multiplier model is used to estimate the impact on GNP. The employment impact is estimated using methodologies developed in other studies of similar nature.

The estimated economic impacts are as follow.

- After 8 quarters, the impact on GNP of a $1.7125 billion per quarter funding of GRS is estimated to range from $3.7 billion to $4 billion, depending on assumptions made regarding the fiscal use pattern of GRS.

- After 1 year, a $1.7125 billion per quarter funding of GRS is estimated to result in an increase in total employment of between 68,000 to 75,000 jobs, including public employment jobs of between 29,000 to 39,000. After 8 quarters, the total employment increase is estimated to be between 85,000 and 92,000.

- The impact of GRS on inflation is unclear. To the degree GRS adds to government expenditures, it may be inflationary. However, GRS funds are also used to reduce borrowing and taxes. So, the inflation impact of GRS may not be great.

- GRS funds allow state-local governments to finance capital expenditures without having to raise taxes and fees or having to borrow from the public.

- In a recession, GRS as an inflow to State and local governments contributes to diminish the magnitude of any possible fiscal budget deficits, and results in smaller cutbacks in expenditures. Therefore, the impact of GRS is countercyclical in a recession.

2. The Economic Impact of General Revenue Sharing
Department of the Treasury, Office of Economic Policy - November, 1978

This report presents an overview of the research studies to date on the macroeconomic and aggregate fiscal effects of revenue sharing. Based on these studies, the report analyzes the estimated impact of GRS on aggregate state and local expenditures, revenues and surpluses. The report also evaluates the effect of GRS on the Gross National Product and on public and private employment, using the Data Resources Inc. (DRI) and Chase Econometrics econometric models.

The macroeconomic effects of GRS are then compared to the effects of alternative uses of federal resources - increased federal purchases, transfer payments, categorical grants-in-aid, or a federal tax cut. The report also highlights some caveats of using econometric models for estimation.

The major estimated economic impacts of GRS are summarized below:

- The use of GRS funds by recipients has varied over time. The longer the program has been in existence, the larger the proportion of GRS used for tax reductions and capital expenditures and the smaller the proportions used for operating expenses and surplus accumulation. This change is due partly to changes in State and local budget decisions and partly to cyclical variations in the economy.

- The DRI model shows a higher expenditure impact of between 67 and 82 percent compared to an estimated impact of between 40 to 70 percent by past studies.

- Historical simulations using the DRI model show that GRS increased the level of current dollar GNP by $2.3 billion for each billion dollars of general shared revenue. This assumes that about 40 percent of GRS funds flowed into surpluses.

- According to the DRI model, after 2 years of operation, each $1 billion of GRS funds resulted in an increase of 18,000 full-time public employment jobs, and total employment increased by 67,000 jobs.

- GRS has had a minimal impact on inflation, according to DRI's simulations.

- Assuming past fiscal impact patterns persist, the Chase model predicts that if GRS is discontinued in fiscal 1980, GNP will decline by about $13 billion at the end of CY 1981.

- The DRI estimate shows a smaller decline in current GNP of $7.2 billion in CY 1981. The estimation assumes that 50 percent of the drop in GRS is absorbed by state and local surpluses.

- An alternative estimate using a weighted average of the CBO multipliers indicate that GNP will decrease by about $15 billion at the end of 1981 if GRS is discontinued in fiscal 1980.

- Termination of GRS would possibly result in a drop in public employment in 1981 of 127,000 jobs, and a decline in total employment ranging from 188,000 (DRI) to 330,000 jobs (Chase). Other estimates based on various possible GNP-job ratios range from 243,000 to 272,000 jobs.

- Termination of GRS may have an adverse inflation impact to the degree that sales and property taxes may be raised.

- Simulation results and CBO estimates indicate that increased federal purchases and categorical grant-in-aid programs of equal dollar magnitude would generate a higher GNP and possibly more employment than does GRS. An increase in transfer payments would have a lower impact than GRS.

- While an increase in federal purchases would have a larger nominal GNP effect, it would also put greater pressure on inflation rates.

- The comparative GNP effects of revenue sharing and a tax cut are uncertain.

IV. Distributional Impact

A. Summary of Findings

This summary highlights the major distributional effects of the allocation formula prescribed by the State and Local Fiscal Assistance Act of 1972 as amended by the State and Local Fiscal Assistance Amendments of 1976.

The operating General Revenue Sharing formula distributes a maximum of $6.85 billion annually to approximately 40,000 units of State and local government. The allocation process has an hierarchial or tiered structure with funds first distributed to State areas, then to county areas, and then to the local governments within the county areas.

The data factors used to determine the allocations among States (interstate) are; population, urbanized population, relative income, general tax effort and State income tax collections. The data used to determine the allocations to the local governments within a State (intrastate) are; population, per capita income, adjusted taxes and intergovernmental transfers.

The major conclusion which can be drawn from a thorough review of General Revenue Sharing (GRS) allocations is that the GRS formula successfully provides general assistance to approximately 40,000 governments while moderately directing funds to needy governments. This conclusion is supported by an examination of the GRS allocations as well as an analysis comparing GRS distributions with four other Federal grant programs.[1] In his study of the interstate allocations of 5 Federal programs, Ray D. Whitman[2] found that GRS was the most successful of the 5 programs (GRS, Antirecession Fiscal Assistance, Community Development Block Grants, Comprehensive Employment and Training Act, and Local Public Works) in providing general fiscal support based on the criteria of need which he established. Also, in comparing allocations for the 162 largest cities for the same five programs, in terms of need, fiscal capacity and effort the GRS Evaluation Task Force found that Antirecession Fiscal Assistance, General Revenue Sharing and Community Development Block Grants all successfully distributed funds.

---

[1]Office of Revenue Sharing, Department of the Treasury, The Distributional Impact of General Revenue Sharing, September, 1978.

[2]Ray D. Whitman, The Distributive Impact of General Revenue Sharing Compared with Four Federal Grant Programs and all Federal Grants; Interstate Comparisons, Preliminary Draft, April 26, 1978. The Urban Institute, Washington, D. C. under contract with the Office of Revenue Sharing.

Following are the major distributional characteristics of the current general revenue sharing formula:

o The average per capita State area allocation for Entitlement Period 9 (Fiscal Year 1978) is $31.77. Alaska receives the highest per capita grant of $44.07 and North Dakota the lowest at $23.56. The five largest State area allocations (New York, California, Illinois, Pennsylvania, and Texas) make up 37.4% of the total appropriation for the ninth period. The interstate formula generally favors the Western States. The average per capita grant to each geographic region is: Northeast, $29.64; North Central, $29.22; South, $30.28; and West, $33.63.

o The interstate allocation formula is inconsistently income redistributive. Although the lowest income group of States (below $3,850 per capita) receives an above average per capita grant ($34.44), the highest income group (above $4,900 per capita) receives the highest average per capita allocation at $35.30.

o Although urbanized population is one of the data factors in the five factor interstate allocation formula, the GRS allocations do not particularly favor the highly urbanized States. The six States which are over 90% metropolitan received an average per capita grant of $32.20. Whereas, the 12 States which are below 40% metropolitan receive an average per capita allocation of $34.09.

o The GRS formula distributes 33.6% of all funds to State governments, 25.1% to counties, 35.9% to cities, 5.2% to townships and .14% to Indian tribes and Alaskan native villages. Cities receive the largest share (35.9%) of GRS funds and the second highest amount on a per capita basis ($17.99). Indian and Alaskan native governments receive the largest share on a per capita basis ($23.37), although they are allocated a very small portion (0.14%) of the total appropriation. Counties are allocated $9.04 per capita, on average, and townships receive $7.32 per capita.

o Cities and counties over 100,000 population (a total of 515 governments or 1.3% of all eligible recipients) are allocated 34.6% of the total entitlement for the ninth period. All local governments under 1,000 population (19,817 governments or 50% of all eligible localities) receive only 1% of the total $6.85 billion appropriation. Cities over 100,000 population receive an average per capita share of $23.87 compared to $10.68 for places below 2,000 population and $17.99 for all cities.

o Over 12,000 local governments are affected by at least one of the formula constraints. The 20% per capita minimum affects the most governments (10,088), which includes some 7,000 townships, located primarily in the Midwestern township States.

o GRS allocations to large central cities are generally significantly higher, on a per capita basis, than to neighboring suburbs. The high tax effort of the central cities generally results in high per capita

allocations which are often very near or at the 145% maximum per capita grant level. Conversely, the high per capita incomes of the suburban governments produce per capita allocations which are often at or near the 20% minimum level.

o Nationally, GRS represents about 2.4% of the total general revenue of States and local governments (1975-76). GRS is 1.4% of total general revenue for State governments, and 4.2% for general purpose local governments. Since the program began, GRS as a portion of local revenues and expenditures has decreased significantly. For all general purpose local governments from 1970-71 to 1975-76 GRS as a percent of total direct general expenditures decreased from 5.6% to 4.5%, and GRS as a percent of total own source revenue decreased from 8.2% to 7.3%.

o GRS represents a more substantial portion of the budgets of townships and counties than it does for cities. In 1975-76, GRS payments were 6.8% of own source revenue for cities, but 7.9% each for townships and counties. As a portion of total direct general expenditures, GRS was 4.3% for cities, 6.1% for townships and 4.6% for counties.

o Based on the fiscal strain index developed by the Treasury Department,[3] the GRS formula seems to target funds fairly well to the more fiscally strained governments. For the 48 largest cities, the average per capita grant to cities in the high strain category is $33.92; moderate strain, $25.20; and low strain, $17.30. The average grant to all cities is $17.99.

o The three-factor intrastate formula inconsistently distributes larger GRS allocations to lower income communities. The poorest county areas (based on EP 6 allocations) received 19% more per capita than the richest areas, and the poorest cities, 10% more than the richest cities.

o With the exception of governments with unemployment rates below 4.5% which receive 12% of all funds, the GRS formula distributes a greater percentage of funds to governments with higher unemployment rates. Governments with unemployment rates above 8% for the July-September 1976 quarter received 42% of the GRS funds allocated for Entitlement Period 6.

The GRS Evaluation Task Force of the Office of Revenue Sharing has produced a number of reports in which the GRS distributions are analyzed and various formula options are explored. Short summaries of these reports follow.

---

[3]Office of State and Local Finance, U.S. Department of the Treasury, Report on the Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments, January 23, 1978.

B. Individual Synopses of Studies

1. The Distributional Impact of General Revenue Sharing, Department of the Treasury, Office of Revenue Sharing - September, 1978

This report provides a comprehensive analysis of the distributional impact of the general revenue sharing allocation formula as prescribed by the State and Local Fiscal Assistance Act of 1972 as amended by the State and Local Fiscal Assistance Amendments of 1976. The report is presented in three sections, as follows:

Analysis of the Distribution of GRS Funds under the Present Formula

This section describes in detail the manner in which allocations are currently distributed. The introductory summary above highlights the major GRS distributional effects presented in this section of the report.

Comparison of the Distribution of General Revenue Sharing With Four Other Federal Grant Programs

This section of the report analyzes the distributional impact of the General Revenue Sharing Program (GRS) in comparison with four broad-based aid programs -- Antirecession Fiscal Assistance (ARFA), Comprehensive Employment and Training Act (CETA), Community Development Block Grants (CDBG) and Local Public Works (LPW). Grants for the 5 programs have been compared for 162 cities which are over 100,000 population (1975). In summarizing the distribution of grants under the 5 programs, the 162 cities have been analyzed according to measures of need, fiscal capacity and effort.

This comparative analysis has led to the conclusion that the ARFA distributions are the most successful in directing funds according to the need, capacity and effort criteria utilized in the report. GRS and CDBG are rated next best with somewhat less consistently and directly targeted distributions.

Ray D. Whitman of the Urban Institute analyzed the interstate allocations under these same five Federal programs. A brief summary of his findings is included in this report. Whitman concluded that GRS was the most successful of the 5 programs in providing general fiscal support.

Distributional Impacts of Formula Alternatives and Alternative Data Sources

This section of the report presents the advantages and disadvantages of various formula alternatives in terms of their distributional impacts. The formula alternatives examined reflect the results of computer trial allocations run primarily by the Office of Revenue Sharing. In addition to formula alternative this section also examines several alternatives in terms of eligibility and data sources. This is an objective review of alternatives, and no conclusions are drawn.

2. Use of a Service Needs Index in the GRS Formula Allocation, Department of the Treasury, Office of Revenue Sharing -November, 1978

This paper reviews several studies which have attempted the very challenging task of developing a comprehensive and exact measure of the somewhat amorphous concept of service needs. Unfortunately, along whichever dimensions these studies have chosen to measure needs, there are aspects which are excluded: estimations based on governmental expenditures exclude the possibility of a systematic pattern of unmet needs while estimations based on population or community characteristics exclude variations in assignment of governmental service responsibilities and in local preferences for public services. Regardless of which approach is chosen there are econometric and statistical problems which have a major impact on the accuracy of the results. The outcomes are also greatly dependent on the set of variables which the analyst chooses as indicators of need. Two of the studies reviewed employed factor analysis to develop a service needs index and, used for this purpose, the technique can give varying results depending on the analysts judgment in its application. Thus, there is no widely accepted methodology for producing a comprehensive, exact and objective index of service needs.

3. Price Adjustments to the GRS Formula Allocations for Geographic Variation in the Cost of Government, Department of the Treasury, Office of Revenue Sharing - November, 1978

This paper reviews several studies in an attempt to analyze the feasibility of adjusting the GRS formula allocation to compensate for inflationary increases, but with emphasis on compensation for geographic differences in the cost of providing government services. Major findings include:

- o Research by Greytak and Jump found that on average the inflation - induced growth in revenue potential for state and local government fell short of the inflation induced growth in expenditures for 1967 to 1974.
- o Existing price indexes are inadequate as measures of geographical differences in the cost of providing government services because they are designed for other purposes and so they measure other types of commodity and service prices for a very limited number of geographic areas.
- o The study by Barro demonstrates an innovative method of estimating cost differences between States. However, it is far from ready for implementation in a GRS allocation formula because of questions in need of further research:
  - econometric problems with the multiple regression model,
  - the political feasibility of the use of such a complex multivariate model,
  - the data needs of the cost estimation model
  - the adjustment for cost differences within States.

4. Yield of a Representative Tax System as an Effort/Capacity Measure, Department of the Treasury, Office of Revenue Sharing - November, 1978

The representative tax system essentially measures taxable capacity as the potential revenues jurisdictions would have obtained if a standard (representative) tax system were used in all jurisdictions. This measure is calculated as the total revenue yield obtained by applying a set of national average tax rates to the tax bases of each jurisdiction, with the tax bases defined to be representative of the most widely used definitions. Relying on several major studies of representative tax systems, this paper reviews some advantages of the representative tax system measure compared to per capita income as a measure of taxable capacity and then reviews some conceptual and data problems which greatly lessen the feasibility of actually using this measure in a GRS formula.

Major findings are that the representative tax system measure of capacity:

- o is a much more comprehensive measure of taxable capacity than per capita income,
- o has very large data requirements and in some instances approximations need to be used,
- o has data needs which virtually preclude its use on a substate basis,
- o still has some unresolved methodological problems including the treatment of nontax revenues, tax rate and tax base interaction, and the relationship of taxable capacity and economic decline,
- o yields estimates of capacity which are sensitive to the choice of procedures used in calculating this measure.

5. General Revenue Sharing as an Incentive for the Greater Use of State Income Taxes: Rationale and Incentives, Department of the Treasury, Office Revenue Sharing - November, 1978

The policy rationale for the use of General Revenue Sharing as an incentive to encourage the shift in tax structures to the greater use of State income taxes rather than sales or property taxes is based on several considerations.

- o Possible lessening of inflation: The Consumer Price Index (CPI) includes sales and property taxes, but not income taxes. If a shift from sales and property taxes to income taxes could be brought about, the CPI would be reduced. However, much of the CPI is composed of States which already make significant use of the income tax as a portion of their tax revenues or States which would be less easily influenced by a revenue sharing incentive because of higher than average fiscal capacity.

- o State income taxes have a number of advantages over sales and property taxes. Income taxes are generally more progressive, more consistently related to taxpayer ability to pay, more elastic with respect to income, less costly to administer and less unpopular than sales or property taxes.

- o A Federal government role in encouraging the use of state income taxes may compensate for federal pre-emption of the individual income tax base and for the adverse effects of interstate tax competition.

The level of State income tax incentives currently in the GRS formula allocation is relatively small:

- o The amount of incentive to a State government is only 1/3 of the incentive to State areas, because of the 1/3 and 2/3 split of GRS between State and local governments.

- o The incentive is calculated to be less than $3.80 of added GRS to the State area per additional $100 of income tax instead of other taxes.

- o Many States have no incentive at all for a marginal increase in income taxes because they receive their entitlement under the three factor formula which contains no income tax incentive or because the income tax factor is constrained by minimum and maximum amounts.

Modifying the interstate allocation procedure can expand the incentives; however, there are other considerations:

- o Greatly expanding the income tax incentive without increasing the level of funding would conflict with other distributional goals of the program.

- At the current level of funding, even a greatly expanded incentive may not be a significant amount with respect to the total amount of State tax revenues. Further, as more states respond to the incentive, the smaller it becomes for any one state.

Finally, it is uncertain how States will respond. Among the factors discouraging the shift to income taxes from sales and property taxes are:

- interstate tax competition
- State constitutional restrictions
- uncertainty over GRS renewal and the renewal of income tax incentives
- the exporting of sales and property tax burdens to out of state residents which is much less of a possibility with income taxes.

On the other hand, growing dissatisfaction with property taxes and their extensive use at the local level may encourage the greater use of income taxes.

6. Targetting Options (The SFA Experience)
Department of the Treasury, Office of State and Local Finance - December, 1978

This report provides a summary of the formulas tested by the Department of the Treasury for the purpose of distributing funds under a Supplementary Fiscal Assistance Program which was proposed by the Administration to succeed the Antirecession Fiscal Assistance Program which expired September 30, 1978. The objective of all formula options was to provide Federal fiscal and economic assistance to distressed governments which are experiencing secular economic decline; i.e.,

1. Governments with declining economic bases (Economic Distress Tests measure high unemployment or slow growth in population, income and employment), and

2. Governments with relatively high levels of structural unemployment (Excess Unemployment Tests).

The report describes the distributional impacts of over 20 alternative formulas. Provided below is an outline of the distributions for SFA trial X1 which was computed by Data Resources Incorporated for the Department of the Treasury based on GRS Entitlement Period 9 allocations and a $1.04 billion appropriation.

Distributional Impact:

1. The total number of governments eligible under Trial X1 is 26,016 vs. almost 40,000 under GRS. This includes 2,511 counties (3,046 under GRS), 12,994 cities (18,976 under GRS), 10,229 townships (16,985 under GRS) and 282 Indian and Alaskan native governments (354 under GRS). Townships show the greatest reduction in eligibility of any government type with only 60.8% of all GRS eligible units being eligible under SFA. In comparison, 69.4% of all GRS cities and 81.6% of all GRS counties are eligible under SFA.

2. A greater percentage of large places are eligible under SFA than small places. Of all local governments over 50,000 population, 86.8% or 1,035 governments are eligible. In comparison, 66.1% of all local governments below 50,000 population (24,981 units) are eligible.

3. By metropolitan character, 72.6% of all SMSA governments (8,356 units) are eligible, and 64.3% of all Non-SMSA governments (17,660 units) are eligible.

4. Since States are not eligible under the SFA trials, local governments receive 100% of the funds available. Under GRS, local governments receive 66.4% of the total appropriation and the State governments receive 33.6%. The percentage breakdowns of the distributions under GRS and SFA are as follows:

	GRS % of Total	GRS % of Local Share	SFA Trial X1 % of Total
States	33.6	N.A.	0.0
Counties	25.1	37.9	31.5
Municipalities	35.9	54.1	61.3
Townships	5.2	7.8	6.9
Indian Tribes	.1	0.2	0.3
Total Local governments	66.4	100.0	100.0
Total All governments	100.0		100.0

5. SFA trial X1 targets more funds to cities suffering serious hardships than does the current GRS formula. The 48 largest cities receive 50% more money under trial X1 than under GRS. Of these, 10 high strain cities receive 81% more funds under trial X1 than under GRS. New York City receives twice as much under trial X1. The 28 moderate strain cities receive 21% more under trial X1 than under GRS. And the 10 low strain cities receive 37% less under trial X1 than under GRS.

6. Trial X1 shows a wider range in per capita allocations than do GRS allocations across geographic regions.

Region	SFA Per Capita*	GRS Per Capita*
Northeast	$5.20	$5.27
Mid Atlantic	8.96	4.08
South Atlantic	3.75	4.52
East South Central	3.15	5.03
East North Central	3.60	4.49
West North Central	1.77	4.40
West South Central	3.05	4.68
Mountain	3.66	4.93
Pacific	6.49	5.34
High	8.96	5.34
Low	1.77	4.08

*Based on a $1.04 billion appropriation.

V. COMPLIANCE OR PROCESS IMPACT

A. Summary of Findings

When the State and Local Fiscal Assistance Act was amended in 1976, requirements for public hearings and an audit were added, the coverage of the civil rights provision was expanded, and the procedures for handling civil rights cases were changed. These "accountability" changes are the major features which distinguish the 1976 law from the original one enacted in 1972.

A great deal of the literature about revenue sharing focuses on these "accountability" provisions. Most of the studies and evaluations were written prior to the 1976 amendments by advocates of the "accountability" provisions who based their conclusions on observation of the way the 1972 revenue sharing program worked in several communities, and the performance of ORS in administering the program. These studies are summarized and synthesized in the Office of Revenue Sharing publication, "Impact of the Public Participation, Civil Rights and Audit Provisions of the General Revenue Sharing Law: A Review of the Literature." Major findings of that publication are presented below. To our knowledge only one evaluation of the impact of the new provisions on GRS recipients has been completed. Highlights of this study undertaken by Peat, Marwick, Mitchell and Co. for the Treasury Department, are also presented below. Finally, preliminary comparisons of the GRS "accountability" provisions to similar requirements of other Federal assistance programs are presented. This information was extracted from the Office of Revenue Sharing paper, "Uniform Grant Requirements and General Revenue Sharing."

B. Individual Synopses of Studies

1. Impact of the Public Participation, Civil Rights and Audit Provisions of the General Revenue Sharing Law: A Review of the Literature, Department of the Treasury, Office of Revenue Sharing - September 1978
(Pre-1976 Studies)

The Need for Public Hearings

From studies written shortly after the revenue sharing program was initiated, one can identify issues which prompted advocates to urge the public hearing requirement. These studies give insight for judging if we could expect the requirement to broaden and strengthen citizen participation, and provide some basis for hypothesizing about possible future amendments designed to promote effective citizen involvement.

The public participation provisions were added to the revenue sharing law at the urging of national organizations concerned with civil rights and minority representation who believed that the interests of their members and of the "have nots" in general were not being served by the general revenue sharing program. The question arises, is a hearing an effective method of citizen involvement?

Studies document that budget hearings were a common occurrence in local communities before the revenue sharing program was enacted. During the first year of the program, public officials in a large percentage of jurisdictions, especially big cities, held special hearings, formed citizen advisory committees or developed another method of obtaining citizen input. Less was reported about State budget procedures, either before the enactment of revenue sharing or after.

Relatively high percentages of community leaders participated in the regular budget hearings and revenue sharing hearings, but involvement by the general public was low. Neither community leaders nor public officials perceived that participation in the budget process increased due to revenue sharing. However, when the jurisdictions were grouped by size, it was observed that officials in big cities and counties had taken steps to include citizens in deciding how revenue sharing funds would be spent, and both officials and citizens perceived that participation had increased.

The often accepted view that the interests of the poor and disadvantaged are not represented in the budget and revenue sharing hearings was not completely substantiated by the literature. In large jurisdictions, social service groups, and citizen groups associated with other Federal programs were prominent participants at hearings. In smaller jurisdictions civic groups were well represented.

Several factors were identified as affecting the level of citizen participation. Thus, the level of citizen involvement was high in jurisdictions where public officials were receptive to participation and where the overall level of citizen interest in government was high. Participation was highest during the first year of revenue sharing when the program was new and when special hearings were more prevalent; participation declined during the second year when the hearings were discontinued in many jurisdictions -- often due to increased fiscal pressure. Participation was thwarted where poor hearing practices such as giving inadequate notice, holding hearings at inconvenient times and places, and withholding information, were followed. Finally, participation levels were associated with the amount of information about the budget process and the budget itself which was available to citizens.

Only tentative conclusions were drawn about the relationship between citizen participation and resource allocation, primarily because data for reaching conclusions were inadequate. Indepth study of individual jurisdictions and interviews conducted in a limited number of communities did influence spending decisions. However similar data for large numbers of jurisdictions were not available for analysis. Expenditure data, for example, did not provide enough information to judge to what extent disadvantaged groups benefitted from revenue sharing, or if the benefits resulted from public involvement.

Changes in the Civil Rights Provision

The State and Local Fiscal Assistance Act of 1972 prohibited discrimination on the basis of race, color, national origin and sex. When amended in 1976, the nondiscrimination provisions were expanded to prohibit discrimination on account of age, as provided in the Age Discrimination Act of 1975, handicap as provided in section 504 of the Rehabilitation Act of 1973; and religion as provided in the Civil Rights Act of 1964 and the Civil Rights Act of 1968. The nondiscrimination provisions of the amended law extended to the employment practices and policies of recipient governments (except in regard to age) and to public services and facilities unless the government can demonstrate, by "clear and convincing evidence" that the services and facilities are not funded "in whole or in part" with revenue sharing funds. The Secretary of the Treasury is responsible for ensuring compliance with the law, and is required to suspend payments under specified conditions after issuing a determination of noncompliance. The Attorney General is authorized to bring a civil action against governments believed to have engaged in a pattern or practice in violation of the nondiscrimination provisions. Such suits could result in suspension, termination or repayment of funds for noncomplying jurisdictions.

The original revenue sharing act also prohibited discrimination, but the prohibitions extended only to race, color, national origin and sex. The 1972 law authorized the Secretary of the Treasury to monitor compliance and to initiate administrative actions in cases of noncompliance

or to refer cases to the Attorney General with a recommendation that a civil suit be instituted. As under the amended law, the Attorney General could initiate action in a pattern or practice case.

When the revenue sharing program began, the approach ORS would take toward enforcing the civil rights provisions was a primary concern to those who welcomed the hands off philosophy of the program and did not want the imposition of red tape and bureaucratic restrictions, as well as to civil rights groups who were suspicious of the motives of State and local officials. It is not surprising, then, that the literature on the nondiscrimination provisions focuses on the ORS compliance program. All of the literature was based on experiences under the 1972 law and most of it was published in 1975 or 1976, as the issue of revenue sharing renewal was emerging and being debated.

The literature is generally critical of the enforcement approach of ORS and the way the nondiscrimination program was administered under the 1972 Act. The pre-1976 literature identified numerous weaknesses in ORS compliance activities. The 1976 amendments and current regulations have met many of these criticisms.

Requiring an Audit

The third "accountability provision" added to the revenue sharing law in 1976 was the requirement for an audit. Specifically, the law now requires that every government receiving $25,000 or more annually in entitlement payments must have an independent audit of its financial statements, in accordance with generally accepted auditing standards, at least once every three years. Operationally, this means that some 11,000 State and local governments - recipients of 99% of the revenue sharing entitlements must have an audit of their financial statements. The 1976 requirement marked a far different approach than was taken under the original revenue sharing law, when audits were voluntary. The 1972 law required that the Secretary of the Treasury "provide for such accounting and auditing procedures, evaluations, and reviews as may be necessary to insure that the expenditures of funds received...by state governments and units of local government comply fully with the requirements of (the Act)". Because of the "no strings" philosophy of the program, the Office of Revenue Sharing interpreted the law in a liberal way and did not require documentation of revenue sharing expenditures except through the Actual Use Report.

The literature on the audit provisions under the 1972 and 1976 laws is not plentiful. The reports and booklets available primarily serve to

give factual background information or guidelines for auditors on how to comply with the law. The few works which critically examine the law and ORS implementation efforts focus primarily on the use of the audit as a means of monitoring compliance with the civil rights provisions. One exception is the GAO report, "Revenue Sharing Act Audit Requirements Should be Changed," which focuses on financial and compliance provisions and their impact on recipient governments. The lack of interest in the audit provisions could be attributed to the fact that the 1972 law did not require an audit even though ORS encouraged recipient governments to perform one. Furthermore, information about compliance experience under the 1976 amendments is not available yet because some governments have not conducted the audit. However, to comply with the law, all governments must audit their funds for their fiscal year 1977, 1978 or 1979.

2. An Analysis of the Impact of General Revenue Sharing Compliance Requirements, Peat, Marwick, Mitchell and Co. Under Contract with the Office of Revenue Sharing, Department of the Treasury - November 1978 (1978 Impact Study)

Although the revenue sharing program as it operated under the 1972 law was a subject of interest to academic researchers and Federal program evaluators, as of May 1978, to our knowledge no major studies of the impact of the compliance requirements had been undertaken since the law was amended in 1976. Because of the lack of information about the impact of the public participation, audit, and nondiscrimination on recipient governments, the Office of Revenue Sharing contracted with Peat, Marwick, Mitchell and Co. to survey the effects of revenue sharing in 40 jurisdictions (six States, ten counties, twenty-one municipalities, and three townships). This sample represents .1% of 39,000 recipient governments; they receive 12% of the total entitlement payments. The survey focused on four issues:

- o understanding of and compliance with the public participation, civil rights and audit requirements;
- o impact of requirements on services and policies;
- o cost burdens of the requirements;
- o benefits accruing to recipient governments.

Information was obtained from financial and other documents of the 40 jurisdictions, and from interviews with executive level officials and representatives of citizen groups. The findings are summarized below.

- o Officials in many jurisdictions did not appear to have a comprehensive understanding of GRS requirements, although they had been exposed to information from a variety of sources.
- o Understanding varied by type of requirement. The public participation requirements apparently were well understood. All jurisdictions but two had complied with the proposed use hearing, budget hearing and associated requirements.
- o Revenue sharing alone did not cause major changes in budget procedures or in attendance at hearings. However, citizens in some jurisdictions influenced the allocation of GRS funds and used the hearings as one channel of access to government officials.

- Officials could not attribute specified costs of compliance with the public participation requirements. The costs were absorbed as a general expense of running the government.

- Comprehension of the GRS nondiscrimination requirements was vague; the requirements were perceived as part of the total Federal effort to end discrimination. Officials could not distinguish GRS requirements from similar requirements in other Federal laws.

- Officials perceived their governments to be in compliance with the civil rights provisions although they were not well informed about the law. At the same time, they perceived that their governments were vulnerable to discrimination complaints and possibly adverse action. The possibility of adverse action was not viewed as a threat to continued funding.

- In general, officials have tended to overlook the fact that GRS nondiscrimination requirements apply to services as well as to employment.

- Understanding of the civil rights requirements was greater in larger jurisdictions and in jurisdictions where enforcement was delegated to the agency receiving GRS funds.

- Officials reported that the costs of complying with GRS civil rights requirements was minimal and could not be distinguished from the costs of other nondiscrimination activities.

- Most of the jurisdictions had a financial audit apparently performed in accordance with generally accepted auditing standards prior to the GRS requirement; half had a compliance audit prior to the GRS requirement.

- 75% of the 40 sample jurisdictions appeared to prepare financial statements in accordance with generally accepted accounting principles.

- The GRS audit requirement did not impose an additional cost burden for the jurisdictions surveyed.

3. Uniform Grant Requirements and General Revenue Sharing, Department of the Treasury, Office of Revenue Sharing - November, 1978

When considering options for possible changes in the "accountability" provisions of the revenue sharing law, it seems logical to explore similar provisions of other Federal laws. The rationale for comparison is supported by recent studies of the Advisory Commission on Intergovernmental Relations (ACIR), the President's Reorganization Task Force and the Joint Financial Management Improvement Program. Each of these groups have examined common requirements Federal aid recipients must meet and suggest standardization of such requirements.

The public participation requirements of eight Federal grant-in-aid programs which require hearings were compared to similar provisions of the revenue sharing law. Comparison was made on the basis of five factors: subject of the hearing, purpose, associated requirements, eligible participants, and flexibility to substitute comparable State and local for Federal laws. The comparison study highlighted the diversity of all the laws. For nearly every one of the five factors, the provisions are so different as to make comparisons meaningless.

The revenue sharing civil rights provisions were compared to Title VI of the 1964 Civil Rights Act because of the widespread applicability of that law, and to the Crime Control Act of 1976 because its compliance procedures are similar to those of the revenue sharing law. The revenue sharing law protects more classes of minorities than does Title VI; prohibits discrimination in more activities of recipient governments than does Title VI and has more powerful enforcement provisions including mandatory suspension of funding.

The Crime Control Act and the revenue sharing law are quite similar. Both are distinguished from Title VI and other Federal laws with civil rights provisions because the compliance procedures are automatic and the administrative agency (ORS and the Law Enforcement Assistance Administration) can exercise very little discretion once a discrimination complaint has been received. The primary difference between the two laws is the allowable time for completing action at various stages of the compliance enforcement process; the general principles to be followed in compliance cases are the same in both laws. Although the Crime Control -GRS approach to compliance was adapted fairly recently, there is no evidence that this approach will be incorporated in other laws with nondiscrimination provisions.

An audit requirement is attached to all Federal financial assistance programs, either through law or regulation. Four laws establishing block grant programs were selected for comparison with the revenue sharing law. The audit provisions were compared on the basis of five factors: scope of funds to be audited; scope of audit; independence of

the auditor; use of generally accepted auditing standards; and possibility of substituting an audit made in accordance with provisions of another Federal law.

Whereas the revenue sharing law is explicit that each recipient government must have an audit of all funds at least once every three years, the laws establishing the block grant programs are not as direct. Three of the laws (the Crime Control Act, the Partnership for Health Act and the CETA program) require aid recipients to keep records about the expenditure of the funds, to make them available to the Secretary of the administering department and the Comptroller General, and to provide for appropriate and adequate fiscal controls and accounting procedures in order to assure the proper disbursement of funds and to facilitate an audit. The fourth law reviewed, the Housing and Commodity Development Act, as amended, provided for the Secretary of Housing and Urban Development to audit annually the recipients of community development block grants. The laws establishing the block grant programs differ from the revenue sharing law in an important way: they do not require recipients to conduct an audit. The financial provisions of the laws require recipients to provide for accounting and fiscal procedures to assure the appropriate use of the grant funds, but are not specific about whether the procedures apply to all funds or to grant funds only. Similarly, the laws do not mention a compliance audit, but recipients are required to have a financial management procedure which will show that the funds were properly disbursed. None of the laws reviewed required recipients to have an audit according to generally accepted auditing standards, to be performed by an independent auditor, as the revenue sharing law requires. None of the laws provide for substituting an audit made under another Federal program.

Audit requirements of the block grant programs and other Federal assistance programs vary significantly, as do the approaches taken by administering agencies to implement the requirements.

To standarize and simplify the requirements and the way they are administered, the Joint Financial Management Improvement Program (JFMIP) has urged the single audit approach to auditing recipients of Federal grants. Thus, State and local governments receiving grants from various Federal agencies would be subject to only one Federal audit, and it would be conducted by qualified, independent State and local auditors or public accountants, according to generally accepted auditing standards.

The audit approach taken by ORS at present is quite similar to the approach recommended by the JFMIP. If in the future steps are taken to implement the single audit approach, the GRS law and ORS practices should be reviewed to ensure conformity with other Federal agencies.

COMPUTER SYSTEMS

Mr. BOLAND. On page 23 of your statement, you mention three computer systems that are being developed: The Recipient Information Summary System, the Civil Rights Compliance Tracking System, and the Audit Reporting System. Can you give us the cost of each computer system, including hardware and software?

Ms. DENNING. For the CRT equipment, it was $40,000 for the year. The continued maintenance is about $2,500 per year, and the development costs were $25,000, for a total cost of about $67,500. The $25,000 of this amount is a non-recurring cost.

Mr. BOLAND. Does that include hardware and software?

Ms. DENNING. That is both hardware and software.

Mr. BOLAND. And your RISS computer?

Ms. DENNING. Well, the RISS is included in that. It is all included in the CRT.

Mr. BOLAND. Oh, it is?

Ms. DENNING. Yes, yes. We have——

Mr. BOLAND. But I thought you had three systems.

COST OF SYSTEMS

Ms. DENNING. Well all of this is on the CRT. The RISS Information System, if you want to break it out with respect to annual operational costs, for the three systems we think runs about $2,700 per year, the Civil Rights Tracking System about $12,000 a year, and the Audit Reporting System about $2,700 per year.

PRODUCTIVITY INCREASE

Mr. BOLAND. Will the implementation of these systems save any money? You must have looked at this and have some idea of how much money can be saved.

Ms. DENNING. We think it is going to save some money.

Mr. BOLAND. Everyone says that when they come up with a computer. Do you have any specific ideas here? Treasury ought to be the expert in this.

Mr. MATHESON. In a sense these systems are a part of our productivity increase which is allowing us to reduce the budget request.

PUBLIC PARTICIPATION

Mr. BOLAND. Now, what about public participation? That was a part of the 1976 Amendment. Has public participation really increased? Also, how do you measure public participation? Or do you have very much of it?

INCREASED PARTICIPATION

Ms. DENNING. Well we think it has increased, but then we are biased. We measure by the information that, as I said earlier, comes across my desk from people who thank us for the assistance and for allowing them to participate in all of these things. We think public participa-

tion has increased. Some things have told us, like receiving non-compliance reports, that citizens are more aware, and that they are beginning to participate. But it took a public awareness program, a public affairs program—an outreach program to make them understand. A lot of them don't even understand the regulations and the requirements for public participation. I feel that it is increasing, and I guess it could be based on the complaints that are beginning to come in. I think citizens are starting to monitor the hearings. Monitoring groups out there are becoming active.

IMPROVED DECISION-MAKING

Mr. BOLAND. Do you feel that public participation improves the decision-making?

Ms. DENNING. Well, ideally it would, but then we all understand that legally the elected officials still have the responsibility for making the decisions. Nevertheless, I think it is a good idea to listen to citizens' input. After all, the object was to let the decision-making go down to the local level. I think that if the local officials know what the citizens want, then we won't have the citizens screaming. Mr. Baggett may want to add to that.

Mr. BAGGETT. Well we think that anything that lets the citizens into City Hall to discover what is really going on is a positive influence. There does seem to be some indication that those groups such as the League of Women Voters that have long taken an active interest in community affairs are using the vehicle of the citizens participation program to encourage their members and others to keep concerned, not only with revenue sharing, but revenue sharing funds in the context of all other funds in the local government's budget.

COMPLIANCE FUNCTIONS

Mr. BOLAND. The State and Local Fiscal Assistance Amendment of 1976 changed and strengthened certain compliance functions related to the Revenue Sharing Program. For example, upon receipt of a holding order from a Federal or State court or a Federal administrative law judge, the Office of Revenue Sharing must give a recipient of funds a notice of noncompliance within ten days.

If no resolution takes place within 30 days, the Secretary must suspend payments. Recipients subject to suspension may then demand an administrative hearing. The law requires that investigations be completed within 90 days, or complaints may go directly to the court system.

Have any payments been suspended?

Ms. DENNING. Well, we have not really—I think we have, based on holdings. I don't think we have suspended any, have we, based on holdings? Yes, I think you should answer that.

Mr. BOLAND. Have any complaints been taken to court?

Mr. SCHWARTZ. Well, we have just started a program within the last six months of monitoring to find out about holdings. We have a provision in the regulations that will require the Chief Executive Officer to send them to us, and, not surprisingly, we didn't receive very many.

So we started to monitor the weekly reports. When we receive a holding order we send out notices of noncompliance. And just about a week ago we sent out a determination to the city of Buffalo telling them that unless they entered into a compliance agreement fairly quickly we would be cutting off their next payments.

So that process of working on holdings is really just at the beginning stages.

Mr. PETERSON. I think that across the board, though, as I recall, you have had hearings——

Ms. DENNING. But that is not based on court holdings.

Mr. PETERSON. I realize that. But I think that the Chairman was raising, unless I am wrong, was perhaps raising the larger question of whether we actually held onto new funds? Is that correct?

AREAS OF COMPLAINTS

Mr. BOLAND. What areas do most of these complaints embrace?

Ms. DENNING. The ones where we are holding?

Mr. BOLAND. The ones where you are holding; the ones where there may be a suspension; and the ones where you may cut them off.

Ms. DENNING Noncompliance with the nondiscrimination provisions and report forms as we mentioned earlier.

Mr. BOLAND. Is that the only area that gets complaints?

Ms. DENNING. No. We get complaints in public participation. We get complaints in audit.

Mr. SCHWARTZ. Again, by and large, as Dr. Denning earlier pointed out, these are race and sex complaints, dealing with employment and services. We have scheduled eight hearings, but in at least four of them the jurisdiction has settled with us on the morning or the week before the hearing.

GAO REPORT

Mr. BOLAND. Last year's GAO report indicated that the Antirecession Financial Assistance Program formula appeared more responsive to long-term decline of cities and regions than to the problems resulting from cyclical budget disruptions. Financially distressed cities need additional funds, but that need is not related to the national unemployment rate.

Is that a fair statement?

Mr. PETERSON. I think that analysis of what we know about the distribution of funds and what GAO and others see as problems suggests that perhaps the unemployment rate is a better instrument for targeting distress.

We surmised, for instance, that very high per capita amounts of our funds went into large cities that are known to have very high levels of distress by all of these indices that various people develop.

I think that is probably a fair statement.

Mr. BOLAND. On Tab A there is mention of a $240,000 savings and a reduction of twelve average positions related to nonrecurring costs and increased productivity. That is laudable; that is the same type of savings incurred under the New York City Loan Guarantee Program.

INCREASED PRODUCTIVITY

What causes the increase in productivity?

Ms. DENNING. Well, as we said earlier, some of the automation that we have put in has helped, and some of the recommendations that we have started to take a close look at from an internal study that we have had done by an outside management firm, point out some things to us that we could do better. That is going to assist us in this.

Mr. BOLAND. I suppose that is also accountable for the reduction in positions from 189 to 183?

Ms. DENNING. Yes.

Mr. PETERSON. That is the major portion. The other portion is the reduction out of the compliance cases.

PHASE-OUT OF ANTIRECESSION

Mr. BOLAND. On Tab A, page six, there is a table indicating $724,000 and eight average positions for the phase-out activities of the Antirecession Financial Assistance Program in Fiscal Year 1979.

What phase-out activities are currently planned?

Ms. DENNING. Well, as I said earlier, we do have some audit requirements that are still being met. We have some special requirements that are written into the Statute that speak to having to report.

Mr. BOLAND. Do you plan to obligate the entire $724,000 for phase-out activities?

Ms. DENNING. Yes, we do.

Mr. PETERSON. Yes, we do.

Mr. BOLAND. If so, what will the people be doing?

Mr. PETERSON. All of the compliance requirements that Dr. Denning suggested remain, as long as the funds are being used. They have to meet the financial accounting requirements of the old revenue sharing law.

The recipients have to meet the civil rights requirements of the new revenue sharing law. There are no public participation requirements.

They have to provide and publish reports on the use of the funds. They have to provide a special statutorily-defined report. They have to say what they are doing as far as their tax levels and their expenditure levels. And all of these things continue, even though funds are no longer flowing. So that is what is involved.

PUBLIC PARTICIPATION

Mr. SABO. I have a couple of questions referring to citizen participation. Don't get me wrong, I am for it, but I think that happens because of the dynamics of local politics. Let me assure you that citizen participation is many times stronger at the State and local level than anything we see in Washington.

REQUIREMENT OF NEWSPAPER PUBLICATION

The requirement for newspaper publication of special hearings on revenue sharing: is that by law or rule?

Ms. DENNING. It is in our regulations.

Mr. BAGGETT. By law.
Ms. DENNING. Yes.
Mr. BOLAND. By law?
Mr. BAGGETT. Yes, sir.
Mr. SABO. My blood just boils every time I see one of them. It is money that could be better used, and it is serving no purpose other than another little subsidy for the newspapers to run an advertisement.
Mr. BAGGETT. Well, if I may comment, Mr. Chairman, there are a number of governments which fall by the wayside when they fail to take notice of those administrative announcements.
Mr. SABO. What do you do? Is that one of the reasons you cut off funds?
Mr. BAGGETT. Very rarely do we do that.
Mr. SABO. Good.
Mr. SCHWARTZ. The government will go back and redo the procedures.

RENEWAL STUDIES

Mr. SABO. That involves some money, money which I think is thrown away. Aside from that, as you study re-enactment, I am curious what you are looking at.
You know, I think there is a good case being made for revenue sharing, and I think there is a case being made against it. I think most of the arguments I hear in Congress are unrelated to the basic arguments that I think should be made in behalf of or against it.
Are you monitoring at all what kind of income tax cuts States are making?
Ms. DENNING. Part of the research looks at it, part of the research that we said we would be happy to send to you includes a summary of what we have done on that.
Mr. PETERSON. We are monitoring both income tax and property tax, and related activity.
Mr. SABO. I would like to have any materials as you accumulate them.
[The information follows:]

Reenactment Research Activity

Part of the research has looked at both income tax and property tax as well as related activity. You may be particularly interested in our findings relative to the Proposition 13 impact and relation to GRS. As you know, in June 1978, California passed Proposition 13 which limits State and local governments' capabilities to raise tax revenues. In November, twelve other States adopted various forms of tax-expenditure limitations, two of which - Nevada and Idaho - were modeled after Proposition 13. This study analyzes these measures and their likely relation to General Revenue Sharing.

Since State and local governments are restricted in their ability to spend and to tax, these limitations will have a fiscal impact on governments' budgets as well as an economic impact on employment, output and prices. The long run effects of the limitations will depend on how state and local governments (and the federal government as well) react and the discretionary policies that will be adopted in response to these limitations.

General Revenue Sharing funds are allocated according to entitlement formulas which include among the formula factors: (a) a relative income tax factor and (b) a relative tax effort factor. A rollback in property tax revenue, without other compensating tax increase, will lower a government's tax effort factor, thereby affecting its GRS allotment adversely. An increase in income tax or sales tax revenues (or other tax revenues) will positively affect the tax effort factor. In the case of an increase in income tax receipts, the relative income tax factor may also be affected in the interstate five factor formula. Like Proposition 13, tax-expenditure limitations will affect the recipient governments' tax effort factor and the States' relative income tax factor, thus affecting the distribution of GRS funds.

On a more aggregate level, such limitations may require adjustments by governments in the form of redefining their roles, responsibilities and capabilities, as it is evident in the case of Proposition 13. In the long run, tax-expenditure limitations will not only affect the distribution of GRS funds, but will raise the question of the fiscal responsibilities of the various levels of governments.

Proposition 13 - Impact and Relation to GRS

I. Background and Description

Proposition 13 which amends the California Constitution was passed in June 6, 1978. The entire measure took effect on July 1, 1978.

The amendment places restrictions on property tax rates, assessment practices, and increases in state taxes and local "special" taxes. The major provisions of Proposition 13 are:

- Maximum property tax shall not exceed one percent of market value at the 1975 levels. This limit does not apply to those taxes collected for purposes of repaying bonded debt approved by the voters before July 1, 1978.
- Revenues from property taxes shall be apportioned "according to law" among the districts and counties.
- Property values are based largely on the assessments of March 1, 1975. Thereafter, the maximum increase in assessed value permitted is two percent per year, except for new construction or parcels in which there has been a change in ownership.
- Statutes to increase state taxes must be approved by a two-thirds vote of the state legislature. No new real estate taxes may be imposed at either the state or local level. Local governments may impose "special taxes", but only by a two-third vote of the "qualified" voters.

Many factors effected the amendment's passage. The prime motivation was the taxpayers' outrage over spiraling property tax bills. In particular, there has been an unusually rapid growth in residential property taxes in Southern California. California has a better than average tax assessment system which translates inflation driven property values into rapidly rising tax assessments. California also has an average property tax burden that is about 40 percent above the national average in 1976. The total state and local tax burden is also above national average and had been rising at a faster rate then those of most other states. Finally, the state had an extremely large fiscal surplus estimated to be over $5 billion for fiscal 1978-79. The surplus was used as a rationale for cutting local taxes without necessarily cutting vital expenditures.[1/]

The amendment is expected to reduce the property tax revenues of California local governments by approximately $7,044 million (or 57%) in fiscal year 1978-79.[2/] The state has agreed to distribute over $5 billion of its accumulated surplus to its local governments, so that spending cutbacks will not be as great as implied by the expected loss in revenue.

Also, some local governments may have surpluses of their own which they can use, and some jurisdictions will make up for lost revenues partially by raising fees, users charges, and other nonproperty taxes. However, the full implications of Proposition 13 were unclear at the time of its passage, effects are only now working themselves out as the various provisions of that measure are being implemented.

II. Tax limitation Activitity in Other States

The passage of Proposition 13 brought national attention to the so termed "taxpayer revolt". Following Proposition 13, a variety of measures to place restrictions on the taxing and spending activities of both state and local governments have been initiated. It appears that referendum questions embodying some form of constitutional or statutory limitations on taxes or expenditures are scheduled to appear on the November ballot in sixteen states. (Tables I and II).

These tax expenditure limitations (TEL's), though based on similar objectives and purposes, are diverse in their design and implications. The California Proposition 13 is one of the most drastic approaches. It combines both a massive local property tax rollback and the imposition of tight constitutional restrictions on the powers of the state and local officials to raise replacement revenues. Huge local property tax rollback and/or partial assessment freezes appear unlikely in most other states. There are speculations that the apparent strong support for Proposition 13 may hurry the adoption and passage of TEL's in other states. In fact, some states had already been moving towards limiting government tax and expenditures prior to the California vote.[3]

- Since 1970, at least 14 states have placed restrictions on the power of local officials to raise property taxes.

- Since 1976, New Jersey, Michigan, Colorado, Tennessee (and California) have taken various restrictive actions to check the growth of state spending.

Table I

Proposition 13 Type Property Tax Cut Initiatives on State Ballots

(1) Idaho* - Statutory limit on property tax to 1 percent of current market value.

(2) Michigan - 3 proposals

(i) Cut current property taxes by 43 percent.
Limit annual assessment increase to 2.5 percent.
Allow state income tax to rise from 4.6 percent to 5.6 percent.

*(ii) Limit state taxes to current 9.5 percent of state personal income
The property tax increases to level of inflation
Require voter approval of all new tax increases

(iii) Property tax would not be used for financing education.
Adopt voucher plan for education.

(3) Nevada* - Limit property tax to 1 percent of current market value.
Reduce valuation to 1975 level.
Limit assessment increases to 2 percent a year.
(Measure to be approved by voters again in 1980 to become effective).

(4) Oregon - 2 measures

(i) Limit property tax to 1.5 percent of valuation.

(ii) Relief to homeowners and renters, but exclude businesses from tax relief.

* Measures passed in the November elections.

Table II

Other Tax-Expenditure Limitations on State Ballots

Tax Relief

(1)	Alabama*	- Limit increase on all property taxes to 20 percent Different kinds of property to be assessed at different rates.
(2)	Arkansas	- Repeal 3 percent sales tax on food and prescription drugs.
(3)	Massachusetts*	- Allow cities and towns to tax residential and commercial property at different rates.
(4)	North Dakota*	- Cut state income taxes for individuals, raise income taxes for corporations. New tax rates require approval by 2/3 of legislature.
(5)	Texas*	- Increase homestead exemptions to $10,000, ease taxes on elderly. Tie spending increases to economic growth.

Spending or Tax Limitations

(1)	Arizona*	- Limit state spending to 7 percent of total personal income. Emergency spending increases to be approved by 2/3 of legislature.
(2)	Colorado	- Link spending increases by local government units to the national CPI and to state population increases.
(3)	Hawaii*	- Hold general fund spending growth to growth in State economy. Limit state bonded indebtedness. Provide tax rebates if general fund surplus exceeds 5 percent of revenues for 2 consecutive years.
(4)	Illinois*	- Advisory referendum on whether voters want a ceiling on state spending and property taxes.
(5)	Missouri*	- Legislative authority to roll back property tax rates after any statewide reassessment.
(6)	Nebraska	- Lid of 5 percent on spending increases per year by localities and school systems, except where approved by 4/5 of legislature, or where population or enrollment increases by over 5 percent.
(7)	South Dakota*	Require 2/3 legislature approval to raise the state's 4 percent sales tax or real property tax rates.

*Measures passed in the November elections.

Tax-expenditure limitations (TEL's) may involve:-

- o the tying of government expenditure increases to growth in personal income
- o the indexing of income taxes or the indexing of total tax receipts
- o the limitation of property tax rates and levies
- o the requirement of an 'extraordinary majority' for state tax increases.

The state-local sector has been growing at a dramatic rate. In 1948, state-local direct general expenditures was 9.3% of state personal income, while state-local tax revenue accounted for 7% of state personal income. In 1977, the respective percentages were estimated to be 20.7% and 12.9%. Over the years, state governments have placed restrictions on the taxing and spending powers of local governments. Some of the more common controls that have been adopted are property tax rate (millage) limits, debt ceilings, prohibitions against certain types of taxation and property tax levy limits. Despite these actions, the growing trend of the state-local sector persists. Within the framework of this dramatic growth, Proposition 13's approval may be viewed as an indicator of voters sentiments toward limiting state-local government's growth.

III. Possible Impact of Proposition 13

The total impact of Proposition 13 is still unclear, though it can be expected that drastic limitations on state-local expenditures, and massive (property) tax revenue rollback would have a significant effect on the roles and functions of state-local governments. If TEL's are adopted widely among states, then, the role and function of the federal government will also be affected.

A. Impact on the Economy

According to CBO's estimation, Proposition 13 will have an insignificant effect on the nation's economy.[4] The property tax cut will stimulate economic activity, but only slowly, since much of it will be retained by businesses. At the same time, the cutbacks in state-local spending would depress the economy, and there would also be a decrease in state-local employment. The reduction in homeowner's tax payments will directly lower the CPI through its housing component. Further reductions will occur if rents and housing prices are reduced. CBO estimates that on balance, Proposition 13 will have the following impacts:

- Real economic activity should be slightly depressed through the first half of calendar year 1979 because the spending cuts will have amore immediate impact than the tax reduction. By mid 1980, real economic activity may be marginally higher because of Proposition 13.

- A total employment loss of about 60,000 by the end of 1978 but the loss will gradually diminish in size.

- With real GNP little changed, and prices lower, nominal or current-dollar GNP will be lower.

- Over a long term, tax reductions of the sort provided by Proposition 13 may affect incentives to work and to invest such that output would be stimulated. Tax reductions in California alone (relative to other states), may affect the distribution of investment by attracting economic development from other states, thereby benefiting California at the expense of other states without having much impact on the national economy.

- The stimulus to residential investment is uncertain.

- The Consumer Price Index (CPI) may be 0.2 percent lower by the end of 1978 and 0.4 percent lower by mid-1980.

B. Fiscal Impact on the Federal government

Proposition 13 will have both direct and indirect effects on federal revenues. Since individual and business taxpayers will be able to claim smaller property tax deductions on their federal returns, they will have higher federal tax liabilities. CBO estimates that federal revenues would rise by $1,028 million and $1,311 million respectively in fiscal years 1978 and 1980 because of the direct effects of Proposition 13. Estimations by the Department of Treasury of the direct Federal revenue effect of the Proposition is higher than the CBO estimates. The department estimated that federal income tax revenues might increase by $1.7 billion during the first year following the passage of the Proposition.[57]

CBO also estimates that the direct gains may be partially offset by the Proposition's indirect effects on federal revenues. First, the lowering of property taxes will have a deflationary effect to the extent that it dampens the expected rise in the cost of living as measured by the national CPI. Federal revenues will grow less rapidly as current dollar incomes grow less rapidly. Second, the stimulation of private businesses will raise real income, and raise federal tax revenues. However, this may be offset by a cutback in state and local spending. CBO estimates these indirect effects to be negative and the total

(overall) effects of Proposition 13 on Federal revenue gains to be $628 million in FY 1979, and $911 million in FY 1980.

Proposition 13 is not expected to affect federal expenditures significantly. The impact depends first on the amount of surplus spent and revenue raised by California state-local governments to replace lost property tax revenues, and second, on how state and local budget reductions are accomplished. The major mechanisms through which federal expenditures could be affected are:

- State and local expenditure cutbacks could violate the maintenance of effort or nondisplacement requirement of federal grant-in aid programs. For instance, the Department of Labor estimated that out of a total of 75,000 PSE participants in the State, as many as 50,000 CETA workers (working in the same or a substantially equivalent position as those from which regular employees are laid off) may be affected.6/

- Expenditure cutbacks could jeopardize the funds necessary to meet the matching requirements of federal grant programs.

- The impact of expenditure cutbacks on individuals and on the economy (e.g. decrease in income and increase in the number of unemployed) will affect federal expenditures (for instance, unemployment compensation, food stamps, and other transfer payments).

- Federal formula grant programs which use grantee expenditures or taxing effort as a factor in allocating federal funds may be affected.

- Federal compensation programs may also be affected. Under these programs, State and local governments are reimbursed for lost revenue because federal landholdings are exempt from State and local taxation. Proposition 13 could affect specifically those programs which use property tax revenues as a basis for federal reimbursement.

In terms of federal grant programs which may be affected by Proposition 13. The GAO observes that:7/

- 32 programs require non-federal matching

- 37 programs have maintenance of efforts requirement

- 32 formula grant programs have grantee expenditures or tax efforts as a factor

- 3 federal compensation programs will be affected (though the total amount involved is not expected to be significant - about $0.5 million in FY 1979.

However, the GAO report does not attempt to estimate the impact on Federal funds going to California.

C. Nationwide Repercussions

Proposition 13 will have relatively minor effects on the economy and on federal revenues and expenditures only if the property tax and expenditure cuts are limited to California. If other states follow California in adopting similar TEL's, the impact on the economy and on the federal budget will be magnified. If tax relief is provided without cutting back services, the net effect on the economy would be stimulative. If property taxes and sales taxes are cut to achieve tax relief, then price reductions would result. However, if tax relief is accompanied by a cutback of government spending, then the stimulative impact would be offset.[87]

D. Fiscal Impact on California State and Local Governments

Out of a $30 billion total for all local government budgets in fiscal year 1979, Proposition 13 will reduce property tax revenues by $7 billion. This represents a reduction of approximately 23 percent of total revenues to local governments. The state enacted an aid package which covered over $5 billion of the revenue loss. Thus, the actual revenue loss for fiscal year 1979 will be less than 10 percent. The state is able to "bail out" local governments due to the existence of a sizeable state fiscal surplus, but it is uncertain that the state will be able to maintain the same level of assistance to local governments in subsequent years. As Proposition 13 also restricts the state's taxing ability, a sizeable surplus may not be forthcoming. Considering that the $5 billion state surplus was accumulated over 3 years, the next fiscal year's surplus can be expected to be substantially smaller.

The state "bail out" package was designed to compensate partially for the differential importance of the property tax by type of local governments. Specifically:

- The state assumed $1 billion in county outlay for welfare, food stamps, and health.

- Education has become essentially state-financed and directed with little discretion left at the local level as to expenditure level.

- The state allocated $125 million in aid to the 58 counties for allocation in turn to 4,700 special districts and authorities.

- Police and fire services are to be maintained at the same levels as were provided during 1977-78. Public health services can only be reduced proportionately and budgets are to be examined by the state.

- The state appropriated $30 million, for 1 year only, to help avoid defaults in tax allocation bonds.

While the state will have to expend more in the form of local assistance, the state will also have a windfall in its income tax receipts related to the smaller property tax deductions claimed on state income tax returns. The state's (and local governments') other tax revenues will also increase as personal disposable income increases. For instance, the possible increase in consumption will result in higher sales tax revenue. The ACIR found that California's state tax structure to be fairly responsive to changes in personal income. The income elasticity of the state tax structure for 1970's is estimated to be 1.11[9]. However, the automatic increase in both the state income tax and sales tax receipts, which together comprised 76% of total state tax revenue in 1977, will not compensate fully for the drop in property tax receipts.

By limiting property tax to 1% of full cash value, with reassessments at market value whenever a property undergoes a change of ownership, properties in the same neighborhoods will be taxed differently depending on the frequency of turnover. Fiscally, this means that local governments will experience a higher degree of uncertainty in their property tax revenues, thus impairing the planning, budgeting and the supply of public services. This is significant considering the dependency of California local governments on property tax revenues. In 1974-75, property tax revenues accounted for about 65% of all local own source revenues, and about 38% of all local revenues. Non-tax fees and charges comprised 14% of total revenue in 1974-75, while sales tax receipts accounted for about 4% of total revenue. The CBO estimates that due to Proposition 13, California local total revenue would decrease by about 23%. To compensate for this decrease, and assuming no changes in any other taxes and revenues, sales tax revenues would have to increase by almost six times, or non-tax charges would have to be increase by about 1.6 times.[10]

Since Proposition 13 allows local governments to levy "special taxes" only if approved by a two-third vote of the "qualified" voters, the adoption of such taxes will likely be difficult, moreover, there are state statutory provisions governing the imposition of general sales taxes by local governments.[11] Thus, the ability of local governments to raise revenue by levying higher taxes via increasing

tax rates or new taxes is limited. Where maximum rates are already levied, governments will have to resort to raising charges and fees or, more likely, to reducing expenditures and services. An increased reliance on fees and charges may result in a lower degree of progressivity in the California state-local revenue structure. If, however, general sales tax are raised (by the State) to compensate for the loss in revenue related to Proposition 13, this may result in a relatively more income elastic tax structure.[12]

E. Impact on Capital Financing by Local governments

The passage of Proposition 13 has jeopardized certain types of outstanding debt of local governments in California, and has raised problems for the future financing of capital outlays through borrowing.

The Proposition stipulates that any new general obligation bonds approved after July 1, 1978 will have to be financed by the proceeds from the one percent property tax ceiling or by non-property tax revenues. This implies that local governments' ability to back such general obligations bonds have been greatly eroded (as compared to the pre-Proposition 13 pledge of unlimited property taxes backing). The problem of providing sufficient future revenues to assure repayment of bonds is also raised. Thus, there is a two fold problem of (a) funding new debt instruments for local governments and (b) finding an assured revenue stream to pay future debt services.

Besides general obligation bonds, Proposition 13 also affects other major types of local securities which rely on property tax:[13]

1) Tax allocation bonds - used for commercial and residential area development. Since the passage of Proposition 13, Standard and Poor's and Moody's have withdrawn ratings on over $600 million such bonds (out of about $1.6 billion outstanding) because of doubtful repayment.

2) Lease rental bonds - Approximately $1 billion of lease rental bonds are outstanding where the leases have been secured on property taxes. The reduction of property taxes has curbed funds available to make the rental payments.

3) Other securities - about $250 million outstanding bonds rely on special assessment revenues (especially property taxes).

In total, about $2 to $3 billion in outstanding California local debt may be affected.

Borrowing difficulties may adversely affect approximately $400 million in annual local government capital outlays. To reduce such difficulties, there may be a shift toward a heavier reliance on federal block or categorical grants. But since these grants are designated for specific functions (e.g. Community Development Block Grants), not all localities may be eligible, and funds can be used on only a limited, specified categories of projects. Where federal grants matching or maintenance of efforts requirements cannot be met, local capital spending may be further curtailed due to the potential loss of federal assistance. The reduction in capacity to finance borrowing, and the possible loss of federal funds for capital outlay will particularly affect the localities in need of urban renewal and capital maintenance.

F. Impact on the Private Sector

The reduction in property tax is advocated by some for its possible stimulative effect in inducing more business spending and more private consumption and investment. It is argued that a decrease in property tax may actually be more than offset by a consequent increase in state (income) tax revenue due to economic expansion and higher income level within the state.[14/] Whether this would result is uncertain. The direction and the magnitude of the impact depend on whether tax savings will be spent. When the money was spent by the government sector, it was spent predominantly on employment within the State. Part of the tax savings in the hands of business may however, flow out of California - to branch industries in other states or to purchase goods and services out of state.

A reduction in property taxes will have many conflicting stimulative and restrictive effects so that the impact on the state's housing market will likely be minimal. To recover some of the revenue loss, many cities have increased building fees. Some other municipal governments, in order to limit expenditure growth related to an increasing demand for services, and tightening "no-growth" policies (e.g. Davis and Sonoma). Such no-growth policies will likely be directed at high-density housing areas and areas with multifamily housing which put a strain on existing services without generating sufficient additional revenue to cover costs. This will have an anti-stimulative effect on the State's housing market. Furthermore, a general reduction in single family real estate turnover is also anticipated due to the stipulations of the Proposition. Since assessment value of properties are rolled back to 1975 level, except where properties change ownership. When they are assessed at market value, this may be a disincentive for people to change houses.

G. Impact on the Roles and Functions of Governments

Under the 'bail out' package, education becomes essentially state-financed, and little discretion regarding expenditure level is left at the local decision making level. The state takeover of $1 billion in county outlay for welfare, food stamps, and health is another significant move in redefining the functional roles of California's levels of governments. By allocating $125 million in aid to the counties for allocation in turn to California's 4,700 special districts and authorities, the latter are made more dependent on local elected governments. The state's package in effect changes the mix of state and local functional responsibilities, with a possibility for merging special districts into multipurpose servicing authorities in order to reduce overhead costs. The state's assumption of education and welfare costs also implies that intergovernmental fiscal transfers would assume a larger proportion of the budgets of counties, cities and school districts.

The two percent growth per year limit in assessed value (except for new construction or parcels in which there has been a change of ownership) will likely restrict the growth in the tax base to below that which is needed to accommodate even moderate increase in expenditures due to inflation. As mentioned before this may induce changes in the tax structure and further increase the need for state assumption of financing of local expenditures and functions, in the form of intergovernmental aid transfer.

ACIR finds that California, in response to Proposition 13, has "moved far toward achieving many of ACIR's proposals for improved functional assignment." Specifically, the state has moved toward the recommendation that "states enact legislation establishing an ongoing assignment of functions policy and process".15/

The Commission also anticipates that interlocal contracting and agreements will increase in order to make servicing shifts on a multijurisdictional basis, and to reduce service costs. Also given the new role of counties, there may be an increase in the transfer of certain functions from cities to counties.

Such changes in state and local responsibility assignment may improve intergovernmental relationships (between state and localities), improve the economy and efficiency of both levels of government, and achieve revenue diversification. Among changes which may strengthen and modernize State and local governments are:16/

- o improving tax systems (including an income tax of moderate progressiveness).
- o improving local property tax administration.
- o utilizing nonproperty taxes by local governments.
- o reducing the number of local governments too small to provide efficient administration, or possessing inadequate fiscal resources.
- o State assumption of direct fiscal responsibility for basic functions.
- o revising the terms of state aids and shared taxes so as to encourage modern local governments and to compensate for differences in local fiscal capacity.
- o authorizing intergovernmental contracts for provision of services.

Proposition 13 may have necessitated certain positive changes. However, it remains to be seen the permanence of these functional changes, particularly since the state may not be able to continue to fund its enlarged responsibility in future years.

H. Regional Impact of Proposition 13

With the assessment rollback, some communities will be affected more than others. Areas with low assessed values (prior to March 1975) on the average are being restricted more in their ability to supply services, especially where a minimum level of such services are essential. For instance, the lower income, low property value areas are likely to be areas where fire and police services and other social services are most needed, but the service supply capacity is drastically curtailed by the passage of Proposition 13. To the degree that the number of private businesses, the extent of regional economic growth, the amount of population migration in and out of localities are correlated with , among other variables, the level of public services provided, the differential impact of Proposition 13 will exacerbate the disparities among localities.

Correlation analysis of relationships between local unemployment rates and different fiscal measures indicate that:[17]

- o the simple correlation between local unemployment rate and the expenditure per capita for common municipal functions is 0.48.

- the simple correlation between local unemployment rate and the expenditure per capita for police and fire is 0.63.
- the simple correlation between local unemployment rate and the rate of population change is -0.53.
- the simple correlation between local unemployment rate and the rate of change in the true value of taxable property per capita is -0.69.

These estimates imply that for declining central cities, associated with high unemployment rates, there will be likely a decline in the true value of taxable property per capita, a concomitant increase in expenditure per capita for common municipal functions, in particular, fire and police services. Thus, these cities may face increasing fiscal strain. Since Proposition 13 further limits property tax rates and the ability of state and local officials to raise taxes, problems associated with declining central cities may become more acute.

I. Impact of TEL's

Other TEL's are typically less drastic in limitations than Proposition 13. Thus, their impact, particularly on central cities, may not be to the same extent as that of Proposition 13.

Property tax revenue as a proportion of total state-local revenue has been declining since 1965, and the mix of state-local own source receipts has shifted toward a greater reliance on income and sales taxes which are more income elastic. While this shift is consistent with the objectives of "reforming and modernizing" state-local fiscal structures, it also increases the vulnerability of state-local governments to oscillations in national economic activities. As Proposition 13 and other TEL's further limit the use of property tax and other tax sources, the chance for surplus accumulations is minimized. This may magnify the size of budgetary disruptions due to economic fluctuations and may also result in state-local governments becoming more susceptible to such fluctuations.

Revenue and expenditure limitations restrict governments' ability to accommodate any involuntary (automatic) increases in expenditures - for example, unemployment compensations, and welfare, and their ability to voluntarily supply or augment services. On an aggregate level, tax-expenditure limitations may be able to control the growth of State and local governments. On a disaggregated level, these limitations reduce

fiscal flexibility, and because governments rely on various revenue sources in different degrees while experiencing different fiscal strain, limitations may result in greater interlocal disparities, and (more) unequal distribution of public services.

Voters in 12 states (out of 16) passed some form of tax-expenditure limitations in the November election. These states are: Alabama, Arizona, Hawaii, Idaho, Illinois, Massachusetts, Michigan, Missouri, Nevada, North Dakota, South Dakota and Texas. The impact of these TEL's will not be known for some time to come. However, ACIR has examined the general impact of state limitations on local taxes and expenditures which have been enacted prior to 1974. Among the findings are:[18]

- o the existence of local tax limits is associated with a lower level (on the average, 6 to 8 percent) of local own source per capita expenditures than expected, all other factors being constant.
- o the bulk of evidence suggests that local tax limits do not affect total state-local expenditures much.
- o there is a small tendency for lower per capita state-local expenditures in states with property tax rate limits than in other states, all other factors equal.
- o the degree to which local governments use the property tax relative to other sources in generating revenue depends on the (legal) availability of alternative local tax sources and on the degree of revenue centralization in the State.

Since the TEL's passed in the November election (Tables I and II) include not only state limitations on local revenues and expenditures, but also popular mandates limiting state revenues and expenditures, it is not certain to what degree the ACIR findings will hold.

Tax expenditure limitations may also have a major impact on capital spending by state and local governments. Since 1968, real capital spending by state-local sector has declined steadily. Also, gross capital investment has not kept pace with total budget expenditures. (Table III). A Joint Economic Committee Study on the current fiscal condition of cities found that for 62 large cities which reported data on their capital expenditures, these expenditures decreased by $212.9 million (or 5 percent) between fiscal years 1976 and 1977.[19] Moreover, the reductions had occurred while capital needs were great.

TABLE III

Capital Investment Trends

	1965	1970	1973	1977
State and Local Sector				
Gross Capital Investment as percent of State-local Spending	28.7%	22.4%	20.8%	14.4%
City Governments				
Gross Capital Investment as percent of City Gov't Spending	23.2%	20.8%	19.4%	18.0%[a/]
48 Largest City Governments				
Gross Capital Investment as percent of General Spending	20.0%	16.8%	15.6%	13.0%[a/]

Source: G. Peterson, "Capital Spending and Capital Obsolescence - The Outlook for Cities," in Roy Bahl (ed.) The Fiscal Outlook for Cities - Implications of a National Urban Policy. (New York, 1978).

a/ Figures are for 1976.

TEL's may further limit state and local spending on capital investment by (1) restricting revenue for expanding capital outlay and for capital maintenance, and (2) restricting governments' ability to issue bonds. Depending on the fiscal conditions of governments, some localities may be forced to defer capital expenditures. For localities which have been cutting back on capital expenditures prior to 1978, tax and expenditure limitations may render capital maintenance and replacement even more difficult.[207]

IV. Relation to GRS

A. Proposition 13

GRS allocation to California state area will be affected via two elements: the general tax effort factor and the income tax factor. The decrease in property tax revenue will lower the state's general tax effort. Depending on whether and how local governments compensate for lost property tax revenues by raising other revenues the state area's tax effort factor will be affected. A 100 percent compensation by using other tax sources, (e.g. general sales tax), would result in no change in the tax effort factor, and would not affect the GRS allocation to California. Any alternative short of this will result in a decrease in GRS allocation. A shift to a heavier reliance on nontax revenue sources will have a negative impact on the State's GRS allotment.

The lowering of property taxes will have, on the other hand a positive impact on GRS allotment to the State under the income tax factor. In the current 5-factor formula, the two factors have equal weights - that is, a 1 percent change in the state's income tax factor will have the same effect on GRS allotment as a 1 percent change in the State's tax effort factor. Since the increase in income tax revenue related to a lower (property) tax deductions on tax returns will only be a fraction of the reduction in property tax, the change in the income tax factor will likely be smaller than that of the tax effort factor, so that the net (or combined) effect on GRS allotment will be a negative one.

The CBO estimates that Proposition 13 could result in a reduced share of federal revenue sharing funds going to California since the state's relative tax effort factor will decrease. As there is a lag in the data used in the formula, no impact is expected in either Fiscal Year 1979 or 1980. Hence, any impact on the California allocation will materialize only if the current GRS program is reauthorized beyond September 1980. Under those circumstances,

California governments could suffer a total reduction of under $100 million in their GRS allotments in fiscal years 1981 or 1982. This implies that states and localities elsewhere would receive correspondingly higher allocations.[21]

The Office of Revenue Sharing estimates that in EP (Entitlement Period) 12, California's GRS allocation could increase by $33 million over the allotment in EP 9 due to the State's increased income tax collections. In Entitlement Period 13 (October 1, 1981 - September 30, 1982) the allotment should be lower as a result of the lower tax effort for fiscal 1979. The ORS estimates that had Proposition 13 been in effect for the computation of EP 9 allocations, the reduction in property tax would have resulted in a total reduction of State area GRS allocations of about $75 million.[22]

The intrastate distribution of GRS in California will also be affected due to the fact that local governments utilize and rely on property taxes in various degrees. For instance, in fiscal 1977, 93 percent of California county taxes were property taxes (about $3.1 billion) while only 50 percent of city taxes were property taxes (about $1.3 billion). It is likely that localities could not fully compensate for the property tax revenue loss by other tax sources, thus the distribution of GRS funds will be more favorable toward cities than counties.

The above effects of Proposition 13 on California's GRS allotment assume a very short run analysis, with no consideration for the possible feedback effect on the state's other tax revenues due to changes in the state's economic activities brought about by Proposition 13. Due to the lack of disaggregated state (and local) economic data, estimates can at best be very rough. The total effect of Proposition 13 on California's GRS allotment will depend on how state and local governments respond to recover revenue loss due to the property tax cut, the effect of the property tax cut on economic activities within the state and the subsequent changes in income levels, and the relative tax effort factors. Information on these effects will not be available for some time, especially when further changes in tax structure may not be instituted until Fiscal 1980, when the states surplus is drawn down.

Footnotes

1/ ACIR. Intergovernmental Perspective (Summer 1978) Vol. 4, No. 3. Article by J. Shannon and C. Weissert, "After Jarvis: Tough Questions for Fiscal Policymakers," pp. 8-12.

2/ CBO. Proposition 13: Its Impact on the Nation's Economy, Federal Revenues, and Federal Expenditures. (July, 1978).

3/ ACIR. op. cit.

4/ CBO. op. cit.

5/ The Department of Treasury estimate is cited by GAO, in its report Will Federal Assistance to California be Affected by Proposition 13? (August, 1978). The report points out that the estimate prepared by the Treasury Department has not been set forth in print.

The difference in the estimates by CBO and by the Department of Treasury is explained by the assumptions upon which the estimations are based.

6/ Joint Center for Political Studies, Focus. (June - July 1978). Article by M. McGraw, "The Impact of Proposition 13 on the Poor," pp. 1A - 4A.

7/ GAO. op. cit.

8/ CBO. op. cit.

9/ See ACIR. Significant Features of Fiscal Federalism 1976-77 Edition. Vol. II, p. 50.

10/ To make up the revenue loss by increasing sales tax alone, sales tax would have to be raised by (23% ÷ 4%) or about 6 times. If non-tax charges are used, then these have to be increased by (23% ÷ 14%) or 1.6 times. Thus, sales tax would have to be about 7 times (23% + original 4%) the original level or non-tax revenues would have to be 2.6 times (23% + 14%) of the original level.

11/ ACIR, op. cit. pp. 188-189.

12/ See ORS internal paper on General Revenue Sharing as an Incentive for the Greater Use of State Income Taxes. Rationale and Incentives. In particular, see section on Improvement of State and local Tax Systems. (November 1978).

13/ See article by J. Peterson & M. Claxton, "Tax and Expenditure Limits: Proposition 13 and Its Alternatives," in Municipal Finance Officers Association, Special Bulletin. (September 5, 1978).

14/ This is the basic argument of the Laffer curve.

15/ ACIR. op. cit. Article by D. Walker, "Proposition 13 and California's System of Governance," pp. 13-15.

16/ See (S. 241) the "State and Local Government Modernization Act of 1971" introduced by Sen. Humphrey in January, 1971.

17/ Statement of George Peterson, Urban Institute on countercyclical revenue sharing program. Correlations are between county unemployment rates and measures of local fiscal strain for 30 large cities.

18/ ACIR. State Limitations on Local Taxes and Expenditures. (February 1977). Findings are based on statistical (regression) analyses of cross section data for fiscal 1974. The analyses do not offer explicit evidence of the dynamic response of fiscal variables to limitations (on taxes and expenditures). The latter will require a time series examination of the effect of limitations by state.

19/ U.S. Congress. Joint Economic Committee. The Current Fiscal Condition of Cities: A Survey of 67 of the 75 Largest Cities. (Washington, D.C. 1977).

20/ R. Bahl. et. al. "The Outlook of City Fiscal Performance in Declining Regions," in R. Bahl (ed.) The Fiscal Outlook for Cities. (New York, 1978), pp. 1 - 47. The article maintains that one of the three main reasons for the relatively strong fiscal performance of central cities since 1974 has been "their willingness to attempt to hold the line of costs and even to try to cut back on public service levels", including deferral of capital facility maintenance and replacement. The other two reasons are: the massive inflow of direct federal aid to cities, and the recovery of the national economy during this period.

21/ CBO. op. cit.

22/ These estimates are made by ORS based on the Bureau of the Census estimates. The Bureau of Census estimated the increase in California state income tax collections would be approximately $750 million in 1979 as a result of Proposition 13. In October 1978, Governor Brown proposed a state income tax cut of approximately $1 billion. Though this policy is independent of Proposition 13, this decrease in income tax collections for 1979 will more than offset the estimated increase due to Proposition 13. Thus, for EP 12, the net impact will likely be an actual reduction in the California state area GRS allocations.

The estimates by ORS do not account for the effects of the $1 billion income tax cut.

FUTURE OF URBAN POLICY

Mr. SABO. Let me ask a further question. Along with some others, I was involved in discussion with the Administration as they were trying to develop an urban policy a year or two ago.

I am just curious if urban policy has been forgotten. Do you think there is careful coordination regarding what may or may not happen with revenue sharing in 1980? How does that relate to urban policy? I guess I would simply reiterate what I said earlier in our discussion this morning: the basic responsibility for local government rests with the State government. And I think that too often the continual bypass of State government by Federal government, in dealing directly with local communities, has, in many States, meant that State governments could shirk their responsibility.

It really is their responsibility, if they are concerned. To the degree that the Federal government brings States in as active participants in the development of urban policy, there will be much more impact than any direct Federal program can have.

As a matter of fact, in my judgment, for any urban policy to work, it has to have major State involvement. I think there are things that could be done within the prescribed techniques to get rid of many requirements which, I think, serve no useful purpose; to have some that could have a major positive impact on this country.

And I guess I would continue feeling that New York State's increase in New York City's funding is very modest for a State that has lots of resources in dealing with a basic urban problem.

ADMINISTRATION PROPOSALS

Mr. ALTMAN. Well, first of all, urban policy has not been abandoned by the Administration. In fact, the Targeted Fiscal Assistance program which we discussed earlier is being resubmitted, in effect, to the Congress, because we believe in the needs, in this case for fiscal assistance, of a great many distressed cities.

Mr. SABO. That is not a significant long-term nor particularly significant short-term program.

Mr. ALTMAN. Beyond that one of the major elements in that policy was the so-called National Development Bank. And the President decided in the last couple of days, as we reported this morning, that we are going to go ahead with that, as part of an expansion of the Commerce Department.

Mr. SABO. Again, that is something that clearly bypasses, in a major way, State government. The Administration did have a State incentive grant program last time, which was dropped. Some of us had some ideas which we thought would be much more useful. They never surfaced.

Mr. ALTMAN. Well, I think most or all of us agree with your comments about the role of the States, that is why we proposed that State incentive grant program. It didn't engender a great deal of Congressional support. And that is why it was dropped.

But I for one, and I think I am speaking for most of the rest of the Administration, would agree with your comments on the role of the States, and the extent to which getting States to do more about their

own distressed communities is more effective than any direct Federal law. I agree with that.

Mr. SABO. I would hope that it would be incorporated into some policy. Thank you, Mr. Chairman.

NATIONAL DEVELOPMENT BANK

Mr. BOLAND. Following the line to which Marty was addressing himself, namely, the National Development Bank, the Administration's budget carried $3.53 billion for the National Development Bank. Is there going to be a National Development Bank?

Mr. ALTMAN. Well, let me answer the questions in the order you asked them. As I understand it, we are making no reductions in the amounts of grant and guarantee authority which we originally asked the Congress for in the Bank proposal. We are still asking for that. And we still want the financing tools which those monies represent. The only change, as I understand it, is that instead of proposing the Bank as an independent entity, which we did, *i.e.*, an independent government corporation, the President has decided he would rather locate it in the Commerce Department.

Mr. BOLAND. So the $3.53 billion will be utilized for the programs at the National Development Bank?

Mr. ALTMAN. Yes.

Mr. BOLAND. Then there won't be any cutback there, obviously. I don't suppose you have knowledge of the different programs into which part or all of the $3.53 billion will be funneled?

Mr. ALTMAN. No. Originally the proposal was to increase HUD and EDA grant authority by $275 million each, with those grants specifically earmarked to go along with the Bank's activities. That same $275 million each we are still asking for HUD from Congress, in the case of HUD as an expansion of the UDAG program.

Mr. BOLAND. Mr. Secretary, thank you very much. And Dr. Denning and Dr. Peterson and Mr. Matheson, thank you very much for your appearance here. I think we always brag about the Office of Revenue Sharing, as so many people do, because it takes care of over one thousand communities in a rather short time. It does its tasks and gets the checks out to the recipients and performs its responsibilities. So congratulations to you and thank you very much. Your justifications will be inserted in the record at this point. The Committee stands adjourned.

[The justifications follow:]

Salaries and Expenses, Office of Revenue Sharing

CURRENT SERVICES ESTIMATES

In January 1979, the Office of Management and Budget furnished current services' estimates for fiscal year 1980 to the Congress. The current services budget is sent to Congress each year according to the Congressional Budget and Impoundment Control Act of 1974. These estimates for 1980 reflect estimated outlays and proposed budget authority for FY 1980 if all programs and activities were carried out during the year at the same level as 1979 without policy changes in the programs and activities concerned and without any adjustment for possible cost changes.

These estimates were provided to furnish a base from which different alternatives might be analyzed. They do not represent recommended amounts or estimates as to what the figures for 1980 would actually turn out to be.

The Office of Revenue Sharing, Salaries and Expenses 1980 budget estimates are compared with the current services estimates in the following table:

	Current Services		1980 Budget	
	1979 Base	Estimate 1980	Estimate 1979	Estimate 1980
Budget Authority	7,200	6,640	7,200	6,337
Differences from current services estimate	---	---	---	-303
Outlays	7,400	6,600	7,395	6,307
Differences from current services estimate	---	---	-5	-293

The current services estimates differ from the estimates in the 1980 Budget due to a reduction in nonrecurring costs and savings resulting from increased productivity.

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1979
(dollars in thousands)

	Permanent Positions	Average Positions	Amount
1979 Appropriation Enacted by Congress	185	183	$ 7,200
Estimate, FY 1980	158	163	$ 6,337

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1980

	Appropriation FY 1978		Authorized Level FY 1979		Budget Estimate FY 1980		Increase (+) or Decrease (-) for 1980					
							Total Changes		Program Changes		Other Changes	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
1. Legal and Support Services	22	$ 694	24	$ 877	23	$ 860	-1	$ -17	---	$ ---	-1	$ -17
2. Operations and Technical Assistance	64	2,519	65	2,698	63	2,710	-2	12	---	---	-2	12
3. Monitoring and Enforcement	78	2,267	86	2,901	77	2,767	-9	-134	---	---	-9	-134
4. Antirecession	23	1,346	8	724	---	---	-8	-724	---	---	-8	-724
Unobligated balance lapsing	---	674	---	---	---	---	---	---	---	---	---	---
Total appropriation, authorized level, and budget estimate	187	7,500	183	7,200	163	6,337	-20	-863	---	---	-20	-863
Permanent positions established	(209)		(185)		(158)		(-27)		(---)		(-27)	

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1980
(dollars in thousands)

	Activity 1			Activity 2			Activity 3			Activity 4			Total		
	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount
Program Changes:															
None	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Other Changes:															
Increases necessary to maintain current levels:															
1. Net cost of within-grade salary increases	---	---	2	---	---	5	---	---	6	---	---	---	---	---	13
2. Increased reimbursement to the Working Capital Fund	---	---	1	---	---	5	---	---	6	---	---	---	---	---	12
3. Increased cost of FTS and other communications	---	---	1	---	---	2	---	---	5	---	---	---	---	---	8
4. Compensation for two extra work days in FY 1980	---	---	3	---	---	12	---	---	16	---	---	---	---	---	31
5. Increased cost of support services	---	---	3	---	---	6	---	---	10	---	---	---	---	---	19
6. Full year costs of civilian pay increases authorized for part of FY 1979	---	---	1	---	---	2	---	---	2	---	---	---	---	---	5
7. Increased printing costs	---	---	2	---	---	5	---	---	6	---	---	---	---	---	13
Subtotal Other Increases	---	---	13	---	---	37	---	---	51	---	---	---	---	---	101
Reductions, nonrecurring costs and savings:															
1. Increased productivity	-2	-1	-30	-3	-2	-25	-16	-9	-185	---	---	---	-21	-12	-240
2. Completion of ARFA phase-down activities	---	---	---	---	---	---	---	---	---	-6	-8	-724	-6	-8	-724
Subtotal nonrecurring costs and savings	-2	-1	-30	-3	-2	-25	-16	-9	-185	-6	-8	-724	-27	-20	-964
Total Other Changes	-2	-1	-17	-3	-2	12	-16	-9	-134	-6	-8	-724	-27	-20	-863
Total Increases or Decreases 1980 compared with Proposed Authorized Level	-2	-1	-17	-3	-2	12	-16	-9	-134	-6	-8	-724	-27	-20	-863

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1980 BUDGET ESTIMATES

General Statement

Title I of the State and Local Fiscal Assistance Act of 1972 as amended by the State and Local Fiscal Assistance Amendments of 1976 provides for the distribution of funds equal to approximately $6.8 billion per entitlement period to nearly 39,000 units of State and local governments. Allocations are made each year using updated data, and entitlement payments are distributed quarterly to each government unit.

By enactment of Title II of the Public Works Employment Act of 1976 as amended by the Intergovernmental Antirecession Assistance Act of 1977, the Antirecession Fiscal Assistance Program was established. This program was implemented and administered according to the provisions set forth in the law by the Office of Revenue Sharing. It was designed to help State and local governments maintain basic governmental services that may not otherwise be available at adequate levels during economic recessions. The Act provided a limitation of $2.25 billion for payments, based on a formula, to governments beginning July 1, 1977. This program expired September 30, 1978, and will complete its phasing-out activities by September 30, 1979.

The fiscal year 1980 request consists of 163 average positions and $6,337,000, a decrease of 20 average positions and $863,000.

The FY 1980 request is presented in the following four activities to which Executive Direction has been spread to permit a more representative presentation as to the actual cost of each.

1. Legal and Support Services - This activity provides legal counseling and representation, extensive statutory and regulatory drafting, personnel, budget and administrative support, and dissemination of information to public, media, citizens' groups, Congress, etc.

This activity is composed of the following divisions and resources:

	Authorized Positions		
	1979 Pos.	1980 Pos.	Increase/Decrease over 1979
Legal Division	14	13	-1
Administrative Division	8	7	-1
Public Affairs Division	3	3	---
Total Authorized Positions	25	23	-2
Total Average Positions	24	23	-1
Total Dollars ($000)	$877	$860	$-17

January 15, 1979

The FY 1980 net decrease of one average position and $17,000 consisting of an increase of $13,000 to maintain FY 1979 levels and a reduction of $30,000 for nonrecurring costs and savings resulting from increased productivity.

2. Operations and Technical Assistance - This activity provides for the acquisition of current and accurate data for use in computing allocations of funds. The 39,000 units of State and local governments are provided with their data factors for review and offered the opportunity to propose corrections prior to the allocations. The procurement of data for proposed revision in the General Revenue Sharing formula and the analyses of the results of these proposals are also part of this activity. This activity further provides technical advice and assistance to States and local governments, monitors compliance by recipient governments with the public participation requirements of the Revenue Sharing Act as amended, and performs all associated accounting.

Due to the expansion of the citizen participation and public hearings provision, considerable time was spent informing recipient governments and public interest groups of the new public participation requirements. This was done through a series of publications designed to assist recipient governments to understand the new requirements.

Resources have been dedicated to the development of interactive computer systems to aid in the internal operation of the Office of Revenue Sharing. Three major systems are being developed for office-wide use to reduce requests for hard copy reports and make replies to Congressional and recipient government inquiries more expeditious:

A. Recipient Information Summary System (RISS) - This system is expected to provide immediate response to standardized inquiries concerning all active data bases for both General Revenue Sharing and Antirecession Fiscal Assistance Programs.

B. Civil Rights Compliance Tracking System (CRCTS) - This system is expected to provide instant tracking information relating to any or all cases and maintain the status of Civil Rights compliance cases under investigation by the Office of Revenue Sharing.

C. Audit Reporting System (ARS) - This system will maintain the status of the "External Audit Reports" required from some recipient governments. The ARS also provides immediate information on these governments through the demand terminal.

SUMMARY JUSTIFICATION OF FY 1980 BUDGET ESTIMATES
(continued)

Further development of the above systems is now in progress and several new applications are currently under analysis.

The Office of Revenue Sharing in conjunction with the Bureau of the Census introduced a newly-designed Actual Use Report. This report consolidates local government reporting of expenditures for the General Revenue Sharing Program with data on the total finances of units of State and local government into a single concise format. The collection of this information is mandated by the enacting legislation and will assist the Congress in evaluating the impact of the General Revenue Sharing Program on State and local finances.

This activity is composed of the following divisions and resources:

	Authorized Positions		
	1979 Pos.	1980 Pos.	Increase/Decrease over 1979
Systems and Operations Division	32	31	-1
Data and Demography Division	13	12	-1
Intergovernmental Relations and Technical Assistance Division	23	22	-1
Total Authorized Positions	68	65	-3
Total Average Positions	65	63	-2
Total Dollars ($000)	$2,698	$2,710	$12

The FY 1980 reduction of two average positions and a net increase of $12,000 consists of an increase of $37,000 to maintain FY 1979 levels and a decrease of $25,000 for nonrecurring costs and savings resulting from increased productivity.

3. Monitoring and Enforcement - This activity provides for ensuring compliance with the non-discrimination provisions of laws administered by the Office of Revenue Sharing, conducting investigations of allegations of non-compliance, and monitoring audits of recipient governments made by State and local government audit agencies, CPA's and IPA's. Since there has been a significant increase in complaints, the Civil Rights Division has begun to utilize a Compliance Tracking System (CRCTS) and maintains cooperative relations with other Federal agencies. These efforts have assisted in investigating and resolving a number of Civil rights complaints.

Included in the State and Local Fiscal Assistance amendments of 1976 was the requirement that recipient governments receiving $25,000 or more annually in revenue sharing entitlements have an independent audit of their financial statements. These audits must be done in accordance with generally accepted auditing standards and not less often than once every three years. This requirement applies to more than 11,000 of the nearly 39,000 revenue sharing recipients, and makes it necessary for the Office of Revenue Sharing to review the professional practice of State auditors and Independent Public Accountants. The three year requirement makes FY 1979 the latest year in which recipients can comply with the Act as amended. The majority of recipients will not submit reports until 1980. Hence, 1980 is a crucial year as far as Audit workloads are concerned.

The Office of Revenue Sharing reviewed the professional practice of all State auditors responsible for making financial and compliance audits of State and local governments. As a result of this review, 10 audit agencies are unacceptable. These 10 audit agencies have been given particular attention because state auditors audit approximately one-half of the recipients required by the 1976 amendments to have audits. To date, all 10 of these audit agencies have either decided to contract with independent public accountants to make the required audits or have taken positive steps to bring their practice to an acceptable status.

A new audit guide was also issued incorporating the changes established in the 1976 amendments.

This activity is composed of the following divisions and resources:

	Authorized Positions		
	1979 Pos.	1980 Pos.	Increase/Decrease over 1979
Civil Rights Division	56	46	-10
Audit Division	30	24	-6
Total Authorized Positions	86	70	-16
Total Average Positions	86	77	-9
Total Dollars ($000)	$2,901	$2,767	$-134

SUMMARY JUSTIFICATION OF FY 1980 BUDGET ESTIMATES
(continued)

The FY 1980 reduction of nine average positions and a net decrease of $134,000 consists of an increase of $51,000 to maintain FY 1979 levels and a decrease of $185,000 for nonrecurring costs and savings resulting from increased productivity.

4. Antirecession - This activity provided for the implementation and administration of the provisions set forth in Title II of the Public Works Employment Act of 1976 as amended by the Intergovernmental Anti-recession Assistance Act of 1977. Authority for phase-out activities of this program expires September 30, 1979.

	Authorized Positions		
	1979 Pos.	1980 Pos.	Increase/Decrease over 1979
Total Authorized Positions	6	---	-6
Total Average Positions.	8	---	-8
Total Dollars ($000)	$724	---	$-724

The FY 1980 decrease of eight average positions and $724,000 reflects the termination of this program.

43-133 O - 79 - 17

OFFICE OF REVENUE SHARING

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses in the Office of Revenue Sharing, including the hire of passenger motor vehicles, [$7,200,000] *$6,337,000. (31 U.S.C. 1226(a); Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1979.)*

EXPLANATION OF LANGUAGE CHANGES: NONE

Salaries and Expenses, Office of Revenue Sharing

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual 1978	Estimated 1979	Estimated 1980	Decreases for 1980 Total	Decreases for 1980 Program Changes	Decreases for 1980 Other
Accountants/Auditors	24	24	22	-2	---	-2
Attorneys	8	8	8	---	---	---
Computer Specialists	16	16	14	-2	---	-2
Economists	1	1	1	---	---	---
Equal Opportunity Specialists	32	32	29	-3	---	-3
Management/Administrative Staff	7	7	7	---	---	---
Program Analysts	28	28	26	-2	---	-2
Secretarial/Clerical Staff	40	40	37	-3	---	-3
Statisticians	1	1	1	---	---	---
Technical Assistance Specialist	7	7	6	-1	---	-1
Research Assistants	5	6	5	-1	---	-1
Subtotal	169	170	156	-14	---	-14
Part-time and Temporary average positions	18	13	7	-6	---	-6
Total average positions	187	183	163	-20	---	-20

257

150

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
SALARIES AND EXPENSES

Explanation of Program and Other Changes for Fiscal Year 1980

I - Program Changes

No program increases are requested for FY 1980.

(Dollars in thousands)

	1979 Adjusted			1980 Estimate			Inc. (+) or Dec. (-)		
	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount	Perm. Pos.	Ave. Pos.	Amount
Revenue Sharing, Salaries and Expenses	158	163	$6,337	158	163	$6,337	---	---	$ ---

The Office of Revenue Sharing was established in 1972 to implement the General Revenue Sharing Program, as authorized by the State and Local Fiscal Assistance Act of 1972 and renewed October 1976, by enactment of the State and Local Fiscal Assistance Amendments of 1976 which expire September 30, 1980.

According to the Act of 1972, the responsibilities of the Secretary of the Treasury include: (1) formulating and implementing regulations and rules for the conduct of the General Revenue Sharing Program; (2) calculating allocations for over 39,000 State and local governments for each entitlement period and make payments to those governments in the correct amount; (3) maintaining accounting records for each of the State and local governments relative to the State and local government fiscal assistance trust fund; (4) providing guidance to the State and local governments in connection with the Fiscal Assistance Act as amended; insuring compliance with the requirements of the Act, the Age Discrimination Act of 1975, the Rehabilitation Act of 1973, (section 504), and the Civil Rights Acts of 1964 and 1968; and (5) reporting to Congress, recipient governments and the general public at regular intervals on the Revenue Sharing Program.

The Office of Revenue Sharing by enactment of Title II of the Public Works Employment Act of 1976, as amended by the Intergovernmental Antirecession Assistance Act of 1977 assumed responsibility for the disbursement of antirecession financial assistance funds to eligible governments. As of September 30, 1978, authorization for this program terminated. The resources related to the completion of the phase-out activities for this program appear in Section II of this budget as an adjustment to the 1979 authorized level.

II - Other Changes

	Average Positions	Amount
Total increases necessary to maintain the current FY 1979 level in FY 1980	---	$+101,000
1. Net cost of within-grade salary increases	---	+13,000

The adjustment provides for the net cost associated with the periodic statutory within-grade increases for civil service personnel. A position by position analysis of on board personnel and vacancies in FY 1978 and historical trends in the Department including a lapse factor reflect a total requirement for within-grade increases in FY 1980 of $13,000.

2. Increased reimbursement to the Working Capital Fund (WCF)	---	+12,000

This adjustment provides for an increase in costs associated with the centralized services provided by the Working Capital Fund. This requirement is due to the cost increases experienced by the Fund in the areas of supplies, utilities, communications, rent and wages.

3. Increased cost of FTS (Federal Telecommunications Systems) and other communications	---	+8,000

This adjustment is necessary to compensate projected increases for local and FTS services based on historical data.

4. Compensation for two extra work days in FY 1980	---	+31,000

This adjustment is a result of having 262 work days in FY 1980 as opposed to 260 in FY 1979.

5. Increased costs of support services	---	+19,000

This adjustment will accommodate anticipated increases based on historical data for (1) subscriptions and books pertaining to labor relations, financial reporting and legal references; (2) data processing and other equipment rentals; and (3) health unit services provided by the Department of Health, Education and Welfare.

6. Full-year costs of civilian pay increases authorized for part of fiscal year 1979	---	+5,000

This adjustment provides for full-year cost of the October 1978 pay increase as authorized by Executive Order 12087 dated October 7, 1978.

7. Increased printing costs	---	+13,000

This requirement is projected based on increased wages, cost of supplies, utilities, communications and rents.

II - Other Changes
(continued)

	Average Positions	Amount
Total reductions and nonrecurring costs and savings	-20	$-964,000
1. Nonrecurring costs related to increased productivity.	-12	-240,000

This adjustment represents a reduction of 12 average positions and $240,000 related to nonrecurring costs and savings resulting in increased productivity.

2. Completion of ARFA phase-down activities.	-8	-724,000

By enactment of Title II of the Public Works Employment Act of 1976, as amended by the Intergovernmental Antirecession Assistance Act of 1977, the Office of Revenue Sharing assumed responsibility for the disbursement of antirecession financial assistance funds to eligible governments. As of September 30, 1978, authority for this program expired. However, resources to phase-down the program were provided through FY 1979. The FY 1980 reduction of $724,000, six permanent positions and eight average positions reflects the completion of the phase-out activities.

DEPARTMENT OF THE TREASURY
Salaries and Expenses, Office of Revenue Sharing
Standard Classification Schedule
(Direct Obligations Only)

(Dollars in thousands)

	Actual 1978	Budget Estimate 1979	Current Estimate 1979	Estimate 1980	1980 Decrease over 1979
Total number of permanent positions	209	185	185	158	-27
Average paid employment	187	189	183	163	-20
Object Classification					
Personnel Compensation:					
Permanent positions	$3,238	$3,869	$3,606	$3,429	$-177
Positions other than permanent	362	160	250	155	-95
Other personnel compensation	54	50	20	20	---
Total personnel compensation	3,654	4,079	3,876	3,604	-272
Personnel benefits, civilian employees	325	367	348	323	-25
Travel and transportation of persons	304	458	413	342	-71
Transportation of things	6	2	10	4	-6
Standard level user charges	260	271	271	271	---
Other rents, communications & utilities	367	331	384	311	-73
Printing and reproduction	228	451	273	200	-73
Other services	579	593	755	534	-221
Services of other agencies	923	720	703	620	-83
Supplies and materials	36	63	44	43	-1
Equipment	144	158	123	85	-38
Insurance claims and indemnities	---	---	---	---	---
Total obligations	6,826	7,493	7,200	6,337	-863
Unobligated balance lapsing	674	---	---	---	---
Total appropriation, Authorized Level and Budget Estimate	$7,500	$7,493	$7,200	$6,337	$-863

January 15, 1979

ORS-4

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS

(dollars in thousands)

	Actual 1978	Budget Estimate 1979	Current Estimate 1979	Estimate 1980	Increase (+) Decrease (-) 1980 vs. 1979
PERSONAL SERVICES					
Personnel compensation:					
Permanent positions	$3,238	$3,869	$3,606	$3,429	$-177
Positions other than permanent	362	160	250	155	-95
Other personnel compensation	54	50	20	20	---
Personnel Benefits	325	367	348	323	-25
Total personal services	3,979	4,446	4,224	3,927	-297

Personal Services costs include all salaries and personal benefits which are paid to the Office of Revenue Sharing employees. These include health and life insurance, the Government's contribution to employee retirement plans, accrued leave, and salary and overtime payments. Such costs are affected by numerous factors including pay increases, the number of work days in the fiscal year and within-grade increases. The principle factor affecting costs in this budget year is the decrease in the level of permanent and other than permanent staff. This factor is discussed below:

1. Changes in the Current Estimate 1979 from the Budget Estimate 1979. Reductions for this period reflect (1) Congressional reductions better aligning personnel compensation and benefits and (2) increased productivity resulting in the absorbtion of the October 1978 pay increase.

2. Changes since the Current Estimate 1979. Reductions in the staffing level reflect completion of the phase out of the Antirecession activity and nonrecurring costs and savings resulting from increased productivity.

TRAVEL AND TRANSPORTATION OF PERSONS					
Travel	$304	$458	$413	$342	$-71

The current estimate for 1979 is $413,000, a net reduction of $45,000 compared with the 1979 budget estimate of $458,000. This decrease represents downward adjustments which have been made due to administrative travel reductions and increased productivity permitting reprogramming of resources toward the absorption of the October 1978 pay increase.

The estimate for 1980 primarily reflects the decrease associated with the completion of the phase out of the Antirecession activity.

TRANSPORTATION OF THINGS					
Actual vs. Estimates	$6	$2	$10	$4	$-6

The increase in the current estimate 1979 from the budget estimate 1979 represents the need to store renovation materials for space adjustments to the Office of Revenue Sharing located at Columbia Plaza. The 1980 estimate reflects a return to a more normal level of anticipated obligations.

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

(dollars in thousands)

	Actual 1978	Budget Estimate 1979	Current Estimate 1979	Estimate 1980	Increase (+) Decrease (- 1980 vs. 1979
RENTS, COMMUNICATIONS AND UTILITIES					
Standard Level User Charges	$260	$271	$271	$271	---

These funds are required for anticipated billings by General Services Administration (GSA) for the rent and maintenance of leased space by the Office of Revenue Sharing at Columbia Plaza.

Other rents, communications and utilities	$367	$331	$384	$311	$-73

These resources provide equipment rental, copy machine rental, communication services, mail services, telephone charges, etc. The increase in the current estimate 1979 compared to the budget estimate 1979 primarily reflects greater rental rate increases than anticipated.

The 1980 estimate reflects a net decrease consisting of the phase out of the Antirecession activity, inflationary type increases and nonrecurring costs and savings resulting from increased productivity.

PRINTING AND REPRODUCTION					
Actual vs. Estimates	$228	$451	$273	$200	$-73

This category includes the estimated cost of printing and reproduction provided by or through the Departmental printing plant. This consists of the printing of new and revised handbooks, regulations, issuances, forms, etc. Funds are also included for printing provided by commercial firms under Government Printing Office (GPO) contracts and by other government agency facilities.

The 1979 current estimate reflects a $178,000 decrease compared to the 1979 budget estimate. Projected printing requirements for ARFA renewal legislation which are not anticipated to materialize and savings resulting from increased productivity permit reprogramming of resources toward the absorption of the October 1978 pay increase and related general revenue sharing renewal activities.

The 1980 estimate reflects a net decrease consisting of the completion of the phase out activities of the Antirecession program, and inflationary type increases.

OTHER SERVICES					
Actual vs. Estimates	$1,502	$1,313	$1,458	$1,154	$-304

These resources provide for such services as health units, training enrollments, inter/intra agency agreements, data processing, and special contracts for the administrative operations of the program.

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

(dollars in thousands)

	Actual 1978	Budget Estimate 1979	Current Estimate 1979	Estimate 1980	Increase (+) Decrease (- 1980 vs. 1979
OTHER SERVICES continued					

The 1979 current estimate as compared to the 1979 budget estimate reflects a reprogramming increase to accommodate the absorption of the 1978 pay increase as it affects reimbursable services and to provide sufficient resources toward program renewal procedures.

The 1980 estimate reflects a decrease of $304,000 related to the completion of the phase-down activities of the Antirecession program and other nonrecurring costs.

SUPPLIES AND MATERIALS					
Actual vs. Estimates	$36	$63	$44	$43	$-1

This represents the estimated costs of expendable office supplies purchased through the General Services Administration Federal Supply Schedule Sources: local (GSA) self-service stores; and purchasing subscriptions to newspapers and periodicals. The current 1979 estimate compared to the 1979 budget estimate reflects a decrease of nonrecurring items thus permitting the reprogramming of funds toward absorption of the 1978 pay increase.

EQUIPMENT					
Actual vs. Estimates	$144	$158	$123	$85	$-38

These resources are required for the replacement of office equipment, such as typewriters, desk top calculators, and old, worn and broken furniture.

The 1979 current estimate as compared to the 1979 budget estimate reflects a reprogramming decrease to be applied generally toward the absorption of the 1978 pay increase. The 1980 decrease reflects the nonrecurring equipment costs associated with the phase out of the Antirecession activity.

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
Numbers of Civilian Personnel

	Number of Employees at End of Year					
	1978 Actual		1979 Estimate		1980 Estimate	
	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total
Office of Revenue Sharing						
Salaries and Expenses. . .	182	195	153	159	153	159
Total.	182	195	153	159	153	159

Payments to State and Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1979
(dollars in thousands)

	Permanent Positions	Average Positions	Amount
1979 Appropriation Enacted by Congress	---	---	$6,854,924
Authorized Level for FY 1979	---	---	$6,854,924
Estimate, FY 1980	---	---	$6,854,924

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1980

	Appropriation FY 1978		Auth. Level FY 1979		Budget Estimate FY 1980	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
General revenue sharing payments	---	$6,854,924	---	$6,854,924	---	$6,854,924
Total appropriation, authorized level, and budget estimate.	---	$6,854,924	---	$6,854,924	---	$6,854,924

SUMMARY JUSTIFICATION OF FY 1980 BUDGET ESTIMATES

General Statement

In accordance with the State and Local Fiscal Assistance Amendments of 1976 (Public Law 94-488) entitlement funds may be appropriated to a federal fund. These funds are then deposited in the State and Local Government Fiscal Assistance Trust Fund. It is from this trust fund that funds are made available to the localities.

To carry out general purpose government functions, one-third of the funds appropriated are allocated to the States and two-thirds are allocated to local jurisdictions. The following represents the 39,162 units of general purpose governments which are eligible to receive revenue sharing funds: 50 states plus the District of Columbia, 3,108 counties, 18,871 cities, 16,798 towns and townships, and 334 Indian tribes and Alaskan native villages.

The request for FY 1980 is $6,854,924,000 which is the same level as authorized for Fiscal Year 1978 and 1979.

Payments to State and Local Government Fiscal Assistance Trust Fund

For payments to the State and Local Government Fiscal Assistance Trust Fund, as authorized by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 1221-1263), $6,854,924,000. *(Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1979.)*

EXPLANATION OF LANGUAGE CHANGES: NONE

THURSDAY, MARCH 29, 1979.

NATIONAL CONSUMER COOPERATIVE BANK

WITNESSES

HON. ROGER C. ALTMAN, ASSISTANT SECRETARY (DOMESTIC FINANCE)
ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS
STEPHEN J. FRIEDMAN, DEPUTY ASSISTANT SECRETARY
GENO BARONI, ASSISTANT SECRETARY, HUD
JOHN COMERFORD, HUD

Appropriation	1979 Supplemental	1980 Request	Increase
Salaries and expenses.....	$2,000,000	$2,459,000	+$459,000
Permanent positions.....	101	101	--
Average employment.....	33	90	+57
Self-help development and technical assistance.....	12,000,000	26,441,000	+14,441,000
Permanent positions.....	65	65	--
Average employment.....	22	61	+39
Investment in National Consumer Cooperative Bank (Department of the Treasury).....	40,000,000	60,000,000	+20,000,000
TOTAL:			
Funds.....	54,000,000	88,900,000	+34,900,000
Permanent positions.....	166	166	--
Average employment.....	55	151	+96

Mr. SABO. The Committee will come to order. We welcome the witnesses for the National Consumer Cooperative Bank. Please proceed with your statement, Mr. Altman.

Mr. ALTMAN. With your permission, Mr. Chairman, I would like my statement inserted in full in the record, and I will summarize it here.

[The information follows:]

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
NATIONAL CONSUMER COOPERATIVE BANK

STATEMENT OF THE HONORABLE ROGER C. ALTMAN
ASSISTANT SECRETARY OF THE TREASURY (DOMESTIC FINANCE)
BEFORE THE H.U.D.-INDEPENDENT AGENCIES SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON APPROPRIATIONS

Mr. Chairman and Members of this Distinguished Subcommittee:

I am pleased to present the Administration's initial budget request for the National Consumer Cooperative Bank.

The National Consumer Cooperative Bank Act was signed into law by the President on August 20, 1978. The Act establishes a bank to make sound loans at market rates of interest to cooperatives in a variety of fields. It also creates an Office of Self-Help Development and Technical Assistance within the Bank to extend capital advances and to make management and technical assistance available to cooperatives with special needs.

Last September the Administration established an Interagency Task Force, which I chair, to expedite implementation of the Act. The Task Force held 19 public meetings on the Bank in Washington and around the nation. At these meetings, people who are members of cooperatives or who are interested in forming cooperatives voiced deep interest in the Bank.

The Bank

The Bank is modeled on the highly successful Banks for Cooperatives, which make credit available to agricultural cooperatives. It was established to satisfy the unmet credit needs of other cooperatives, particularly consumer cooperatives. The Bank represents an effort by Congress and the Administration to achieve increased growth and stability for coopera-

tives in order to secure lower consumer prices, enhanced power for consumers in the market place, and a fair share in the benefits of cooperatives for low income people. The request that I present today will allow the Bank to begin moving toward these goals.

Like the Banks for Cooperatives, the Bank will initially be financed with a government investment that will be redeemed over time. And like them, it is intended to operate on a sound and self-sustaining financial basis.

The Bank's Self-Help Development Office will be separate from its lending operation. It's Self-Help Development Fund will make capital advances, or soft loans, to cooperatives which cannot secure adequate financing from hard loan sources. These capital advances will help satisfy cooperatives' need for equity and junior debt. The advances will increase

cooperatives' financial soundness and will help them qualify for conventional loans from the Bank and other sources. This is particularly important for new cooperatives and for cooperatives serving low income people. The Office's technical assistance program will offer management and technical assistance to cooperatives, including low-income credit unions that are not eligible to become borrowers.

Budget Summary

Our budget request can be summarized as follows: For FY 1979, we seek a $40 million appropriation for capitalizing the Bank (purchasing its Class A stock); $10 million for capitalizing the Self-Help Development Fund; and $2 million each for the Bank's administrative expenses and of the Self-Help Office, which include the expenses of its technical assistance program. For FY 1980, we seek an additional $60 million for Class A stock, $20 million for the Self-Help Fund, $2.459 million for the Bank's expenses, and $6.441 million for the expenses of the Self-Help Office.

Capitalizing the Bank

The moderate capital investment that we have requested is necessary to establish the Bank as a sound, independent entity capable of generating sufficient earnings from its nation-wide business to repay the government's investment over a reasonable length of time. Our FY 1979 request for funds for purchasing Class A stock is significantly below

the $100 million authorized by Congress for that year. However, our fiscal year 1979 and 1980 requests together should satisfy the Bank's capital needs in those years and firmly establish it as a self-sufficient, independent entity.

The Bank's Class A stock is preferred stock yielding cumulative dividends. The dividend rate will be determined by the Secretary of the Treasury, who will take into consideration the market rate for Treasury securities of comparable maturity. Until October 1, 1990, however, dividends are limited to 25% of the Bank's net income.

The government's investment will be repaid out of the Bank's retained earnings and the proceeds of required purchases of stock by cooperative borrowers. As I noted before, the model for this procedure is the highly successful Banks for Cooperatives in the Farm Credit System. The statute requires that the Bank retire the Class A stock as soon as possible consistent with the Act's purposes. It also requires that the proceeds of all sales of Class B and C stock after October 1, 1990 be used for this purpose.

Until all the Class A stock is redeemed, the President of the United States will appoint at least six members of the Bank's thirteen member board of directors. Thereafter, he will appoint only one. I expect that after its initial organizational phase, the Bank will place a high priority on retiring the Class A stock. In this way the Bank will be independent and wholly controlled by cooperatives as soon as possible.

Lending Policies

The Bank's objective is to make sound loans at market rates of interest. The statute requires that every loan be fully repayable in accordance with its terms and conditions. It also requires that as long as the Bank is making loans from government capital, it must charge interest rates that are at least equal to rates prevailing in the local area for loans from other sources for similar purposes and maturities. The loan program will thus be a hard loan program.

By the end of FY 1980, the Bank should have nearly $100 million in loans outstanding if the requested appropriations are granted. This would constitute a significant step toward meeting the needs of cooperatives for conventional credit. Among the types of cooperatives assisted would be food coops, housing coops, low-income agricultural coops, energy coops, health care coops and handicraft coops. By

statutory mandate, the Bank must use its best efforts to see that 35% of the total goes to cooperatives serving low-income people. Low-income people will thus share substantially in the benefits from increased growth in cooperatives. In order to assure that existing small businesses are not unfairly harmed, the Bank will assess the impact of its loans on small business.

The Bank is authorized to leverage its resources by borrowing in the credit markets. However, we assume that the Bank will do no borrowing in fiscal years 1979 or 1980. We also assume that the Bank will implement its guarantee program on no more than a demonstration basis in those years. We feel that the lack of a substantial track record would make it difficult for the Bank to sell debt on advantageous terms in these years. Sound business practice would thus lead it to look solely to its equity capital as a source of funds. We therefore ask that the Bank's authority to make or guarantee loans be limited to $40 million in FY 1979 and $100 million in FY 1980. The requested ceiling will allow the Bank to lend its capital while keeping a reasonable reserve for losses and for continuity of operations into FY 1981.

Salaries and Expenses of the Bank

The statute authorizes funds for the Bank's administrative expenses. Our request would chiefly cover the costs of establishing and operating the Bank's direct loan program. Such costs include hiring and training personnel, designing and implementing loan procedures, acquiring and remodeling office space, and the like.

Let me stress here that our request for administrative expenses reflects assumptions about the Bank's structure upon which its Board of Directors will ultimately decide. We have assumed, for example, that the Bank and its Self-Help Office will share many overhead services in order to secure cost efficiencies and that the bulk of these shared services (performed by roughly fifty full-time employees) would best be located in the Bank proper. We have also assumed that the Bank and the Self-Help Office will each maintain a separate field staff of credit analysts.

The bank will have no funds at all until it receives a FY 1979 appropriation. I therefore urge that you expedite treatment of the FY 1979 request.

Capitalizing the Self-Help Development Fund

The Self-Help Development Fund is designed to promote the growth and development of cooperatives that cannot obtain sufficient funds from other sources, particularly cooperatives that serve low-income people. The Fund's capital advances are well suited for achieving this objective. They will satisfy the need of many cooperatives for capital infusions that are subordinated to ordinary debt.

The statute requires that applicants present an acceptable plan for replacing capital advances with equity within thirty years. It also requires that advances bear interest at a rate determined by the Bank's Board of Directors. All interest income and repayments of principal will be redeposited in the Fund's capital account. The requested capital appropriations will enable the Fund to assist cooperatives on a significant scale in fiscal years 1979 and 1980.

Salaries and Expenses of the Self-Help Office and the Technical Assistance Program

Our request for the expenses of this Office is separate from our request for the expenses of the rest of the Bank. It covers the cost of setting up and operating both the Office's capital advance program and its technical assistance program. It also covers the Office's share of the cost of services provided to it by the Bank.

The Office's technical assistance program will aid cooperatives with special needs, particularly those serving low-income people. For many cooperatives, technical assistance is the most important type of aid. Such assistance could include training in management, bookkeeping, financial planning, contracting, serving on a board of directors, and membership education. It could also include training in skills relevant to a cooperative's particular line of business, such as produce buying for food cooperatives, retail marketing for retail cooperatives, or health care management for health care cooperatives. In many cases the Office may recover all or part of the cost of assistance by charging fees.

Personnel

Let us turn briefly to the question of personnel. We believe that the Bank will be able to operate effectively and economically in fiscal years 1979 and 1980 with the authority to hire 166 full-time employees. We have assumed that roughly 101 of these employees will work under the direction of the Bank's president and that roughly 65 will work under the direction of the Self-Help Office's Director. Bank on a shared-cost basis.

We have further assumed that roughly fifty of the employees working for the President and roughly eight of the employees working for the Director will perform services for the entire Bank on a shared-cost basis.

This arrangement would help secure the cost savings sought by Congress in consolidating the Office within the Bank. I suggest, however, that the Bank should have discretion to modify this structure within the overall personnel limit of 166 full-time employees.

* * *

Thank you, Mr. Chairman and members of the Subcommittee for your attention. I will be happy to answer any questions you may have.

SUMMARY OF GENERAL STATEMENT

Mr. ALTMAN. I am here, of course, to present the Administration's initial budget request for the National Consumer Cooperative Bank.

The Act was signed into law August 20, 1978. It established a bank to make sound loans, at market rates, of interest to cooperatives in a variety of fields. It also created an Office of Self-Help Development and Technical Assistance within the Bank to extend capital advances and to make management and technical assistance available to cooperatives with special needs.

Last September, after the Act was passed, the Administration established an Interagency Task Force, which I chair, to expedite implementation of the Act. Among many other things, we held 19 public meetings on the Bank in Washington and around the country.

Mr. Chairman, the Bank is modeled on the highly successful Banks for Cooperatives which make credit available to agricultural co-ops. It was established to satisfy the unmet credit needs of other cooperatives, particularly consumer cooperatives.

Like the Banks for Cooperatives, it will initially be financed with a Government investment that will be redeemed over time. And like them, it is intended to operate on a sound, self-sustaining, and financially self-sufficient basis.

The Self-Help Development Office and the Self-Help Development Fund will be separate from the Bank proper. It will make soft loans to cooperatives which cannot secure adequate financing from hard loan sources.

BUDGET REQUEST

Let me turn, if I may, to our actual budget request. The request can be summarized as follows: For Fiscal Year 1979, Mr. Chairman, we are requesting $40 million for capitalizing the Bank, that is, for purchasing its Class A stock. In addition, we are requesting $10 million for capitalizing the Self-Help Development Fund and $2 million each for the administrative expenses of the Bank and for those of the Self-Help Office, which include those of the technical assistance program. We are thus requesting a total of $54 million for Fiscal Year 1979.

Regarding Fiscal Year 1980, we request an additional $60 million for purchasing the Bank's Class A stock, $20 million for the Self-Help Fund, $2.5 million for the Bank's expenses, and $6.4 million for the expenses of the Self-Help Office. In other words, about $89 million in 1980.

Mr. Chairman, we have requested a modest capital investment for the Bank, to get it going on the road toward being sound, independent, and financially self-sufficient. In this way, the Bank will be able to repay the government's investment over a reasonable period of time, as was the case with the Banks for Cooperatives.

I want to emphasize that our 1979 request for $40 million for purchasing Class A stock is well below the $100 million which the authorizing legislation specified for that year. We think that our Fiscal Years 1979 and 1980 budget requests together should satisfy the Bank's capital needs in those years and get it started on the way toward being self-sufficient.

Mr. Chairman, the Bank's Class A stock is preferred stock yielding cumulative dividends. Only the government will own it. Our investment will be repaid out of the Bank's retained earnings and the proceeds of stock sales to cooperative borrowers. The Act requires that the Bank retire the Class A stock as soon as possible. It also requires that the proceeds of all sales of Class B stock and Class C stock after October 1, 1990, be used for that purpose.

The Statute authorizes funds for the Bank's administrative expenses. Our request would cover the costs of establishing and operating the Bank's direct loan program. Such costs include, of course, hiring and training personnel, designing and implementing loan procedures, acquiring and remodeling office space, and the like.

I should note that our request for administrative expenses reflects assumptions about the Bank's structure on which its board of directors will ultimately decide.

The Bank will have no funds at all until it receives its Fiscal Year 1979 appropriation. It cannot begin until those funds are appropriated. I, therefore, urge that you expedite treatment for the Fiscal Year 1979 request.

SELF-HELP FUND

Let me deal then, just briefly, with the Self-Help Fund. This is designed to finance cooperatives which cannot obtain sufficient funds from other sources, particularly cooperatives serving low-income people.

The Act requires that applicants present an acceptable plan for replacing capital advances from the Fund with equity within 30 years. We think that our capital request of $10 million in 1979 and $20 million in 1980 will enable the Fund to assist cooperatives on a meaningful scale in those years.

Our request for the expenses of the Self-Help Office is separate from our request for the expenses of the rest of the Bank. It covers the cost of setting up and operating both the Office's capital advance program and its technical assistance program.

We think that the Self-Help Office's technical assistance program is one of the most important elements in the Bank. The technical assistance program will help cooperatives with special needs, particularly those serving low-income people. For many cooperatives, whether struggling cooperatives or just start-ups, technical assistance is the most important kind of help. It includes management training, bookkeeping, financial planning, contracting, and membership education.

PERSONNEL REQUIREMENTS

I think I will close by briefly addressing the issue of personnel. We have recommended that the Bank and its Self-Help Office together have authority to hire 166 full-time employees for 1980. We have assumed that roughly 101 of these employees would work under the direction of the Bank's president and that the other 65 would report to the director of the Self-Help Office.

We further assume that about 50 of the employees working for the president and roughly 8 of those working for the director will

perform services for the entire Bank on a shared cost basis. In other words, in order to take advantage of economies of scale, certain functions, such as legal, accounting, and other overall management functions, will be performed by the Bank but will be shared with the Self-Help Office and cost accounted for in that way.

That concludes the remarks I would like to make at this point, Mr. Chairman. I will be happy to answer any questions that you may have.

Mr. SABO. Thank you, Mr. Altman. Father Baroni, welcome to the Subcommittee.

THIRTEEN-MEMBER BOARD OF DIRECTORS

Mr. Altman, on page 3 of your statement you mention a 13-member board of directors. Initially, all 13 members will be appointed by the President with advice and consent of the Senate. Seven members are to be chosen from among officers of Federal government agencies and six members from the general public. The method of board member selection changes as private capital increases. Has the President nominated the 13 members of the board of directors?

Mr. ALTMAN. Not yet, Mr. Chairman.

Mr. SABO. When will that happen?

Mr. ALTMAN. My impression is that it will happen soon, and I am thinking within 3 or 4 weeks. I hope you won't hold me to that, but that is my impression. I believe that the recommendations on this have been sent to the President.

ORGANIZATION OF THE NATIONAL CONSUMER COOPERATIVE BANK

Mr. SABO. How much can be done, such as hiring people and leasing space, to organize the National Consumer Cooperative Bank until at least a quorum of board members are onboard?

Mr. ALTMAN. First, it is impossible to make any financial commitments, such as a lease, until we have an appropriation . It is also impossible to acquire furniture, and to begin to pay employees. I therefore believe that the trigger date is the appropriation date. That is point one.

The second point I would like to make is that we have done a great deal of work through our Interagency Task Force on making recommendations for the board concerning finance and lending policies, internal procedures, and a series of other things. The board of directors, however, will ultimately decide such questions and will promulgate the related regulations. So, until there are funds appropriated, and until the board nominees are approved by the Congress, the Bank can't actually begin its operations.

PROPOSED ORGANIZATIONAL CHART

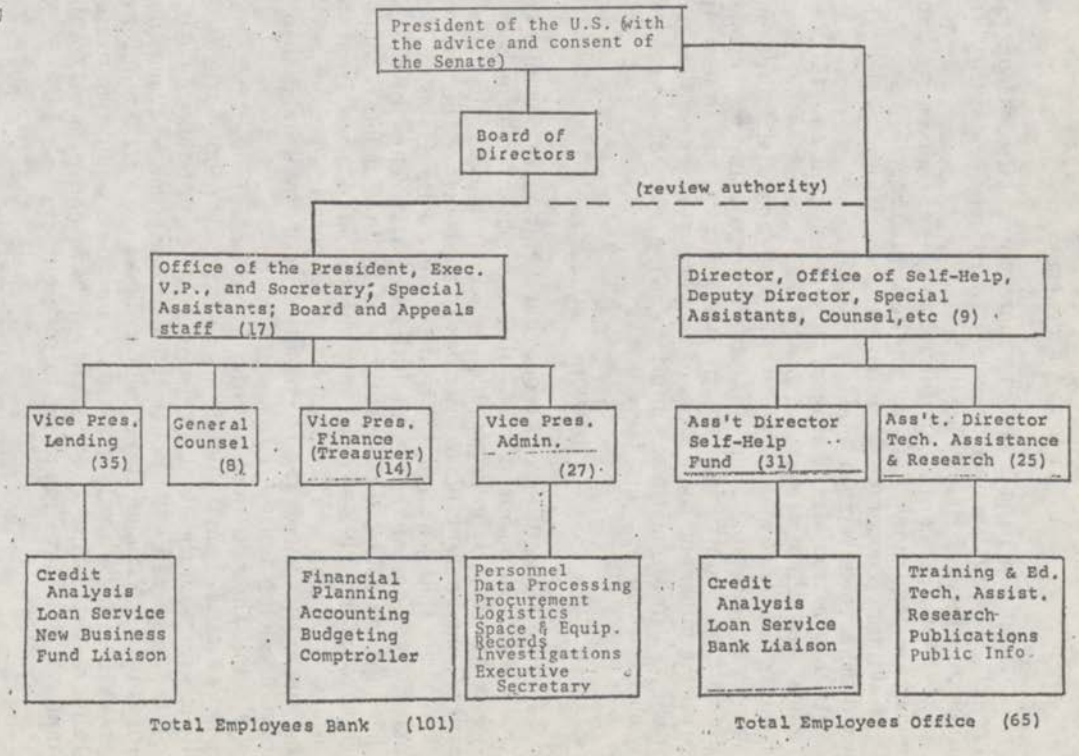
Mr. SABO. Would you provide for the record a copy of the proposed organizational chart?

Mr. ALTMAN. Yes, sir.

[The information follows:]

Tentative Organization Chart

NATIONAL CONSUMER COOPERATIVE BANK
(including Office of Self-Help)



Total Employees Bank (101)

Total Employees Office (65)

NUMBER OF COOPERATIVES

Mr. SABO. On page 1, the first paragraph states, "Cooperatives in projects serving low-income persons will receive priority from the Bank and its Self-Help Office."

I presume there are many different types of cooperatives, and there must be a large number of them in the United States.

How many cooperatives are there in the United States, and what would their membership total?

Mr. FRIEDMAN. Mr. Chairman, this obviously is an estimate, but we believe that there are in excess of 2,500 housing cooperatives, 3,000 food cooperatives, and 1,700 day care cooperatives. In addition to that, there are substantial numbers of wholesale grocery cooperatives, health care cooperatives, energy cooperatives, and others. We have precise numbers on some types of cooperatives because they tend to be organized in associations. On others it is impossible to get data. The group as a whole is quite large.

DEMAND FOR LOANS

Mr. SABO. Once the word is out that a National Consumer Cooperative Bank is in business, what will the demand for loans be?

Mr. ALTMAN. It is impossible to be certain as to what the demand will be, but I would like to say this: In the course of the very extensive field visits that we made between passage of the House bill last year and the passage of the Senate bill, and in the course of the 19 public meetings we held since the signing of the Act, it has become vividly clear to us that there will be very substantial demand from what are, in our judgment, worthy prospective cooperative borrowers. We have no doubt that there will be considerably more demand than we will have financing assistance to accommodate.

I think the best evidence of the amount of interest is that 1,200 people attended our 19 public meetings; 1,000 people attended 12 public meetings on the Bank sponsored by the Conference on Alternative State and Local Public Policies; 600 people attended 12 meetings sponsored by the National Rural Center. There are a great number of cooperatives, either already in existence or which would like to start up. I think there is no question that we will have more demand for financing than we will have financing to give out.

TECHNICAL ASSISTANCE

Mr. SABO. What about technical assistance?

Mr. ALTMAN. We think, as I said, that the technical assistance portion of this program is one of the most important elements in it. Many cooperatives do not have expertise in the entire spectrum of management skills, such as bookkeeping, personnel and accounting. That is why we have asked for a sufficient amount of funds in the administrative expenses portion of the Self-Help Office request so that we can have a meaningful technical assisitance program. We estimate roughly $2.3 million in Fiscal Years 1979 and 1980 in expenses for the technical assistance program. We think that is very important.

NUMBER OF NEW COOPERATIVES STARTED

Mr. SABO. Do you have any idea of how many new cooperatives will be started because of this legislation?

Mr. ALTMAN. It is impossible to be certain about that.

Mr. BARONI. Mr. Chairman, because I am from HUD, I am interested in housing cooperatives.

In terms of your question about technical assistance, usually a developer in housing goes out, looks at land, does a marketing study, puts together a financial package, gets an architect, and puts together all the documents and instruments it takes for a housing development. But for cooperatives, you usually don't have that kind of money or technical assistance to put together the package, or even to come in to get HUD approval. It took me 9 years with a group in Washington, because we didn't have any front-end money, to hire architects and to put together a package, because the loans would have to be remade. To go to a bank to get a market rate loan, you are going to have to have a good package.

We think, in housing, some kinds of housing that we have could be better suited to cooperatives and would work better if we could convert over to cooperatives. It is going to be slow, but we want to make sure that they are going to be able to get market rate loans. That is why this technical assistance is critical for groups, particularly in the area of housing. I am sure it is true with health care and other kinds of cooperatives as well.

Mr. SABO. Basically you are telling us that you don't have good estimates regarding current and future demands for loans and technical assistance?

Mr. ALTMAN. As I said, the best index to us has been the response in the course of the 41 separate meetings that we held around the country before the bill was passed last year, and the 19 public meetings which we ourselves have held since then. We have directly encountered tremendous interest in the Bank on the part of existing cooperatives and on the part of people that would prospectively begin cooperatives.

One statistic that I should have mentioned, in response to your earlier question, is that the Cooperative League of the USA reports to us that it is getting 35 to 40 inquiries a day now about how to start a co-op and about potential assistance from the Bank.

I don't think it is a case, Mr. Chairman, of soft assumptions on our part. It is a matter of it being impossible to predict the precise volume of requests for loans from the Bank and of requests for capital advances from the Self-Help Fund. I frankly think that the extensive program of field visits and consultation that we have conducted is the best marketing test available.

PRIORITY BETWEEN COOPERATIVES

Mr. SABO. You indicate that cooperatives serving low-income persons will receive priority.

What will be the priority between the different types of co-ops, between co-ops for food, housing, energy, health care, et cetera?

Mr. ALTMAN. The Act requires that 35 percent of the Bank's financial assistance goes to cooperatives serving low-income persons. That

was a provision which we supported very strongly. The Act also limits the amount of financial assistance which can go to producer co-ops and to housing co-ops to 10 percent and 30 percent respectively, though the latter limit doesn't begin until 1983.

SPLIT BETWEEN URBAN AND RURAL CO-OPS

Mr. BOLAND. What about the split in priorities between urban and rural cooperatives? That is an important question. Will there be a percentage split? Is it going to be 75 percent for urban and 25 percent for rural, or do you have any idea?

Mr. ALTMAN. There is no requirement in the Statute.

Mr. BOLAND. No, there is no requirement, but it is certainly a question that will be asked when we bring this to the House floor.

Mr. ALTMAN. There is no requirement in the Statute, of course, for that division. The proper division will ultimately be a question for the board of directors, either on a case-by-case basis or in the policies which the board will set. We have no bias, Mr. Chairman.

Mr. BOLAND. I am sure you would not have.

Let me ask you about the geographic split. There is no requirement in the law on that either. Where are the vast majorities of cooperatives now located; in what sections of the country?

Mr. FRIEDMAN. There are certainly many in the South and in the West, but they are distributed all over the country.

Mr. ALTMAN. It depends on the type of co-op, Mr. Chairman. For example, agricultural producer co-ops that are unable to secure assistance from other programs are going to be eligible for this. Naturally, they are in heavily agricultural areas such as the West, the Southwest and the South. Housing co-ops are generally in densely populated areas, such as cities and surrounding metropolitan areas.

Mr. BOLAND. Earlier, you gave an estimated figure for the number of housing co-ops; how many are there?

Mr. FRIEDMAN. 2,500 housing cooperatives, sir.

Mr. BOLAND. You know the farming cooperatives have formed very successful programs, of course. The Banks for Cooperatives under the Farm Credit Administration was very successful.

Mr. FRIEDMAN. That is right.

Mr. BOLAND. As a matter of fact, one of the great areas of service, more so years ago than now, was performed by the Farm Credit Administration up in the New England area serving all of the States in New England, as well as New York and New Jersey.

Let me ask about the supplemental appropriation.

FISCAL YEAR 1979 SUPPLEMENTAL REQUEST

You are requesting $40 million for a supplemental appropriation in 1979 for the initial capitalization of the National Consumer Cooperative Bank. You are also requesting $60 million for 1980. The program and financing schedule on page 3 of the justifications shows the entire amount obligated and outlaid in Fiscal Year 1979. The budget schedule in the Budget Appendix indicates the entire $60 million in 1980 will be outlaid, but the Congressional Budget Office estimates outlays to be much lower.

Assuming the enactment of the supplemental by mid-June, how accurate is your estimate of outlays?

Mr. ALTMAN. Mr. Chairman, I think it is possible, very possible, that those estimates are optimistic, in terms of the amounts of financing which will actually be out the door by the end of 1979, and then by the end of 1980.

Mr. BOLAND. What if the supplemental were not enacted until mid-August of 1979? Would that impact upon the $40 million capitalization request?

Mr. ALTMAN. It would have an impact on our outlay and commitment estimates. Our assumption was that in 1979 funds would be appropriated in about mid-June.

Mr. BOLAND. What effect would a late 1979 supplemental bill have upon the $60 million requested for capitalization in 1980?

Mr. ALTMAN. Not very much. One important distinction that should be made is between loan commitments that the Bank would make and actual disbursements of money. The Congressional Budget Office questions the disbursements. The questioning there is reasonable. We found that there is a large, pent-up demand for assistance of this type on behalf of co-ops.

Mr. BOLAND. There always is. You know when money is readily available, there will be a run on it. How does the Treasury Department intend to capitalize the National Consumer Cooperative Bank? All at once, or as the capital is needed?

Mr. ALTMAN. As it is needed.

Mr. BOLAND. On page 2 of the justifications——

Mr. ALTMAN. Mr. Chairman, if I could just make one quick comment? You are absolutely right about that. There is no question that in every Federal program which is funded, the money is always spent somehow. I recognize that. I wasn't trying to be disingenuous. What I was saying is that I really think that, given that the Congress has already authorized the Bank with the intention that it make loans to credit worthy cooperatives, that it is going to be able to make a lot of those loans. The Congress has spoken, and I think——

FUNDING REQUIREMENTS

Mr. BOLAND. The Congress has spoken by one vote. I voted for it, and I favor it, but I am concerned about the hurried method of organization, and whether the requests that are being made in the 1979 supplemental and for 1980 ought to be funded to the extent that your statement and the justifications indicate.

Mr. ALTMAN. Let me add this: The authorizing legislation permits a maximum Fiscal Year 1979 budget authority of $100 million. We have assumed that the Bank will do no outside borrowing during 1979 and 1980. It has the authority under the Statute to borrow. However, we think that would be unwise, since the Bank will not have a sufficient track record. I think we are being at least somewhat conservative in requesting substantially less capital than the maximum permitted under the statute and in restricting ouside borrowing.

APPROPRIATION LANGUAGE

Mr. BOLAND. On page 2 of the justifications, the suggested appropriation language indicates that the $40 million is to remain available until expended. Why? You plan to outlay the entire amount, don't you?

Mr. ALTMAN. As needed.

Mr. BOLAND. Let me quote the suggested language:

For the purchase of Class A preferred stock issued by the National Consumer Cooperative Bank, $40 million to remain available until expended.

That is language to which Appropriation Committees usually object. Why is this language in there?

Mr. FRIEDMAN. The notion was, as Mr. Altman indicated, in order to make commitments in 1979, the Bank needs authority for the money appropriated. We envision the end of 1979 and the beginning of 1980 to be a period in which very substantial commitments will be made, partially because of the pent-up demand.

Mr. BOLAND. If the appropriation of $40 million is made, would any additional assurance that the monies are forthcoming be needed?

Mr. FRIEDMAN. That means that money may not be available if outlays slip over until 1980. What it will create, I am afraid, is a rush to make outlays by the end of 1979 for fear that the money will be lost in 1980, which is not a sensible and responsible way for the Bank to go about making credit decisions. The money will not be in the Bank's hands except as it is needed to be disbursed.

CAPITALIZATION OF THE BANK

Mr. BOLAND. The enabling legislation authorized $300 million for captalization of the Bank over a 5-year period. That is correct, isn't it?

Mr. ALTMAN. Yes, it is.

Mr. BOLAND. The authorization stipulates $100 million in 1979 and not to exceed $200 million in the succeeding 4 years. You are requesting $40 million in 1979 and $60 million in 1980.

Do you have any plan for the entire 5-year period?

Mr. ALTMAN. We don't have a precise plan beyond 1979 and 1980. I think that should be the responsibility of the board of directors.

Mr. BOLAND. I think that is a good answer.

DIRECT LOANS AND GUARANTEES BY THE BANK

The authorizing legislation allows the Bank to guarantee loans as well as make direct loans. I suppose that is something you would have to leave to the board of directors of the Bank, also?

Mr. ALTMAN. I would like to make two points on that issue.

First, we are propsing that the maximum amount of outstanding direct loans and guarantees be limited to the requested government capital investment in both 1979 and 1980. These amounts are $40 million in 1979 and $100 million in 1980.

Second, we are proposing, of course, that these ceilings be set as part of the appropriations process. For the first 2 years, the total of direct loans and guarantees by the Bank would not exceed $100 million.

LIMITATION ON GUARANTEED LOANS

Mr. BOLAND. Is there a limit to the amount or number of loans that can be guaranteed?

Mr. ALTMAN. There is the overall limit of $100 million over 2 years for direct loans and guarantees. Theoretically, if the Bank were for some reason—I don't anticipate this—to only guarantee loans, the limit would be $100 million. In reality, the limit would be the difference between its direct loans and $100 million.

BORROWING FROM PUBLIC OR PRIVATE SOURCES

Mr. BOLAND. The authorizing legislation permits the Bank to obtain funds by borrowing from public or private sources. Borrowing is limited to 10 times the paid-in capital and surplus of the Bank.

What is the policy regarding borrowing of funds?

Mr. ALTMAN. We expect, Mr. Chairman, no outside borrowing by the Bank through 1980. Its total financial activity will be limited to the capital amounts that we are asking this Committee and the full Congress to appropriate for 1979 and 1980. We do not believe that it is prudent for the Bank to begin any outside financing activity until it has established itself and has a track record.

Mr. BOLAND. Will the Treasury acquire any of the Bank's bonds?

Mr. ALTMAN. No, the Treasury will not acquire any of the Bank's bonds.

SALARIES AND EXPENSES

Mr. BOLAND. You are requesting a supplemental appropriation of $2 million for salaries and expenses of the Bank's 101 positions in Fiscal Year 1979.

In formulating your proposed budget, did you make any assumptions about when the supplemental appropriation will be enacted, and whether the enactment of that supplemental will impact upon the $2 million you requested for the 101 positions for the Bank?

Mr. ALTMAN. We assumed that the supplemental would be appropriated in mid-June and we made assumptions as to the 1979 expenses on that basis. This was just a guess that we made 3 or 4 months ago, but that was the assumption.

RELATIONSHIP BETWEEN NUMBER OF LOANS AND PERSONNEL REQUIRED

Mr. BOLAND. Let me ask you whether there is any relationship between loan funds, capital advances, and the number of personnel you are requesting?

Mr. ALTMAN. Yes. In trying to determine the right size of the staff over the first 2 years——

Mr. BOLAND. That must be difficult to do. You are requesting 166 positions overall. Why not 100? Why not 200?

Mr. ALTMAN. We looked at a series of other Federal lending and Federal credit operations. We looked at certain statistics, such as the average number of loans per officer, the average size of loans, the average amount of time per loan made, and the amount of support operations and personnel. Based on a series of statistics like that, we estimated that the Bank would need about 166 employees divided as we proposed.

I want to emphasize that it was our best judgment, based on those types of statistics. There was nothing magic about that figure of 166.

Mr. BOLAND. So it is not really a soft judgement, is it?

Mr. ALTMAN. I don't think it is soft.

HIRING OF PERSONNEL

Mr. BOLAND. On page 10 of the justifications, the last sentence on that page says,

> The employees of the Bank will be paid with appropriated funds and subject to government personnel policies until the Bank generates sufficienct income from lending to pay its own expenses.

Will the Bank personnel be hired on a merit selection basis?

Mr. FRIEDMAN. Mr. Chairman, we have asked the Office of Personnel Management for its views on the applicability of those rules to the Bank. We have not yet gotten an answer, so I cannot tell you the extent to which the full panoply of Civil Service rules are applicable.

Mr. BOLAND. When you find out, will you let us know? Larry, do you have any questions?

Mr. COUGHLIN. How can you have Federal employees that won't be Civil Service?

Mr. FRIEDMAN. There are a variety of independent government corporations in which those rules are not, I believe, applicable. I am not an expert on this, so I cannot say much more than I have just said.

Mr. COUGHLIN. Yet they are on Federal payrolls?

Mr. FRIEDMAN. Yes. They are employees of independent corporations which are really government agencies in corporate form. I believe, for example, and I could be wrong, that the United States Railway Association, which is essentially a government financing agency, is one. I think there are others as well.

Mr. BOLAND. I don't recall whether or not the National Credit Union employees are under Civil Service rules. Do you know?

Mr. FRIEDMAN. I do not, sir.

Mr. COMERFORD. I think they are.

Mr. BOLAND. That is a type of independent agency, isn't it?

Mr. COMERFORD. Yes, sir.

Mr. BOLAND. I think that type of operation or facility is Civil Service, and I think that this would be, too. I think you can be sure that the board of directors would insist on merit selection.

Mr. FRIEDMAN. I would think so.

Mr. BOLAND. This may be difficult for you to answer at this time, however when do you anticipate that the Bank would generate sufficient income from its lending to pay its expenses?

Mr. ALTMAN. You are right, in fact. it is impossible to know. Our own internal estimate is 1981.

SHARING COSTS RETWEEN BANK AND OFFICE OF SELF-HELP

Mr. BOLAND. The justification for salaries and expenses is a little confusing and difficult to follow if one wants to determine which account funds which positions and which activities.

Why doesn't the budget officer explain how the funds requested for the Office of Self-Help Development and Technical Assistance will be used to pay positions listed under the Bank's salaries and expenses appropriation?

Mr. KALLEN. Mr. Chairman, I think that was done primarily to avoid any overhead duplication, so that, for example, one personnel office would service both the Bank and the Self-Help Office. The Self-Help Office would essentially reimburse those positions, or activities. So, these funds would be properly charged against the Self-Help Office. However, the personnel will be charged to the Bank. Eventually, when the Bank is self-sufficient and the income of the Bank covers the Bank's activities, that income will cover that portion of the activity of overhead offices, such as the personnel office, that is attributable to the Bank. The Self-Help Office will then still be coming in for an appropriation to reimburse its share of the cost.

Mr. BOLAND. Can you supply for the record the appropriate schedules to better explain this matter?

Mr. KALLEN. Yes, we will try to clarify it.

[The information follows:]

Shared Costs

For purposes of efficiency and economy, we have assumed that a number of functions will be consolidated within the Bank proper and provided to the Self-Help Office on a cost-shared basis. We have also assumed that a more limited number of functions will be consolidated within the Self-Help Office and provided to the Bank on the same basis. Schedule A lists some of the shared functions, while Schedule B indicates how costs will be shared.

We expect that the Office of Finance and the Office of Administration within the Bank will perform a great many services for the Self-Help Office. The Board's staff, particularly those that handle appeals from denials of assistance, will do much work that is properly allocable to the Self-Help Office. Finally, the General Counsel's Office will handle the Self-Help Office's routine legal work.

We also expect employees of the Self-Help Office to supply some technical assistance, public information, and research that is chargeable to the Bank proper.

Schedule A

Shared Functions in the Bank and
Self-Help Office

Functions probably best performed for the Office by the Bank include:

1. personnel functions
   -- classification
   -- some staff training
   -- employee relations
   -- recordkeeping
   -- posting of open positions
2. data processing
3. travel
4. procurement
5. office space and equipment management
6. mail room
7. routine legal work
8. economic forecasting -- for example, in setting interest rates
9. accounting
10. internal budget preparation and monitoring
11. disbursement of funds
12. internal and external audit coordination
13. real estate and engineering appraisal
14. loan agreement processing
    -- forms management
    -- central file
    -- collateral check
15. Board staff and appeals staff.

Functions best performed for both units of the Office include:

1. public information
2. research
3. technical assistance.

Schedule B
Personnel Costs
(in thousands) (FY 1980)

Category	Bank	Office	Total
Salaries and Expenses of employees reporting to the President and the Director, respectively	$2,770	$1,868	$4,638
Personnel costs borne by the Bank and Office, respectively	$ 1,660	$ 2,978	$ 4,638
Anticipated Reimbursements by the Office to the Bank	$ 1,110	$ 1,110	$ -0-

Mr. ALTMAN. May I make one quick point? The approach just described is a conventional one used by most corporations. One way of describing it is simply to say that we didn't think it made sense for the Self-Help Fund and the Bank each to have, for example, their own legal staff. All that is being done here is cost accounting. In other words, there is a legal staff in the Bank, and, to the extent that the Self-Help Fund uses it, it pays for it. We thought it would cost more, and not be particularly efficient for each of the two entities to have its own legal, accounting and personnel services.

Mr. BOLAND. I think you are absolutely right.

TRAVEL REQUIREMENT

I have a few questions on the amounts requested for various object classes. In order to avoid confusion concerning which appropriations fund which activities, the amounts I refer to will be the total of the two accounts.

You are requesting $250,000 for travel in 1979. That averages out to about $1,600 per employee.

Why are you requesting that much travel in 1979? The personnel will be on-board for only a couple of months in 1979, and not all of the employees will be traveling, I hope.

Mr. KALLEN. We did make the travel estimates, of course, based on the assumption of the June 15 date. That assumption may have to be changed, but we do have a schedule.

Mr. BOLAND. But even if it were June 30, isn't this travel figure terribly high for 3 months.

Mr. KALLEN. No, sir. We have some supporting data on our assumptions. For example, we assumed for the Self-Help Office that 10 people would be taking four trips. We made analogous assumptions for longer trips and for trips by consultants.

NUMBER OF CONSULTANTS

Mr. BOLAND. How many consultants do you intend to use?

Mr. FRIEDMAN. Mr. Chairman, I would like, if I could, to answer that question for the record.

Mr. BOLAND. Surely.

[The information follows:]

CONSULTANTS

In FY 1979 we expect the Bank proper and its Self-Help Office to use 14 consultants each to assist in start-up tasks such as preparing operating manuals, designing a management structure, establishing a data processing capability, inventorying technical assistance resources and providing technical assistance. In FY 1980 we expect the Self-Help Office to use approximately 65 consultant man-years, primarily in providing technical assistance.

We believe that the importance of technical assistance was well illustrated in the House Banking Committee's hearings on the National Consumer Cooperative Bank Act. Our belief has been strengthened in the course of our many contacts with cooperatives around the country.

We feel that technical assistance will best be delivered by local organizations that are under contract with the Bank's Self-Help Office. Such organizations could include cooperatives, federations of cooperatives, foundations, educational institutions, church groups, government agencies, and others.

Part of the cost of providing technical assistance will be covered by charging fees. In FY 1980, we expect the Self-Help Office to collect $500,000 in income from fees.

Mr. FRIEDMAN. But I would like to make one point about that. Consultants will be used principally in the technical assistance area. There are substantial funds available for contracting for technical assistance. Such assistance may be rendered through certain kinds of umbrella cooperative organizations or through other kinds of consulting organizations more effectively and cheaply than by having government employees do it.

The other point I would like to make is that the legislation emphasizes services for low-income people. By and large, those are people who do not have the funds, or, in some cases, the sophistication, to come to Washington to press their applications for loans. That is the principal reason for the large travel request.

We made a judgment in structuring this Bank not to establish regional offices initially. The Bank ought to get experience in administering its program first. We feel that it is not sensible to have regional offices before you really know how the program ought to work. The trade-off is that people have to travel, particularly to low-income cooperatives.

TRAVEL NEEDS FOR FISCAL YEAR 1980

Mr. BOLAND. What about the $900,000 for Fiscal Year 1980 for travel? That averages to about $5,600 per employee.

Mr. KALLEN. The answer is the philosophy already mentioned plus the increase in the length of time for the full fiscal year.

Mr. ALTMAN. The legislation authorizes the Bank to establish regional offices. Our judgment, although the final decision over the long term——

Mr. BOLAND. How many regional offices do you plan to establish?

Mr. ALTMAN. The Act specifies no number. My point, however, is that we are proposing that there not be any for the first two years. Naturally, if there were regional offices, the travel expenses for the Bank would be a good deal lower. The absence of regional offices is one reason that our travel costs will be relatively high.

SPACE COSTS

Mr. BOLAND. What about the money for your office rent? You are using a standard level user charge, and are carrying $253,000 for rent in the 1979 supplemental, and $399,000 for office rent in 1980.

Where will the Bank be located? Has that been determined yet?

Mr. ALTMAN. No, it has not.

Mr. BOLAND. Have you made any inquiries to GSA with reference to prospective costs per square foot?

Mr. COMERFORD. Mr. Chairman, they will not consider a formal request from the Bank without an appropriation. Informally, they estimate that, from the time we get our appropriation, it will be a few months before they can find suitable office space for us.

Mr. BOLAND. What do they estimate the square foot per employee cost to be, do you know? Will you supply that for the record?

Mr. COMERFORD. Yes, sir.

[The information follows:]

Office Space

We estimate that the Bank will need 36,880 square feet of space. Of this amount, 24,430 square feet is for general office space for the Bank's employees. The balance is for a data processing area, conference rooms, a training area, a reception area, space for the Board of Directors, and general storage. We estimate that the average total space per employee should be approximately 222 square feet and that the average general office space per employee should be approximately 147 square feet. We further estimate that the average cost per employee should be roughly $2,400 in FY 1980.

Coop Bank Space Requirements

	square footage
General Office Space	24,430
Conference, Training, Board and Reception Space	9,450
Automatic Data Processing Area	1,500
General Storage	1,500
Total	36,880
Total Cost	$399 thousand
Average Total Space per Employee	222
Average General Office Space per Employee	147
Average Cost per Employee	$2,400

BREAKDOWN OF THE OTHER SERVICES COSTS

Mr. BOLAND. You are requesting $687,000 in 1979 and $2,583,000 in 1980 for Other Services.

Specifically, what are you talking about here in the Other Services category? How are you going to use the $687,000 in 1979?

Mr. KALLEN. These would be for services such as data processing.

Mr. BOLAND. Please provide a detailed breakdown of the $2,583,000 for Other Services for the Fiscal Year 1980.

[The information follows:]

Other Services

The requested funds for "other services" in fiscal years 1979 and 1980 are as follows:

Category	FY 1979	FY 1980
Computer Services	$349,000	$575,000
Consultants and Technical Assistance	332,000	1,983,000
Miscellaneous Contractual Services	6,000	25,000
Total, Other Services	$687,000	$2,583,000

Mr. BOLAND. I can understand the desire of all of the people who are interested in the National Consumer Cooperative Bank and would like to get it started as soon as possible. I am aware of the interests of the groups that are concerned about it. I presume that they feel that the faster the Bank gets started, the faster loans and advances will be made.

I, too, am concerned about it as a supporter of the legislation under which the National Consumer Cooperative Bank is starting up. The rules and regulations that are adopted now will affect the Bank's operations for years to come. The future default rate on loans and advances will really depend upon the policies and the guidelines that are set now. And, of course, that default rate translates into dollars. Once you've established a pattern, it will be difficult to change.

Will your response be that this is a problem of the board of directors, the people who are going to run this bank?

Mr. ALTMAN. Only in part. We have tried to be conservative in a series of areas. I mentioned that we are not asking for the maximum authorized capital for the Bank, that we are not proposing outside borrowing by the Bank, and that we are not proposing regional offices. We have tried to take an attitude of thoroughness and deliberation. I do not want to leave you with the impression that we are rushing into this, requesting the maximum here and the maximum there.

Mr. BOLAND. The Bank's authorizing legislation was passed only last August. That is not too long ago. It is a terribly important activity for people who are interested in cooperatives, and I am sure that you are just as concerned as this Committee is, that the operational pattern is established properly, and that the bank succeed.

Mr. ALTMAN. Particularly since if the Bank does not work and is not financially self-sufficient, then the purposes of the Act are thwarted, and the Congress would probably not appropriate further funds. I am particularly concerned to set this up so that it has the best chance of working as the Banks for Cooperatives worked. In that case, the government makes its investment and organizes the Bank to be financially self-sufficient. The Bank earns money, repays the government's investment, and is on its own. We have tried very hard to set it up with that as the number one priority.

Mr. BOLAND. You would not say that this organization is being constructed in haste?

Mr. ALTMAN. I do not think so. I mentioned that we have had the Interagency Task Force now for seven months. That task force has had a series of working groups exploring such areas as lending policies and internal procedures. It held 19 public meetings. We have recorded all of our recommendations, at least the ones we have arrived at so far, in writing.

Mr. BOLAND. You had 19 public meetings in Washington and around the country. What did you do at the public meetings? I imagine everybody who went to a meeting was in favor of the Bank?

Mr. FRIEDMAN. Mr. Boland, those public meetings were held after the President signed the bill. They were designed to get public comment on a series of policy issues. We published, in the Federal Register,

a series of questions, and, in some cases, tentative decisions on the part of the Administration, on issues such as the definition of low income, and the borrowing and lending policies.

DEFINITION OF "LOW INCOME"

Mr. BOLAND. Can you give us a definition of "low income?"

Mr. FRIEDMAN. No, I can tell you what we did, though. There was a great debate.

Mr. BOLAND. I want to know whether your definition of low income squares with Secretary Baroni's definition of low income at HUD.

Mr. FRIEDMAN. I think I would have to qualify that by saying that we did not come to a final decision. We agreed that the definition of low income ought to be expansive enough to permit the 35 percent of the Bank's funds allocated to low-income cooperatives be used. Our debate centered around the question of whether certain definitions were too narrow to create a population large enough to use those funds. We were unable to come to a final decision, but we have done a paper which we will submit to the Bank's board of directors. Our recommendation is that, based on these considerations, they choose a reasonable level and then monitor it carefully in order to keep the low-income definition as low as possible while using the funds in the sound manner that the Congress intended.

Mr. BOLAND. Thank you very much. Larry, do you have any questions?

Mr. COUGHLIN. Thank you, Mr. Chairman.

LOANS AT MARKET RATES

You indicated in your statement that you intend to make sound loans at market rates.

If your intention is to make sound loans at market rates, why do we need the Bank? Why wouldn't the commercial banks be interested in making sound loans at market rates?

Mr. ALTMAN. Thank you for asking that question.

What we found last year, when we made 41 separate visits around the country, was that there are a large number of cooperatives having trouble getting conventional financing because of their cooperatives form of organization. A number of banks said to us:

> We are really not in the business of lending to co-ops because we can't afford or don't want to have a separate staff which understands how a co-op works and can realistically evaluate its balance sheet.

In other words, co-ops were being discriminated against because of their form of organization.

So, there were a large number of co-ops which we felt were creditworthy, or certainly had a potential to be creditworthy, but which could not obtain financing because they were co-ops. We think this Bank will make a substantial difference. We think it will make loans to cooperatives which are creditworthy and which will repay those loans on time, but which would not be able to get financing from conventional sources because of the fact they are co-ops.

Mr. COUGHLIN. I would think that if they were sound loans at market rates, that the banks would find some way to loan to co-ops.

Mr. ALTMAN. I think it was made quite clear in the legislative history, Mr. Coughlin, that there are few cooperatives around the country which have been able to get what I would describe as conventional long-term financing. On the other hand, there are many cooperatives around that country which I think most people would acknowledge as having been successful.

LOANS MADE BASED ON CAPITAL INVESTMENT

Mr. COUGHLIN. You indicate that you will have, by the end of the Fiscal Year 1980, or you hope to have, about $30 million in capital in the soft loan window and $100 million capital in the hard loan window.

How much in loans would that support in each case?

Mr. ALTMAN. In 1979 we are estimating approximately 100 loans by the Bank.

Mr. COUGHLIN. What dollar figure does that assume?

Mr. ALTMAN. That assumes $40 million.

Mr. FRIEDMAN. Are you talking about outlays as opposed to commitments?

Mr. COUGHLIN. I am talking about loans that you are going to make. You estimate an appropriation of $30 million for capital in soft loans and $100 million capital for hard loans. In each case how much in loans from that you will support?

Mr. ALTMAN. As I understand it, we are estimating approximately 100 loans by the Bank and approximately 150 capital advances by the Self-Help Fund in 1979. These loans and advances would together commit a large portion of the full authorized amount, again predicated on the June assumption.

Mr. COUGHLIN. $100 million is hard loans and $30 million is soft loans?

Mr. ALTMAN. The figures I just gave you were 1979 figures.

Mr. COUGHLIN. I am talking about by the end of Fiscal Year 1980.

Mr. FRIEDMAN. We anticipate that all of that money will be committed and a substantial amount laid out by the end of Fiscal Year 1980.

GUARANTEED LOANS

Mr. COUGHLIN. How much do you anticipate you would have in guaranteed loans?

Mr. ALTMAN. Loans and guarantees are together subject to the $100 million ceiling that we are requesting. When I use these figures on loans, I am actually referring to both loans and guarantees. $100 million covers both.

Mr. COUGHLIN. I am not sure what these soft loans are; I am not sure they are going to be repaid either. Wouldn't you anticipate that portion of the business would bet bigger and the hard loan portion of it would get smaller?

Mr. ALTMAN. No, I don't think so. The legislation authorizes $300 million for the Bank over 5 years and $75 million for the Self-Help Fund, so it is not possible for the Fund to get bigger than the Bank.

DEFAULT RATE ON SOFT LOANS

Mr. COUGHLIN. What kind of a default rate do you expect on the soft loan portion of it?

Mr. ALTMAN. I can't give you the specific figure, Mr. Coughlin. There is no getting around the fact that the Self-Help Fund is intended to provide capital advances to co-ops which aren't creditworthy enough to finance themselves via the Bank. The loss rate in that fund is going to be higher than that of the Bank, perhaps substantially higher, unless we are all very surprised. Those advances will take the place of equity or junior capital for cooperatives that are not in a position to borrow on a conventional secure or unsecured senior basis. That is the way that the Congress set this up.

RESIDENTIAL HOUSING COOPERATIVES

Mr. COUGHLIN. As I understand it, about 30 percent of the Bank's gross assets will be loans for residential housing cooperatives.

Mr. ALTMAN. A maximum of 30 percent.

Mr. COUGHLIN. Would that figure be approached in 1983, and do you expect to have the full 30 percent, or close to it, used for residential housing in the next couple of years?

Mr. ALTMAN. My judgment is yes.

Mr. BARONI. I think it is even the other way around, Congressman Coughlin. I think that maximum was put in so that not all the loans would be used for housing. I think the intent was to put a ceiling on housing, otherwise nothing else would get into the Bank because housing alone, I think, would generate enough support. They might be bigger kinds of loans and even hard loans, so they wanted not to have all the loans to be housing. I think the ceiling is with that intent.

PURCHASING SHARES OF STOCK IN EXISTING COOPERATIVES

Mr. COUGHLIN. In Washington, D.C., it is impossible to get a mortgage loan or any loan from a bank to purchase shares of stock in an existing residential cooperative when one wants to sell.

Would the National Consumer Cooperative Bank make loans to those who want to buy shares of stocks in existing cooperatives?

Mr. ALTMAN. It won't make loans to any individuals. Only a cooperative, not an individual, can get a loan.

Mr. BARONI. To go back to your first question, I, as an individual, could not get a loan for a cooperative in the whole Washington area. But when trying to put a group together, I went to try to get a loan for a co-op group for housing and none of the banks wanted to do it. They were not interested in co-ops. They were not interested in doing it. No banks in Washington would give me credit.

So with the National Consumer Co-op Bank, the co-op itself would go with its people to get loans for its members. They would have to come for financing through the co-op.

Mr. COUGHLIN. Will banks in general, as opposed to the National Consumer Cooperative Bank, make bank loans?

Mr. BARRONI. No. That is why we need the Bank. What will happen with the commercial banks, once this gets started, is they will come and look at the credit manuals here and then start to get into this business. That is good.

Mr. COUGHLIN. How will the purchase of shares in stocks in existing cooperatives advance by your Bank loan?

Mr. ALTMAN. I don't believe that it will be.

Mr. COUGHLIN. So, although the National Consumer Cooperative Bank would help to establish a cooperative housing trend, it would not become involved in any particular existing cooperative housing; is that right?

Mr. ALTMAN. That is right.

Mr. FRIEDMAN. What often happens is that a rental building is turned into a cooperative. The way it is turned into a cooperative is by creating a cooperative corporation which buys the building from the landowner. That would be the financing that the Bank would have the authority to do. But the Bank would not be involved in the sale of individual apartments from one tenant to another.

REDEEMING TREASURY'S CLASS A STOCK

Mr. COUGHLIN. The Treasury's Class A stock will be redeemed with capital raised through earnings in the sale of stock to cooperatives. When the Bank has redeemed all the Class A stock that will be owned and controlled by cooperatives, will the cooperatives be required to buy back stock to be eligible for a loan?

Mr. ALTMAN. Yes.

Mr. COUGHLIN. Has there been any study of the market for the Bank stock?

Mr. ALTMAN. The requirement that the cooperatives purchase stock in the Bank has been well known since this bill passed. It has been widely discussed in public meetings and elsewhere. As I said earlier, we found a very substantial demand for Bank financing on that basis.

STOCK PURCHASE REQUIREMENT

Mr. COUGHLIN. Will the cooperatives who are nonprofit and in need of money to begin with be able to afford Bank stock?

Mr. ALTMAN. First of all, the amount of Bank stock required to be purchased is not large. It is between 1 and 10 percent of the amount of financing that the Bank gives them. We are thus not talking about enormous amounts of money right away.

Second, it is our view and that of the Congress as expressed in the legislation that, because this Bank is intended to be self-sufficient, and because a key objective is to repay the government investment as soon as possible, that a stock purchase requirement should be imposed.

OFFICE OF SELF-HELP

Mr. COUGHLIN. When the Bank does become a private institution run by the owner cooperatives, what will happen to the Office of Self-Help?

Mr. ALTMAN. The Office of Self-Help is separate. At least conceptually the conversion of the Bank from government ownership to private ownership will have no effect on the Office of Self-Help.

Mr. COUGHLIN. The Self-Help fund would run separately?

Mr. ALTMAN. Yes.

Mr. BARONI. We will have to come back to Congress after the authorization is over.

Mr. COUGHLIN. I did not vote for the Bank when it was passed and I am glad I did not. Thank you very much.

Mrs. BOGGS [presiding]. Mr. Sabo?

FINANCING COOPERATIVE APARTMENTS

Mr. SABO. Where does somebody who wants to buy into a co-op get financing in Washington, currently?

Mr. ALTMAN. You mean if you want to buy a cooperative apartment?

Mr. SABO. Yes.

Mr. ALTMAN. Well, I am not a good witness on that. I do not own a cooperative apartment here. My impression is that savings and loan institutions and other conventional mortgage lenders are the ones you approach for financing cooperative apartments in this city. I think most of the owner apartments in this city are condominiums, not cooperatives.

Mr. SABO. Rather than co-ops? Savings and loans will provide financing and banks won't; is that the distinction?

Mr. BARONI. Not even that. There are some exceptions in savings and loans, but they are generally not involved with co-ops either. Sometimes the only option in conversion of these buildings is condominiums. When I think of some buildings that are HUD-owned or mortgaged, I think of condominiums as an option between co-ops and rental; an in-between option.

Banks will finance condominiums more readily. We need this kind of instrument, the National Consumer Cooperative Bank, in order to allow buildings—I am talking about housing—to convert to cooperatives and to be able to get that kind of financing.

That kind of ownership, I think, is better for management, better for people, than just renting or non–ownership.

HOUSING CO-OPS AND SECTION 8

Mr. SABO. Would it be safe to assume that the housing co-ops would use Section 8 funding?

Mr. BARONI. Yes, they are allowed to now. Section 8 is now allowed to be used with co-ops, but there is not a lot of use. One-half of 1 percent of the housing in this country is cooperative, whereas in Sweden or Germany, it is 25 percent. One-half of 1 percent of the housing in this country is cooperative because we have not had the instruments of financing.

But now Section 8 is eligible to be used.

Mr. SABO. It would be safe to assume that the cooperatives formed under this new law——

Mr. BARRONI. Could use Section 8? Surely.

Mr. SABO. Would your Self-Help loans be available to be used as front-end money for co-ops that are currently being formed, which could then apply for State housing finance agency loans and other local government loans?

Would that be a fair assumption?

Mr. BARONI. Yes. One of the things that we have found out is that many of the HUD co-op programs don't work because groups can't put together the proposals even to get HUD to insure them.

We think a lot of groups, if they had some technical assistance, could put together a good package and get a good loan and then come back to HUD to get insured.

They can use Section 8 to help deal with the low income aspect. Suppose all of us are in the cooperative and three of us are very low income. You might use three Section 8s in that building, so we could all stay in the co-op.

Mr. SABO. My understanding is, however, obtaining HUD insurance, in order to get the loan insured, is much more difficult than simply getting approval for Section 8. There is a difference in the rent allowance used.

Mr. BARONI. It is a very complicated formula.

Mr. SABO. Section 8 is based on comparable rents. So, in the city in order to get insured the rent must be comparable to rents in neighborhoods. Yet, in reality, one can be substantially less than the other.

I am involved in a case back home in Minnesota right now where HUD is insisting that they need something like $80,000 more in capital to obtain insurance than is required to get approval for Section 8. So it becomes very, very difficult for the co-op to comply with that.

Mr. BARONI. I think the Bank, through the Office of Self-Help, will be the kind of instrument that will help make that type of arrangement work between HUD, the Bank and the co-op group. We only have, I think, two people in HUD who are experts in co-op financing of housing in this country. We used to have 22 once upon a time in co-op housing.

The problem is, then, that the groups out there have not been able to develop enough technical expertise in cooperative housing to even come and use the HUD instruments. You are exactly right. Your example is a classic example of that.

I think this proposed instrument will help make the established HUD program of service in areas that need this kind of program.

SELF-HELP LOANS

Mr. SABO. Will the Self-Help loans be short-term?

Mr. ALTMAN. Some might, but a lot of them will not be. The Self-Help capital advances are really going to be equity or junior capital in terms of the role they play for cooperatives. The cooperatives using them are going to be those that cannot borrow on a conventional hard basis from the Bank. In particular, it does not make sense for the younger co-ops to receive advances in the form of short-term loans because they are going to need time to get up and running and to establish a track record. So, some advances might be short term, but I think most would not.

Mr. BARONI. It sounds like that $80,000 that this group needs to make the State agency work and the other agencies work might be this kind of soft loan. It sounds like a good example of how they should work, I hope.

Mr. SABO. Thank you.

Mrs. BOGGS. Thank you. I believe that this is an all-American effort, the cooperative effort, where people give their time and talent and money to work together for themselves rather than make a profit serving others. Not only do I believe that neighborhoods are very important and that cooperatives bring a sense of community to

neighborhoods, but also, because, having sat on the financial institution subcommittee and the housing subcommittee of the authorizing committee, I recognized that there was a need in this area, so, I became one of the sponsors of the National Consumer Cooperative Bank bill. I commend those of you who have had to work in trying to set it up without a board of directors; in going out to fulfill the spirit of the legislation; in holding the meetings around the country; in publishing the suggestions in the Federal Register; and in getting the comments from the public, many of whom will be joining the 50 million other Americans who currently belong to cooperatives because of the existence of this Bank.

I commend you on your testimony.

Mr. ALTMAN. Thank you very much.

Mr. BOLAND. Thank you, Lindy.

I understand how difficult it is to get started, and you have nothing in place now. But, fortunately, we will have the Bank and its board of directors back before the subcommittee on salary and administrative expenses, so we will have some oversight. We intend to exercise that oversight carefully because we are better off, I think, starting slowly rather than repenting in leisure. Your justifications will be inserted in the record.

The Committee stands adjourned.

[The justifications follow:]

NATIONAL CONSUMER COOPERATIVE BANK

JUSTIFICATION FOR APPROPRIATIONS

For the Fiscal Years 1979 and 1980

TABLE OF CONTENTS

Fiscal Year 1979

1. Agency Summary - Purpose and Need for Supplemental Funds

2. Capitalization of the Bank (Purchase of Class A stock by the Treasury)

3. Salaries and Expenses of the Bank

4. Office of Self Help Development and Technical Assistance

   a. Salaries and Expenses

   b. Capitalization

   c. Appendix

Fiscal Year 1980

5. Congressional Submission

Agency Summary

The funds requested are needed for the operation of the National Consumer Cooperative Bank. The Bank is a mixed ownership government corporation established by PL 95-351 to make sound loans at market rates of interest to cooperatives in a variety of fields. Its Office of Self-Help Development and Technical Assistance will extend capital advances and technical assistance to cooperatives with special needs. Cooperatives and projects serving low-income persons will receive priority from the Bank and its Self-Help Office.

In PL 95-351 Congress stated that "user-owned cooperatives are a proven method of broadening ownership and control of economic organizations, increasing the number of market participants, narrowing price spreads (between producers and ultimate consumers), raising the quality of goods and services available to (cooperatives') members, and building bridges between producers and consumers..." At the same time, Congress found that "consumer and other types of self-help cooperatives have been hampered in their formation and growth by lack of access to... credit... and lack of technical assistance." The requested appropriations will allow the Bank to begin satisfying the needs identified by Congress.

Purpose and Need for Supplemental Funds

$54,000,000 is requested for FY 1979. A request for a supplemental appropriation is being made because PL 95-351 was passed and signed into law too late to be included in the regular FY 1979 budget process. Of the amount requested, $40,000,000 is for purchase of Class A (preferred) stock by the Treasury; $2,000,000 is for salaries and expenses of the Bank (excluding the Self-Help Office); $2,000,000 is for the salaries and expenses of the Office (including its technical assistance program); and $10,000,000 is for capitalizing the Office's Self-Help Fund.

A-11-31A

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK

For the purchase of Class A preferred stock issued by the National Consumer Cooperative Bank, $40,000,000, to remain available until expended. (National Consumer Cooperative Bank Act, 1978, 12 U.S.C. 3014)

A-11-39B

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Supplemental now requested, existing legislation
DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK
Program and Financing (in thousands of dollars)

Identification code 20-1866-1-1-376	1979 actual	1979 estimate	1979 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Program by activities:			
10.00 Purchase of Class A stock (costs-obligations) (object class 33.0).....	---	40,000	40,000
Financing:			
40.00 Budget authority (appropriation).....	---	40,000	40,000
Relation of obligations to outlays:			
71.00 Obligations incurred, net.....	---	40,000	40,000
90.00 Outlays.....	---	40,000	40,000

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK

Program and Performance

This appropriation would provide the initial cpaitalization of the National Consumer Cooperative Bank, which was created and chartered by Public Law 95-351, August 20, 1978, to make loans and provide services to consumer cooperatives and other types of self-help cooperatives.

The Bank is a mixed ownership government corporation, governed by a Board of Directors initially appointed by the President with the advice and consent of the Senate. The capital of the Bank will consist of stock subscribed by the United States (Class A), by borrowers from the Bank (Class B), and by borrowers and organizations eligible to borrow (Class C). The Bank is also authorized to raise capital through the public and private sale of its bonds, debentures, notes, and other evidences of indebtedness, but is unlikely to do so in the first two years of operation.

Class A stock purchased by the Secretary of the Treasury on behalf of the United States will be redeemed and retired as soon as practicable, but in any case beginning not later than October 1, 1990.

Capitalization of the Bank

(purchase of Class A stock by the Treasury)

$40,000,000 is requested for purchase of Class A stock by the Treasury. PL 95-351 authorizes up to $100,000,000 for this purpose in FY 1979. However, $40,000,000 should satisfy the Bank's capital needs in that year.

The Bank will redeem the Treasury's Class A stock over time using capital accumulated from retained earnings and from the sale of stock to cooperatives. When all the Class A stock has been redeemed, the Bank will continue operations as a private Bank owned and controlled by cooperatives.

The Bank will make sound loans at market rates of interest to eligible consumer and producer cooperatives. Loans will be made for a wide variety of consumer-owned endeavors, including housing, food and other retailing, health care, day care, small scale energy production and distribution, and auto repair; and for a number of different types of producer-owned activities, including handicrafts.

The Bank's lending activity will benefit both cooperative members and consumers in general. As noted in the Reports of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Currency, consumer cooperatives sometimes save their members as much as 50% of the prevailing retail cost of many goods and services. Even in cases where cooperative members receive no cash savings, they often benefit from higher quality, from more detailed and objective consumer information, and from having a voice in the business' policymaking process.

Consumers as a whole gain from the anti-inflationary effects of a strong cooperative presence in retail markets. When a cooperative charges lower prices for comparable quality products, it compels its competitors to make matching price reductions. Moreover numerous consumer protections pioneered by cooperatives, such as nutritional labelling of food products, have come to be adopted by the industry or by government regulatory agencies.

We anticipate that in FY 1979 the Bank will receive 350 loan applications, will make 100 loans and will service 100 accounts. The guarantee program authorized by PL 95-351 will not be implemented in FY 1979.

A-11-33A

Supplemental now requested, existing legislation
DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK

SUPPLEMENTARY SOURCE DOCUMENT (In thousands of dollars)

Identification code 20-1866-1-1-376	Function	Line No.	Def. (D) Indef. (I)	Leg. (L) No leg. (N)	1979 actual	1979 estimate	1979 estimate
A. ANALYSIS OF BUDGET AUTHORITY AND OUTLAYS					Presently Available	Revised Estimate	Proposed Supplemental
Budget authority	376	40.00	D	N	—	40,000	40,000
Total					—	40,000	40,000
Outlays	376	90.00			—	40,000	40,000
Total					—	40,000	40,000
Memorandum entries: Appropriation to liquidate contract authority					—	—	—
Limitations:		9			—	—	—
		9					
		9					
		9					

307-104

STANDARD FORM 307
June 1974 (Revised), Office of Management and Budget Circular No. A-11 Revised

Supplemental now requested, existing legislation

DEPARTMENT OF THE TREASURY
OFFICE OF THE SECRETARY
INVESTMENT IN NATIONAL CONSUMER COOPERATIVE BANK

Identification code 20-1866-1-1-376			1979 actual	1979 estimate	1979 estimate
B. DISTRIBUTION OF OUTLAYS			Presently Available	Revised Estimate	Proposed Supplemental
		Line code			
From new authority–current		311	---	40,000	40,000
From new authority–permanent		312			
From obligated balances		313			
From unobligated balances		314			
From new appropriations to liquidate contract authority (memo entry)		315	( )	( )	( )
C. CHARACTER CLASSIFICATION					
	Function	MC / Character code			
Budget authority	376	1 1204	---	40,000	40,000
Total			---	40,000	40,000
Outlays	376	2 1204	---	40,000	40,000
Total			---	40,000	40,000

GPO : 1974 O - 525-067

NATIONAL CONSUMER COOPERATIVE BANK

Salaries and Expenses

For necessary administrative expenses of the National Consumer Cooperative Bank, $2,000,000, to remain available until expended: Provided, that none of these sums be used to retire any of the indebtedness of the National Consumer Cooperative Bank. The aggregate amount of commitment by the Bank to make or guarantee loans in fiscal year 1979 shall not exceed $40,000,000. (National Consumer Cooperative Bank Act, 1978, 12 U.S.C. 3022)

A-11-39B

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES
Program and Financing (in thousands of dollars)

Identification code 28-0200-1-1-376	19 79 actual	19 79 estimate	19 79 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Program by activities:			
10.00 Administration of the Bank (costs-obligations).....	---	2,000	2,000
Financing:			
40.00 Budget authority (appropriation).....	---	2,000	2,000
Relation of obligations to outlays:			
71.00 Obligations incurred, net.....	---	2,000	2,000
74.40 Obligated balance, end of year...	---	- 200	- 200
90.00 Outlays.....	---	1,800	1,800

NATIONAL CONSUMER COOPERATIVE BANK

Salaries and Expenses

This appropriation provided for the administration of the National Consumer Cooperative Bank, a mixed ownership government corporation created and chartered by Public Law 95-351, August 20, 1978. Capitalization of the Bank will initially be provided by the Secretary of the Treasury through the purchase of Class A stock.

The Bank will be governed by a Presidentially appointed 13-member board of directors consisting of officers of agencies of the U.S. Government, and representatives of the general public with experience in the cooperative field. As cooperatives purchase stock in the Bank, directors will be elected by cooperatives to reflect the proportion of private capital to public capital. The employees of the Bank will be paid with appropriated funds and subject to government personnel policies until the Bank generates sufficient income from lending to pay its own expenses.

Salaries and Expenses of the Bank

$2,000,000 is requested to implement and administer the Bank's programs under Title I of PL 95-351 in FY 1979. This is the full amount authorized and will cover the initial costs of setting up and operating the Bank's direct loan program. (The Bank's guarantee program will not be implemented in FY 1979.) The request is net of the Self-Help Office's contributions for administrative support services (which are based on estimated usage and are included in the Office's appropriation request).

The lending activity of the Bank and the benefits thereof have been described above. The appropriation would cover the direct costs of implementing and administering the Bank's lending program, which include the costs of establishing and maintaining a staff of loan officers and a small group of specialists to handle such things as appraisal of real property, collateral arrangements, collections and renegotiations, and records keeping. It would also cover a pro-rata share of support services. These include policymaking by the Board of Directors; the mandatory appeals process; services provided to the Bank or to its borrowers by the Self-Help Office; legal counselling and contracts work; financial planning and budgeting, accounting and cash management; data processing; personnel management; contracts approval and monitoring; and sundry other administrative services.

Initially the Bank will deal with cooperatives through field representatives based in Washington. It may however prepare in FY 1979 to open a few small regional offices on a demonstration basis in FY 1980. These offices could improve its ability to offer services quickly and cheaply and to tailor services to regional needs.

A-11-34A

STANDARD FORM 304
May 1969, Bureau of the Budget
Circular No. A-11, Revised.
304-103

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 28-0200-1-1-376	19 79 actual	1979 estimate	19 79 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Personnel compensation:			
11.1 Permanent positions	---	796	796
11.3 Positions other than permanent	---	45	45
[illegible]			
11.8 Special personal services payments	---	200	200
Total personnel compensation	---	1,041	1,041
Personnel benefits:			
12.1 Civilian	---	80	80
[illegible]			
21.0 Travel and transportation of persons	---	100	100
22.0 Transportation of things	---	100	100
23.1 Standard level user charges	---	160	160
[illegible]			
23.2 Communications, utilities & other rent	---	150	150
24.0 Printing and reproduction	---	25	25
25.0 Other services	---	219	219
26.0 Supplies and materials	---	25	25
31.0 Equipment	---	100	100
[illegible]			
[illegible]			
[illegible]			
[illegible]			
[illegible]			
[illegible]			
99.0 Total obligations	---	2,000	2,000

A-11-34A

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

Supplemental now requested, existing legislation

NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES
PERSONNEL SUMMARY

Identification code 28-0200-1-1-376	1979 actual	1979 estimate	1979 estimate
DIRECT PROGRAM	Presently Available	Revised Estimate	Proposed Supplemental
Total number of permanent positions...	---	101	101
Full-time equivalent of other positions	---	4	4
Total compensable work-years.....	---	33	33
Average GS grade.....	---	10.61	10.61
Average GS salary.....	---	$23,601	$23,601

43-133 O - 79 - 21

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
306-103

A-11-35

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES

DETAIL OF PERMANENT POSITIONS

GRADE AND RANGES	1979 actual	1979 estimate	1979 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Executive Level IV	---	1	1
Subtotal	---	1	1
GS-18	---	1	1
GS-17	---	4	4
GS-16	---	1	1
GS-15	---	13	13
GS-14	---	8	8
GS-13	---	16	16
GS-12	---	8	8
GS-11	---	8	8
GS-10	---	2	2
GS- 9	---	6	6
GS- 8	---	5	5
GS- 7	---	7	7
GS- 6	---	9	9
GS- 5	---	8	8
GS- 4	---	2	2
GS- 3	---	2	2
Subtotal	---	100	100
Total Permanent Positions	---	101	101
Unfilled Positions	---	- 4	- 4
Total Permanent Employment, End of Year	---	97	97

A-11-33-A

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES

SUPPLEMENTARY SOURCE DOCUMENT (In thousands of dollars)

Identification code 28-0200-1-1-376	Function	Line No.	Def. (D) Indef. (I)	Leg. (S) No leg. (N)	1979 actual	1979 estimate	1979 estimate
A. ANALYSIS OF BUDGET AUTHORITY AND OUTLAYS					Presently Available	Revised Estimate	Proposed Supplemental
Budget authority	376	40.00	D	N	---	2,000	2,000
Total					---	2,000	2,000
Outlays	376	90.00			---	1,800	1,800
Total					---	1,800	1,800
Memorandum entries: Appropriation to liquidate contract authority					---	---	---
Limitations:		9			---	---	---
		9					
		9					
		9					

STANDARD FORM 307
June 1974 (Revised), Office of Management and Budget
Circular No. A-11 Revised

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
SALARIES AND EXPENSES

Identification code 28-0200-1-1-376		1979 actual	1979 estimate	1979 estimate
B. DISTRIBUTION OF OUTLAYS	Line code		Presently Available	Revised Estimate	Proposed Supplemental
From new authority—current	311	——	1,800	1,800
From new authority—permanent	312			
From obligated balances	313			
From unobligated balances	314			
From new appropriations to liquidate contract authority (memo entry)	315	( )	( )	( )

C. CHARACTER CLASSIFICATION

	Function	MC	Character code			
Budget authority	376	1	3804	——	2,000	2,000
		1				
		1				
		1				
		1				
		1				
		1				
Total				——	2,000	2,000
Outlays	376	2	3804	——	1,800	1,800
		2				
		2				
		2				
		2				
		2				
		2				
		2				
Total				——	1,800	1,800

GPO : 1974 O—525-067

OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

For necessary expenses of the Office of Self Help Development and Technical Assistance, $12,000,000, to remain available until expended: Provided, that an amount not to exceed $2,000,000 shall be available for administrative expenses and technical assistance. (National Consumer Cooperative Bank Act, 1978, 12 U.S.C. 3042, 3049)

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

A-11-39B

Supplemental now requested, existing legislation
OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE
Program and Financing (in thousands of dollars)

Identification code 28-0201-1-1-376	19 79 actual	19 79 estimate	19 79 estimate
		Presently Available	Revised Estimate	Proposed Supplemental
Program by activities:			
1. Capital investment advances and interest supplement advances..		---	10,020	10,020
2. Technical assistance, training, research and investigation....		---	510	510
3. Administration of Office.....		---	1,500	1,500
10.00 Total program costs, funded obligations.....		---	12,030	12,030
Financing:				
Offsetting collections from:				
14.00 Non-Federal sources:				
Interest on advances.....		---	-20	-20
Technical assistance fees.....		---	-10	-10
40.00 Budget authority (appropriation).....		---	12,000	12,000
Relation of obligations to outlays:				
71.00 Obligations incurred, net.....		---	12,000	12,000
74.00 Obligated balance, end of year.		---	- 4,200	- 4,200
90.00 Outlays.....		---	7,800	7,800

OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

Program and Performance

This appropriation would provide for the initial funding of the Self Help Development Fund, for technical assistance to cooperatives eligible under PL 95-351, and for operating expenses of the Office of Self Help Development and Technical Assistance. The Fund is authorized to make capital investment advances to eligible cooperatives which do not meet the credit standards of the Bank's regular lending facility, and to make interest supplement advances to low-income cooperatives.

In addition to administering the Fund, the Office is authorized to provide a broad range of technical assistance, training, educational activities, and information to eligible cooperatives; to conduct related research; and to undertake investigations of new types of services which consumer cooperatives might provide.

Office of Self-Help Development and Technical Assistance

a. Salaries and Expenses

The Self-Help Office administers the Bank's Self-Help Development Fund and its technical assistance program. $2,000,000 is requested for FY 1979 to implement and administer these programs and to provide technical assistance to cooperatives. This request would cover the initial costs of setting up the Office and the cost of administrative support services received from the Bank.

The costs of setting up the Office include the costs of hiring and training staff; planning and implementing a program of capital investment advances; and planning and implementing a program of technical assistance, training, education, research, and information.

The mission of the Office is to serve as the development arm of the Bank. It will foster the creation and growth of cooperatives, particularly among low-income persons. Since its activities are vital to the Bank's future growth and success, it is important that the Office have sufficient funding to allow its work to develop at a pace equal to that of the Bank's lending activities.

The Self-Help Development Fund will make capital advances to eligible cooperatives which are unable to secure sufficient funds from other sources, such as the Bank's regular lending program. In FY 1979 we anticipate 500 applications for Self-Help advances and estimate that the Fund will make 150 advances and service 150 accounts. These accounts will include a high proportion of new cooperatives, cooperatives serving low-income persons, and cooperatives entering new fields or new markets. As a result, the Fund's advances will require more person-days per account to service than the Bank's loans.

The Office's technical assistance program will aid cooperatives in a variety of ways. The major portion of its resources will be devoted to training and consulting. Areas in which demand for training is great include training members of cooperatives to serve effectively on their board of directors; training general managers in such specialities as housing, retailing, and health care management; and developing member education programs.

The Office will also conduct the bulk of the Bank's research, information, and publishing activity. Research work in FY 1979 will be limited to compiling, evaluating, and modifying existing studies of cooperatives and developing a data base for future work. The Office will respond to requests from the public for information, which could run between 2,000 and 5,000 in FY 1979. It will also compile and disseminate information on alternative sources of assistance for cooperatives. Finally it will edit and publish materials on behalf of the Bank.

b. Capitalization of the Self-Help Development Fund

$10,000,000 is requested for the Fund in FY 1979 to meet the capital needs of eligible cooperatives. This is the full amount authorized.

The Fund will be used to make repayable, interest bearing capital investment advances to eligible cooperatives. These advances will enable fledgling consumer and producer cooperatives to initiate, expand, or otherwise improve their operations. Advances will be made only when insufficient capital is available from other sources, such as the Bank's loan program. Many of the capital advances made by the Fund will go to cooperatives or projects serving predominantly low-income consumers and producers.

We anticipate that the Fund will receive 500 applications, make 150 advances, and service 150 accounts in FY 1979.

APPENDIX C

NATIONAL CONSUMER COOPERATIVE BANK

Projected Loan Demand - New Applications

Industry/Activity Class	FY 1979	FY 1980
food and other retailing	250	750
housing	90	250
agricultural producers	35	125
energy production and distribution	25	100
handicraft producers	20	70
day care	10	80
auto repair	10	35
industrial producers	10	35
bicycle repair	10	25
rural transportation	5	25
electronics and appliance repair	5	15
health care	5	15
optical	3	10
cable TV	2	10
other consumer services	10	50
other producers	10	50
consumer/producer joint ventures	2	5
TOTAL	502	1750

Supplemental now requested, existing legislation A-11-34A
NATIONAL CONSUMER COOPERATIVE BANK
OFFICE OF SELF HELP DEVELOPMENT TECHNICAL ASSISTANCE

STANDARD FORM 304
May 1969, Bureau of the Budget
Circular No. A-11, Revised
304-103

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 28-0201-1-1-376	19 79 actual	1979 estimate	19 79 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Personnel compensation:			
11.1 Permanent positions	---	537	537
11.3 Positions other than permanent	---	80	80
[illegible]			
11.8 Special personal services payments	---	200	200
Total personnel compensation	---	817	817
Personnel benefits:			
12.1 Civilian	---	54	54
[illegible]			
21.0 Travel and transportation of persons	---	150	150
22.0 Transportation of things	---	100	100
23.1 Standard level user charges	---	93	93
[illegible]			
23.2 Communications, utilities & other rent	---	183	183
24.0 Printing and reproduction	---	100	100
25.0 Other services	---	468	468
26.0 Supplies and materials	---	20	20
31.0 Equipment	---	65	65
[illegible]			
[illegible]			
41.0 Grants, subsidies, and contributions	---	10,000	10,000
[illegible]			
43.0 Interest and dividends	---	- 50	- 50
[illegible]			
99.0 Total obligations	---	12,000	12,000

U.S. GOVERNMENT PRINTING OFFICE : 1980 O—330-852

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
300-101

A-11-34-A

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

PERSONNEL SUMMARY

Identification code 28-0201-1-1-376	19 79 actual	19 79 estimate	19 79 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
DIRECT PROGRAM			
Total number of permanent positions....	---	65	65
Full-time equivalent of other positions	---	6	6
Total compensable work-years.....	---	22	22
Average GS grade.....	---	11.45	11.45
Average GS salary.....	---	$24,808	$24,808

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
306-103

A-11-35

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

DETAIL OF PERMANENT POSITIONS

GRADE AND RANGES	1979 actual	1979 estimate	1979 estimate
	Presently Available	Revised Estimate	Proposed Supplemental
Executive Level IV	---	1	1
Subtotal	---	1	1
GS-17	---	4	4
GS-16	---	2	2
GS-15	---	6	6
GS-13	---	17	17
GS-12	---	10	10
GS-11	---	5	5
GS-10	---	1	1
GS-9	---	3	3
GS-8	---	4	4
GS-7	---	2	2
GS-6	---	6	6
GS-5	---	3	3
GS-4	---	1	1
Subtotal	---	64	64
Total Permanent Positions	---	65	65
Unfilled Positions	---	- 3	- 3
Total Permanent Employment, End of Year	---	62	62

A-11-33A

Supplemental now requested, existing legislation
NATIONAL CONSUMER COOPERATIVE BANK
OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

SUPPLEMENTARY SOURCE DOCUMENT (In thousands of dollars)

Identification code 28-0201-1-1-376	Function	Line No.	Def. (D) Indef. (I)	Leg. (L) No leg. (N)	19 79 actual	1979 estimate	19 79 estimate
A. ANALYSIS OF BUDGET AUTHORITY AND OUTLAYS					Presently Available	Revised Estimate	Proposed Supplemental
Budget authority	376	40.00	D	N	---	12,000	12,000
Total					---	12,000	12,000
Outlays	376	40.00			---	7,800	7,800
Total					---	7,800	7,800
Memorandum entries: Appropriation to liquidate contract authority					---	---	---
Limitations:		9			---	---	---
		9					
		9					
		9					

307-104

STANDARD FORM 307
June 1974 (Revised), Office of Management and Budget Circular No. A-11 Revised

Supplemental now requested, existing legislation

NATIONAL CONSUMER COOPERATIVE BANK

OFFICE OF SELF HELP DEVELOPMENT AND TECHNICAL ASSISTANCE

Identification code 28-0201-1-1-376		1979 actual	1979 estimate	1979 estimate
B. DISTRIBUTION OF OUTLAYS		Presently Available	Revised Estimate	Proposed Supplemental
	Line code			
From new authority–current	311	---	7,800	7,800
From new authority–permanent	312			
From obligated balances	313			
From unobligated balances	314			
From new appropriations to liquidate contract authority (memo entry)	315	( )	( )	( )

C. CHARACTER CLASSIFICATION

	Function	MC	Character code			
Budget authority	376	1	1104	---	10,000	10,000
	376	1	3304	---	500	500
	376	1	3804	---	1,500	1,500
		1				
		1				
		1				
		1				
Total				---	12,000	12,000
Outlays	376	2	1104	---	6,000	6,000
	376	2	3304	---	450	450
	376	2	3804	---	1,350	1,350
		2				
		2				
		2				
		2				
Total				---	7,800	7,800

☆U.S.GPO:1975-0-566-419

National Consumer Cooperative Bank

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1979
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
1979 Appropriation Enacted by Congress	---	---	---
Adjustments:			
(1) Proposed Supplemental for the initial capitalization and administration of the Bank, Public Law 95-351	166	55	$54,000
Proposed Authorized Level for 1979	166	55	$54,000
Estimates, FY 1980	166	151	$88,900

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1980
(Dollars in thousands)

	Appropriation FY 1978		Authorized Level FY 1979		Budget Estimate FY 1980		Total Changes		Increase (+) or Decrease (-) for FY 1980 Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
1. Purchase of Class A stock by Treasury (Bank Capitalization)	---	---	---	$40,000	---	$60,000	---	$20,000	---	---	---	$20,000
2. Salaries and Expenses of Bank	---	---	33	2,000	90	2,459	57	459	---	---	57	459
3. Office of Self Help Development and Technical Assistance	---	---	22	12,000	61	26,441	39	14,441	---	---	39	14,441
Total Appropriation, authorized level and budget estimates	---	---	55	$54,000	151	$88,900	96	$34,900	---	---	96	$34,900
Permanent positions established	(---)		(166)		(166)		(---)		(---)		(---)	

NOTE: Entire increase for FY 1980 represents the annualization of the same level of expenditures to be incurred in FY 1979.

January 30, 1979

National Consumer Cooperative Bank

Summary Explanation of Changes Requested for Fiscal Year 1980
(Dollars in Thousands)

	Permanent Positions	Average Positions	Amount
Program Changes:----------	---	---	$ ---
Other Changes:			
Increases necessary to maintain current levels:			
1. Annualization of Class A stock purchased by Treasury (Bank Capitalization)----------	---	---	20,000
2. Annualization of Salaries and Expenses of Bank------	---	57	459
3. Annualization of costs related to Office of Self Help Development and Technical Assistance---------	---	39	4,441
4. Annualization of the Self Help Development Fund Capitalization----------	---	---	10,000
Subtotal, Other Increases----------	---	96	34,900
Reductions, nonrecurring costs and savings:----------	---	---	---
Total, Other Changes----------	---	96	34,900
Total Increases and Decreases 1980 compared with proposed authorized level----------	---	96	$34,900

43-133 O - 79 - 22

National Consumer Cooperative Bank

Agency Summary

The funds requested are needed for the operation of the National Consumer Cooperative Bank. The Bank is a mixed ownership government corporation established by PL 95-351 to make sound loans at market rates of interest to cooperatives in a variety of fields. Its Office of Self-Help Development and Technical Assistance will extend capital advances and technical assistance to cooperatives with special needs. Cooperatives and projects serving low-income persons will receive priority from the Bank and its Self-Help Office.

In PL 95-351 Congress stated that "user-owned cooperatives are a proven method of broadening ownership and control of economic organizations, increasing the number of market participants, narrowing price spreads (between producers and ultimate consumers), raising the quality of goods and services available to (cooperatives') members, and building bridges between producers and consumers..." At the same time, Congress found that "consumers and other types of self-help cooperatives have been hampered in their formation and growth by lack of access to... credit... and lack of technical assistance." The requested appropriations will allow the Bank to begin satisfying the needs identified by Congress.

Summary of Request

$88,900,000 is requested for fiscal year 1980. Of this amount, $60,000,000 is for the purchase of Class A (preferred) stock by the Treasury; $2,450,000 is for the salaries and expenses of the Bank (excluding the Self-Help Office); $6,441,000 is for the salaries and expenses of the Office (including its technical assistance program); and $20,000,000 is for capitalizing the Office's Self-Help Fund.

Capitalization of the Bank

(purchase of Class A stock by the Treasury)

$60,000,000 is requested for purchase of Class A (preferred) stock by the Treasury. Provided that the full $40,000,000 requested for this purpose for FY 1979 is appropriated, $60,000,000 would bring the total amount

appropriated for investment in the Class A stock to $100,000,000 or one third of the amount authorized by PL 95-351 for the period 1979-1983.

The Bank will redeem the Treasury's Class A stock over time using capital accumulated from retained earnings and from the sale of stock to cooperatives. When all Class A stock has been redeemed, the Bank will continue operations as a private bank owned and controlled by cooperatives.

The Bank will make sound loans at market rates of interest to eligible consumer and producer cooperatives. Loans will be made for a wide variety of consumer-owned endeavors, including housing, food and other retailing, health care, day care, small scale energy production and distribution and auto repaid; and for a number of different types of producer-owned activities, including handicrafts.

The Bank's lending activity will benefit both cooperative members and consumers in general. As noted in the Reports of the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking, Finance and Currency, consumer cooperatives sometimes save their members as much as 50% of the prevailing retail cost of many goods and services. Even in cases where cooperative members receive no cash savings, they often benefit from higher quality, from more detailed and objective consumer information, and from having a voice in the business' policymaking process.

Consumers as a whole gain from the anti-inflationary effects of a strong cooperative presence in retail markets When a cooperative charges lower prices for comparable quality products, it compels its competitors to make matching price reductions. Moreover numerous consumer protections pioneered by cooperatives, such as nutritional labelling of food products, have come to be adopted by the industry or by government regulatory agencies.

We anticipate that in FY 1980 the Bank will receive 1,000 applications for loans, will make 200 loans, and will service 275 accounts. The guarantee program authorized by PL 95-351 will not be implemented on more than a demonstration basis in FY 1980.

Salaries and Expenses of the Bank

$2,459,000 is requested to implement and administer the Bank's programs under Title I of PL 95-351 in FY 1980. This amount will cover the cost of operating and expanding the Bank's direct loan program. (The Bank's guarantee program will not be implemented on a significant scale in FY 1980.) The request is net of the Self-Help Office's contributions for administrative support services.

The lending activity of the Bank and the benefits thereof have been described above. This appropriation would cover the direct costs of implementing and administering the Bank's lending program, which include the costs of establishing and maintaining a staff of loan officers and a small group of specialists to handle such things as appraisal of the real property, collateral arrangements, collections and renegotiations, and records keeping. It would also cover a pro-rata share of support services. These include policymaking by the Board of Directors; the mandatory appeals process; services provided to the Bank or its borrowers by the Self-Help Office; legal counselling and contracts work; financial planning and budgeting; accounting and cash management; data processing; personnel management; contracts approval and monitoring; and sundry other administrative services.

Initially the Bank will deal with cooperatives through field representatives based in Washington. It may however open a few small regional offices on a demonstration basis in FY 1980. Such offices could improve its ability to offer services quickly and cheaply and to tailor services to regional areas.

Office of Self-Help Development and Technical Assistance

a. Salaries and Expenses

The Self-Help Office administers the Bank's Self-Help Development Fund and its technical assistance program. $6,441,000 is requested for FY 1980 to implement and administer these programs and to provide technical assistance to cooperatives. This request would cover the continuing costs of setting up the Office and the cost of administrative support services received from the Bank.

The costs of setting up the Office include the costs of hiring and training staff; planning and implementing a program of capital investment advances; and planning and implementing a program of technical assistance, training, education, research, and information.

The mission of the Office is to serve as the development arm of the Bank. It will foster the creation and growth of cooperatives, particularly among low-income persons. Since its activities are vital to the Bank's future growth and success, it is important that the Office have sufficient funding to allow its work to develop at a pace equal to that of the Bank's lending activities.

The Self-Help Development Fund will make capital advances to eligible cooperatives which are unable to secure sufficient funds from other sources, such as the Bank's regular lending program. In 1980 we anticipate 1,500 applications for Self-Help advances and estimate that the Fund will make 525 advances and service 675 accounts. These accounts will include a high proportion of new cooperatives, cooperatives serving low-income persons, and cooperatives entering new fields or new markets. As a result, the Fund's advances will require more person-days per account to service than the Bank's loans.

The Office's technical assistance program will aid cooperatives in a variety of ways. The major portion of its resources will be devoted to training and consulting. Areas in which demand for training is great include training members of cooperatives to serve effectively on their boards of directors; training general managers in such specialities as housing, retailing, and health care management; and developing member education programs. On-site consulting will supplement these efforts, particularly for cooperatives that are experiencing severe operating problems. In all cases the emphasis will be on training for self-help.

The Office will also conduct the bulk of the Bank's research, information, and publishing activity. Research work in FY 1930 will probably be limited to compiling, evaluating and modifying existing studies of cooperatives and developing a data base for future work. The Office will respond to requests from the public for information, which could run between 7,000 and 15,000 in FY 1980. It will also compile and disseminate information on alternative sources of assistance for cooperatives. Finally it will edit and publish materials on behalf of the entire Bank.

b. Capitalization of the Self-Help Development Fund

$20,000,000 is requested for the Fund in FY 1980 to meet the capital needs of eligible cooperatives. Provided that the full $10,000,000 requested for this purpose for FY 1979 is appropriated, $20,000,000 would bring the total amount appropriated for the Fund to $30,000,000. This is 40% of the amount authorized to be appropriated for the Fund in FY 1979 through FY 1981 by PL 95-351.

The Fund will be used to make repayable interest-bearing capital investment advances to eligible cooperatives. These advances will enable consumer and producer cooperatives to initiate, expand, or otherwise improve their operations. Advances will be made only when insufficient capital is available from other sources, such as the Bank's loan program. Many of the capital advances made by the Fund will go to cooperatives or projects serving predominantly low-income consumers and producers.

We anticipate that the Fund will receive 1,750 applications, make 525 advances, and service 675 accounts in FY 1980.

APPENDIX C

NATIONAL CONSUMER COOPERATIVE BANK

Projected Loan Demand - New Applications

Industry/Activity Class	FY 1979	FY 1980
food and other retailing	250	750
housing	90	250
agricultural producers	35	125
energy production and distribution	25	100
handicraft producers	20	70
day care	10	80
auto repair	10	35
industrial producers	10	35
bicycle repair	10	25
rural transportation	5	25
electronics and appliance repair	5	15
health care	5	15
optical	3	10
cable TV	2	10
other consumer services	10	50
other producers	10	50
consumer/producer joint ventures	2	5
TOTAL	502	1750

FRIDAY, MARCH 16, 1979.

NEIGHBORHOOD REINVESTMENT CORPORATION

WITNESSES

WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR, NEIGHBORHOOD REINVESTMENT CORPORATION
DONNIE L. BRYANT, SECRETARY, TREASURER, AND DIRECTOR OF FINANCE AND ADMINISTRATION
JAMES McNEIRNEY, DEPUTY EXECUTIVE DIRECTOR
GEORGE KNIGHT, DIRECTOR OF PROGRAM DEVELOPMENT

Mr. BOLAND. The Committee will come to order.

We are delighted to have with us this morning the Neighborhood Reinvestment Corporation.

The National Neighborhood Reinvestment Corporation was created by the Neighborhood Reinvestment Corporation Act, which is Title VI of the Housing and Community Development Amendments of 1978. However, the origins of the Corporation date to the Center for Executive Development, established in 1970, to make the savings and loan industry more responsive to national housing policy.

In 1971, the Center became aware of a neighborhood revitalization project in Pittsburgh, which was called the Neighborhood Housing Service (NHS). Its goal was to reverse neighborhood decline, restore self-confidence and promote reinvestment by local lending institutions and local residents, with the cooperation of the city. One of the Housing Service's main goals was to capitalize a high-risk revolving loan fund to lend to those not eligible in the regular market. In addition, neighborhood residents, city officials and cooperating lending institutions established a small neighborhood-based nonprofit organization to provide counseling and technical assistance.

The program was such a success that the Center for Executive Development arranged for foundation funding to establish similar programs in five other cities. Subsequently, the Home Loan Bank Board commenced negotiations with HUD for a 5-year $12 million demonstration grant to expand the NHS model and experiment with other aproaches to neighborhood preservation working cooperatively with local lending institutions.

In 1974, the Bank Board invited the other Federal financial supervisory agencies to join an ad-hoc task force as a means of encouraging commercial banks and mutual savings banks, as well as savings and loans associations, to participate in local neighborhood reinvestment programs. In November, 1974, this interagency agreement was formalized as the Urban Reinvestment Task Force, composed of the Secretary of the Department of Housing and Urban Development, the Chairman of the Federal Home Loan Bank Board, a member of the Federal Reserve Board, the Chairman of the Federal Deposit Insurance Cor-

poration, the Comptroller of the Currency, and the Administrator of the National Credit Union Administration. This body administered the HUD demonstration grant, which provided most of the funds for the program. The staff for the Task Force's national office was provided by the Federal Home Loan Bank System's Office of Neighborhood Reinvestment.

The National Neighborhood Reinvestment Corporation, by law, shall implement and expand the demonstration activities carried out by the Urban Reinvestment Task Force. Those activities currently include 87 Neighborhood Housing Services programs organized, 10 in development, and 6 under expansion. In addition, there are 14 Neighborhood Preservation Projects in existence, as well as 2 operational and 7 in-progress Neighborhood Preservation Development projects.

The Urban Reinvestment Task Force was widely viewed as one of the most effective private or public efforts to encourage neighborhood revitalization. The reasons given for the success of the Task Force were that it was a local program, nongovernmental, nonbureaucratic—and small.

It is nongovernmental, but when you start to request funding in the amount that the Corporation is now requesting, $9,500,000, it loses some of its nongovernmental aspect. Despite that fact, its employees are not considered Federal employees. We will discuss the question of employee benefits and what relationship these employees have to Federal employees later in the hearing.

Your total budget for 1980 runs $11,701,000, of which $9,500,000 is from the Federal government.

Mr. William A. Whiteside has had a lot of experience in this area. He is Executive Director of the Corporation. Would you introduce those with you?

Mr. WHITESIDE. On my left is Jim McNeirney, Deputy Executive Director of the Corporation. On my right is Donnie Bryant, who is the Secretary and Treasurer and Director of Finance and Administration of the Corporation. On the far left is George Knight, Director of Program Development for the Corporation.

Mr. BOLAND. We will insert your biographical sketches in the record at this point.

[The biographical notes follow:]

WILLIAM A. WHITESIDE

(Executive Director, Neighborhood Reinvestment Corporation, and Director, Office of Neighborhood Reinvestment Federal Home Loan Bank System)

Mr. Whiteside is Executive Director of the Neighborhood Reinvestment Corporation.

He joined the Federal Home Loan Bank Board in 1970, and originated the programs which led to the creation of the Urban Reinvestment Task Force and the Neighborhood Reinvestment Corporation. He serves concurrently as Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. During the preceding 15 years, he was associated with the Coro Foundation, a nonprofit educational institution which specializes in training for public and urban affairs. Mr. Whiteside was Vice President and Director of Southern California Programs of the Coro Foundation. During the 1960's, he obtained practical housing experience by syndicating, developing and managing apartment projects in Southern California.

His educational background includes: B.A. in Economics, Stanford University, 1952; internship in Pacific Affairs, Coro Foundation, San Francisco, 1953–54; M.A. in Economics, Stanford University, 1955.

His civic and professional activities have included: President, Metropolitan Los Angeles Chapter, American Society for Public Administration; Chairman, Los Angeles Leadership Development Project, National Urban League; Vice President, H-E-L-M (Higher Education for Los Angeles Minorities); Vice President, Hacienda Heights (California) Improvement Association.

Mr. Whiteside was born in Long Beach, California. He now resides in Kensington, Maryland.

JAMES A. MCNEIRNEY

(Deputy Executive Director, Neighborhood Reinvestment Corporation, and Deputy Director, Office of Neighborhood Reinvestment, Federal Home Loan Bank System)

Mr. McNeirney is Deputy Executive Director of the Neighborhood Reinvestment Corporation, and serves concurrently as the Deputy Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. Mr. McNeirney assisted in the development of the programs of the Urban Reinvestment Task Force, and before that, during the early 1970's the Federal Home Loan Bank Board's Center for Executive Development.

Mr. McNeirney joined the staff of the Federal Home Loan Bank Board in December 1970. Prior to joining the Bank Board Mr. McNeirney served as a newspaper reporter in Prince George's County, Maryland; Washington, D.C.; and Pittsburgh, Pennsylvania. He is a graduate of Duquesne University with a B.A. in Journalism.

Mr. McNeirney was born March 14, 1940 in Pittsburgh, Pennsylvania. He is married to the former Georgianne Geche, has five children, and resides in Laurel, Maryland.

DONNIE L. BRYANT

(Secretary and Treasurer, Neighborhood Reinvestment Corporation)

Mr. Bryant was appointed to the staff of the Office of Neighborhood Reinvestment on November 1, 1977. He was elected an officer of the Neighborhood Reinvestment Corporation by its Board of Directors on December 21, 1978. He serves as Director, Finance and Administration, Secretary and Treasurer.

Prior to coming to the Office of Neighborhood Reinvestment, Mr. Bryant was a staff associate from 1973 to 1977 with Public Administration Service a non-profit international management consulting firm in Chicago, Illinois. He performed management studies and provided technical assistance to domestic and foreign government and quasi-government agencies and organizations.

From 1965 to 1971, Mr. Bryant worked as an Accountant and Senior Accountant for various departments and agencies of the State of Michigan and the city of Detroit.

From 1963 to 1965, Mr. Bryant was a junior accountant with the firm of Albert Lee & Company, CPA.

Mr. Bryant graduated from Wayne State University, Detroit, Michigan, 1970. He received a Masters in Public Policy Studies from the University of Michigan in 1972. Awarded a U.S. Housing and Urban Development/International City Management Association fellowship for graduate studies.

He is a member of the International City Management Association.

Mr. Bryant was born December 20, 1942 at Detroit, Michigan.

ODON GEORGE KNIGHT

(Director, Program Development, Neighborhood Reinvestment Corporation)

Mr. Knight is Director of Program Development of the Neighborhood Reinvestment Corporation. He is responsible for the establishment of Neighborhood Housing Services (NHS) non-profit corporations and the creation of educational and training processes for replicating successful Neighborhood Preservation Projects.

Prior to joining the Neighborhood Reinvestment Corporation in 1976, Mr. Knight was a principal with Booz, Allen and Hamilton, a general management consulting firm. He specialized in real estate finance and urban development. From 1970 to 1973, he was Associate Pastor of St. Paul's United Church of Christ in Chicago, Illinois. From 1968 to 1970, he served as Executive Director of the Bickerdike Redevelopment Corporation, a non-profit, neighborhood-based construction firm in Chicago, Illinois. During 1967, he served as the Administrative Assistant to the Director of the Chicago Dwellings Association, a public housing development and rehabilitation corporation in Chicago, Illinois.

Mr. Knight graduated from Lafayette College, Easton, Pennsylvania, in 1965. He received a M.A. with honors from the University of Chicago and a Master of Divinity with honors from McCormick Seminary in 1969.

Mr. Knight was born June 10, 1943 at Terre Haute, Indiana. He and his wife, the former Nancy Nichols of Rutherford, New Jersey, have two children.

Mr. BOLAND. How is the treasury? In pretty good shape?

Mr. BRYANT. At this time, yes, sir.

Mr. BOLAND. We'll try to make it better.

What has been the total investment of the Federal Government in the Urban Reinvestment Task Force? There was, as I indicated, an initial $12 million demonstration grant under the control of the Executive Director and the Urban Reinvestment Task Force Board.

You have a statement, Mr. Whiteside. We will be glad to have you present it at this time.

GENERAL STATEMENT

Mr. WHITESIDE. Thank you, Mr. Chairman. Your background statement was so complete, it permits me to shorten mine. I would like to submit a corrected copy of the statement prepared for the record. It contains some small editorial changes, but also reflects the action of our Board of Directors yesterday afternoon amending the 1979 budget—not in total amount, but adjusting expenditures among expense categories.

[The information follows:]

STATEMENT OF

WILLIAM A. WHITESIDE, EXECUTIVE DIRECTOR

NEIGHBORHOOD REINVESTMENT CORPORATION

BEFORE THE

HOUSE APPROPRIATIONS

SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES

ON

NEIGHBORHOOD REINVESTMENT CORPORATION

FISCAL YEAR 1980 BUDGET

10:00 a.m., MARCH 16, 1979

Mr. Chairman, and Members of the Committee. It is an honor to appear before you today to testify on the budget request for the newly formed Neighborhood Reinvestment Corporation. In my remarks I shall cover the following areas:

1. Background of the Neighborhood Reinvestment Corporation
2. Congressional Mandate
3. Nature of Activities
4. Comparison of the 1980 Budget with Previous Years
   a. Program Output
   b. Expense by Functional Areas
5. Leverage on Federal Outlays

THE NEIGHBORHOOD REINVESTMENT CORPORATION

Background

The Neighborhood Reinvestment Corporation is the successor to the Urban Reinvestment Task Force. The Urban Reinvestment Task Force, in turn, grew out of a very small, but successful program of the Federal Home Loan Bank System.

The members of the Urban Reinvestment Task Force: The Chairman of the Federal Home Loan Bank Board, the Secretary of the Department of Housing and Urban Development, a member of the Board of Governors of the Federal Reserve System, the Chairman of the Federal Deposit Insurance Corporation, the Comptroller of the Currency and the Administrator of the National Credit Union Administration participated under an informal memorandum of agreement. The

funding was provided by the Department of Housing and Urban Development under a demonstration grant, and the staffing and administrative support was provided by the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. Each of the participating Federal Financial Regulatory Agencies provided essential assistance by involving the financial institutions they regulate in local programs.

The neighborhood program which started all of this was Neighborhood Housing Services, a tiny three-staff-member operation headquartered in a trailer in the Central North Side neighborhood of Pittsburgh, Pennsylvania. We discovered in this program all of the elements necessary for involving financial institutions in successful efforts to reverse the process of deterioration in urban neighborhoods which still had a substantial amount of homeownership.

The Urban Reinvestment Task Force also supported Neighborhood Preservation Projects which gave promise of new tools to reverse neighborhood decline as well as new programs which grew out of these Neighborhood Preservation Projects, supplementing the NHS programs with new strategies and mechanisms.

Further descriptions of all of these programs, as well as the cities in which they operate, will be found in Appendix A.

CONGRESSIONAL MANDATE

Congress, in the Neighborhood Reinvestment Act, established the Neighborhood Reinvestment Corporation as a public corporation ". . .to promote reinvestment in older neighborhoods by local financial institutions working coopera-

tively with community people and local government, and which will continue the nonbureaucratic approach of the Urban Reinvestment Task Force, relying largely on local initiative for the specific design of local programs."

Congress directed that the Corporation shall:

1. ". . .continue the work of the Urban Reinvestment Task Force in establishing neighborhood housing services programs in neighborhoods throughout the United States. . ."
2. ". . .continue the work of the Urban Reinvestment Task Force in identifying, monitoring, evaluating, and providing grants and technical assistance to selected neighborhood preservation projects. . ."
3. ". . .experimentally replicate neighborhood preservation projects which have demonstrated success, and after creating reliable developmental processes, bring the new programs to neighborhoods throughout the United States. . ."
4. ". . .continue the work of the Urban Reinvestment Task Force in supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with support which may include technical assistance and grants to expand its national loan purchase pool and may contract with it for services which it can perform more efficiently or effectively than the corporation."

Conference Committee language affirmed these expectations, further directing the Corporation "to continue development of Neighborhood Housing Services of America, as a secondary market operation." Housing Committee

language further directed the Corporation's attention to ". . .problems of reinvestment faced by rural areas, smaller cities and more severely distressed urban neighborhoods. . ."

To carry out these duties, Congress endowed the Corporation with a unique status providing that its "officers and employees shall not be considered officers or employees of the United States, and the Corporation shall not be considered a department, agency or instrumentality of the Federal Government. . ."

The powers of the Corporation are in large measure those of a private Corporation, subject however to Office of Management and Budget cost standards ". . .similar to standards applicable to nonprofit grantees and educational institutions," Freedom of Information, the Sunshine Act, audits by the General Accounting Office, and submission annually of a business-type budget to the Office of Management and Budget for inclusion in the President's budget and transmission to the Congress.

NATURE OF ACTIVITIES

Educational Role

In the development of local program capacity, rather than simply providing grants, program guidelines and technical assistance as a typical government program would, the Corporation conducts what is basically an educational process. The developmental process includes workshops and committee work which offer a comprehensive program model, but allow wide latitude to local participants to adapt the model to local circumstances. At the conclusion of the developmental process (representing over one person-year of effort by Neighbor-

hood Reinvestment staff), a lasting partnership among residents and representatives of financial institutions and local government has been created, the local participants understand the program and their roles in it and have a personal commitment to making it work, the organizational details of the local non-profit corporation and funding resources are in place, and a staff has been hired to administer the program under the direction of a strong board of directors. When this educational role has been carried out, the Neighborhood Reinvestment staff members withdraw and the program continues as a totally autonomous local operation (there are annual monitoring visits and compliance audits with regard to grant provisions, of course, and technical assistance is available upon request by the local board of directors).

Two considerations are paramount in the ability to conduct a program of this kind: (1) the ability to recruit and train a talented staff which has both an unusual level of commitment and a willingness to function in a continual travel status; and (2) the ability, through the participation of the Federal Financial Regulatory Agencies, to convene financial institutions and obtain their cooperation in the neighborhood programs. The value of this cooperation can hardly be overstated. In addition to annual contributions to operating budgets currently exceeding $4 million, financial institution executives are contributing thousands of volunteer hours to these neighborhood programs, in-kind contributions of materials, equipment and services, and invaluable management expertise.

Three-Stage Process

The NHS program went through a three-phase process which has led to its successful transference to 87 neighborhoods thus far. Each of the new programs

growing out of Neighborhood Preservation Projects will go through a similar process.

First, the Neighborhood Reinvestment staff monitors promising neighborhood preservation projects which involve financial institutions, neighborhood residents and local government. The second phase involves replicating selected programs in one or more other locations and working out a systematic developmental process. The third phase is replication of the program in a large number of additional locations and the provisions of technical assistance to insure each program's success.

The Neighborhood Reinvestment staff has begun the second phase of development with several promising new programs. The programs will be ready for phase three and wider replication after completion of this important initial replication effort.

Development of New Neighborhood Programs

The NHS program is the basic tool of the Neighborhood Reinvestment Corporation for reversing decline in neighborhoods. In each city where an NHS is developed, it is usually the first close partnership experience for neighborhood residents, financial institutions and local governmental representatives, and building a lasting partnership is a major challenge.

The programmatic considerations in meeting the Congressional intent as to undertaking NHS programs in new and more difficult circumstances relate directly to the availability of program tools and local financial resources.

Several Neighborhood Preservation Development programs address these programmatic needs. In particular, the Apartment Improvement Program, and the Homeownership Promotion and Rehabilitation and Sale programs are aimed primarily at strengthening NHS programs, helping them deal with more difficult neighborhoods and helping them cope with hitherto intractible problems. The Homeownership Program offers a very promising defense against displacement, and the Apartment Improvement Program, when coupled with Section 8 rental subsidies offers another strong anti-displacement tool. The Rehabilitation and Sale Program offers an urgently needed tool for many NHSs to deal with problem properties in their neighborhoods.

A second group of new programs consisting of the Statewide NHS Foundation, the Insurance Industry Full Partnership and the NHSA secondary market address the need for additional private financial resources to retain the private character of the NHS programs. NHS programs now operate in almost every U.S. city over 500,000 in population. As we move to smaller and smaller cities, new sources of private financial support must be found to maintain the private nature of the NHS program. Each of the programs in this group serves that purpose. The NHS Foundation pools the support of large statewide financial institutions for the operating budgets of NHS programs throughout the state. The insurance industry project offers not only an answer to neighborhood voluntary insurance availability problems, but the financial strength of a whole new industry for support of NHS programs. The NHSA secondary market, similarly supports NHS revolving loan funds with resources drawn from private institutional investors.

Two additional programs fall in a different category: Urban Lender Training and Neighborhood Commercial Revitalization. These two new Neighborhood

Preservation Projects not only support general neighborhood revitalization goals and provide additional resources for NHS programs, they specifically carry forward two of the President's Urban Policy Initiatives:

> ". . .I propose the creation of an Institute for Community Investment, under the Federal Home Loan Bank Board. The Institute will bring together appraisers, realtors, lenders, building and insurance companies to develop a consistent approach toward urban lending and to train urban lending specialists. (emphasis added)
>
> . . .I propose a pilot program to create Neighborhood Commercial Reinvestment Centers under the Comptroller of the Currency. This proposal is an adaptation of the highly successful Urban Reinvestment Task Force housing credit concept to the commercial credit area. . ."

COMPARISON OF THE 1980 BUDGET WITH PREVIOUS YEARS

Program Output

The following chart A contains a comparison of the Corporation's and the predecessor Urban Reinvestment Task Force's programmatic output for Fiscal Years 1978, 1979 and 1980. During Fiscal Year 1978, there was a conscious effort to build organizational capacity for the expansion which lay ahead. This was successful and the rate of output projected for Fiscal year 1979 has been readily attained. Output goals in Fiscal Year 1980 place a greater proportionate emphasis on Neighborhood Preservation Development programs to provide the programmatic tools to carry out Congressional mandates to the greatest extent feasible under this budget.

Expense by Functional Areas

Chart B shows a comparison of expense by functional areas for Fiscal Years 1978, 1979 and 1980. It should be noted that not only Federal outlays are involved in the budgets. A substantial annual contribution by the Federal Home Loan Banks funds the Corporation's core administrative expenses, and local contract receipts account for a significant share of local program development costs.

Program Development

Program development is the Corporation's major activity and absorbs the greatest proportionate growth in budget, increasing from 64% in Fiscal Year 1979 to a projected 66% in Fiscal Year 1980. Appendix A contains a detailed description of the activities funded with the $7,710,000 allocated to this function in 1980. Appendix B includes detailed descriptions of the activities funded for each of the other functional areas.

Monitoring and Evaluation

The very modest increase in funding for monitoring and evaluation reflects increased costs and increased numbers of programs. It remains 2% of the total amount budgeted.

Program Support and Training

The very small increase in the amount budgeted in Fiscal Year 1980 for program support and training is less than projected increases in costs and

reflects a projected increase in productivity to provide the same quality of program support and training for a larger number of programs. The continuation of support for the Neighborhood Housing Services of America national loan purchase pool at the same level as 1979 will permit additional loan purchases but allow for only minimal expansion of the secondary market. The functional area also remains constant at 13% of the budget.

Dissemination of Information

The reduction in outlay for dissemination of information in face of projected increased costs and an increasing number of programs reflects the need to economize to operate within the Fiscal Year 1980 budget level.

Administrative Support

The reduction in administrative support expenditures in face of projected increased costs and an increasing number of programs, reflects a determination to effect economies and increase productivity. This function absorbs 13% of the Fiscal Year 1980 budget as compared to 15% in Fiscal Year 1979.

Leverage on Federal Outlays

The work of the Neighborhood Reinvestment Corporation is to secure private resources for neighborhood revitalization and to organize effective local delivery mechanisms for these resources. The Corporation's programs produce significant results at a low Federal cost. An estimated $243,000 four-year

Federal investment in a Neighborhood Housing Services program, for instance, will typically produce over $5 million in private reinvestment in the neighborhood. (See Chart C.) Similarly, in the Apartment Improvement Program - just beginning to be implemented after 2-1/2 years of monitoring and evaluation - an estimated $105,000 four-year Federal investment is projected to produce $7.5 million in tangible apartment rehabilitations. (See Chart D.)

We believe this budget is an exceptionally lean one, and that it will produce exceptionally large results in neighborhoods for each Federal dollar spent as a result of the active local private participation. We urge your adoption of the budget request.

I will be pleased to respond to your questions.

CHART A

PROGRAMMATIC OUTPUT COMPARISONS
FISCAL YEARS 1978, 1979 AND 1980

	HUD Demonstration Grant Funding FY 1978 $4.5 million	HUD Demonstration Grant Funding FY 1979 $8.5 million	Proposed Appropriation FY 1980 $9.5 million
Neighborhood Housing Services (Additional cities & expansions to additional neighborhoods)	25	45	37
Neighborhood Preservation Development			
Apartment Improvement Program	1	4	6
Neighborhood Conservation Services	2	3	1
Homeownership Promotion	1	1	2
Rehabilitation & Sale		1	2
NHS Foundation		1	1
Insurance Industry Partnership Project		1	5
Home Maintenance Training		0	0
Commercial Revitalization		0	2
Urban Lender Training		0	2
Total New Programs	4	11	21
Neighborhood Preservation Projects	6	10	10

CHART B

BUDGET COMPARISONS BY FUNCTIONS
NEIGHBORHOOD REINVESTMENT CORPORATION
FISCAL YEARS 1978, 1979 and 1980

	FY 1978	FY 1979	FY 1980
Program Development	$ 5,495,000	$ 7,001,000	$ 7,710,000
Monitoring & Evaluation	181,000	229,000	247,000
Program Support & Training	828,000	1,405,000	1,425,000
NHSA (Support for National Loan Purchase Pool)	300,000	350,000	350,000
Dissemination of Information	201,000	366,000	341,000
Administrative Support	991,000	1,598,000	1,528,000
Sub-Total	7,996,000	10,949,000	11,601,000
Firm Grant Commitments to neighborhood programs carried forward from prior year	3,468,000	3,400,000	2,450,000
Total Funds Available*	11,464,000	14,349,000	14,051,000
Funds carried forward to subsequent year:			
Grants committed	(3,400,000)	(2,450,000)	(2,150,000)
Operating expense	(338,000)	-	-
Local funds	(291,000)	(245,000)	(200,000)
Total Expended	$ 7,435,000	$11,654,000	$11,701,000
*Sources of Funds			
Federal funds	$ 4,500,000	$ 8,500,000	$ 9,500,000
Federal Home Loan Bank System	908,000	820,000	806,000
Reimbursements for local development	793,000	1,000,000	1,050,000
Carry forward	5,263,000	4,029,000	2,695,000
Total	$11,464,000	$14,349,000	$14,051,000

CHART C

PROTOTYPICAL NHS FINANCIAL RESULTS

	PRIVATE	LOCAL GOVT.	FEDERAL
Developmental Expense			
Local Developmental Budget		$ 35,000	
Neighborhood Reinvestment Corporation expense			$ 70,000
Neighborhood Reinvestment Corporation grant to NHS revolving loan fund			50,000
Outlay during development (12-15 months)	-0-	$ 35,000	$120,000
Annual Support			
NHS Operating Budget	60,000		
Revolving Loan Fund	75,000	75,000	
Neighborhood Reinvestment Corporation Support services and training			16,000
NHSA National Loan Purchase Pool	25,000		25,000
Total Annual Support of NHS operations	$160,000	$ 75,000	$ 41,000
Additional Annual Reinvestment in Neighborhood			
NHS referred private lending	450,000		
Private mortgage lending in neighborhood	1,200,000		
Local governmental inspection services		30,000	
Local governmental capital improvements		100,000	
	$1,650,000	$130,000	-0-
Development plus First Year Results			
Totals	$1,810,000	$240,000	$161,000
Percentages	81.8%	10.9%	7.3%
Development plus Three Years' Results			
Totals	$5,430,000	$650,000	$243,000
Percentages	85.9%	10.3%	3.8%

CHART D

PROJECTED APARTMENT IMPROVEMENT PROGRAM

	PRIVATE	LOCAL GOVT.	FEDERAL
Developmental Expense			
Local Developmental Budget			$ 25,000
Neighborhood Reinvestment Corporation expense			20,000
Neighborhood Reinvestment Corporation grant to AIP			40,000
Outlay during development (6-12 months)	-0-	-0-	$ 85,000
Annual Support			
AIP Operating Budget		$ 85,000	
Neighborhood Reinvestment Corporation Support services and training			$ 5,000
Total Annual Support of AIP operations	-0-	$ 85,000	$ 5,000
Additional Annual Reinvestment in Neighborhood			
AIP generated private rehabilitation lending	$2,500,000		
Local governmental inspection services		$ 10,000	
	$2,500,000	$ 10,000	-0-
Development plus First Year Results			
Totals	$2,500,000	$ 95,000	$ 90,000
Percentages	93.5%	3.04%	3.02%
Development plus Three Years' Results			
Totals	$7,500,000	$285,000	$ 100,000
Percentages	95.1%	3.6%	1.3%

APPENDIX A

REVIEW OF PROGRAM DEVELOPMENT

- Neighborhood Housing Services
- Neighborhood Preservation Projects
- Neighborhood Preservation Development

NEIGHBORHOOD REINVESTMENT CORPORATION

Review of Program Development

The following three pages show, by city, the current status of Neighborhood Reinvestment programs, including:

Neighborhood Housing Services Programs

- Organized Programs
- Programs in Development
- NHS Expansions in Development

Neighborhood Preservation Projects

Neighborhood Preservation Development Projects

- Operating Programs
- Programs in Development

NEIGHBORHOOD REINVESTMENT CORPORATION

Program Report - March 16, 1979

The following Neighborhood Reinvestment programs are in operation or in development in neighborhoods in the cities listed below:

CITY	NEIGHBORHOOD HOUSING SERVICES PROGRAMS			NEIGHBORHOOD PRESERVATION PROJECTS	NEIGHBORHOOD PRESERVATION DEVELOPMENT PROJECTS*	
	Organized	In Development	In Expansion		Operational	In Development
Albuquerque, NM	1**					
Atlanta, GA	1					
Aurora, IL	1					
Baltimore, MD	2			2		
Barberton, OH						NCS
Beloit, WI	1					
Birmingham, AL	1					
Boston, MA	2					
Bridgeport, CT	1				HOP	
Buffalo, NY	1		5			
Charleston, SC	1					
Charleston, WV	1					
Charlotte, NC		1				
Chelsea, MA	1					
Chicago, IL	5			3		
Cincinnati, OH	2					
Clearwater, FL	1					
Cleveland, OH	2					
Columbus, OH	1					
Dallas, TX	3					
Denver, CO	1					
Des Moines, IA	1					
Detroit, MI	1					
Durham, NC		1				
Eugene, OR				1		
Evansville, IN						NCS
Fort Worth, TX	1					

* Neighborhood Preservation Development Projects: HOP - Home Ownership Promotion Program, AIP - Apartment Improvement Program, NCS - Neighborhood Conservation Services, R&S - Rehabilitation and Sale Program, SWF - State Wide NHS Foundation

** N r refers to the number of neighborhoods in which a program operates

CITY	NEIGHBORHOOD HOUSING SERVICES PROGRAMS			NEIGHBORHOOD PRESERVATION PROJECTS	NEIGHBORHOOD PRESERVATION DEVELOPMENT PROJECTS*	
	Organized	In Development	In Expansion		Operational	In Development
Hartford, CT	1				AIP	
Indianapolis, IN	1					
Inglewood, CA	1					
Ithaca, NY	1					
Jacksonville, FL		1				
Jamaica(Queens),NY	1					R&S
Kansas City, MO	2					
Knoxville, TN		1				
La Habra, CA	1					
Little Rock, AK	1					
Louisville, KY	1					
Macon, GA		1				
Menlo Park, CA	1					
Miami, FL	1					
Milwaukee, WI		1		1		
Minneapolis, MN	1			1		
Mt. Vernon, NY						AIP
Nashville, TN	1					
New York (Bronx)						AIP
New York(Lefrak City)				1		
Newark, NJ	1					
New Britain, CT	1					
New Orleans, LA	1					
Niagara Falls, NY	1					
Norwalk, CT	1					
Oakland, CA	1					
Pasadena, CA	1					
Peoria, IL	1					
Philadelphia, PA	2			1		HOP
Phoenix, AZ	1					
Pittsburgh, PA	1					HOP
Portland, OR				1		
Providence, RI	1					
Pueblo, CO	1					
Racine, WI	1					
Reading, PA	1					
Rochester, NY	1					
Saginaw, MI	1					
St. Louis, MO	1					
St. Paul, MN	1					

CITY	NEIGHBORHOOD HOUSING SERVICES PROGRAMS			NEIGHBORHOOD PRESERVATION PROJECTS	NEIGHBORHOOD PRESERVATION DEVELOPMENT PROJECTS*	
	Organized	In Development	In Expansion		Operational	In Development
Salt Lake City, UT	1					
San Antonio, TX	1					
Santa Ana, CA		1		1		
Savannah, GA	1					
Shreveport, LA	1					
South Bend, IN		1				
South Portland, ME		1				
Springfield, MA	1					
Springfield, OH	1					
Syracuse, NY	1					
Tacoma, WA	1					
Tampa, FL	1			1		
Toledo, OH	2					
Trenton, NJ	1					
Tucson, AZ	1					
Tulsa, OK	1					
Union County, NJ	4					
Utica, NY		1				
Washington, D.C.	1		1			
Waterloo, IA	1					
Wilmington, NC	1					
California NHS Foundation				1		
New Jersey NHS Foundation						SWF
TOTAL	87	10	6	14	2	7

43-133 O - 79 - 24

MINORITY COMPOSITION

NHS OPERATIONAL PROGRAM NEIGHBORHOODS

Charleston, SC	99% Black
Wilmington, NC	99% Black
Jamaica, NY	98% Black
Menlo Park, CA	98% Black
Dallas (Trinity Heights), TX	97% Black
Washington, D.C.	96% Black
Chicago (West Inglewood), IL	95% Black
Miami, FL	95% Black
San Antonio, TX	95% Black
Newark, NJ	93% Black
Chicago (Central Austin), IL	90% Black
Detroit, MI	90% Black
Philadelphia (Allegheny West), PA	90% Black
Shreveport, LA	90% Black
Indianapolis, IN	88% Black
Oakland, CA	85% Black
Pasadena, CA	85% Black
Plainfield, NJ	85% Black
Reading, PA	85% Black/Hispanic
Baltimore (Govans/Pen Lucy), MD	83% Black
Hartford, CT	80% Black
Inglewood, CA	80% Black/Hispanic
Louisville, KY	80% Black
Dallas (Love Field), TX	77% Black
Chicago (Little Village), IL	75% Hispanic
Linden, NJ	75% Black
Albuquerque, NM	70% Hispanic
Minneapolis, MN	70% Black
Shreveport, LA	70% Black
Waterloo, IA	68% Black
Chicago (Heart of Chicago), IL	65% Hispanic
Ft. Worth, TX	65% Black/Hispanic
Nashville, TN	65% Black
Roselle, NJ	65% Black
Tucson, AZ	64% Black/Hispanic
Cleveland (Buckeye), OH	60% Black
Denver, CO	60% Hispanic
New Orleans, LA	60% Black
Tulsa, OK	60% Black
Toledo, OH	60% Black
Beloit, WI	55% Black
Little Rock, AK	55% Black

MINORITY COMPOSITION

NHS OPERATIONAL PROGRAM NEIGHBORHOODS

New Britain, CT	55% Black/Hispanic
Springfield, OH	55% Black
Columbus, OH	50% Black
Norwalk, CT	50% Black/Hispanic
Pittsburgh, PA	50% Black
Saginaw, MI	50% Black/Hispanic
Trenton, NJ	50% Black
Bridgeport, CT	48% Black/Hispanic
Cincinnati, OH	45% Black
Atlanta, GA	40% Black
Charleston, WV	40% Black
Chicago (Near Northwest), IL	40% Hispanic
La Habra, CA	40% Hispanic
Savannah, GA	40% Black
Philadelphia (East Frankford), PA	40% Black
Providence, RI	40% Black/Hispanic
Kansas City (So. Hyde Park/ Center City Community), MO	36% Black
Aurora, IL	35% Black/Hispanic
Pueblo, CO	35% Hispanic
Syracuse, NY	35% Black/Hispanic
Buffalo, NY	33% Black
Birmingham, AL	30% Black
Ithaca, NY	30% Black
Boston (Mission Hill), MA	25% Black
Kansas City (49-63 Coalition), MO	25% Black
Cleveland (Near Westside), OH	20% Hispanic
Racine, WI	20% Black/Hispanic
Tampa, FL	17% Black/Hispanic
Dallas (Mt. Auburn/Santa Fe/ Owenwood), TX	14% Black/Hispanic
Boston (Columbia-Savin Hill), MA	13% Black/Hispanic
Phoenix, AZ	13% Black/Hispanic
Rahway, NJ	12% Black
Baltimore (Patterson Park), MD	10% Black
Chelsea, MA	5% Hispanic
Des Moines, IA	5% Black
Rochester, NY	5% Black/Hispanic
Tacoma, WA	5% Black
Cincinnati (Northside), OH	4% Black
Peoria, IL	3% Black
St. Paul, MN	2% Black
St. Louis, MO	1% Black
Salt Lake City, UT	1% Black/Hispanic

NEIGHBORHOOD HOUSING SERVICES

Neighborhood Housing Services programs operate in neighborhoods in which the housing stock is deteriorating but where there is a substantial degree of homeownership. The program has five basic elements: (1) residents who want to preserve their neighborhoods, improve their homes and who are willing to provide the leadership and energy to establish and participate in an NHS program; (2) local government which seeks to improve the neighborhood by making the necessary improvements in public amenities and by conducting a systematic, but sensitive housing inspection program coordinated with NHS activities; (3) a group of financial institutions which agree to reinvest in the neighborhood by making all of the "bankable" loans generated by the NHS programs, i.e., loans to neighborhood residents who meet normal underwriting criteria. In addition, financial institutions contribute the bulk of NHS operating costs and actively participate on the NHS board of directors; (4) a revolving loan fund designed to meet the needs of NHS clients who cannot meet commercial credit requirements. The fund is set up as a self-help tool for the neighborhood and is a source of "unbankable" loans with repayment terms to fit the borrower's ability to pay; and (5) an NHS organization which is a state-chartered, private, non-profit corporation governed by a local board of directors made up of neighborhood residents, and representatives from financial institutions and local government. No partner controls, but neighborhood residents constitute a numerical majority on the board.

From an office in the neighborhood, a small but skilled and committed staff (usually a director, assistant director and secretary) carry out administrative and community liaison responsibilities and provide the following NHS services:

- Rehabilitation counseling: an analysis of home repair needs, work write-ups, cost estimates and home repair counseling;
- Construction monitoring services: on-site inspections and helping homeowners work with contractors;
- Financial services: financial counseling with regard to residents' financial alternatives, helping assess and solve real estate related problems or other blocks to property improvement, making referrals to lenders and referrals to non-NHS resources, as appropriate.

NHS Expansion

As NHS programs across the country have matured and have proved successful, requests have mounted for the programs to serve more neighborhoods. Responding to this need, Neighborhood Reinvestment has been assisting NHS programs to meet these requests. Neighborhood Reinvestment plans to continue working closely with NHS programs as they receive requests to serve additional neighborhoods.

Basic to the expansion of a local NHS program is a strong commitment to the key elements of the NHS concept so that each neighborhood served continues to reflect:

- o A working partnership between neighborhood residents, the private sector and government.
- o A neighborhood-based program, as reflected in a resident majority on the Board of Directors.
- o A private, locally controlled, non-profit program.

Neighborhood Reinvestment works cooperatively with the NHS Board of Directors and staff to establish an expansion developmental process suitable to the local community. The process reflects the basic NHS philosophy by providing:

- A clear commitment to meet the ongoing needs of the existing NHS area.
- New resident inclusion to tailor the NHS program to suit the unique needs of the expansion area.
- A mechanism within which a restructured corporation is developed that reflects full participation of all actors.

NEIGHBORHOOD PRESERVATION PROJECTS

The purpose of Neighborhood Preservation Projects is to identify, monitor and evaluate locally developed promising approaches to stabilizing and improving the neighborhood environment. Those programs selected receive modest demonstration grants and technical assistance from Neighborhood Reinvestment staff. After careful monitoring and evaluation, the most promising projects will be offered to other cities as models which they can use to treat specific problems in their neighborhoods.

NHS experience has shown that in addition to housing deterioration, the viability of neighborhoods is influenced by a broad range of problems. It might be the deterioration of an apartment building in one neighborhood, commercial decline in another, a vacant building in another, concern about personal safety in another. Thus, there is a need for a variety of strategies focused on different problems that can be used singly or in various combination to deal comprehensively with varied neighborhood needs.

Neighborhood Preservation Projects may be supportive of the Neighborhood Housing Services programs or they may offer other innovative approaches to stabilizing and improving the neighborhood environment. They have dealt with comprehensive programs to revitalize neighborhood commercial districts, rehabilitation financing techniques, rehabilitation management, programs to rehabilitate and improve the investment quality of apartment buildings, crime prevention strategies, and mechanisms which provide for equitable treatment for current residents of neighborhoods experiencing rapidly increasing housing cost.

Neighborhood Preservation Projects involve a partnership of neighborhood residents, the private sector and local government. Preference is given to projects that are operational or at the point of starting operations. The projects are specific to a neighborhood, and have either demonstrated success or show a strong probability of success in upgrading that neighborhood. The project sponsors provide information which can be analyzed by Neighborhood Reinvestment to judge the effectiveness of the project. Sponsors cooperate with Neighborhood Reinvestment is assisting others who wish to replicate their project.

Current Neighborhood Preservation Projects

Baltimore Anti-Displacement Program - Baltimore, Maryland

Operating in a successful NHS neighborhood, the program offers subsidized, prepaid routine and emergency home repairs to limited income families through the NHS Home Maintenance Program. The program also offers Neighborhood Rental Services in which the NHS owns and administers rental properties as well as provides technical assistance to investor/owners in order to maintain quality rental properties that conform to community investment standards. In addition, Section 8 and Section 312 funds are combined to effect costly rehabilitation without causing displacement.

Baltimore NHS Realtor Involvement Program - Baltimore, Maryland

With the cooperation of the Greater Baltimore Board of Realtors, the NHS program is attempting to increase realtor involvement in the sale and marketing of low-priced properties. The program will work directly with realty agents to promote and facilitate the sale of low-priced houses by developing training programs

and investigating the need and types of incentives required to involve agents in low-priced and low-commission sales. The program will also work closely with the community to assess the impact of increased realtor involvement on sales prices in the NHS area.

Chicago NHS In-Fill Housing Program - Chicago, Illinois

The NHS of Chicago Development Corporation (a subsidiary of the NHS of Chicago) in a joint venture partnership with Hispanic Housing Development Corporation will construct 25 single family detached homes on scattered, vacant-lot sites throughout the Heart of Chicago neighborhood. Grants to home buyers to be used as down payments will reduce the estimated $44,945 cost per house to a more marketable level.

Municipal Rent Supplement Program - Eugene, Oregon

The municipal program combines three elements to encourage investor/owners (often absentee landlords) to make improvements to properties while providing a mechanism to maintain appropriate rent levels for low-income residents.

The first element is a rent supplement for families whose rent will increase due to rehabilitation. The second element calls for investor/owners to enter into a rent limitation agreement tied to the amount of the low interest rehabilitation loan ($7.22 per $1,000 borrowed) provided through the City. The third element provides tax abatement for investor/owners to rehabilitate sub-standard housing units. Under the tax abatement plan, an investor/owner would receive a five-year exemption from any property tax increase if rehabilitation costs exceed 5% of the original assessed value of the property.

Duplex as a Starter Home Program - Milwaukee, Wisconsin

The City's Neighborhood Improvement Development Corporation has developed an innovative financing technique that provides for a quick build-up of equity in order to encourage home-ownership investment in hard-to-market duplex homes. The program calls for the prospective home buyer to provide 5% of the appraised value of the duplex as down payment. Local lending institutions participating in the program provide 80% first mortgage financing and a 15% second mortgage that is amortized over a 12 to 24 month period.

Marketing of the program is conducted by four neighborhood organizations with technical assistance from the Neighborhood Improvement Development Corporation.

Minneapolis Neighborhood Crime Prevention Program - Minneapolis, Minnesota

The goal of this program is the reduction of crime and the fear of crime in the Southside NHS neighborhood and to establish an ongoing comprehensive Neighborhood Crime Prevention Program in the community. The program emphasizes cooperation among the Minneapolis Police Department, the City's Community Crime Prevention Program, the Minneapolis Crime Prevention Center, Inc., and neighborhood residents. Special emphasis is on the creation of neighborhood block clubs as a cohesive element to combat crime and the fear of crime.

Savannah Neighborhood Action Program - Savannah, Georgia

The program combines Section 8 Substantial Rehabiliation funds and Section 312 loan funds to rehabilitate 300 units in the Victorian District without causing the displacement of the low-income residents. In addition, using funds from Title VI of

the Comprehensive Employment and Training Act (CETA), the program is providing a pool of skilled and semi-skilled workers to carry out the construction.

Baltimore Urban Lender Training Program

The purpose of the Urban Lender Training Program is to promote sound lending in urban neighborhoods by preparing lenders to better understand the particular social, economic and governmental elements of urban housing in their local community. By training Urban Lending Specialists, the program will assist lending institutions to meet their legal requirements under the Community Reinvestment Act and other laws and regulations. The program is directed toward three levels within lending institutions. Chief executive officers are introduced to the goals and process of the Urban Lender Training Program in a one-afternoon session. Heads of lending divisions will be given two intensive days of orientation to the goals and process to help them to support the underwriters and appraisers who work directly for them. Loan underwriters and appraisers from participating institutions attend two, two-week intensive courses six months apart, with ongoing study between courses. At all three levels, participants will be exposed to a combination of instructional materials, expert speakers, grass-roots experiences and home study.

Neighborhood Commercial Revitalization - Baltimore, Maryland
Portland, Oregon

The Neighborhood Reinvestment Corporation has participated in the Commercial Reinvestment Task Force's review and analysis of selected cities to add private lending institution participation to existing neighborhood commercial revitalization

projects.

The Commercial Reinvestment Task Force has selected Baltimore, Maryland and Portland, Oregon, for its Phase I program. Neighborhood Reinvestment will utilize its developmental process to involve area lenders in the commercial projects, and provide program assistance to the project as appropriate. The assistance will include the following:

1. Assist the selected cities, local revitalization corporations, and participating lenders in determining specific needs for private financing.
2. Assist the local revitalization corporation in involving private lending institutions in the development and implementation of specific financing mechanisms and program strategies.
3. Determine the needs of the local revitalization corporation to continue and expand its efforts, and assist in the coordination of the resources of local government, SBA, the Department of Commerce and HUD to provide technical assistance and financing, as necessary.

It is anticipated that in Phase II, a comprehensive neighborhood commercial revitalization model will be developed which will be targeted regionally in up to four cities in which Neighborhood Reinvestment has done developmental work.

The latter two Neighborhood Preservation Projects not only support general neighborhood revitalization goals and provide additional resources for NHS programs, they specifically carry forward two of the President's Urban Policy Initiatives:

> "...I propose the creation of an Institute for Community Investment, under the Federal Home Loan Bank Board. The Institute will bring together appraisers, realtors, lenders, building and insurance companies to develop a consistent approach toward urban lending and to train urban lending specialists.

...I propose a pilot program to create Neighborhood Commercial Reinvestment Centers under the Comptroller of the Currency. This proposal is an adaptation of the highly successful Urban Reinvestment Task Force housing credit concept to the commercial credit area..."

NEIGHBORHOOD PRESERVATION DEVELOPMENT

Neighborhood Preservation Development refers to programs which have passed through the monitoring and evaluation phase as Neighborhood Preservation Projects. All of the following programs show remarkable promise as mechanisms or strategies to reverse neighborhood decline. Since all have been replicated in two or fewer sites, they should be considered still in a "pilot" stage, with developmental processes still to be tested and refined in different housing markets and neighborhood environments.

Neighborhood Preservation Development programs include:

Apartment Improvement Program

The Yonkers Apartment Improvement Program joined the City, financial institutions, property owners, tenants, and neighborhood organizations in a partnership to upgrade large apartment buildings exerting a blighting influence on their neighborhoods. Through individually tailored improvement plans, each building may benefit from tenant participation, temporary tax abatements, increased investment or restructured mortgages to improve the economic viability of buildings and to finance improvements.

Homeownership Promotion

The Baltimore Neighborhood Housing Services Program discovered that the quality and permanence of its effort in neighborhood improvement depended upon increasing the level of homeownership. The Homeownership Development Program encourages tenant purchases and vacant property sales and will provide a resource to other communities which have a high degree of organization, numerous absentee landlords

and a long-term tenant population.

Rehabilitation and Sale Program

Many communities find that severely blighted buildings interrupt the functioning of the real estate market, dragging down otherwise sound homes nearby and further depressing property values. A total rehabilitation program based on two experiences: a Boston non-profit development corporation, and Baltimore's Department of Housing and Community Development, is targeted to those properties too sound to raze, but too blighted to be rehabilitated privately. The strategy augments private rehabilitation activity in an effort to stabilize and improve the neighborhood.

Neighborhood Conservation Services

The City of Berkeley developed a comprehensive program to encourage the rehabilitation of neighborhoods. In partnership with local lenders and neighborhood residents, the program features systematic but sensitive housing inspections, financial and rehabilitation counseling for homeowners, the availability of normal commercial loans for "bankable" residents and loans at flexible rates and terms for homeowners who do not meet normal credit standards. Berkeley's concept is a potential resource for smaller cities requiring a sensitive neighborhood mechanism to provide housing rehabilitation services, but where the financial institution base is insufficient to support the privately-operated Neighborhood Housing Services approach.

Statewide NHS Foundation

The California NHS Foundation was developed by statewide financial institutions to provide funding coordination and a sound financial base for developing NHS programs throughout the State. Each participating financial institution provides an agreed financial contribution to the Foundation, annually. The Foundation then

provides approximately 75% of the operating budgets of the NHS programs throughout the State. The balance of the operating budget is raised from local sources. This permits financial institutions operating statewide to see a finite limit to the number of NHS programs they will be asked to support. At the same time, it will permit NHS development in many cities which would otherwise lack the necessary local financial institution base.

Insurance Industry Full Partnership

Many NHS programs, in their efforts to upgrade housing in their neighborhoods, have encountered difficulties in obtaining voluntary standard insurance coverage for the properties in their neighborhoods. The Insurance Industry joined NHS of Chicago in developing this "Full Partnership" to strengthen the investment climate in their neighborhoods. This program allows for a strengthening of NHS efforts through Insurance Industry participation on NHS boards and committees, contributions to the NHS-Insurance Industry Support Fund, and assisting NHS residents in understanding and obtaining standard voluntary insurance coverage for their properties.

Home Maintenance Training

With increased awareness about property conservation comes the desire of many homeowners to learn home repair and maintenance skills. Home maintenance training encourages homeowners to become more cost-conscious in repairing and maintaining their homes. NHS of Jamaica, New York, pioneered a comprehensive 12-week training program in cooperation with a local community college to provide the training and hands-on repair experiences.

APPENDIX B

REVIEW OF OTHER FUNCTIONAL AREAS

- Neighborhood Housing Services Support and Training
- Neighborhood Housing Services of America National Loan Purchase Pool
- Monitoring and Evaluation
- Dissemination of Information

43-133 O - 79 - 25

NEIGHBORHOOD HOUSING SERVICES SUPPORT AND TRAINING

The function of the Support and Training division is to provide services to Neighborhood Housing Services programs which will strengthen local operations and improve their effectiveness in serving their constituents. Five primary functions of this division have been delineated:

- provide assistance to new directors and other staff of NHS programs in developing self-education programs and structuring training opportunities;
- provide assistance to Board of Directors of NHS's with program planning and evaluation, board orientation and training, and board committee activities;
- plan, facilitate, and evaluate national and regional conferences and training programs;
- support NHS programs requesting short-term special assistance;
- provide training to prepare staff and partnership representatives in the skills and attitudes necessary to administer local reinvestment programs and effectively achieve their goals and objectives.

The amount of program support activities grows as more programs are developed and become operational. A comprehensive training program has been designed to ensure that NHS's have the quality staffs they require to effectively manage the programs. An executive director internship program, designed under contract by Neighborhood Housing Services of America and partially funded through a grant from Allstate Insurance Company, trains candidates in the many skills required to administer an NHS program. Graduates of the program have been placed in several NHS's. Neighborhood Reinvestment also sponsors a two-week course for locally-recruited executive directors. The Rehabilitation Specialists program, operated under contract by NHS of Chicago, Inc., is another intensive course designed to recruit and train a pool of qualified rehabilitation specialists. In addition, Neighborhood Reinvestment sponsors local and regional workshops designed to train staff members and board members in skills required to meet the needs of local NHS programs.

Support officers provide technical assistance both to new NHS's becoming operational and on an on-going basis. A series of orientation sessions have been designed to assist the new NHS in planning and implementing procedures. Continuing technical assistance is available upon request and the division can also provide

interim support during staff turnover. The division also assists NHS's in applying for other assistance such as National Endownment for the Arts grants, and special allocations of Section 8 existing housing rent subsidies to prevent displacement of neighborhood tenants as a result of rehabilitation of their dwelling units.

NEIGHBORHOOD HOUSING SERVICES OF AMERICA NATIONAL LOAN PURCHASE POOL

Neighborhood Housing Services of America (NHSA) came together as a private, non-profit corporation to create and operate a national loan purchase pool. This resource provides local Neighborhood Housing Services programs with a source of liquidity for their revolving loan funds.

In order to encourage the flexibility of NHS loan policies, NHSA only purchases a percentage of the loan portfolio of any NHS program. The specific package of loans offered are worked out between the staffs of the NHS and NHSA and the loans are approved for purchase by the NHSA Board Loan Committee. Servicing of loans sold to NHSA - reviewing repayments and communicating with the borrowers - is conducted by the NHS through the term of the loan to avoid interfering with the NHS-client relationship. In accordance with the terms of recourse, loans which become 90 days delinquent are to be substituted or repurchased by the NHS.

In June of 1978 the first step was taken in expanding the national loan purchase pool to a small but genuine secondary market for NHS loans made from their revolving loan funds.

Through an agreement worked out between the Equitable Life Assurance Society, Neighborhood Housing Services of America, the Urban Reinvestment Task Force and the Ford Foundation, Equitable purchased from NHSA $1 million of a security collateralized by NHS revolving loan fund loans.

Under the agreement, an Urban Reinvestment Task Force subsidy will raise the average yield of a revolving loan fund loan from an average of about 5 1/2 percent to a marketable yield. A Ford Foundation guarantee of $200,000, which protects Equitable from possible losses, and a Ford grant of $100,000, which establishes a working capital fund to ensure timely payment, combined with the market interest rate, make the loan package attractive to investors such as Equitable. NHS loans with a value of at least 125 percent of the outstanding loan amount will serve as collateral for the Equitable purchase.

MONITORING AND EVALUATION

The monitoring and evaluation of Neighborhood Reinvestment programs is critical both to determine the potential of other locally initiated neighborhood preservation strategies for replication in selected locations, and to provide a quality control mechanism to ensure the continued success of programs and strategies we are currently offering.

The Neighborhood Preservation Projects (NPP) division is charged with identifying, monitoring, and evaluating a limited number of locally-developed neighborhood preservation programs which show promise of potential replicability in other cities. These demonstrations, which are based on local private-public-resident partnerships, receive modest demonstration grants and technical assistance from division staff. During the year of monitoring staff examine the essential elements of the program and make a determination of its ability to be replicated in another setting. The most successful NPP's are transferred to the Neighborhood Preservation Development (NPD) division for design of a developmental process.

The second function of monitoring and evaluation is to provide on-going program assistance. This assistance enables Neighborhood Reinvestment staff to discover potential weaknesses in the programs and provide intensive support when requested. It also allows for refinement of the

developmental process - a process which has become increasingly more sophisticated and formalized over the years. Neighborhood Housing Services of America, Inc. (NHSA), on a contract basis with Neighborhood Reinvesment, conducts annual programs reviews and provides program design and technical assistance to NHS programs.

DISSEMINATION OF INFORMATION

Responding to inquiries and requests for information from Congress, the financial and business community, and the general public, as well as providing a forum for discussion through conferences and meetings, is another activity of the Neighborhood Reinvestment Corporation. Annually, there are more then 2,000 requests for information from the public. To meet this demand, Neighborhood Reinvestment publishes an Annual Report describing its activities and program output, a quarterly newsletter, and a number of borchures describing the programs and their essential elements. Staff are also invited to make presentations at conferences sponsored by such national organizations as the U.S. Conference of Mayors and the National League of Cities, and speak before many other local and state organizations.

Neighborhood Reinvestment also provides support and materials for national and regional conferences. An annual NHS conference provides a forum for exchange of ideas and educational workshops. The office also sponsors a number of regional workshops for NHS programs to supplement the limited resources they have to provide education and training for their staffs and boards.

HIGHLIGHTS OF GENERAL STATEMENT

I would like to stress the Federal Home Loan Bank System origins of what we are doing. It seems to me the important feature that has made what we are doing as successful as it has been, has been the ability of the Federal Home Loan Bank System to influence savings and loans, and the ability of other Federal regulatory agencies to receive the cooperation of banks, savings banks and credit unions in this program. This is a novel element to be introduced into a national housing effort.

The partnership, which is basic to NHS, is made up of the residents and representatives of local government, and financial institutions. This, we think, is central to any public-private cooperative effort. It is a real partnership which in the original program has lasted over 10 years. In all of the programs which we have developed, there is this strong vital combination.

When the Task Force was formed in 1974, adding HUD and the other regulatory agencies, a program was added to our work called Neighborhood Preservation Projects. This was quite a significant addition in that it is aimed at finding ways to deal with other neighborhood problems that NHS itself does not address. NHS with its revolving loan fund, its counseling, and loans from financial institutions, is an ideal program for the owner-occupant. Additional programs are necessary which impact on the health of the neighborhood, and are needed to supplement NHS. We have been working at that since 1974 and are beginning to achieve a great deal of success.

The Corporation was formed with the same board of directors as the members of the Task Force. It was designed to be as near a private corporation as you can be, with the use of substantial Federal funding, so that we could retain the flexibility and retain the nonbureaucratic nature which has been so helpful in our program.

We plan to continue selecting and monitoring promising neighborhood projects, to continue developing processes to take the more successful neighborhood preservation projects and turn them into programs to supplement NHS, and to further replicate those programs. Also, we plan to continue to support the Neighborhood Housing Services of America secondary market, which provides a way of leveraging the NHS revolving loan funds with private institutional investors' money.

Mr. BOLAND. How do you do it?

Mr. WHITESIDE. Neighborhood Housing Services of America purchases NHS loans at par, with recourse. It then collateralizes a security with those "high-risk" loans. The average yield of the first half million they bought was just under 5 percent. The Task Force, through a grant, subsidizes the yield until it becomes a reasonable investment for a private investor. The Ford Foundation, in the initial offering, has provided a guarantee. So with the combination of the recourse, the interest subsidy, and the Ford Foundation guarantee, it is marketable. We believe this mechanism gives us a precedent to further develop the secondary market.

The Equitable Life Assurance Society of America purchased $1 million in these collateralized securities.

Mr. BOLAND. How many instruments has the secondary mortgage activity actually supported?

Mr. WHITESIDE. They purchased a half million dollars in loans from something like 20 NHS programs.

Mr. BOLAND. Involving how many mortgages?

Mr. WHITESIDE. I will give you a precise figure for the record. I would say they are averaging about $5,000. So that would be about 100 loans.

Mr. BOLAND. Please provide the precise figure for the record.

The first $500,000 represented 131 loans. As of March 20, 1979, NHSA has purchased 177 loans.

Mr. WHITESIDE. Included in the mandate from Congress for the corporation was a direction for us to seek to serve smaller cities and more distressed neighborhoods. This is an undertaking which we welcome. It is something we have been edging into from the beginning. As fast as we are able to develop resources and tools, we have taken on as difficult neighborhoods as it was possible to do.

The nature of the activities we perform needs to be mentioned so you can get a sense of the kind of people who work for us and the kind of jobs they do. Basically our developmental role is an educational role. We are assembling the potential partners, educating them about NHS works, getting them into a working relationship with each other, and—I cannot stress too much—that it is an unusual partnership in which bankers, neighborhood residents and city officials sit down and run a joint endeavor. There is usually a hostile atmosphere. Therefore, getting a solid relationship is one of the hardest things we do, and the ability to do that is a key factor.

We do not operate in Washington; we operate in neighborhoods around the country. You will find an unusually high percentage of our funds go to travel; that is because the work is out there, not in an office someplace.

STAFF COUNSELORS, LOCAL COORDINATORS, FIELD REPRESENTATIVES

Mr. BOLAND. You have people on the scene, of course, in those areas where Neighborhood Housing Services activities are taking place?

Mr. WHITESIDE. Yes. There are three kinds of staff. There are the local staff that do the counseling of individual homeowners—they work for NHS and are paid by private funds. There is a local coordinator hired for a year to assist in the developmental process. He or she works for us.

Mr. BOLAND. Is he paid by the Corporation?

Mr. WHITESIDE. We receive the funds as a local contribution, but they come into our budget and are paid out as our funds.

Mr. BOLAND. How many local coordinators do you now have?

Mr. WHITESIDE. Approximately 30.

Mr. BOLAND. Do you have a local coordinator for every area in which the Corporation is engaged?

Mr. WHITESIDE. No, only where active development is going on. As soon as the program is up and under way, our staff pulls out and the NHS is autonomous.

The third type of staff representative is the field representative. He might at any given time be beginning a project in one city, in peak development activity in a second city, and completing development in a third. So that person is constantly traveling, 4 or 5 days a week.

NRC REGIONS

Mr. BOLAND. Are you regionalized?

Mr. WHITESIDE. Yes.

Mr. BOLAND. How many regions do you have?

Mr. BRYANT. The country is divided up into three regions; within those there are field offices overall in 12 cities.

Mr. BOLAND. Then you are not regionalized on the same basis as agencies of the Federal Government?

Mr. WHITESIDE. We have two or three persons in an office. As soon as we have more than one or two persons working from their homes we call it an office—the scale you have to understand. Our work involves us in a three-stage process, it is important to understand this to understand what we are doing. In stage one, in the Neighborhood Preservation Projects, we are taking somebody else's good idea, giving them a small grant, carefully studying how their project works, and evaluating its success. This may be a one- to two-year process.

At the end of that period, we make a determination whether it shows enough promise to merit replication. Then, in stage two, with the cooperation of the group that developed it, we begin development in one or two additional cities. In this second stage, we are devising a developmental process, a way of selling the program—at its most basic level—selling it to the local government, to the local lending institutions, and to the residents who will be involved in the program. Every one of our programs involves the partnership of the private sector, residents, and local government.

The third stage is the stage in which we are now continuing the development of NHS, where we are working with a well-developed process. We have several important programs in stage two that we think will bring important tools to the rehabilitation of neighborhoods. We are refining the developmental process in those programs.

I should mention two of them just to give you a sense of how we intend to use them in meeting the mandate for the Corporation of addressing smaller cities and more deteriorated neighborhoods.

In terms of smaller cities, the NHS program is a private program, and the operating budget is, in most cases, totally derived from contributions from banks, savings and loans, credit unions, and insurance companies. They are voluntary charitable contributions. Many of the programs have been supported in this way for more than 5 years, their operating budgets are getting substantial, and they are retaining this support.

As you get into smaller cities you do not really have the financial institution base to support an adequate operating budget for an NHS.

In some cases we have been drawing on local government for a share of the budget, but that is making everyone a little edgy as we see programs becoming more governmental, less private.

It is normally community development block grant funds that a city contributes. When you enter into an agreement as to block grants, you have a stack of boilerplate that thick [indicating] that NHS's are subject to.

We have developed one promising approach to dealing with this, to set up a State-wide foundation and have all the State-wide savings and loans and banks contribute to that foundation. The further de-

velopment of this mechanism I think is important in our ability to serve smaller cities.

In serving more difficult neighborhoods, and what makes a neighborhood difficult, from our point of view, largely fluctuates around the question of pride of ownership—where you have a larger percentage of tenants and a smaller percentage of homeowners there is less pride of ownership—we find that expanding the proportion of homeowners makes an important difference in the ability of the neighborhood to regenerate itself.

One of these projects was developed in Baltimore. They entered into a dual process. As the city inspectors began inspecting homes in a block where there was a high tenant percentage, absentee owners received notices of code violations they had to correct.

One staff member began contacting absentee owners to determine if they would like to sell. Another staff member contacted tenants to see who would like to buy in the neighborhood, and the NHS was able to put this together and enable the code violation work and acquisition to be financed through the combination of a loan from one of the participating financial institutions and a loan from the revolving loan fund totaling 100 percent of the total acquisition and rehabilitation cost. This brought tenants in at no down payment, with mortgage payments substantially the same as they were paying in rent.

It is a substantial program in Baltimore. In the first 18 months, they brought new owners into over 300 homes, including over 200 tenants from the neighborhood. The remaining buyers have been people with more cash who could take on the larger buildings that needed a larger investment. We think this to be one of the greatest ideas to come up, for dealing with the displacement problem. When added on to the normal NHS program, we believe it will enable us to tackle neighborhoods we have not been able to tackle before.

There is another program I should mention, the apartment improvement program. We have not felt comfortable in a neighborhood with a substantial number of apartments where a deteriorated building might continue to depress values and make it harder for the owner-occupants in the neighborhood. We now have a tool which has been working in Yonkers, where they have turned around 65 buildings containing 3,500 units.

APARTMENT IMPROVEMENT PROGRAM

Mr. BOLAND. Could you further explain the situation of the owner-occupants and apartments?

Mr. WHITESIDE. To clarify what I am saying, in the past, in selecting neighborhoods for NHS, if there were a substantial number of deteriorating apartments as well as single-family homes, we were concerned that those apartment buildings would depress the neighborhood for the owner-occupants, so they would not want to reinvest in the area. Now we have a program where we can deal with both the owner-occupied house and the apartment building.

Similarly, in this program, when you couple the apartment improvement program with Section 8 subsidies, you have an antidis-

placement tool. You can keep the tenants in the neighborhood that are now there.

COOPERATION WITH THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. BOLAND. Will the Corporation receive specific allotments under Section 8?

Mr. WHITESIDE. We have had excellent cooperation from HUD. They gave us several units last year which we have divided among 18 cities. They are spread throughout the country, but there is a strong concentration in the North-central and Northeast.

Turning now to the budget, I think to understand our budget you need to think about it in terms of the sources of funds and the flow of funds into that proportionately large bottom line in our budget. In the past, the Federal funds have consisted of a demonstration grant from HUD. This Fiscal Year 1979 authorization of $12.5 million for the bill creating the Neighborhood Reinvestment Corporation contemplated a suplementary appropriation which would take us from the $8.5 million demonstration grant to a higher level which would include a Congressional appropriation. But the Administration determined that a supplemental appropriation would not be requested.

In 1980, there will be no demonstration grant funding, so the total Federal funds involved will be the funds requested in the budget before you of $9.5 million.

FEDERAL HOME LOAN BANK SYSTEM ADMINISTRATION

In addition to the Federal funds, the Federal Home Loan Bank System administers our core administrative funding. This amounts to—in the budget before you—$860,000, which pays for a substantial part of our Washington headquarters administrative costs. Our headquarters office is in the Federal Home Loan Bank Board Building.

CONTRACTUAL ARRANGEMENTS FOR LOCAL REIMBURSEMENTS

There is also a substantial amount in the budget for reimbursements for local development expense. These are the contractual arrangements we make with local cities, or other local sponsors who will pay the approximately $35,000 in local developmental cost for the program. That is paid to us under a contract and it is disbursed in that city. Any funds not disbursed for developmental costs are usually contributed to the NHS at the conclusion of the process.

Then there are two kinds of carry-forwards. One carry-forward is unspent balances from the previous year. The second is made up of firm grant commitments. It is like a pipeline of grants flowing from one year to the next. Our developmental process lasts frequently for a year and sometimes longer. This means, in any fiscal year, we are entering into a commitment to make a $50,000 or more grant to a local program, to be paid out—by and large—in the next fiscal year. So we are commiting funds made available to us in 1978 for payment in 1979. We are committing funds we have available in 1979 for payment in 1980. This makes our budget a confusing document to read, but I am sure your specialists have waded through that.

NRC ADMINISTRATIVE EXPENSE

In terms of comparison of our expenditures, I would just say we went through a substantial growth from 1978 to 1979. Our demonstration grant from HUD in 1978 was $4.5 million. In 1979 it was $8.5 million. A substantial amount of our effort—and it is reflected to some extent in the dollar amount for administration in 1979—has gone to strengthening our administrative processes to deal with this growth and dealing with the expenses that have come with the new corporate character of our operation.

In 1980, it is essentially level. Anticipated cost increases absorb a good deal of the $1 million increase between $8.5 and $9.5 million.

Our output will also be essentially level. There will be a slight two-program decrease in our anticipated NHS development and an increase of four programs in our development of new programs.

That completes my opening remarks, Mr. Chairman. We will be pleased to take your questions.

INCREASED RESPONSIBILITIES IN RURAL AREAS

Mr. BOLAND. Thank you very much, Mr. Whiteside.

You are on record as saying that this whole program should not grow too quickly so that its effectiveness can properly be maintained. When the Corporation was established, the Congress mandated some additional responsibilities, one of them being the focus on rural areas. That is correct, is it not?

Mr. WHITESIDE. We have devised a model for a rural area and we are seeking a place to try it out. We hope to try it out in one location in this fiscal year.

Mr. BOLAND. As I understand it, the organization started in 1970 as the Center for Executive Development. Later, in 1971, the Center promoted the goals of the Neighborhood Housing Service in Pittsburgh which ultimately resulted in the creation of the Urban Reinvestment Task Force. This leaves me with the impression that most of the problems on which your activities and functions are focused center around the larger cities and distressed neighborhoods.

Mr. WHITESIDE. Distressed neighborhoods, but to a surprising degree we have already been operating in smaller cities.

Mr. BOLAND. When did the movement to smaller cities and neighborhoods start?

Mr. WHITESIDE. There has been a gradual shift. We respond to applications. Most of the larger cities have staffs that are looking for programs, and they submitted many of the early applications. George Knight, I think, can give you an idea of the size of the cities and the proportions in which we are operating.

Mr. KNIGHT. Right now in the 71 cities on which I have data, 23 of them have populations of less than 100,000. Some of our earlier cities were quite small. Plainfield, New Jersey was a very early and small city; Ithaca has a population of 25,000 when Cornell is in session. Many of the cities we have been working in from the beginning have been small, but increasingly we are focusing our efforts on small cities.

Mr. BOLAND. As I understand it, the majority of the funds from the programs operated by the particular agencies I mentioned, have been spent in larger cities.

Mr. WHITESIDE. Most cities with a population of over 250,000 have an NHS. So a growing proportion of our efforts is going to be in the middle and smaller-sized cities.

RELATIONSHIP OF NRC WITH OTHER REDEVELOPMENT PROGRAMS

Mr. BOLAND. Let me ask you, in the past few years, a number of public programs, in addition to the Neighborhood Reinvestment Corporation, have been established. I am thinking of the Urban Volunteer Corporation, the Good Neighborhood Fund, the National Neighborhood Commission—what are the differences in the missions of those groups?

Mr. WHITESIDE. I cannot speak to the differences on all of them because I do not know those programs that well. The Commission I have a good understanding of. I think that was an effort to study and discover problems, to pinpoint solutions. It was not an activist program of doing something. It was a program of trying to understand, record, and publicize their results. We differ from that in that we play an active role of being a catalyst in developing programs in neighborhoods. It is a very special and unusual kind of Federal role.

Further, I think we differ from any other program that I am aware of in that the private financial institutions are encouraged to participate by their Federal regulators. It makes a great deal of difference in the response to the program that we have been able to achieve as compared to responses that others trying to put together a private-public partnership have achieved.

Mr. BOLAND. How is your program different from programs that were established by local authorities; particularly those established by efforts of local groups in the section 312 rehabilitation program?

Is the assistance you give to owner-occupants delivered in areas that you have prevously targeted as essential? Are most forms of assistance grants? Do you have a loan program?

Mr. WHITESIDE. NHS programs make no grants.

Mr. BOLAND. No grants? So all of your assistance is in the form of loans?

Mr. WHITESIDE. All loans, but the loans can extend out to 20 years and be as low as zero percent.

The important thing is that the person receiving the funds has the self-respect of knowing they received a loan and not a grant, and that makes a surprising amount of difference even to a low-income homeowner. The fund revolves. Even if the loan term exceeds the life expectancy of the borower, the ultimate proceeds of the sale of that property will reimburse that fund and so the fund becomes a permanent revolving resource to the community.

There was another part to your question, Mr. Chairman?

Mrs. BOGGS. The Section 312.

Mr. WHITESIDE. Comparing it to the local loan programs, I think the nature of most programs produced by local governments is that they are perceived as governmental programs. I think there are efforts to involve residents, to involve the private sector, but basically it is a governmental program.

We have succeeded in producing programs that are thought of as private, that promote themselves as being private, and governments—local governments—are anxious to be a part of those, because it

changes the nature of the process. It changes the way the people think of the loans. There is an unfortunate aura to government loans. People are not sure they have to pay them back. People are sure they have to pay the NHS loans back, and we have had splendid loan payment experience. It puts a whole different flavor on the program to place it as a private local autonomous unit. It is not the local government's program.

Mr. BOLAND. How will the Corporation interface with the urban initiatives program that has been proposed by the Administration? Specifically address the neighborhood self-help development program, the livable cities program, and the crime prevention programs on Action and the LEAA, the Law Enforcement Assistance Administration.

Are Neighborhood Housing Services Corporations eligible for grants under those programs?

Mr. WHITESIDE. I believe they are. The NHS is a mechanism to serve a neighborhood and they will take money wherever they can find it. This is currently the case with C. D. funds, as I am sure it will be when the new sources of funds are available. It is a way of targeting resources to a neighborhood.

NRC PROGRAM DEVELOPMENT PROCESS

Mr. BOLAND. Two-thirds of the Corporation's budget is devoted to program development. Page 3 of the justification reveals that one of the 1980 goals is to begin development of at least 30 Neighborhood Housing Services programs. Briefly describe the development process of a Neighborhood Housing Service program.

What cities are targeted for NHS programs in 1980?

I know the development process relies on a combination of people in the neighborhood, public officials, and also the financial community.

Mr. WHITESIDE. To give you a change of voice I will ask James McNeirney to take that on. He has worked on our developmental process since 1971.

Mr. MCNEIRNEY. After we have entered into a contract with the city, the staff then spends a good deal of time in the city talking with community-based organizations and different organizations that impact on housing in the city. They, of course, talk with the city government and city departments, and obviously talk with the lenders. We talk to both at luncheons we hold where we bring the regulatory agency regional people in and make a presentation, then follow up individually.

What we are working up to is what we call a workshop, where we bring all three partnership groups together to present the program to the total group so they all have a common frame of reference.

We discovered early that if you want to get the three different groups talking together, the best thing to do is hold the workshop in another city, because, if not, the lender goes out to close a deal, and the other participants become involved in other things.

What comes out of that first workshop, the usual process, because these cities each have different problems, is a committee structure to implement the program. The critical part of this process is that, if the program is to be like what we saw in Pittsburgh, with local people

making decisions as to what is going to work in their own community, then our role must be a serving, advisory role. We work with them, give them the information we have from other communities. We set up committees such as the site selection committee, the government relations committee, the finance committee, then they identify their own problems, and bring them to a solution.

The committees are the end product of the initial workshop. It is a five-step developmental process. Next, the site selection committee reports to the full group, which decides on a neighborhood. Then the outreach begins to bring the neighborhood residents into the process. The third workshop brings that total group together.

Our process is as important as the product that comes out. In those workshops, the interaction between the groups creates bonds that last over the years.

The end product is the creation of the Neighborhood Housing Services, the autonomous nonprofit corporation, with people from financial institutions and the community serving on the board.

Our role then is to provide them with technical assistance.

LOCAL NEIGHBORHOOD HOUSING SERVICES BOARDS

Mr. BOLAND. How large are the boards ordinarily? I suppose it depends upon the size of the city and the neighborhood.

Mr. MCNEIRNEY. It can go anywhere from 15 to 30.

Mr. BOLAND. I would hate to serve on the one with 30.

Mr. MCNEIRNEY. In some cities, such as Chicago, there are six neighborhoods involved in the program. There may be local boards and central boards.

Mr. WHITESIDE. Only five.

Mr. KNIGHT. There are 24 or 27 on the board in Chicago.

Mrs. BOGGS. Mr. Chairman, I am so very interested in this program, as I have been in all the urban neighborhood renewal programs, coming from an old city as I do.

Mr. BOLAND. But you have preserved your city pretty well without government funding.

Mrs. BOGGS. No, actually we have used a lot of Federal funding.

Mr. BOLAND. That's only lately, since you have come to Congress, Lindy. [Laughter.]

Mrs. BOGGS. The times have changed, Mr. Chairman.

But I am very, very interested in this program because I think the responsibility of the long-term revitalization and rehabilitation that keeps our neighborhoods from deteriorating has always fallen on the Federal Government. Here is an opportunity for the private sector to come in, and they have been extremely successful with it.

I am especially curious about the apartment rehabilitation success that they have had; because one can readily understand the pride of people in single homes or one and two unit places. Apparently the return on investment in apartments has been more dramatic than on single dwellings.

This is an era when apartment building owners in a city are turning their apartments into condominiums because they cannot afford to keep their apartments up. I have not been able to understand how they were able to obtain a better return on apartments than on single dwellings.

I would like Mr. Whiteside to respond to that.

Mr. WHITESIDE. George Knight is responsible for development of this program. After we discovered it in Yonkers, he developed an apartment improvement program in Hartford and he is currently working on it in Mount Vernon, New York.

Mr. KNIGHT. As Mr. Whiteside said earlier, Yonkers dealt with 65 apartment improvement program in Hartford and he is currently erties. In Yonkers we discovered the need to get together the lenders, the owner, the city, and the tenants and form a four-way partnership to examine all aspects of the apartment building. We use a computerized real estate investment model which the City places on their computer and we train their staff to continue the program from building to building to building, by basically bringing together a representative of each member of the partnership in an open, supportive atmosphere to discuss what is possible to do and what is not. As a result, they work out an improvement program and put it into play.

Of the 63 moderate- and low-income projects, all have been improved and many have very large families referred by the Department of Social Services.

INSURANCE INDUSTRY INVOLVEMENT

Mrs. BOGGS. Have the insurance companies been helpful to you?

Mr. KNIGHT. On the NHS side, Bill is the expert on that. But on the apartment side, the insurance companies have always been involved as either direct lenders or purchasers of paper. They have been involved in Yonkers and are now involved in Hartford and Mount Vernon, but purely in their fiduciary role.

Mr. WHITESIDE. What we have now in the insurance industry is a new model for bringing a whole new industry into supporting NHS. We discovered it when NHS administrators reported that redlining was weakening confidence in their neighborhoods. When new buyers were referred to the FAIR plan instead of a private carrier and policies were being canceled, it reflected negatively on the neighborhood and affected people's willingness to reinvest.

We went to some insurance companies with this problem. They were quite conscious of it, it has been getting a lot of publicity, and there has been a lot of criticism. As we laid out what NHS's do, how lenders are able to make sound loans in the neighborhood because of the supportive process, 19 large companies got involved with us in the Chicago five neighborhood program and, with the NHS partnership, created a practical mechanism to meet the insurance needs of the neighborhoods, and become full partners. We are in the process of surveying the other NHS's and those companies to see what additional cities we can bring this insurance to.

It is important for two reasons. One, it deals with the insurance problems in the neighborhood and two, it brings another financial institution into the neighborhood to share the financial burden of the NHS operating costs.

Mr. BOLAND. Marty, have you any questions?

Mr. SABO. No, Mr. Chairman.

LEVERAGED IMPACT OF URBAN REINVESTMENT TASK FORCE

Mr. BOLAND. In testimony before other Congressional Committees, Mr. Whiteside, you have addressed the leveraged impact of the Urban Reinvestment Task Force. What do you estimate that effect has been to date? What do you estimate the leveraged impact of the Reinvestment Corporation will be through Fiscal Year 1980?

Mr. WHITESIDE. What we have provided you with is a typical NHS picture. Let me just give you a summary here, and for the record we will provide a more precise estimate. Our estimate is in excess of $100 million and has been generated by our work in NHS neighborhoods. The $100 million in reinvestment includes mainly loans from private institutions, loans from revolving funds and city improvements in the neighborhood. That result from an expenditure of less than $20 million in Federal funds.

In a typical NHS, the example furnished in my testimony shows that for the developmental costs and the annual average support costs for NHS, as well as an amount to allow for our investment in the secondary market, we would invest $243,000; and by the end of a 3-year period, over $5 million in reinvestment would have taken place in that NHS neighborhood. This is a prototype figure; a composite picture.

OMB has asked us to do an impact study to give them hard evidence of this. They are excited as to the results, too, I believe.

Mr. BOLAND. You can expand on that for the record.

[The information follows:]

ESTIMATES OF THE LEVERAGED IMPACT OF THE URBAN REINVESTMENT TASK FORCE

Support for Local NHS Program Activity

Contributions to developmental costs	$ 2,250,000
Contributions to NHS operating budgets	11,326,898
Contributions to NHS revolving loan funds	15,589,809
Purchases of NHS loans	1,017,559
City expenditures for code inspections	2,138,429
Total	32,332,695

Reinvestment in NHS Neighborhoods*

Loans made through NHS loan funds	$ 7,392,456
Bank loans made by referral from NHS	20,773,676
Loans made by city/state loan programs	2,786,710
New mortgages written in NHS neighborhoods	41,711,898
Other rehabilitation financed**	17,304,410
Capital improvements to NHS neighborhoods	26,400,000
Total	$119,155,860

Federal Investment

Federal funds expended or committed to date (out of total demonstration grants to the Urban Reinvestment Task Force approved 1974 through September, 1979 of $23,625,000)	19,000,000

---

* Currently there are 41 NHS's reporting activity on a quarterly basis. However, all NHS's do not report on the same indicators so this is only a partial accounting of NHS program activity. Also, these figures include only reinvestment made through direct contact with the NHS. Numerous bank loans are made to residents within the neighborhood without going through NHS. Also "uncapturable" is the tremendous amount of reinvestment financed through personal savings.

**This figure has been monitored by a sample of 17 programs during the past six months. It shows the substantial amount of reinvestment that is generated as confidence in the neighborhood rises.

April 1, 1979

IMPACT STUDY

The Neighborhood Reinvestment Corporation has been requested by the Office of Management and Budget to "...use Federal funds available to it for an evaluation of the impact of the local programs and projects started or supported by the Corporation. This evaluation is intended to both complement a similar evaluation being conducted by the Department of Housing and Urban Development and to provide additional data for future budget decisions..." (January 31, 1979 FY 80 budget allowance letter, received from the Office of Management and Budget). At a Special Meeting of the Corporation, the Board of Directors approved a budget item of $100,000 for conducting such a study.

The study will provide further analytical documentation of estimates of reinvestment in NHS neighborhoods. Further, it will provide a means of refining the current data collection system and provide an information base that can be maintained by the Corporation upon completion of the impact study.

NEIGHBORHOOD PRESERVATION DEVELOPMENT

Mr. BOLAND. In addition to the neighborhood housing programs, the Reinvestment Corporation has seven other efforts, "Growing out of experiences with neighborhood preservation projects," according to the legend on page 2 of the justifications.

For the record, briefly describe each program and its current status. Also provide a table showing all sources of funds on a comparable basis for 1978, 1979, and 1980.

[The information follows:]

NEIGHBORHOOD PRESERVATION DEVELOPMENT

Neighborhood Preservation Development refers to programs which have passed through the monitoring and evaluation phase as Neighborhood Preservation Projects. All of the following programs show remarkable promise as mechanisms or strategies to reverse neighborhood decline. Since all have been replicated in two or fewer sites, they should be considered still in a "pilot" stage, with developmental processes still to be tested and refined in different housing markets and neighborhood environments.

Neighborhood Preservation Development programs include:

Apartment Improvement Program

The Yonkers Apartment Improvement Program joined the City, financial institutions, property owners, tenants, and neighborhood organizations in a partnership to upgrade large apartment buildings exerting a blighting influence on their neighborhoods. Through individually tailored improvement plans, each building may benefit from tenant participation, temporary tax abatements, increased investment or restructured mortgages to improve the economic viability of buildings and to finance improvements.

The Apartment Improvement Program is presently operating in Hartford, Connecticut, and in development in Mt. Vernon, New York. Work will begin on replicating this program in five additional cities in Fiscal Year 1979.

Homeownership Promotion

The Baltimore Neighborhood Housing Services Program discovered that the quality and permanence of its effort in neighborhood improve-

ment depended upon increasing the level of homeownership. The Homeownership Development Program encourages tenant purchases and vacant property sales and will provide a resource to other communities which have a high degree of organization, numerous absentee landlords and a long-term tenant population.

As of this date, the Homeownership Promotion program is operating in Bridgeport, Connecticut, and in development in Philadelphia, Pennsylvania. During Fiscal Year 1979, work will begin on replicating this program in one additional city.

Rehabilitation and Sale Program

Many communities find that severely blighted buildings interrupt the functioning of the real estate market, dragging down otherwise sound homes nearby and further depressing property values. A total rehabilitation program based on two experiences: a Boston non-profit development corporation, and Baltimore's Department of Housing and Community Development, is targeted to those properties too sound to raze, but too blighted to be rehabilitated privately. The strategy augments private rehabilitation activity in an effort to stabilize and improve the neighborhood.

The Rehabilitation and Sale program is being replicated for the first time in Jamaica, New York. Work will begin on replicating it in one additional city during Fiscal Year 1979.

Neighborhood Conservation Services

The City of Berkeley developed a comprehensive program to encourage the rehabilitation of neighborhoods. In partnership with local lenders and neighborhood residents, the program features systematic but sensitive housing inspections, financial and rehabilitation

counseling for homeowners, the availability of normal commercial loans for "bankable" residents and loans at flexible rates and terms for homeowners who do not meet normal credit standards. Berkeley's concept is a potential resource for smaller cities requiring a sensitive neighborhood mechanism to provide housing rehabilitation services, but where the financial institution base is insufficient to support the privately-operated Neighborhood Housing Services approach.

The Neighborhood Conservation Services program is in operation in Barberton, Illinois, and Evansville, Indiana. During Fiscal Year 1979, work will begin on replicating the program in one additional city.

Statewide NHS Foundation

The California NHS Foundation was developed by statewide financial institutions to provide funding coordination and a sound financial base for developing NHS programs throughout the State. Each participating financial institution provides an agreed financial contribution to the Foundation, annually. The Foundation then provides approximately 75% of the operating budgets of the NHS programs throughout the State. The balance of the operating budget is raised from local sources. This permits financial institutions operating statewide to see a finite limit to the number of NHS programs they will be asked to support. At the same time, it will permit NHS development in many cities which would otherwise lack the necessary local financial institution base.

At this time, the Statewide NHS Foundation is in operation in California. In Fiscal Year 1979, it is being replicated in New Jersey.

Insurance Industry Full Partnership

Many NHS programs, in their efforts to upgrade housing in their neighborhoods, have encountered difficulties in obtaining voluntary

standard insurance coverage for the properties in their neighborhoods. The Insurance Industry joined NHS of Chicago in developing this "Full Partnership" to strengthen the investment climate in their neighborhoods. This program allows for a strengthening of NHS efforts through Insurance Industry participation on NHS boards and committees, contributions to the NHS-Insurance Industry Support Fund, and assisting NHS residents in understanding and obtaining standard voluntary insurance coverage for their properties.

This Insurance Industry Full Partnership is operating in Chicago, Illinois. Work will begin on replicating this program in five additional cities in Fiscal Year 1979.

Home Maintenance Training

With increased awareness about property conservation comes the desire of many homeowners to learn home repair and maintenance skills. Home maintenance training encourages homeowners to become more cost-conscious in repairing and maintaining their homes. NHS of Jamaica, New York, pioneered a comprehensive 12-week training program in cooperation with a local community college to provide the training and hands-on repair experiences.

The Home Maintenance Training program was developed by the NHS of Jamaica. In Fiscal Year 1979 we will not have the resources to replicate this program.

SOURCES OF FUNDS

FISCAL YEARS 1978, 1979 AND 1980

	FY 1978	FY 1979	FY 1980
Federal funds	$ 4,500,000	$ 8,500,000	$ 9,500,000
Federal Home Loan Bank System	908,000	820,000	806,000
Reimbursements for local development	793,000	1,000,000	1,050,000
Firm Grant Commitments to neighborhood programs carried forward from prior year	5,263,000	4,029,000	2,695,000
Total	$11,464,000	$14,349,000	$14,051,000

FHLB SYSTEM FUNDING CONTRIBUTION

Mr. BOLAND. On page 9 of your statement, you indicated a substantial contribution by the Federal Home Loan Bank funds the Corporation's core administrative expenses. The Federal Home Loan Bank System will contribute $806,000 for Fiscal Year 1980.

I thought the contribution in 1979 was much higher; maybe by as much as $100,000.

Mr. WHITESIDE. Let me explain how that works. The Federal Home Loan Banks are on a calendar year budget. We have adjusted that by lopping off 3 months and adding 3 months to give you comparable fiscal year figures.

In calendar 1978 we had a one-time increase in funding by the Federal Home Loan Bank. Our normal contribution from the Federal Home Loan banks in 1978 would have been $581,000. We got a one-time increase of $500,000 to increase our output of NHS that year. They determined they wanted to make that contribution. That was the year in which we were in our second year of $4.5 million annual demonstration grants from HUD, so we had no budget increase in the second year and they wanted to help us respond to additional NHS applicants.

In 1978 we had a $500,000 one-time increase. In calendar 1979, we have approximately a $700,000 contribution, and that one-time $500,000 dropped out, but it was a substantial increase over the base contribution. Then in 1980 a further increase of a small percentage is projected allowing for cost increases. What has happened is that as we have adjusted from calendar year to fiscal year, part of that $500,000 one-time contribution has shown up in each of two fiscal years which gives the appearance of a declining contribution.

Mr. BOLAND. When Chairman McKinney of the Bank Board appeared before the Committee this year we asked if he thought the commitment of the Federal Home Loan Bank System would wane after the establishment of a separate appropriation account for the Neighborhood Reinvestment Corporation. He replied he was concerned about this, but hoped the financial commitment would not diminish.

What do you think? Can the Corporation depend upon steady continued support?

Mr. WHITESIDE. In terms of the Federal Home Loan Bank System, the structure is designed to permit its support to continue the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. I serve a dual role as Executive Director of the Corporation and Director of the Office of Neighborhood Reinvestment of the Federal Home Loan Banks. I draw salary from the Federal Home Loan Banks as past of the Federal Home Loan Banks System's contribution.

It is our intention that it should continue that way. It is important that it continue that way, not only because of the dollar investment, but also because this establishes a really tight involvement with the program for the Federal Home Loan Banks presidents, and those 12 presidents are working for our programs in their districts. They are attending and hosting meetings to involve their members; they are assisting us with problems when fund-raising becomes difficult. They assist when a lender is concerned that getting involve in NHS might involve him in making unsound loans. They explain there are two

kinds of loans: There are bankable loans made at normal terms, and with normal underwriting considerations, and there are unbankable loans made through the revolving loan fund that the lender doesn't need to be concerned about.

So we feel that their financial commitment and their personal commitment tie together, and are very hopeful that the financial commitment will be retained. We can't speak for the future Bank Boards and future presidents of the Federal Home Loan Banks, but that is the intention.

PROGRAM SELECTION AND MONITORING

Mr. BOLAND. In the statement you referred to "promising projects." How are promising projects or potential projects brought to your attention?

Mr. WHITESIDE. We advertise in the Federal Register as a formal way of announcing to the world that we are accepting applications, and we also make presentations to national groups, the National League of Cities, the U.S. Conference of Mayors, and other national groups with housing interests. And our staff moves around a lot, talking to people involved in this original work of developing a program.

Mr. BOLAND. How long does the monitoring go on?

Mr. WHITESIDE. At least a year; sometimes two.

Mr. BOLAND. What does it entail—what you described a short while ago?

Mr. MCNEIRNEY. It is more an evaluation of the project, looking at it from, well, for example, let's talk about AIP for a minute.

Mr. BOLAND. You are monitoring the project after it has been established and is in place?

Mr. MCNEIRNEY. Exactly. It is already established when we go into it. So we are monitoring it.

Mr. WHITESIDE. We are trying to understand how it works so we can teach somebody else how to operate it.

NHS FUNDING IN SMALLER CITIES

Mr. BOLAND. You also indicated that as you move to smaller and smaller cities new sources of private financial support must be found to maintain the private nature of the NHS program. Do you anticipate any problem in finding funding for these programs?

Mr. WHITESIDE. I think we will have to continue to work at it very hard. It is a matter of the self-interest of contributors. The reason that residents and city government and lenders are involved in NHS is they see a self-interest in it, and we need to keep helping to find that self-interest for the participants.

STAFF TRAINING FOR NHS PROGRAMS

Mr. BOLAND. In Appendix B, on page 2, training programs are described. Has the Task Force or the Reinvestment Corporation had any difficulties identifying or training staff for the NHS programs?

Mr. WHITESIDE. We certainly have.

Mr. BOLAND. What does the training involve?

Mr. WHITESIDE. Let me speak to it in general terms, and then I will ask George, from his memory, when he was in charge of training, to respond with regard to the kinds of training.

The need is great because the kind of person that you need to run an NHS is a person with a businessman's head and a community person's heart—to try to capture the flavor of it. He has to be a good manager; he has to be able to direct the staff and manage money and move the program forward, but he also has to have an understanding of the community and acceptability to the residents if the program is going to move.

Those people are rare. NHS programs in the larger cities haven't had too much difficulty finding them, but, as we move to smaller and smaller cities, we are finding that they are advertising State-wide; they are getting hundreds of applications and winnowing them down to one or two barely qualified candidates. Therefore, we have two kinds of training programs. One is to train the directors that are selected in the local process, giving them, regardless of their previous background, training in how to operate an NHS. The second is a new program that we have contracted out to Neighborhood Housing Services of America, which is a three-month internship for people recruited nationally, who will be trained in loan processing by a savings and loan, trained in all of the skills that are in our normal training program.

They will be put with an NHS director to walk in his moccasins for a few days and really understand what the process involves. They will learn, if they haven't been involved in this before, the process of working as a director of a nonprofit organization with a board of directors that really manages and controls the policy of the program. It is a special and unusual role they are being trained for.

In regards to the specifics of our regular training program, George, would you touch on that?

Mr. KNIGHT. Basically we take a brand-new NHS executive who has been selected by the board, and provide him an opportunity to catch up wherever in his background he feels he is weak. If it is in housing rehab lending, then spending some time with local financial institutions learning the mechanics of lending; if it is in promoting the community and working with the community, than he spends time learning how to do that, et cetera.

We run an intensive nine-day training program in which new executives have the opportunity to participate. They are employees of a separate corporation, so this is something that is offered. The vast majority take us up on the offer.

In addition to that, we have a staff of people scattered throughout the country, willing to sit down with the executive and work out with that particular individual additional training.

We do the same thing for rehab specialists. Basically, we are trying to create in both the rehab specialist and the executive the sense and flavor of the neighborhood, instilling pride of ownership in people rather than approaching it as a program in which you have completed the forms on a house, and that is all—really to work with the owner and create a whole sense of pride in renewal of the neighborhood.

Mr. BOLAND. Since you are a public nongovernment entity, your employees are not considered Federal employees, are they?

Mr. WHITESIDE. That is correct.

Mr. BOLAND. Since they are not Federal employees, they don't pay for or receive Federal benefits, do they?

Mr. WHITESIDE. Not Federal; no. If you would like a description of our benefits, Donnie will be happy to give it to you.

Mr. BOLAND. Why don't you put that in the record?

[The information follows:]

EMPLOYEE BENEFIT PROCEDURES

The Neighborhood Reinvestment Corporation is starting operations with the same employee benefits as those made available to employees of the Office of Neighborhood Reinvestment. The benefits under this program are detailed in Attachment XI. They were developed based on a review of benefits provided by similar private and public employers including the Federal Home Loan Bank System and the Federal Government.

Employee benefits are reviewed periodically to ensure their comparability. A thorough review of employee benefits will be undertaken shortly by the Corporation for this purpose.

Mr. BOLAND. You don't have to operate under deadlines established by the Office of Personnel Management, which is the successor to the Civil Service Commission, do you?

Mr. BRYANT. That is correct; we do not.

Mr. BOLAND. The enabling legislation states, "The Executive Director, subject to approval by the Board, may appoint and remove such employees of the Corporation as he determines necessary to carry out the purposes of the Corporation."

What personnel procedures have you adopted? You may supply the information for the record.

[The information follows:]

PERSONNEL MANAGEMENT SYSTEM

ADMINISTRATION, POLICIES, AND PROCEDURES

The Neighborhood Reinvestment Corporation has a formal centralized personnel management system which was carried over from the Office of Neighborhood Reinvestment. It incorporates accepted personnel policies, principles, and procedures. The personnel system was designed and is administered to include the following basic criteria:

1. A policy of equal employment opportunity that is maintained, implemented, and administered through an affirmative action plan.

2. Written policies and procedures covering all elements of the Corporation's personnel management program.

3. A comprehensive classification and compensation plan including written job descriptions for all positions.

4. Criteria for the recruitment, selection, orientation, placement, training, promotion, and separation of employees.

5. Maintenance of official personnel records.

6. Employee counseling and procedures for the settlement of employee complaints and grievances.

7. A personnel advisory committee to provide a means of expressing concerns and opinions to management on personnel and other matters.

The Corporation's classification and pay plan was developed and is maintained to provide the basic features of a personnel system based upon the principles of merit. The classification and pay plan sets forth qualification standards and provides compensation rates for each type and level of work, which is essential to our maintaining our recruitment and selection practices on a basis of objec-

43-133 O - 79 - 27

tive standards and to compensate employees solely on the basis of work performed. As an essential adjunct to the pay plan the Corporation has a well designed system of benefits employees receive over and above gross compensation. These benefits include insurance programs, retirement systems, holidays, vacations, and other leaves. The general administration of the fringe benefit program is coupled with pay plan administration. Periodic collection and analysis of comparative pay data and other employment practices in the Washington metropolitan and national SMSA areas is performed in order to maintain a compensation plan that will attract and retain qualified personnel.

Personnel policies, procedures, and a description of all other aspects of the Corporation's personnel system are contained in an Administrative Manual distributed to all employees. Documents and plans too lengthy to incorporate in the manual are distributed separately or are made available to employees upon request.

In the Corporation's recruitment and selection program, the emphasis is to recruit qualified applicants judged to have the ability to perform well on the job and whose services the Corporation may expect to retain. To succeed in accomplishing these objectives, the Corporation takes active recruitment measures and has established mechanisms for the selection and placement of employees. Because of the unique process employed by the Corporation in its program development activities, it has designed and regularly carries out as a major part of its activities, a comprehensive program of staff orientation and development activities.

Personnel records management is designed to: (a) provide a historical profile of the background and work experience of individual employees; (b) support payroll data; (c) produce information about personnel experience, costs, and other data for use by management and in planning. This function is reviewed periodically and modifications made in the light of the information needed to evaluate the operation of the personnel system and to guide managerial and policy decisions.

The overall responsibility for administration of personnel policies is vested in the Executive Director with the Director, Finance and Administration having the day-to-day responsibility for administration of the personnel management system. A personnel officer, an employment specialist and clerical support staff operate the system. The personnel officer is responsibile for the administration of the recruitment and selection processes; supervision of personnel record maintenance; assessment of personnel needs; and the updating of personnel policies. The Director, Finance and Administration assesses the financial impact of personnel policies and makes recommendations to the Executive Director for their adoption.

Mr. BOLAND. Do you have an affirmative action plan?

Mr. WHITESIDE. Yes, we have.

Mr. BOLAND. Is any limit placed on the number of employees that the Corporation can hire?

Mr. WHITESIDE. There is no formal limit established by OMB as there would be for a Federal entity. Our budget establishes, and our board acts upon, the maximum number of employees we can hire within a given budget level.

Mr. BOLAND. You have given us an organization table for the Corporation. Will you indicate the number of employees in the office in Washington, and also in the various regions? I notice you have a table in the back of the justifications which indicates the level of positions in program development, support and training, and the other various functions in which you are engaged.

[The information follows:]

DISTRIBUTION OF EMPLOYEES BY FUNCTION AND LOCATION
FISCAL YEAR 1980 BUDGET PROJECTION

	Program Development	Support and Training	Monitoring and Evaluation	Dissemination of Information	Finance and Administration	Total
Main Office						
Washington, D.C.	15	8	6	6	34	69
Regional Offices						
Boston, MA	6					6
Dallas, TX	7	1				8
San Francisco, CA	13					13
Field Offices						
Atlanta, GA	5	1				6
Chicago, IL	1	5				6
Cincinnati, OH	5					5
Denver, CO	1	2				3
Kansas City, MO	4					4
Middleton, CT	3					3
New York, NY	12	2				14
San Diego, CA	3					3
Washington, D.C.	5					5
	80	19	6	6	34	145
Local Coordinators	30					30
	110	19	6	6	34	175
Percentage of Total Staff	63.0%	11.0%	3.5%	3.5%	19.0%	

USE OF CONSULTANTS

Mr. BOLAND. Section 606(B)(5) of the Neighborhood Reinvestment Corporation Act states the Corporation is authorized to, "Fix and provide for the compensation of consultants, without regard to any other law, except as provided in Section 608(D)."

The HUD-Independent Agencies Appropriation bill, that comes out of this Committee, has contained a general provision for the past several years limiting the salaries of consultants to the rate paid to a GS–18. You won't have any trouble complying with that particular provision, will you?

Mr. WHITESIDE. I am not sure.

Mr. BOLAND. If it is in the law, and we put it in the bill every year, you won't have any trouble, I am sure.

Mr. WHITESIDE. You asked me if we would have any trouble. We use consultants in our developmental process, communications consultants who are frequently practicing psychologists. I am not sure how you would convert one of their daily rates to the rate of a GS–18. It might give us trouble. You don't get a practicing psychologist for $187 a day.

Mr. BOLAND. The rate of a GS–18 is $47,500 annually; the daily rate is $187.

Mr. WHITESIDE. We would not be able to use the same quality of consultant if we were limited to that.

Mr. BOLAND. Would you indicate what the daily rate is that you currently pay to consultants?

Mr. WHITESIDE. Yes, we will do that for the record.

[The information follows:]

USE OF CONSULTANTS

The Neighborhood Reinvestment Corporation has an occasion and has need to continue the use of consultants to provide technical services that are used primarily in the program development process. Individual consultants are used for their particular skills and are not used to increase staffing levels or to circumvent salary ceilings. We have been assured that rates for consulting services paid by the Corporation are not above, and are frequently below, what these consultants would normally receive for their services. Almost all the consultants used by the corpcration charge rates that are under the GS-18 equivalent daily rate of $187.

Some consultants with particular skills used in our educational workshops are paid in excess of this amount. These are usually psychologists that are specialists in their field or other individuals with unique training skills. In no case is an individual paid in excess of $8,000 per annum. We presently have under contract individuals paid at the rates shown:

Daily Rate	Maximum Annual Amount
$350	$7,000
300	4,200
350	4,800
300	4,800
200	8,000

Mr. BOLAND. On page 7 of the justifications, that table reflects the Corporation's appropriations request by category. Let me ask you, what are the associated positions?

Mr. WHITESIDE. It refers to associated positions? Where?

Mr. BOLAND. I am speaking with reference to the job categories on page 7 in the justifications.

Mr. WHITESIDE. We don't find the phrase "associated positions" on what we are looking at.

Mr. BOLAND. For example, under Program Development, how many employees do you have?

Mr. BRYANT. In terms of employees, is that what you are referring to?

Mr. BOLAND. Yes.

Mr. BRYANT. There is a breakdown of positions starting on page 12 which, except for a small allocation of positions that may be contained organizationally in another area but may work in the Program Development area from time to time, would give you the count of employees for each function.

NRC TRAVEL BUDGET

Mr. BOLAND. We notice a considerable portion of your request, 13 percent, is for travel. You indicated that is an important aspect of your whole operation. How many days per year do your field representatives spend on the road?

Mr. BRYANT. On an average, I would say for the field representatives, 80 percent of their time is spent in travel. That would come out to approximately 200 days.

Mr. BOLAND. Can you indicate what you spent in 1978 for travel? Also indicate what will you spend in 1979?

Mr. BRYANT. 1979 is just over $1 million. I can give you a more precise figure.

Mr. BOLAND. Okay, you may supply that for the record.

[The information follows:]

TRAVEL EXPENSES
FISCAL YEARS 1978, 1979 AND 1980

	FY 1978 (Paid)	FY 1979 (Budget)	FY 1980 (Budget)
FHLB System	$ 53,700	$ 57,500	$ 43,600
Federal	631,300	1,279,200	1,272,200
Local	210,504	275,400	266,400
Total	$895,504	$ 1,612,100	$ 1,582,200

Mr. WHITESIDE. You will recall we went through a period of substantial growth between 1978 and 1979.

Mr. BOLAND. Are you familiar with Section 401 of the HUD-Independent Agencies Appropriations Act of 1979? That section limits the expenses of travel to the amounts included in the budget unless otherwise specified. I presume that our 1980 bill will also carry the same language. And I presume the Corporation will carefully monitor its traveling expenses to be sure there is no violation of the provision.

Mr. WHITESIDE. Yes, we have been informed of this and reviewed the budget with that in mind and believe we will have no difficulty.

Mr. BRYANT. To answer your earlier question, the expenditure for travel in 1978 was just under $600,000 of Federal funds that were used for travel.

Mr. WHITESIDE. We almost doubled our Federal funds available for travel from the FY 1978 level.

CONFERENCES AND WORKSHOPS

Mr. BOLAND. What about the request for conferences and workshops carried on page 7? The request appears to be quite high, even after reimbursable funds from cities are excluded. How was this figure determined?

Mr. WHITESIDE. Let me talk about it from a programmatic basis before Donnie talks about it from a budgetary basis. You recall I talked about our role as an educator. That is true in a very real sense, so a great deal of our work involves getting people together in conferences and meetings and workshops in cities spread throughout the country. At any given time, we may be working on all of our programs in 40 or more cities.

So the cost of getting rooms and making arrangements for these workshops, taking care of the travel of individuals, particularly the resident participants to the sites if the conference is being held away from their local community, does assume a sizable part of our budget.

Mr. BOLAND. Where do you plan to hold workshops and conferences in 1980? You can supply that for the record.

Mr. WHITESIDE. All right.

[The information follows:]

WORKSHOPS AND CONFERENCES

The following is a 1980 schedule of Conference and Workshop sites for the Neighborhood Reinvestment Corporation. The schedule is broken down into two parts: major internal staff conferences and conferences and workshops related to our programmatic activity.

Internal Conferences and Workshops

National Staff Meeting (Annual)	Washington, D.C.
Neighborhood Housing Services	
Division Regional Staff Conferences (Annual)	Boston, Denver, Dallas
Staff Meetings for other Divisions, Neighborhood Preservation Projects, Neighborhood Preservation Development and Support Services are held on a quarterly basis in cities throughout the country. Sites are selected to accommodate staff schedules, and minimize travel costs to the greatest extent possible.	

Programmatic Conference and Workshop

Neighborhood Housing Services Conference (Annual)	(To be selected)
Regional Neighborhood Housing Services Residents Conference	(3 sites to be selected)
Neighborhood Housing Services Executive Directors Conference (Annual)	(Site to be selected)
Neighborhood Housing Services Developmental Workshops	

Thirty-seven NHS Workshop I's are scheduled for 1980. The sites for these workshops are located within two hours drive of the city where the NHS is being developed. Sites are chosen on a case-by-case basis depending on local facilities and accommodations. All attendees at the workshops are from the cities where the program is being developed except for outside resources that are needed to conduct the sessions.

Mr. BOLAND. Will you provide a detailed summary of the personnel benefits requested for Fiscal Year 1980 that you mention on page 7?

[The information follows:]

EMPLOYEE BENEFITS

FISCAL YEAR 1980 BUDGET

The Neighborhood Reinvestment Corporation has a well defined benefits program that was primarily developed under the Office of Neighborhood Reinvestment of the Federal Home Loan Bank System and is in line with the benefit programs provided by similar organizations both in the public and private sector. The benefits provided Neighborhood Reinvestment Corporation employees and their percentages of total payroll are as follows:

Retirement	9.03%
Medical Insurance	6.02%
Social Security	5.61%
Unemployment Insurance	1.89%
Life Insurance	.94%
Disability	.56%
Workmen's Compensation	.51%
Parking	.37%
Vision Care	.07%
Total	25.00%

The Neighborhood Reinvestment Corporation benefits also provide for annual and sick leave that is not included in the above stated benefits.

Annual Leave

Less than 3 years service - 13 days
More than 3 years service - 20 days

Sick Leave

13 days per year

Thirty-seven NHS Workshop II's are scheduled for 1980. The sites for these workshops are located in a city with an operating NHS program. Sites are selected on a regional basis to minimize travel costs to a suitable NHS program.

Eighteen Neighborhood Preservation Development Workshops are scheduled for 1980. The sites for these workshops is determined by the city we are developing the programs in for local participants.

Mr. BOLAND. Also, provide additional detail on professional services. How much funding is needed for legal counsel, how much for accounting services, auditing, et cetera?

[The information follows:]

PROFESSIONAL SERVICES
FISCAL YEAR 1980 BUDGET

ALL SOURCES

The following is a break-down of items contained in the projected FY 80 budget for professional services:

Monitoring and evaluation of NHS programs	$250,000
Training and NHS supportive services	153,000
Program and development	145,600
Accounting services	110,123
Legal fees	39,000
Audit fees	8,000
Staff development	9,500
Total	$715,223

PRINTING AND SUPPLIES, TELEPHONE COSTS

Mr. BOLAND. What about the amounts for printing and supplies and telephone? They appear to be sizable. How did you arrive at those particular figures?

Mr. WHITESIDE. First; let me speak about the telephone costs. Dealing with that kind of a far-flung field staff, telephones are our lifeblood. We have little direct face-to-face supervision of our employees, so I am sure proportionately we use a great deal of telephone service.

Donnie, can you be more specific?

Mr. BRYANT. I think that is basically the explanation for what seems to make that category of expenditure very high as opposed to what one would normally find in equipment in fixed locations. A considerable part is caused by the type of calls that are made by program and support staff in the field.

On printing costs, one of the major categories of activity is dissemination of information and the publication of brochures and reports of activities for both public distribution and for information internally about program activities.

PERMANENT EMPLOYEES IN FY 1980

Mr. BOLAND. On page 8 of the justifications, the top paragraph indicates that the Corporation will have 145 permanent employees in 1980, and the President's budget reflects only 135. Does the $3,698,964 requested for salaries and benefits relate to the 135 or 145 figure?

Mr. BRYANT. The salary and benefits figure would relate to the 145 positions that are detailed in the justification.

Mr. BOLAND. Why is there a difference between the President's budget and the justifications?

Mr. BRYANT. At the time for submission of the estimates for the printing of the budget, we had not identified some of the newer positions that are contained in the justification at this time. They fall in two main areas. One in terms of administrative changes resulting from the operations of the Corporation, which we were in the process of realizing after our bill was signed; and, secondly, revising some of the program goals for 1979 and into 1980 caused some changes in the number of program staff positions.

Mr. BOLAND. That is a good answer. When did you submit the budget to the President? You only came into being in October 1978, and I presume you must have submitted a budget shortly thereafter.

Mr. BRYANT. To the extent that these figures vary at all, it is because of the need to comply with the very short timetable that we had to work with in going through this process for the first time.

FINANCIAL INSTITUTIONS REGULATORY AND INTEREST RATE CONTROL ACT

Mr. BOLAND. Mrs. Boggs?

Mrs. BOGGS. Mr. Chairman, I would like one of the witnesses to comment on the difficulty that was expressed to me by some people from the financial institutions in my area. They worry that the new Financial Institutions Regulatory and Interest Rate Control Act (FIRIRCA) and the regulations ensuing from it would in some ways

inhibit them from really participating in this investment program. I wonder if you could tell us if there would be any conflict? On the one hand, they are saying they may not have loans that are not well secured, or they can only afford a certain number of risky loans, and yet they are encouraged by the regulatory agencies to invest in these types of loans.

Mr. WHITESIDE. I would be happy to comment on that. I think in addition to being encouraged to participate by their regulators, the Community Reinvestment Act encourages them to participate, the Federal Home Loan Bank Systems' Community Investment Fund encourages them to participate. I don't know in detail what the FIRIRCA Statute or regulations might contain, but it seems to me if they are concerned that participating in NHS will involve them in making unsound loans, they misunderstand NHS.

I think any lender actively involved in NHS would be the first to testify that his loans in NHS are at least as good as the rest of his portfolio. Most will mention they are a little better than the rest of their portfolio because they don't contain any condominium loans or other loans that have tended to be risky.

Basically, lenders are rediscovering as they are getting active in urban neighborhoods again that blue-collar homeowners are excellent risks. Paying off their home mortgage is probably the highest priority they have.

Mrs. BOGGS. When you said earlier that even low income persons prefer the dignity of a loan instead of a grant, I agree, I think they most especially prefer it.

Thank you very much.

Mr. BOLAND. Marty?

Mr. SABO. As I understand it, you have a revolving loan account; in fact you have some loans with zero interest? Where is the money coming from for the reduction of the interest rate?

Mr. WHITESIDE. The revolving loan fund is made up of contributions. It is foundation grants, and grants from community development, block grant funds. We normally make a grant of $50,000 to capitalize it and get it started, so the funds are available at no interest cost. They could theoretically lend the whole amount out at zero percent and suffer no loss as a result.

What they actually do is lend it out at flexible rates, taking into account the disposable income of the borrower—from perhaps a market rate for someone who is unbankable only because of something in his credit history but who has disposable income to pay the market rates—down to zero percent for an elderly person on a fixed retirement income.

Mr. SABO. Are these rehabilitation loans or mortgages?

Mr. WHITESIDE. Occasionally they will be secured by a mortgage; more often than not, it will be a second or third.

Mr. SABO. For rehabilitation?

Mr. WHITESIDE. Yes, for rehabilitation. Are you from St. Paul?

Mr. SABO. Minneapolis.

Mr. WHITESIDE. In the South Side neighborhood of Minneapolis, there is an NHS that is doing a terrific job. I would really recommend it to you, if you have an opportunity to look at it.

Mr. BOLAND. How long has it been in existence?

Mr. WHITESIDE. It is about three and one-half years old, as I recall.

Mr. BOLAND. How long has the one in Springfield been in existence?

Mr. WHITESIDE. It is in its first six months.

Mr. BOLAND. So you are just getting started up there?

Mr. WHITESIDE. Right.

Mr. SABO. You have to go out and solicit more funds each year, then?

Mr. WHITESIDE. Yes, we do solicit each year, but the fund does revolve slowly. The average term is about 12 years, so there is a payback that is available. Many cities are giving a long-term commitment of a contribution each year in which there are community development funds. One of the big jobs of the NHS board is annual fund-raising drives to expand it, and finally this secondary market that has just been developed has the capacity to double those funds. What they do is agree to buy up to half of the portfolio of an NHS. By retaining the other half, the NHS has the ability to substitute for loans that might become delinquent. A program that has raised $300,000 or $400,000 for their revolving loan fund could, by repeated sales to Neighborhood Housing Services of America, build that up to a portfolio of, say, $800,000.

Mr. SABO. The other thing that strikes me, is that many of the other things you are doing seem to be similar to the old urban renewal programs.

Mr. WHITESIDE. I guess I wasn't familiar with those programs.

Mr. SABO. There was local residential involvement and a local neighborhood office that provided counseling and help on how to get loans and grants. Then that program sort of disappeared as community development block grants came.

Mr. WHITESIDE. I think it is not that different. I think the Federally-Assisted Code Enforcement programs, the FACE programs, were designed to do the same thing. It seems to me that what an NHS program does isn't so much the unique thing about it, as is how it does it, and under what sponsorship it does it. That ingredient can't be overestimated, because the idea that the residents are in a leadership role—they are the majority of the board of the NHS, and it is their reinvestment program in the neighborhood—just makes it take on a quite different flavor than when a government department opens an office in the neighborhood and starts a program to revitalize it.

Mrs. BOGGS. I was on the authorizing committee. We took the five categorical grant programs and adjusted them into the community block grant program. There was a phase-out period, and we are experiencing some of the finalization of that phase-out this year. Only the cities at that time that had been involved in at least the model cities and urban renewal programs were eligible.

Now we have a whole new situation with the involvement of the small cities, and this type of thing. We shouldn't discard what we learned from the old urban renewal programs about neighborhood involvement, and this effort is one where the involvement really emanates from the local citizens, the local community, the local lending organizations, and now the local insurance companies, as well as the local State people, in many respects. In New Jersey, they have been able to get the small cities involved because the State regulator was interested.

43-133 O - 79 - 28

So I do think it is different; it is taking the best of what was in the Federal Government programs, coordinating the best, and pushing it into the private sector with involvement from the local people.

Mr. WHITESIDE. I think a mark of our success occurs when we go back to a program two or three years later, and one of the board members says, oh, yes, I remember you; you were around when we developed our program, and they really have forgotten the initiating role we had in it. It has become their program. That is perfect. It is the way it should be.

NHS EXPANSION PATTERN

Mr. BOLAND. How long will the NHS operate in a particular area? You talk about one in Southwest Minneapolis, and you are proud of what it is accomplishing there. How long will that neighborhood board be in operation?

Mr. WHITESIDE. It depends on the size of the neighborhood, the degree of deterioration in it. Those are two conditioning factors. The experience thus far has been that several programs in about four years have taken care of the major problems in their first neighborhood and are now expanding to additional neighborhoods. That appears to be the pattern. So it won't disappear after the first neighborhood is taken care of, but will move on to assist additional neighborhoods.

Mr. BOLAND. With a different board?

Mr. WHITESIDE. Yes. What you find is that some of the first residents step off and residents of the new neighborhood step on, but one of the challenges of creating the expansion process, which we are working on with several cities, is that the residents in the first neighborhood have a terrific sense of authorship and ownership of the program, and it takes a very persuasive educational process to enlarge it and bring in a new neighborhood with the same sense of ownership that the first neighborhood had.

Mr. BOLAND. I would think you would have a real problem there.

Let me ask this question of you: Is it possible to have more than one board? I can understand you would probably have the same public officials and the same membership within the financial community, but with reference to those who are on the board from the particular neighborhood, what happens when you move to another neighborhood?

Mr. WHITESIDE. What you normally do is go to some kind of an over-arching board of trustees or board of directors that represents the city-wide participants in both or all three or all five neighborhoods. And you have local boards that represent the whole partnership and are specific to each neighborhood with the neighborhood representation.

But it is a delicate process to work out. You are right; we have a problem. It has to be done very thoughtfully.

Mr. SABO. Can you tell us more about your program in Minneapolis? I am curious.

Mr. WHITESIDE. There is a Neighborhood Housing Service in the Southside neighborhood and one in Miriam Park, St. Paul. They have a Twin-City over-arching board of trustees which handles the fundraising for both programs.

DELIVERY MECHANISM FOR STATE FUNDS

Mr. SABO. I suppose I am not sure where they raise their private funds, but in our State we have an extensive program of State funding for rehabilitation that basically does what you do. We appropriate money; we bond money, and there is an extensive program already in place.

Mr. WHITESIDE. NHS is spending a lot of that money in Miriam Park in St. Paul. They became a formal contractor to put out some of the city grant funds.

Mr. SABO. But the State program does that on a normal basis.

Mr. WHITESIDE. So it becomes a targeting mechanism for the other resources.

Mr. KNIGHT. If I can just add a little bit, Minneapolis and St. Paul are pleased with Minnesota's programs, but all State programs are dependent upon the initiative of the individual homeowner to come forward. What the NHS board is able to do through its committees, particularly its community relations committee, is to look at a particular block and examine each of the houses and perhaps single out an individual house or individual vacant lot that is a particularly blighting influence, and focus on curing that. Once that is cured, you have the spin-off effect on others.

So while the State has these programs that are really excellent, particularly in Minnesota, the NHS is able to take and focus those and turn around a neighborhood by really leveraging the State programs to deal with individual problems that can turn around a whole block.

Once you turn around one house, it is very typical; if someone is out painting, everybody comes out and starts painting.

Mrs. BOGGS. You really coordinate all the progams that are out in the field to help the persons in the neighborhoods redo their homes by involving the local people. This takes away the onus of the government as imposing something on them. It becomes their own program, I think. They use all the government programs, but they think of them as their own.

DEVELOPMENT GRANTS AND REVOLVING LOAN FUND

Mr. BOLAND. I am a little confused about the grant and loan part of this program. I thought you indicated that this is a loan program. But in looking more closely, you have a substantial number of grants. You have NHS aid grants and NPP grants, and NHS expansion grants. Who gets those?

Mr. WHITESIDE. We have to distinguish who is granting and who is lending. A substantial amount of our budget goes into grants which are given in connection with our development work.

Mr. BOLAND. To whom?

Mr. WHITESIDE. To NHS programs, to NPPs, to the new programs that are being developed. That is kind of a carrot that we hold out to induce the development.

Mr. BOLAND. Then those are grants made only in these particular activities, and they are made to the local Neighborhood Housing Services?

Mr. WHITESIDE. To that local nonprofit corporation. Then that local nonprofit corporation lends that money out to homeowners, so it is a

grant program for the Corporation, but a loan program vis-a-vis the homeowner, and that creates the revolving fund.

Mr. BOLAND. That becomes part of the revolving fund?

Mr. WHITESIDE. Correct.

Mr. BOLAND. What is the largest revolving fund in any particular location?

Mr. WHITESIDE. Philadelphia probably is the largest one. They have a million dollar grant from the William Penn Foundation.

Mr. SABO. To follow up on an earlier question, is the grant used as seed money the first year, and are they expected to raise their own money thereafter?

Mr. WHITESIDE. It will take a few years to get that all out. A typical NHS might put out $150,000 or $200,000 a year.

Mr. SABO. No, I mean the grant from you to that local NHS organization.

Mr. WHITESIDE. That is a one-time grant.

Mr. BOLAND. Then the revolving fund is built up by the financial institutions that actually contribute to it, and, as you indicated to Mr. Sabo, the interest rate can be zero?

Mr. WHITESIDE. Yes; that is correct.

Mr. BOLAND. How often is it zero?

Mr. WHITESIDE. Not very often, but if you find a lady on $87 a month Social Security and her home is in a bad condition, it is important to get that home improved. It is better for the neighborhood to give her a zero percent loan with a token payment of $5 a month and get the home improved than not to deal with it.

Mr. BOLAND. I agree with that.

Mr. WHITESIDE. And it is better for her self-esteem to be making some kind of token payment than to give her a grant. That is our philosophy. There are other philosophies, I realize.

Mr. BOLAND. Well, thank you very much, Mr. Whiteside, and Mr. Bryant, and Mr. McNeirney, and Mr. Knight. We appreciate your appearance here today.

You have many friends, I would say, who are backers of this program, and who have been enthused about it ever since it was created in 1970. It started rather slowly, but it is picking up now.

We are pleased that you were with us today, and we appreciate your responses to the questions. Thank you very much. Your justifications will be inserted in the record at this point. The Committee stands adjourned.

[The following was provided for the record:]

BUDGET JUSTIFICATION

FY 1980

NATIONAL NEIGHBORHOOD REINVESTMENT CORPORATION

Submitted to:

Subcommittee on HUD-Independent Agencies of the Appropriations Committee, U.S. House of Representatives

BUDGET JUSTIFICATION
FY 1980
NATIONAL NEIGHBORHOOD REINVESTMENT CORPORATION

CONTENTS

	Page
Introduction	1
Accomplishments	1
Program Goals - FY 1980	2
Budget - FY 1980	4
Sources of Funds - FY 1980	5
1980 Budget Request Functional Allocations - All Sources of Funds	6
1980 Budget Request Functional Allocations - Congressional Appropriations	7
Table of Organization	10
Job Classification by Organizational Units	12
Compensation Schedule	16

NATIONAL NEIGHBORHOOD REINVESTMENT CORPORATION

Introduction

The National Neighborhood Reinvestment Corporation was created by the Neighborhood Reinvestment Corporation Act (Title VI of the Housing and Community Development Amendments of 1978, Public Law 95-557, October 31, 1978) to continue and expand the work of the Urban Reinvestment Task Force, a joint effort of the Department of Housing and Urban Development and five Federal financial supervisory agencies to promote reinvestment in neighborhoods. The Corporation's board of directors is composed of the Secretary of Housing and Urban Development, the Chairman of the Federal Home Loan Bank Board, the Comptroller of the Currency, the Chairman of the Federal Deposit Insurance Corporation, the Chairman of the National Credit Union Administration, and a member of the Board of Governors of the Federal Reserve System. The Chairman of the Federal Home Loan Bank Board is designated as Chairman of the Corporation's board for the first two-year term.

The major activities of the Corporation have been subsumed from the Urban Reinvestment Task Force. They include establishment, support, and expansion of neighborhood housing services programs in urban neighborhoods; identifying, evaluating and supporting neighborhood preservation projects which show promise for reversing neighborhood decline; replicating successful neighborhood preservation projects; and supporting a national loan purchase pool.

Accomplishments

To date, the major accomplishments of the Corporation and its predecessor program, the Urban Reinvestment Task Force, have been:

- Neighborhood Housing Services programs have been organized in eighty-six neighborhoods in seventy-four cities across the country, with an additional fourteen currently in development.

- Assistance has been given to four NHS programs in expanding their activities to additional neighborhoods, and three additional expansions are in development.

- Ongoing assistance to the operational programs through the provision of technical assistance, which supplements the limited resources NHS

programs have to deal with staff training, development of systems and procedures, and other management needs.

- Neighborhood Housing Services of America expanded the concept of its national Loan Purchase Pool into a true secondary market by its first sale of a collateralized security to an institutional investor. The Equitable Life Assurance Society of America entered into an agreement with NHSA to purchase $1,000,000 in such securities.

- The monitoring and evaluation of twenty-four Neighborhood Preservation Projects to identify innovative approaches to stabilizing and improving neighborhood environments.

- Seven new programs, growing out of experiences with Neighborhood Preservation Projects, have been identified for replication by a systematic developmental process;

  - Apartment Improvement Program
  - Neighborhood Conservation Services
  - Home Ownership Promotion Program
  - Rehabilitation and Sale Program
  - State NHS Foundation
  - Insurance Industry Partnership
  - Home Maintenance Training

- Effective managerial leadership to direct and support the organizational growth and development of programs.

Program Goals - FY 1980

Program goals have necessarily been held at FY 1979 levels in accordance with the President's anti-inflation guidelines. These goals, however, have been developed in keeping with the Congressional mandate of the corporation:

> "...establishing neighborhood housing services programs in neighborhoods throughout the United States, supervising their progress, and providing them with grants and technical assistance."*

*This, and quotations on the following page excerpted from Title VI, Housing and Community Development Amendments of 1978, Public Law 95-557.

- Begin development of at least 30 NHS programs

- Assist in expansion of at least 7 currently operating NHS programs

- Program support and technical assistance to operating NHS programs

"...identifying, monitoring, evaluating, and providing grants and technical assistance to selected neighborhood preservation projects which show promise as mechanisms for reversing neighborhood decline and improving the quality of neighborhood life."

- Ten Neighborhood Preservation Projects will be selected for monitoring and evaluation.

- Grants and technical assistance will be provided to the NPPs.

"...experimentally replicate neighborhood preservation projects which have demonstrated success, and after creating reliable developmental processes, bring the new programs to neighborhoods throughout the United States which in the judgment of the corporation can benefit therefrom, by providing assistance in organizing programs, providing grants in partial support of program costs, and providing technical assistance to ongoing programs."

- Begin development of approximately twenty-one Neighborhood Preservation Projects through the Neighborhood Preservation Development division.

"...supporting Neighborhood Housing Services of America, a nonprofit corporation established to provide services to local neighborhood housing services programs, with support which may include technical assistance and grants to expand its national loan purchase pool and may contract with it for services which it can perform more efficiently than the corporation."

- A $350,000 grant will be made to NHSA to support its loan fund.

Budget - FY 1980

The budget for the Neighborhood Reinvestment Corporation has been broken down into five functional categories as shown below:

Program Development	Beginning work on development of at least thirty new Neighborhood Housing Services programs and developmental activities related to expansion of at least seven currently operating programs; selection of approximately ten Neighborhood Preservation Projects and providing them with grants and technical assistance; and the replication of at least 21 Neighborhood Preservation Projects through the Neighborhood Preservation Development division.
Program Support	The amount of program support activities grows as more programs are developed and become operational. Neighborhood Housing Services programs will be provided with staff training and development; administration of the Rehabilitation Specialists Training Program and Executive Director Training Program; conferences for Executive/Assistant Directors; Board Residents and Bookkeepers. Staff also provide intensive support for short periods of time to NHS's requesting assistance. Further capitalization of the NHSA loan purchase pool and support of its operating costs will help extend this resource to new NHS programs.
Monitoring and Evaluation	Monitoring NHS programs is an ongoing function including compliance audits and field reviews with the dual purpose of offering program assistance and providing quality control on the developmental process. Monitoring and evaluating Neighborhood Preservation Projects is critical to discovering if these promising programs merit replciation in additional locations.
Dissemination of Information	Dissemination of information activities include: responding to public inquiries; speaking engagements at local, state, and national meetings, writing and publication of an annual report and quarterly newsletters; and, providing program support and materials for national and regional conferences.

Administration — Administrative functions are designed and organized to provide the necessary administrative and management systems to accomodate present and planned growth of the organization. These functions provide support services to the organization in the following areas: finance and administration, which include financial management and accounting services; personnel services; administrative support and office services; research, program reporting; legal services; and staff development and training.

Sources of Funds - FY 1980

The first schedule, All Sources of Funds shows a functional allocation of the budget by three sources of funds:

Federal Home Loan Bank System funds of $806,000, provided to the Office of Neighborhood Reinvestment for administrative and staff support to the corporation.

Developmental funds provided by local governments and other entities of $1,295,000. Developmental agreements are negotiated with local governments and other entities to provide local funding for NHS developmental activity and establish a budget for local program developmental expenditures.

Appropriation by U.S. Congress of $9,500,000.

The second schedule shows the anticipated use of Congressionally appropriated funds.

NEIGHBORHOOD REINVESTMENT CORPORATION - 1980 BUDGET REQUEST
FUNCTIONAL ALLOCATIONS: ALL SOURCES OF FUNDS

Expense Catetories Account Description	Budget Request	Program Development	% of Total Line Budget	Program Support	% of Total Line Budget	Monitoring & Evaluating	% of Total Line Budget	Dissemination of Info.	% of Total Line Budget	Administration	% of Total Line Budget
Salaries & Benefits[1]	$ 4,518,126	$2,819,202	62	$ 556,340	12	$103,733	2	$158,160	4	$ 880,691	20
Office Rent[2]	332,080	134,797	40	21,903	7	9,438	3	15,474	5	150,468	45
Travel & Subsistence[3]	1,582,200	962,400	61	409,800	26	46,950	3	60,750	4	102,300	6
Professional Services[4]	715,223	224,600	31	285,850	40	82,970	12	3,965	1	117,838	16
Conferences & Workshops[5]	566,343	400,510	71	100,793	18			30,000	5	35,040	6
Equipment Rental & Maint.	58,470	12,350	21					1,220	2	44,900	77
Printing & Supplies	178,740	48,540	27	14,100	8			56,100	31	60,000	34
Telephone	222,240	154,945	70	25,216	11	3,586	1	3,651	2	34,842	16
Postage & Delivery	62,800	30,800	48	1,000	2			6,000	10	25,000	40
Other Gen. & Admin. Expenses	177,278	124,778	70	9,760	8	575		5,450	4	36,715	29
Furniture & Equipment	40,000									40,000	100
Total Expenses	8,453,500	4,912,922	58	1,424,762	17	247,252	3	340,770	4	1,527,794	18
NHSA Grants	350,000			350,000	100						
NPP Grants	500,000	500,000	100								
NPD Grants	447,500	447,500	100								
NHS Grants	1,500,000	1,500,000	100								
NHS Expansion	350,000	350,000	100								
Total Grants	3,147,500	2,797,500	89	350,000	11						
Total Expenses & Grants	$11,601,000	$7,710,422	66	$1,774,762	15	$247,252	2	$340,770	3	$1,527,794	13

Footnoted items: See Notes to Neighborhood Reinvestment Corporation - 1980 Budget Request

NEIGHBORHOOD REINVESTMENT CORPORATION - 1980 BUDGET REQUEST
FUNCTIONAL ALLOCATION - CONGRESSIONAL APPROPRIATION

Expense Catetories / Account Description	Budget Request	Program Development	% of Total Line Budget	Program Support	% of Total Line Budget	Monitoring & Evaluating	% of Total Line Budget	Dissemination of Info.	% of Total Line Budget	Administration	% of Total Line Budget
Salaries & Benefits[1]	$3,698,964	$2,211,843	60	$ 556,340	15	$ 99,608	3	$158,160	4	$673,013	18
Office Rent[2]	83,380	83,380	100								
Travel & Subsistence[3]	1,250,600	704,200	56	387,600	31	45,950	4	60,750	5	52,100	4
Professional Services[4]	564,186	129,794	23	260,171	46	81,707	14	2,275		90,239	16
Conferences & Workshops[5]	279,543	152,610	55	71,193	25			30,000	11	25,740	9
Equipment Rental & Maint.	17,770	8,650	49					1,220	7	7,900	44
Printing & Supplies	131,339	30,040	23	14,100	11			56,100	43	31,099	23
Telephone	133,940	111,370	83	19,500	15	1,720	1	1,050	1	300	
Postage & Delivery	14,300	12,300	86	1,000	7			1,000	7		
Other Gen. & Admin. Expenses	138,478	95,178	69	9,760	11	575	1	5,450	6	27,515	31
Furniture & Equipment	40,000									40,000	100
Total Expenses	6,352,500	3,539,365	56	1,319,664	21	229,560	4	316,005	5	947,906	14
NHSA Grants	350,000			350,000	100						
NPP Grants	500,000	500,000	100								
NPD Grants	447,500	447,500	100								
NHS Grants	1,500,000	1,500,000	100								
NHS Expansion	350,000	350,000	100								
Total Grants	3,147,500	2,797,500	89	350,000	11						
Total Expenses & Grants	$9,500,000	$6,336,865	67	$1,669,664	18	$229,560	3	$316,005	3	$947,906	10

Footnoted items: See Notes to Neighborhood Reinvestment Corporation - 1980 Budget Request

Notes to Neighborhood Reinvestment Corporation
1980 Budget Request

1. Salaries and Benefits

This line item includes salaries and benefits for 145 permanent employees, and at least thirty local coordinators (temporary full time personnel hired for development of NHS programs). Neighborhood Reinvestment Corporation staff are located in Washington, D.C. and eleven field offices. These field offices house field staff who are directly involved in developmental processes and support services across the nation. The increased demands of program activity has necessitated the regionalization of staff during the past several years. Office locations and number of permanent employees assigned are listed below:

Washington, D.C.		75
Program Development,		
Support and Training	32	
Dissemination of Information	4	
Administrative Support	39	
Boston, MA		6
Middletown, CT		3
New York, NY		12
Atlanta, GA		6
Dallas, TX		8
Cincinnati, OH		5
San Francisco, CA		14
San Diego, CA		3
Kansas City, MO		4
Chicago, IL		6
Denver, CO		3

2. Office Rent

This line item provides funds for leased Washington, D.C. and field office space. The locations budgeted for have been listed above. Whenever possible, such offices are leased or rented in Federal Home Loan Bank facilities. At present, the Washington, D.C., Atlanta, Boston, Cincinnati, New York and San Francisco offices are located in such facilities.

3. Travel and Subsistence

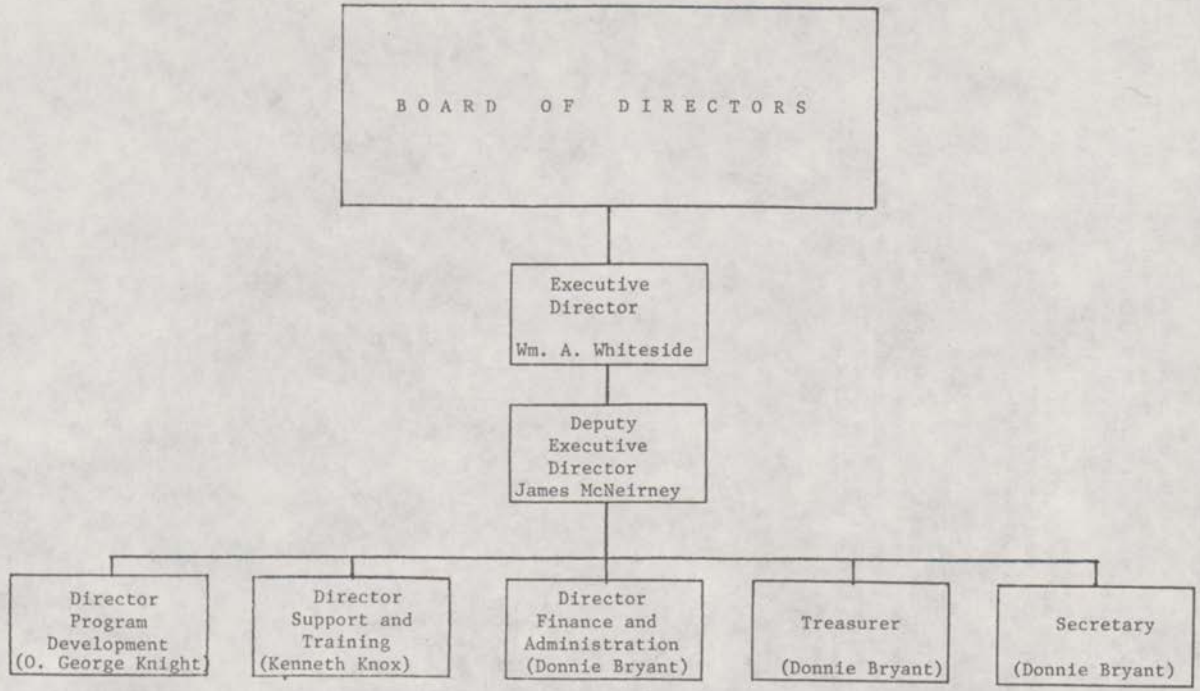
This line item provides business travel and related expenses of program development and program support staff in their activities related to developing and supporting NHS organizations, and new program research, development, administration and replication.

4. Professional Services

This line item includes contract services for: legal counsel, accounting services and audit; technical assistance provided by Neighborhood Housing Services of America, Inc.; and training facilities for the Executive Director and Rehabilitation Specialist Training Programs. Funds have also been budgeted for staff training and specialized technical services in the program development and support areas.

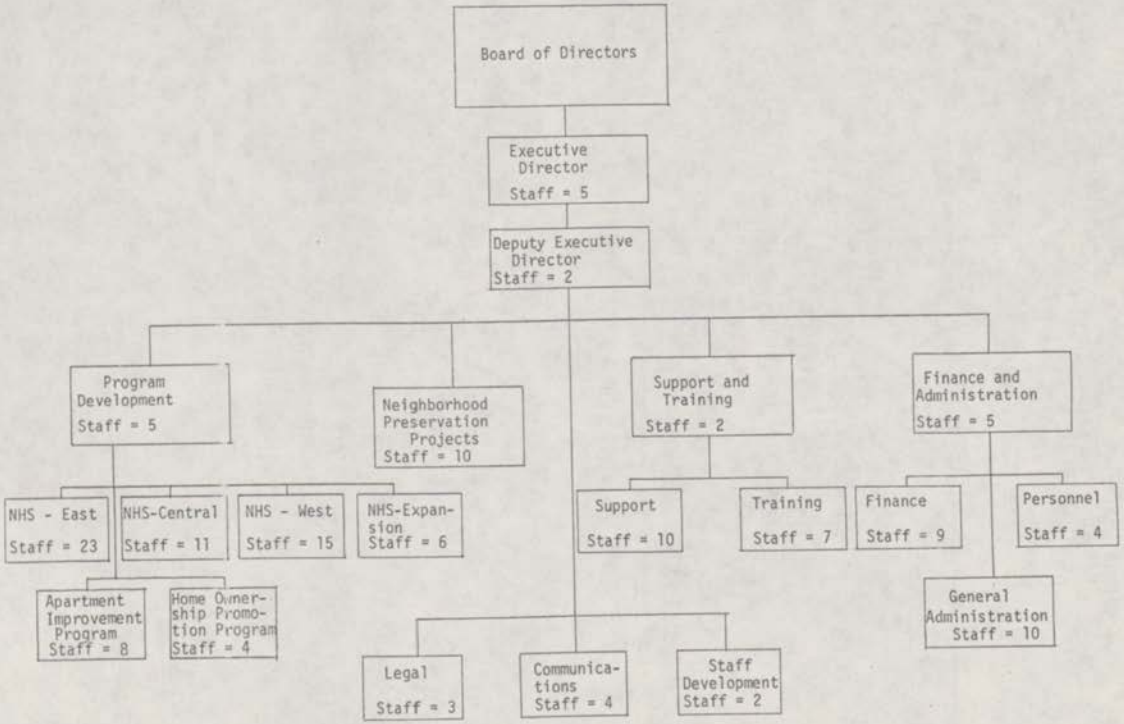
5. Conferences and Workshops

This line item provides for a National NHS Conference, three regional residents' workshops, local developmental workshops and regional support workshops. It includes program materials, hotel and meeting rooms, meals and transportation assistance.



NATIONAL NEIGHBORHOOD REINVESTMENT CORPORATION

The Board of Directors and Bylaw Officers of the Corporation



Neighborhood Reinvestment Corporation
Organization Chart with Preliminary
Staff Distribution - FY 1980

43-133 O - 79 - 29

Job Classification by Organizational Units
National Neighborhood Reinvestment Corporation

EXECUTIVE SERVICES

Level	Job Title	No. Positions
Executive Director's Office		
VII	Secretary	1
X	Executive Secretary	1
XIII	Legislative Liaison	1
XVI	Executive Assistant to Director	1
XXI	Executive Director	1
Deputy Executive Director's Office		
VIII	Senior Secretary	1
XX	Deputy Executive Director	1
Legal		
VII	Secretary	1
XVI	Legal Officer	1
XIX	General Counsel	1
Communications		
VII	Secretary	1
IX	Communications Assistant	1
XII	Communications Specialist	1
XVI	Assistant Director	1
Staff Development		
X	Staff Development Assistant	1
XVI	Assistant Director	1

PROGRAM DEVELOPMENT

Level	Job Title	No. Positions
VII	Secretary	1
VIII	Senior Secretary	1
XII	Administrative Assistant	1
XIII	Special Assistant - NHS Development	1
XIX	Director	1
Program Development		
VII	Secretary	12
VIII	Senior Secretary	2
XI	Program Assistant	2
XII	Assistant Field Representative	15
XIII	Field Representative	13
XIII	Technical Advisor - Rehab & Sale	1
XIV	Regional Representative - Expansion	2
XIV	AIP Systems Analyst	1
XV	Post Development Officer	3
XV	Technical Services Officer	1
XVI	Regional Supervisor	9
XVI	Assistant Director	3
XVIII	Associate Director	3

SUPPORT AND TRAINING

Level	Job Title	No. Positions
VII	Secretary	4
X	Training Assistant	1
XI	Program Assistant	1
XII	Administrative Assistant	1
XIII	Field Representative	1
XV	Support Officer	5
XV	Special Projects Officer	1
XVI	Assistant Director	2
XVI	NHS Training Director	1
XVIII	Associate Director	1
XIX	Director	1

NEIGHBORHOOD PRESERVATION PROJECTS

Level	Job Title	No. Positions
VII	Secretary	1
VIII	Senior Secretary	1
XI	Program Assistant	1
XIII	Program Analyst	1
XIII	Field Representative	2
XVI	Assistant Director	3
XVIII	Associate Director	1

FINANCE AND ADMINISTRATION

Level	Job Title	No. Positions
VIII	Senior Secretary	1
XIII	Administrative Analyst	1
XVI	Senior Administrative Analyst	1
XVII	Budget Officer	1
XIX	Director	1
Finance		
VI	Accounting Clerk	2
VIII	Accounting Specialist	2
X	Senior Accounting Specialist	1
X	Payroll Clerk	1
XII	Accounting Supervisor	1
XIII	Accountant	1
XVI	Assistant Director for Finance	1
Personnel		
VI	Personnel Clerk	1
VII	Secretary	1
XII	Employment Specialist	1
XV	Personnel Officer	1
General Administration		
V	Receptionist	2
V	Files Assistant	1
VI	Word Processing Operator	3
VIII	Office Services Supervisor	1
X	Records Manager	1
X	Word Processing Supervisor	1
XVI	Assistant Director	1

NATIONAL NEIGHBORHOOD REINVESTMENT CORPORATION
COMPENSATION PLAN
JANUARY, 1979

RESPONSIBILITY LEVEL	SALARY RANGE
V	$ 9,000 - $12,175
VI	$10,080 - $13,636
VII	$10,685 - $14,454
VIII	$11,967 - $16,188
IX	$12,685 - $17,163
X	$13,938 - $18,858
XI	$15,332 - $20,747
XII	$16,865 - $22,817
XIII	$18,552 - $25,100
XIV	$20,407 - $27,609
XV	$22,448 - $30,370
XVI	$24,692 - $33,407
XVII	$27,153 - $36,737
XVIII	$29,877 - $40,422
XIX	$32,865 - $44,465
XX	$36,152 - $48,912*
XXI	$45,418 - $61,449*

*maximum amount payable is $47,500

THURSDAY, MARCH 22, 1979.

FEDERAL EMERGENCY MANAGEMENT AGENCY

WITNESSES

GORDON VICKERY, ACTING DIRECTOR DESIGNATE, FEDERAL EMERGENCY MANAGEMENT AGENCY AND ADMINISTRATOR, U.S. FIRE AMINISTRATION
GLORIA M. JIMENEZ, ADMINISTRATOR, FEDERAL INSURANCE ADMINISTRATION
BARDYL R. TIRANA, DIRECTOR, DEFENSE CIVIL PREPAREDNESS AGENCY
WILLIAM H. WILCOX, ADMINISTRATOR, FEDERAL DISASTER ASSISTANCE ADMINISTRATION
JOSEPH A. MITCHELL, DIRECTOR, FEDERAL PREPAREDNESS AGENCY
DONALD A. THOMPSON, COMPTROLLER, DEFENSE CIVIL PREPAREDNESS AGENCY
GEORGE JETT, PRESIDENT'S REORGANIZATION PROJECT STAFF

	Comparable			
	1978 actual	1979 estimate	1980 request	Change
Appropriation	$699,353,000	$454,990,000	$452,316,000	+$2,674,000
Positions	2,306	2,401	2,401	

Mr. BOLAND. The Committee will come to order.

We are very pleased to have with us this afternoon the Federal Emergency Management Agency (FEMA). We are delighted to have Gordon Vickery, the Acting Director of FEMA who is also the confirmed Administrator of the United States Fire Administration, and Gloria Jimenez who is the Administrator of the Federal Insurance Administration and is no stranger to this Committee.

Mr. Tirana, we are glad to have you, Director of the Defense Civil Preparedness Agency. Mr. William Wilcox, Administrator of the Federal Disaster Assistance Administration has been with us before. We thought you did a fine job with some of the problems you had with the great snows. I don't know how you did out in Chicago. I don't know whether you advised Mayor Bilandic or not, but you did a good job in New England last year.

Joseph Mitchell is here, Director of Federal Preparedness Agency, and Don Thompson, the Comptroller of Defense Civil Preparedness Agency, is with us today, too.

We are glad to have you. We have some biographical sketches that we will put in the record at this point for those who have not appeared before this Committee before.

[The biographical sketches follow:]

BIOGRAPHY
GORDON VICKERY

Gordon Vickery was nominated by President Carter on January 11, 1979, to be the next Administrator of the U.S. Fire Administration, U.S. Department of Commerce.

Prior to his nomination as U.S.F.A. Administrator, Vickery served the City of Seattle, Washington, for 33 years. In 1972 he was appointed Superintendent of Lighting for that city. There he directed the Nation's third largest municipally-owned utility. In this position, he sucessfully implemented an affirmative action program, received a national award for energy conservation efforts, and reorganized the department management into an efficient, cost-effective system.

Vickery began his service to Seattle in 1946, when he joined that city's fire department. He served as Chief of the Seattle Fire Department from 1963-1972. Under his leadership, the Seattle Fire Department became a model department known nationwide for its innovative and successful programs. Vickery reorganized the department's administration, modernized Seattle's firefighting equipment, made Seattle a leader in fire prevention programs, and established a nationally recognized reputation for performance. He is best known for developing and implementing the world-renowned Medic One and Medic Two programs, which brought outstanding coronary and trauma care to the City of Seattle.

It was also under Vickery's direction that the Seattle Arson Squad began its outstanding work, leading to the establishment of a city-wide Seattle Arson Task Force that today is the finest such program in the United States, having reversed its arson growth.

Before joining the Seattle Fire Department, Vickery held supervisory positions with Douglas Aircraft Corp. and the Boeing Co.

Gordon Vickery was recognized by the Municipal League of Seattle as the Outstanding Public Official of 1972.

He was active in civic and community affairs for that city, having served as a Regent for St. Martin's College, held numerous positions in Masonic groups, and being active in the United Way, Greater Seattle, Inc., the Arthritis Foundation, Seattle Chamber of Commerce, Downtown Rotary, and the Evergreen Safety Council.

He served for four years on the Board of Directors of the International Association of Fire Chiefs and has been that organization's designate to the National Academy of Sciences. As Superintendent of Lighting for Seattle, Vickery was a member of the Washington Public Power Supply System Executive Board, the Western Systems Coordinating Council, the American and Northwest Public Power Association, and the Pacific Northwest Utilities Conference Committee.

BARDYL R. TIRANA

Born: Geneva, Switzerland, December 16, 1937, to Rifat Tirana (Albanian) and Rosamond English Walling (American), while his father was in service as an economist for the League of Nations. Mr. Tirana's father died in 1952 in federal service for the United States Export-Import Bank. Mr. Tirana's mother is an artist residing in the District of Columbia.

Residence and Education: Mr. Tirana has lived in Washington since prior to World War II, when his family moved to the United States from Switzerland. Mr. Tirana attended public schools in the District of Columbia: John Eaton Elementary, Alice Deal Junior High, and Woodrow Wilson High School. Mr. Tirana graduated from Phillips Academy (Andover) in 1955, from Princeton University in 1959, and from the Columbia Law School in 1962.

Profession: Mr. Tirana was admitted to the District of Columbia Bar in 1962. He worked in the Justice Department from 1962 to 1964 as a trial attorney in the Admiralty and Shipping Section. Mr. Tirana was in general private practice from 1965 to April 1, 1977, and was a partner in the Washington firm of Sundlun, Tirana & Scher. On April 13, 1977, Mr. Tirana became Director of the Defense Civil Preparedness Agency in the Pentagon.

Other Positions: Mr. Tirana was appointed by President Carter as Co-Chairman of the 1977 Presidential Inaugural Committee. Mr. Tirana was elected and served as an at-large member of the District of Columbia Board of Education from January, 1970 through January, 1974. Mr. Tirana was also a director and officer of Executive Jet Aviation, Inc., a Columbus, Ohio air taxi firm operating business jet aircraft throughout the United States; of Technics, Inc., an Alexandria, Virginia based firm manufacturing scientific equipment for research and the semi-conductor industries; of The Washington Ballet; and of National Repertory Theatre Foundation.

Political Activity:	Mr. Tirana worked in the senatorial campaign of Robert F. Kennedy in New York in 1964; in the Presidential primary campaign of Senator Kennedy in 1968; in the Presidential primary campaign of Senator McGovern in 1968; in the Presidential primary and general election campaigns of Senator McGovern in 1972. Mr. Tirana worked in the Presidential primary and general election campaigns of President Carter, and was the campaign's transportation director. Mr. Tirana met Governor Carter at breakfast on December 12, 1974, the day the Governor announced his candidacy for President. Governor Carter asked Mr. Tirana to volunteer transportation advice. Mr. Tirana worked for Governor Carter as a volunteer through the 1976 general election.
Personal:	Mr. Tirana has two daughters, Kyra (age 13), and Amina (age 11). Kyra is attending the Maret School, and Amina is attending John Eaton School.
Residence:	3550 Tilden Street, NW Washington, DC 20009 AC 202-244-6579
Office:	Director, Defense Civil Preparedness Agency Room 3E 346, The Pentagon Washington, DC 20301 AC 202-697-4484

Biographical Sketch

WILLIAM H. WILCOX

William H. Wilcox, Administrator of the Federal Disaster Assistance Administration, is responsible for supervising the relief activities of governmental and volunteer agencies following an emergency or major disaster declaration by the President.

Mr. Wilcox was appointed to the position by Secretary Patricia Roberts Harris, U. S. Department of Housing and Urban Development, on January 9, 1978.

Prior to joining HUD, Mr. Wilcox was Secretary of Community Affairs in the Commonwealth of Pennsylvania since 1971. While in state government, Mr. Wilcox coordinated various state disaster recovery activities on Tropical Storms Agnes and Eloise, the Johnstc of 1977, and he was state fuel allocation officer during th crisis.

Previously, Mr. Wilcox was Executive Director of the Greater Philadelphia Movement from 1954 to 1971. He was also a member of the Executive Board of Gaudenzia House, Inc., and Chairman of the Philadelphia Committee on City Policy.

He is also a member of the Appalachian Mountain Club and enjoys such outdoor activities as biking, hiking, winter camping, and cross country skiing.

Born June 9, 1919 in Philadelphia, the son of Charles L. and Myrtle (Kaiser) Wilcox, he studied at the University of Connecticut (A.B.) and Wayne University (Master of Public Administration) as a Volker Fellow. Mr. Wilcox served in the Armed Forces 1942-1945, and he was awarded the Air Medal and the Distinguished Flying Cross.

He married the former Madelene Watt on October 5, 1945, and they have two children.

Mr. BOLAND. The budget justifications reflect a request of $452,316,000 for Fiscal Year 1980 as compared to $454,990,000 for the components that now comprise FEMA in Fiscal Year 1979. That is a reduction of $2,674,000.

What did you request of the Office of Management and Budget? Adding all the components together, what would have been the request to OMB?

Mr. THOMPSON. I do not have the figure because the FEMA task force was not a part of that process with the OMB.

Mr. BOLAND. You can get the figure and supply it for the record.

[The information follows:]

The total requested of the Office of Management and Budget for Fiscal Year 1980 was $550,250,000.

Mr. BOLAND. You have 2,401 employees. That was the estimate for 1979 and your request for Fiscal Year 1980 is the same amount, 2,401.

I have an introductory statement on how FEMA was developed and put in place by the Congress. After that we would be delighted to hear you.

[The information follows:]

The Federal Emergency Management Agency (FEMA) was proposed by the President in Reorganization Plan No. 3 of 1978, transmitted to the Congress on June 19, 1978. A disapproval resolution was defeated in the House of Representatives, September 14, 1978, allowing the proposal to proceed.

The major agencies to be transferred into FEMA are the National Fire Prevention and Control Administration (subsequently renamed the United States Fire Administration), in the Department of Commerce, the Defense Civil Preparedness Agency in the Department of Defense, the Federal Preparedness Agency (excluding the stockpile disposal function) in the General Services Administration, and the Federal Insurance Administration and Federal Disaster Assistance Administration in the Department of Housing and Urban Development.

In addition, certain emergency preparedness and mitigation functions will be transferred to FEMA. These include:

The oversight responsibilities for the Federal Emergency Broadcast System, the Earthquake Hazards Reduction Program, and dam safety coordination in the Office of Science and Technology Policy;

Providing communities assistance in developing readiness plans for severe weather-related emergencies, currently a function of the National Weather Service;

Coordinating natural and nuclear disaster warning systems; and

Coordinating planning and preparedness relating to major terrorist activities.

Mr. VICKERY. Thank you, sir.

Mr. BOLAND. We are delighted to have you before the Committee.

GENERAL STATEMENT: FEMA

Mr. VICKERY. Mr. Chairman and members of the Committtee, it is an honor to appear before your Committee today. I am Gordon Vickery. I was confirmed by the Senate and sworn in just this week as Administrator of the United State Fire Administration.

I am here today to present testimony in support of the President's Fiscal Year 1980 budget for the Federal Emergency Management Agency. The Federal Emergency Management Agency, established

by Reorganization Plan No. 3 of 1978, consolidates five existing agencies with related functions.

Accompaning me are the heads of the other four consolidated agencies. They are Ms. Gloria Jimenez, the Administrator of the Federal Insurance Administration, and Mr. William Wilcox, the Administrator of the Federal Disaster Assistance Administration of the Department of Housing and Urban Development, both of whom I believe have testified previously before this Committee.

Also on the panel are Mr. Bardyl Tirana, the Director of the Defense Civil Preparedness Agency in the Department of Defense, and Mr. Joseph Mitchell, the Director of the Federal Preparedness Agency in the General Services Administration.

The sixth member of our group is Mr. Donald Thompson, the Comptroller of the Defense Civil Preparedness Agency. Mr. Thompson has assisted the President's Reorganization Project in developing the budget and financial management requirements of the new agency.

As you know, following my confirmation and swearing in as Fire Administrator, I was designated Acting Director of FEMA. Thus, for today's hearing I'll be wearing two hats—one as Acting Director Designate of FEMA and the second as U.S. Fire Administrator.

I will serve as Acting FEMA Director pending the President's selection of a permanent Director of the Agency.

I will make a brief statement this afternoon as the new agency's Acting Director Designate, outlining the key features of the FEMA reorganization. This will include a report on the status of the Agency's activation, and an overview of the Agency's budget.

Then, with the Committee's approval, I will ask the agency heads to review briefly the current authorities and programs of their respective units. I will complete this summary with a short report on the U.S. Fire Administration.

At that time, the entire panel will be available to answer any questions you might have on the programs and resources to be transferred to FEMA during Fiscal Year 1979 or the requests for appropriations for Fiscal Year 1980.

The Federal Emergency Management Agency was established by Reorganization Plan No. 3 of 1978. That plan, which was approved by Congress last fall, calls for the creation of FEMA as a new, independent Executive Branch agency and the transfer to its Director of the programs and authorities now conducted by the Federal Insurance Administration and the U.S. Fire Administration. The plan also assigns FEMA the responsibility to coordinate Emergency Broadcast System policies and programs.

To provide for the new Agency's leadership, the plan authorized positions for Director, Deputy Director, and up to four Associate Directors. Also, it transferred to FEMA the then-existing position of Administrator of the National Fire Prevention and Control Administration.

In his message to Congress forwarding the plan, the President stated that he would transfer by Executive Order certain authorities and

responsibilities already vested by law in the President. These include the functions of:

The Defense Civil Preparedness Agency in DOD as well as certain engineering and communications resources and programs of the Department of the Army in support of DCPA's civil defense functions;

The Federal Disaster Assistance Administration in HUD, including the program for the management and provision of temporary housing to disaster victims;

The Federal Preparedness Agency in GSA; but exclusive of the function of operating the National Strategic Stockpile which will remain with the Administrator of General Services.

Additionally, the President announced that he will assign FEMA Federal planning, coordination and oversight responsibilities for several key emergency programs. These include earthquake hazards reduction, dam safety, emergency warning, response to the consequences of terrorists incidents, and community preparedness for severe weather warnings.

When the total reorganization is completed, FEMA will have approximately 2,500 total employees. Roughly one-third of the staff will be in Washington. The remaining two-thirds or about 1,700 will be in FEMA's regional offices and special facilities around the country.

A final but very important point about the reorganization is the President's announced decision to create an Emergency Management Council to oversee and provide policy direction to the new Agency. This Council, made up of key advisors to the President, the OMB Director, and the FEMA Director, will assist the President in his emergency responsibilities and assure that FEMA's programs and responsibilities receive careful attention and support by the other Federal units.

I will now summarize quickly the status of the reorganization activation and conclude with a brief overview of the budget.

The reorganization plan provides that the establishment of the Agency and the transfer of the Fire Prevention, Federal Insurance, and Emergency Broadcast Programs will be completed by April 1, 1979, at which time the agency will officially initiate its operations.

I will formally assume the responsibilities of the Acting FEMA Director on that date.

The President's order will also authorize the transfer to FEMA of DCPA, FPA and FDAA, as well as other executive functions I noted above, but on a subsequent date not later than September 30, 1979. Thus, all of FEMA's authorities and responsibilities outlined in the reorganization decision by the President will be totally consolidated in the new Agency by the beginning of Fiscal Year 1980, consistent with the President's budget request.

To conclude my statement, I will briefly outline the key features of the FEMA Fiscal Year 1980 budget and then turn the testimony over to our panelists.

The total appropriation request for Fiscal Year 1980 is $452,316,000 as compared to a program level of $454,990,000 as a composite of the five agencies' programs in Fiscal Year 1979.

I will not go into details of significant increases and decreases as I expect the agency directors will cover those matters. However, let me say a few words about the budget structure.

The budget consists of six appropriations and was designed with the assistance and coordination of the component agencies, the Office of Management and Budget, and members of the Appropriations Subcommittee staffs.

Four of the accounts will be transfered to FEMA without change. They are the two insurance revolving funds managed by FIA, the President's Disaster Relief Fund, and a currently inactive account for loan guarantee activities under the Defense Production Act.

Two new accounts are requested to fund agency operations. Before reorganization, these operations were financed from 10 separate appropriations. The two new accounts are Emergency Planning, Preparedness, and Mobilization which comprises the program activities of DCPA and FPA and Hazard Mitigation and Disaster Assistance which includes activities of USFA, FIA, and FDAA as well as the executive direction expenses of the agency.

For purposes of comparison, the budget justification book is constructed as though FEMA existed in Fiscal Year 1978 and for all of Fiscal Year 1979 even though appropriations in these years were made to its constituent units.

Since this is a transition budget, we have tried to reduce the confusion by providing crosswalk schedules in the general section at the front of the book and, in addition, a schedule relating old appropriation titles to the new appropriation structure. Also, the upper right corner of each page is annotated to designate the component agency to which that part of the budget applies.

With that brief introduction and overview of FEMA, I would now like to ask the panelists to provide short statements about their respective agencies and programs.

A suggested order is Ms. Jimenez for FIA, Mr. Mitchell for FPA, Mr. Wilcox for FDAA, Mr. Tirana for DCPA, and finally myself as Fire Administrator.

General Statement: Federal Insurance Administration

Mr. Boland. Fine. Ms. Jimenez?

Ms. Jimenez. Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the programs and plans of the Federal Insurance Administration. I will now summarize my statement and ask that the complete statement be inserted in the record.

We have completed the first year of operations of the flood insurance program under Part B, and I am pleased to report our progress.

A major consideration in the decision to convert to a Part B program was an estimated cost savings to the government of $14.8 million. Based on preliminary figures, the cost savings during the first year of the Part B contract are almost $15 million.

The facility is operating with service now equal to or slightly better than the best that was achieved during the first nine years of the program. The program is healthier and is being conducted at far less cost than it has ever been.

During 1979 and 1980 there will be a redirection of emphasis in the National Flood Insurance Program from essentially a mapping effort to an in-depth technical assistance effort which will concentrate on the communities that have substantial flooding potential. The

overall reduction in study cost resulting from this program redirection will be around $300 million.

I am encouraged by the increased sales of crime insurance. Through January, there were over 53,000 policies in force and we are expecting nearly 78,000 for 1980.

Through February, FAIR plans were operating in 28 jurisdictions to provide essential property insurance unavailable in the normal market. Riot reinsurance is no longer available in five States because of failure to comply with the 1978 amendment. We are working with these States to bring them into compliance.

In 1980 we plan to initiate a study of the availability of essential property insurance. It will address among other things the insurance marketing mechanisms to promote a competitive insurance market, the potential for investing insurance funds into inner city programs, and arson for profit.

[The prepared statement follows:]

STATEMENT OF MRS. GLORIA M. JIMENEZ

BEFORE

HOUSE COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES

MARCH 1979

Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the programs and plans of the Federal Insurance Administration. This is my second appearance here as a witness and I have with me Mr. Krimm, Mr. Leo, Mr. Reilly and Mr. Urban.

FLOOD INSURANCE PROGRAM

This has been another very eventful year for the National Flood Insurance Program. We have completed the first year of operations of the insurance aspects of the program under Part B of the Act, and I am pleased to report on the results of that decision.

One major consideration in the decision to convert to a Part B program was an estimated cost savings to the government of $14.8 million. Based on preliminary figures, which are subject to audit, the cost savings during the first year of the Part B contract are almost $15 million, slightly more than we projected.

43-133 O - 79 - 30

A second consideration in converting to a Part B program was to maintain or improve the level of service to policyholders and the public. There were many difficulties during the early months of the transition due to the problems of turning over a large volume of data from one organization to another for processing. These problems were the result of a partial breakdown in processi by the previous contractor, the requirement of the Part B contractor to hire a train a staff of about 300 employees in a short period of time and a peak period of policy activity during the transition. These problems are behind us now and the facility is operating with service now equal to or slightly better than the best that was achieved during the first nine years of the program. There are, however, still some problems which when solved will improve service even further.

A third consideration in converting to a Part B program was the problem of financial control with the previous contractor. The systemic deficiencies underlying the financial control problem have been identified and most of them have been corrected. The remaining deficiencies are being addressed as expeditiously as possible.

In summary, the program is healthier than it has ever been, and is being conducted at far less cost. The following indices show the state of the progra at the end of 1977 and 1978:

	December 31, 1977	December 31, 1978
Policies in force	1,176,215	1,402,672
Insurance in force	$36,437,950,700	$48,877,045,700
Number of Claims Paid (12 months)	13,477	35,008
Amount of Claims Paid (12 months)	$84,579,220	$144,665,130

FLOOD INSURANCE STUDIES AND FLOOD PLAIN MANAGEMENT

During 1979 and 1980 there will be a redirection of emphasis in the National Flood Insurance Program from essentially a mapping effort to an in-depth technical assistance effort, which will concentrate on the communities that have not only a substantial flooding potential, but also have considerable flood plain development or pressure for such development. There will be a reclassification of the floodprone status of approximately 7,000 to 10,000 communities. A review by FIA shows that most of the severely flood-prone communities that have considerable development and population at risk have already been mapped or currently are being mapped.

FIA staff efforts will be redirected to working with State coordinators and regional planning agencies in providing guidance and advice to community officials on the day-to-day flood plain management problems they encounter. They will help community staff to review the options that are available and help them to implement the option that the community selects. I am convinced that if the options are carefully developed and explained, communities will make the right decision, as shown by the examples of Soldiers Grove, Wisconsin and Baltimore County, Maryland, as well as the growing number of communities that are electing to use revenue sharing funds or even bond money to purchase land in the flood plain.

As a result of this change in emphasis we will be able to conduct a more effective flood program with no increase in staff and with an $11 million reduction in our FY 1980 appropriation request. The overall reduction in study cost resulting from this program redirection will be around $300 million.

INSURANCE AND HAZARD MITIGATION

..perience gained in developing and administering the National Flood Insurance Program will prove very valuable in developing and implementing a hazard mitigation strategy for other hazards. The challenge offered to FEMA as it implements the President's directive to emphasize mitigation in its overall approach is substantial since in the past there have been only fragmentary Federal efforts. FEMA's approach will emphasize multi-hazard mitigation. We have learned from experience with the flood program that a specific hazard can not be treated in a vacuum. Just as erosion, land subsidence, tsunamis, dam collapse and other threats must be considered together as aspects of flooding, the expanded mitigation responsibilities of the new agency must be considered together in terms of multi-hazard mitigation.

In addition to ongoing programs in flooding, earthquakes and dam safety, FEMA will undertake initiatives to strengthen the technical base for mitigation of other hazards. Initiatives which are currently being considered include: financial and insurance problems posed by hazards; improved building codes as a means of hazard mitigation; assessment of removing from risk those properties which have been damaged; and assessment of options which offer the greatest opportunity to local jurisdictions to incorporate hazard mitigation into ongoing regulatory and permit activities.

CRIME INSURANCE

We are encouraged by the increased sales of Federal Crime Insurance. Through January there were over 55,000 policies in force and we are expecting over 61,000 by the end of 1979 and nearly 78,000 for 1980. During 1978 we initiated a pilot project to determine the effectiveness of utilizing community based organizations to promote the program.

We are attempting to address more effectively the needs of people for crime insurance. A finding that one or more major cities in a state have problems with crime insurance availability and affordability will be a major factor in the determination that citizens in those states should be eligible to purchase Federal crime insurance. Revised regulations to liberalize the requirements for protective devices for commercial coverage became effective March 1, 1978. The regulations are currently being revised to provide for a uniform premium rate in all eligible jurisdictions as well as a single commercial classification in order to simplify premium rating procedures.

RIOT REINSURANCE

Through February, FAIR Plans were operating in 28 jurisdictions to provide essential property insurance unavailable in the normal market. Riot reinsurance is no longer available in New York, Minnesota, Iowa, Virginia, and Missouri, because the FAIR Plans in these five States failed to comply with paragraph 11 of Section 1211(b), by January 31, 1979, and the insurers were therefore notified that a suitable FAIR plan program had not been adopted. We are continuing to work with these States and hope to work out the significant reforms necessary to bring them into compliance.

With over 900,000 policies, the FAIR Plans have grown to such an extent that they have become a significant part of the economic foundation of many urban areas. In 1980, we plan to initiate a study of the availability of essential

property insurance. It will address the insurance marketing mechanisms to promote a competitive insurance market; the potential for investing insurance funds into inner city programs; arson for profit; and current insurance policy language to develop forms of insurance appropriate to meet current needs.

The premiums and investment income in the National Insurance Development Fund are expected to be adequate to meet the costs of both the Crime Insurance and Riot Reinsurance Programs through 1980, and no appropriation for these activities is requested.

PROGRAM MANAGEMENT

We are not requesting an increase in staffing for 1980. We will be able to initiate the programs proposed through FY 1980 without increasing the present ceiling of 330 permanent full time positions.

Mr. BOLAND. How much have you requested and how many dollars do you have in this particular justification?

Ms. JIMENEZ. Overall, for flood studies we are down from $85 million to $74 million which is an $11 million difference. For the other programs, of course, we are not asking a direct appropriation.

Mr. BOLAND. Thank you.

Mr. VICKERY. Mr. Mitchell?

GENERAL STATEMENT: FEDERAL PREPAREDNESS AGENCY

Mr. MITCHELL. Thank you, Mr. Vickery.

Mr. Chairman and gentlemen, I would like to take just a moment to give you a capsule of what the Federal Preparedness Agency is about and what it does since this is my first opportunity to appear before the Committee.

I would like to tell you a little bit about what we have done during the past 14 months I have been Director of FPA and what our budget request is as part of FEMA today.

As many of you may or may not know, FPA has the largest number of people in this consolidation. We have over 800 people. But we have the smallest appropriation. Our appropriation request to the Committee is slightly over $36 million for Fiscal Year 1980.

Our request, by the way, is a decrease from our last year's appropriation. I think we are able to ask for this decrease before this Committee because we have operated in a more effective and efficient way in the past year and have been able to save funds. We have done some careful analysis of FPA's programs and by cutting waste and inefficiency to a maximum extent we have saved a considerable amount of money.

We have also done less outside contracting. We have cut the use of consultants as the President has requested all agencies to do, and, in FPA's case, we have taken advantage this year of the cost of contract savings available in the communications area, one of the heavy expense areas in our agency.

Also, Mr. Chairman, over the past year as well as currently we are reviewing all of FPA's programs as to the effectiveness and value in terms of national emergency. Basically, FPA has two broad areas of emergency responsibility at the national level:

One of those is insuring the continuity of government in a national emergency. The second is insuring that the civilian economy of this country has the available resources to support this nation in times of crisis or war.

As to the first item, we are currently reviewing and seeking improvements in all of our national plans for maintaining the decision-making of government in a national emergency by direction of President Carter. He has asked for this review and we plan to make recommendations to him by the end of the summer.

As to the latter responsibility, that of national resource planning, having worked closely with the House and the Senate this year and last session, we hope to see passed by this Congress very, very shortly,

a completely new national stockpile policy bill that will enable the government to purchase new and important strategic materials for the national stockpile which I hope will vastly improve this country's dependence on foreign supplies in times of crisis.

This, Mr. Chairman, as you probably know, will be the first time in almost 20 years that new materials will be purchased for the stockpile. Of course, materials no longer needed will be disposed of this year.

That is an overview of what our programs are. We would be happy later to answer any questions about them.

Mr. BOLAND. Thank you, Mr. Mitchell.

[The prepared statement follows:]

OPENING STATEMENT
BY JOSEPH A. MITCHELL,
DIRECTOR, FEDERAL PREPAREDNESS AGENCY,
BEFORE THE
HUD-INDEPENDENT AGENCIES SUBCOMMITTEE
OF THE
HOUSE APPROPRIATIONS COMMITTEE
MARCH 22, 1979

MR. CHAIRMAN:

I APPRECIATE THIS OPPORTUNITY TO PARTICIPATE IN THE PRESENTATION OF THE FISCAL YEAR 1980 BUDGET OF THE FEDERAL EMERGENCY MANAGEMENT AGENCY. MY AGENCY, THE FEDERAL PREPAREDNESS AGENCY, IS NOW A PART OF GSA. UNDER THE PRESIDENT'S REORGANZATION PLAN NO. 3 OF 1978, ALONG WITH THE FOUR OTHER AGENCIES REPRESENTED HERE, IT WILL BECOME A PART OF FEMA. I STRONGLY SUPPORT THIS REORGANIZATION EFFORT.

FOR SOME TIME THE EMERGENCY PLANNING AGENCIES AND PROGRAMS OF THE FEDERAL GOVERNMENT HAVE BEEN SCATTERED AND DISJOINTED. IN FEMA, ALL FIVE AGENCIES WILL BE ABLE TO PUT OUR RESOURCES TOGETHER -- CREATING A WHOLE THAT IS GREATER THAN THE SUM OF ITS PARTS. SPECIFICALLY, WITH THE CREATION OF FEMA, CIVIL DEFENSE AND NATURAL DISASTER AGENCIES CAN POOL KNOWLEDGE AND RESOURCES TOWARD A "DUAL USE" CONCEPT. IN THIS WAY, DOLLARS SPENT FOR CIVIL DEFENSE STUDIES CAN BE OF BENEFIT IN COMBATING THE EFFECTS OF NATURAL DISASTERS AND OTHER NON-WAR-RELATED EMERGENCIES.

BEFORE PRESENTING BUDGET FIGURES, I WOULD LIKE TO GIVE YOU A VERY BRIEF DESCRIPTION OF FPA -- IT PLAYS AN IMPORTANT ROLE IN

PROTECTING THE FEDERAL GOVERNMENT IN TIMES OF WAR OR OTHER SEVERE NATIONAL CRISIS; MANAGES THE NATIONAL STOCKPILE OF STRATEGIC AND CRITICAL MATERIALS; AIDS STATE AND LOCAL GOVERNMENTS IN THE PREPARATION OF THEIR OWN EMERGENCY PLANS; IS RESPONSIBLE FOR INTERAGENCY COMMUNICATIONS PROGRAMS; AND HOUSES THE NATIONAL RESOURCE DATA BASE. FPA'S EXPERTISE IN RESOURCE ASSESSMENT AND MANAGEMENT HAS GIVEN IT A ROLE IN MANY GOVERNMENT STUDIES AND PROGRAMS, INCLUDING THE LABOR SURPLUS AREA PROGRAM. ADDITIONALLY, FPA SERVES AS THE U.S. REPRESENTATIVE ON NATO'S SENIOR CIVIL EMERGENCY PLANNING COMMITTEE.

I BELIEVE THAT ALL THESE FUNCTIONS CAN BE MORE VALUABLE WHEN FPA BECOMES PART OF FEMA.

THE FEMA BUDGET CONTAINS A REQUEST OF 36,616,000 DOLLARS TO CARRY OUT FPA PROGRAMS. THIS FIGURE IS 1,121,000 DOLLARS LESS THAN FPA'S AUTHORIZATION FOR FISCAL YEAR 1979. THE DECREASE IS DUE IN GREAT PART TO OUR EFFORT AT STREAMLINING THE AGENCY IN THE INTEREST OF ECONOMY AND EFFICIENCY. OUR SAVINGS WOULD HAVE BEEN INCREASED BY ANOTHER 1,200,000 DOLLARS HAD FPA NOT HAD TO ABSORB COSTS IN THE FORM OF COMMUNICATIONS TARIFF INCREASES. IF THESE COSTS ARE CONSIDERED, FPA HAS ACTUALLY SAVED OVER TWO MILLION DOLLARS.

THAT CONCLUDES MY OPENING STATEMENT. I WILL BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

GENERAL STATEMENT: FEDERAL DISASTER ASSISTANCE ADMINISTRATION

Mr. WILCOX. I know you are familiar with the FDAA program so I would like to touch on a few of the highlights of the things we have been able to accomplish this last year.

First, we have some revisions in the statement for clarification purposes. We would like to submit a revised statement for the record. We appreciate that very much.

Last year, several members of this Committee, and most particularly the Chairman and the ranking minority Member, were very constructively critical of some of the procedures with respect to the reimbursement for snow removal. We really appreciated those comments very much because it made it possible for us to go back during the summer and revise our procedures for reimbursement for snow removal emergencies to be much more equitable.

I don't think that emergency snow removals will ever be entirely non-controversial, but we have had a good deal less concern expressed this year as a result of your criticisms at last year's hearing.

We appreciate that very much. So that is one of the things we were able to do that we think represents a major step forward.

The second thing I would like to mention is the fact that consistent with President Carter's directions to all the administrative agencies, we have been taking a serious look at the forms we use and particularly those forms which must be used by disaster victims.

I am happy to report that we either have eliminated or are in the process of eliminating 21 different forms that disaster victims had to use in the past. About five of them are in the public assistance or the restoration of public facilities side of our program, and those have already been eliminated. About 16 of them refer to the individual disaster response side of our activities.

The other thing I would like to mention is that we have been consistent with the legislation which says the Federal role in disasters and emergencies is to be supplemental. I myself have 6½ years of service with the State Government. We have a high regard for the capability of States to deal with many of these disaster matters. We have turned to the States more and more for handling the temporary housing mission.

As I think was alluded to a few moments ago, on January 25, 1979, we took back the delegation of the temporary housing responsibility from the housing division in the Department of Housing and Urban Development and retain that responsibility now within the Federal Disaster Assistance Administration.

We have an enormous amount of overhead savings that we have been able to achieve by having the States take on the temporary housing mission whenever they are willing to do so. Through the use of the individual and family grant program which is 25 percent shared by the States, we have been able to save in some cases by simply making the mobile homes available to the State and the State takes the job from that point on.

We have been able to save because the State provides some of its personnel to help in the administration. We think that just in this one activity we already have saved about $2.6 million.

Of course, that is a recurring savings and will no doubt enlarge as more and more of the States volunteer to take on this kind of an assignment.

We also, just by way of passing, would note that we have strengthened our response capabilities so that we are now on a 24 hour, 7 day a week basis. We have call diverters from all our regional offices so that if a public official or citizen calls our region during hours when the office is closed, the phone is answered by our operations center here in Washington.

So that is a general review. Since you do know the framework in which this program operates already, I thought it might be helpful to delineate this for you, Mr. Chairman and Members of the Committee, and I would be happy also to try to respond to any questions.

[The prepared statement follows:]

STATEMENT

OF

WILLIAM H. WILCOX

ADMINISTRATOR

FEDERAL DISASTER ASSISTANCE ADMINISTRATION

BEFORE

HOUSE COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES

MARCH 22, 1979

Mr. Chairman and Members of the Committee:

A year ago, I told you I was pleased to make my first appearance before you as Administrator of the Federal Disaster Assistance Administration.

Today, not only am I pleased to be reporting again to you; I am proud.

During this past year, the Administration, through the FDAA, made several program improvements -- initiatives aimed at serving the victims of major disasters and emergencies more effectively. An outstanding example is our encouragement of State governments to take over the administration of the temporary-housing program, resulting in substantial savings which I will detail later in this testimony.

I am proud that those innovations have proved highly successful, proud that they were accomplished at an immediate and continuing savings of money to the taxpayers and proud

that the overall costs of disaster response and recovery were less this year than last.

You will recall that, at this time last year, the FDAA was requesting -- and the Congress later provided -- a $300-million supplemental appropriation for Fiscal Year 1978, beyond the regular FY-78 appropriation of $150 million, for total appropriations of $450 million.

That supplemental request was occasioned by the several declarations of emergency and major disaster which followed the storms of that winter.

At the same time, we requested of the Congress an appropriation of $200 million for this current FY-79.

In dealing with acts of nature, it pays not to indulge in absolute statements. But, I feel safe in telling you, barring some unforeseen calamity such as another Hurricane Agnes or unexpected series of lesser events, we should be able to make it through the rest of FY-79 without having to seek a supplemental appropriation.

In fact, we estimate we will have obligated by the end of FY-79 around $206.3 million -- or $246 million less than was obligated during FY--78.

During FY-78, the FDAA obligated a total of $452,231,000. We estimate our FY-79 obligations will not exceed $206,280,000, and our FY-80 obligations will not exceed $193.6 million.

However, that $193.6 million for FY-80 does not include, as do prior year figures, an amount for disaster administration expenses. That amount for FY 1980 is estimated at $9,430,000 -- or $1,535,000 more than the $7,895,000 estimated for disaster administration expenses in FY 1979.

But that is misleading, at first blush, for two reasons:

First, in FY 1980, the salaries and administrative expenses of our permanent full-time staff in our Washington and regional offices will be covered by the FEMA salaries and expenses budget. Administration expenses related to the delivery of disaster assistance and services will be applied directly to appropriations for the President's disaster fund. In other words, day-to-day expenses are budgeted for and included in the overall FEMA estimates while disaster response administrative costs, over which we have little control and which are directly related to the level of disaster activity, are paid with program funds.

Second, to compare the FY 1980 projection to prior years' administrative expenses budget is misleading on the surface because the FY 1980 total includes $3,030,000, which in previous years has been covered in the overall Department of Housing and

Urban Development budget, since under a delegation to the Assistant Secretary for Housing, HUD was being mission assigned by the FDAA to perform the temporary housing function.

Since January 28, 1979, the redelegation of the Temporary Housing Mission has been withdrawn from HUD by me -- and, thus, it will be assumed by FEMA. As a result, the personnel and administrative costs, as well as the temporary housing program costs, are now borne by FDAA.

In summary, the Table below details program and administrative cost estimates.

(In thousands of dollars)

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Total Program Obligations	$442,947	$198,385	$193,600
Administration Expenses-Obligations	$ 9,284	$ 7,895	*
TOTALS	$452,231	$206,280	$193,600

* Administration Expenses - Obligations included in FEMA appropriation (Hazard Mitigation and Disaster Assistance)

Disaster Relief -	$6,400
Temporary Housing -	$3,030
TOTALS	$9,430

With regard to disaster response activity and program costs, in FY 1978 there were 13 declared emergency and 26 major disaster declarations, as well as two fire-suppression measures authorized by the FDAA, scattered through 29 States and the Northern Mariana Islands. We had some particularly serious major disasters and emergencies: the severe storms and flooding in the southern Appalachians in November 1977, the blizzard conditions in the Midwest and the New England states in late January and early February 1978; and the coastal storms, mudslides and flooding which resulted in a major disaster declaration for California in February 1978. These disasters heavily impacted upon the President's disaster fund, while there were continuing requirements for funding prior year disasters.

So far in FY 1979, there have been six declared emergencies, eight major disasters, with no designations for fire suppression assistance. But now we are only getting into the spring flooding season. And, as I'm sure you well know, we have the potential for major flooding, even record flooding, in certain areas of the Upper Midwest, while other areas as well are subject to the springtime rash of tornadoes and severe storms.

Over the past year, we have done a great deal to streamline our disaster response and disaster management techniques. Although designed primarily to bring disaster assistance to victims more swiftly and effectively, with less red tape and confusion and inconvenience to the victims, these innovations have had the additional benefit of cutting costs to the taxpayers.

43-133 O - 79 - 31

Not all those savings will be felt in this first fiscal year. Not all are one-time savings. Not all were put into operation early in the fiscal year. And, in the case of most, the greater savings -- as well as the greater efficiencies-- will come in the years ahead.

These innovations have included:

-- Elimination of six forms which State and local governments were required to fill out, thus easing greatly the paperwork burden on those levels of government closest to the people.

-- Testing of a combined single application form for individual disaster victims, who in the past could be subjected to as many as 44 different Federal forms before they could obtain assistance the Congress intended for them to have.

-- Assumption by the FDAA of the temporary-housing mission, previously delegated to HUD and the simultaneous encouragement of those State governments which are willing and able to take on administration of the temporary-housing program. Field tests have demonstrated that States can do the job with administrative costs as low as $200 per household, compared with more than $1,000 when the Federal Government has done the job, and program expenditures by States of less than $1,000 per household, compared with Federal costs of more than $2,000.

-- Faster turn-around time on requests by Governors for declarations.

-- Heavier stress on hazard mitigation, which in years to come will pay dividends in lower Federal disaster recovery costs.

-- Greater emphasis on public awareness of steps individuals can take to prevent or lessen the damage from disasters.

-- Increased promotion of consumer-protection information to help shield disaster victims from unscrupulous contractors, thus lessening the taxpayer burden, too.

-- Development of a maxi-disaster plan so the Federal Government will not be caught unprepared to cope with a catastrophic disaster, especially in a major urban area.

All of those increased efficiencies and decreased costs should be carried over into the disaster response and recovery operations contemplated under the proposed reorganization of emergency-related services into FEMA.

We are indebted to the Chairman of this Committee for helping us introduce greater equity into our snow-removal emergency policies. His recommendation at this hearing last year that we reimburse local governments for both contract work as well as force accounts in snow removal has been put into practice, enabling us to deal more equitably with those governments which are precluded from using contract labor.

Mr. BOLAND. Thank you very much.

GENERAL STATEMENT: DEFENSE CIVIL PREPAREDNESS AGENCY

Mr. TIRANA. Mr. Chairman, the sole responsibility of the Defense Civil Preparedness Agency is carrying out the mandate of the Federal Civil Defense Act of 1950. When I took my job, I had to ask what civil defense meant because I didn't know. It is, among the citizens, frequently associated with floods, tornadoes, hurricanes, natural disasters, chemical spills, man-made disasters, and a variety of peacetime problems.

The sole thrust of the Act, however, is the protection of the population against enemy attack. The only real potential of enemy attack—the only country capable of doing it—is the Soviet Union. The possibility of an attack today is somewhat remote. I don't think it exists really at all. Our nuclear deterrence is effective.

But my job in essence is to think the unthinkable, "What if things escalate and for some reason our political controls get out of hand, and bombs start to fly between the Soviet Union and the United States?"

That is essentially what the Act requires me to do. It requires a system of protection for the population. The last focus on civil defense prior to 1978 was by President Kennedy during the Berlin crisis and afterwards during the Cuban missile crisis.

Our nuclear deterrent was so effective at that time that not only was there no chance of attack against the United States, but the Soviet Union backed down and withdrew from Cuba.

The question was then asked, "What do we need civil defense for?" But rather than face up to a clear political decision not to have civil defense, support by the national leadership was withdrawn.

Really, since the Cuban missile crisis, in my judgment, funds have been spent to create the illusion of having civil defense when in reality we have virtually none.

So if I am asked today, "What is the capability of the nation to protect its citizens against the consequences of nuclear attack?" I would say virtually none.

If I am asked, "What do I get for the funds that I have been spending over the last couple of years?" I will tell you that I have maintained in support of State and local government an organization on which one could build an attack preparedness system, but I have not provided in any meaningful way a genuine attack preparedness capability.

If the unthinkable happened and the bombs began to fly, and you had a large exchange between the Soviet Union and the United States, perhaps somewhere in the neighborhood of 40 percent of the population would survive. The additional numbers of survivors which would result from civil defense efforts over the last 30 years might be 6 or 8 million, a relatively small number over and above those who would survive by accident.

In the last two years, in addition to the Federal Emergency Management Agency Reorganization Study, the Secretary of Defense directed a number of program studies. He reviewed alternatives; how do you go about saving or protecting the American population against the possibility of nuclear attack, what program options are there and at what costs?

In addition, the National Security Council directed a study of policy considerations which took into account Soviet civil defense efforts.

The Secretary made a program decision in December of 1977, subject to policy review by the National Security Council and the President. The President made a policy decision on September 29, 1978, which in essence found that the maintenance of a civil defense capability could play a modest role in our strategic balance and that we should have a civil defense capability, that we should face up to the possible existence of a threat in later years, 1985, 1990, and 1995.

The $108 million that is being requested of the Congress for Fiscal Year 1980 by itself would not buy any significantly greater civil defense capability. The Secretary's program decision contemplated a 7-year level of effort to develop what in essence would be a crisis relocation or evacuation capability for the United States, and which would put us in a position roughly comparable to that which we think the Soviet Union might have at the same period of time.

The Secretary's program decision contemplated a somewhat larger first year's level of effort in the 7-year program. Overall, the incremental increase to get the program in place—and this is much like buying a battleship or an airplane where buying the tires or the engines alone doesn't do an awful lot for you; you have to buy the whole thing because if you stop halfway the money is wasted—but the incremental expense over and above the roughly $100 million a year that we now spend would be in the neighborhood of $1 billion to $1.5 billion.

What I am asking you for is $108 million as a small start in a very tight budget year, for what would ultimately be a 7-year program. In my judgment, it does not make sense to spend the $108 million unless the Congress is prepared to go forward and complete the program.

I think the time for studies has come to an end and the time for making a clear decision as to whether we want a civil defense capability or not is at hand.

Mr. Skelton of Missouri, for himself and Mr. Brinkley. Mr. Mitchell and Mrs. Holt, introduced a bill, H.R. 2704. The bill would put into Statutory language my sense of what the policy and program decisions of the Administration are.

I am not suggesting that the bill should be enacted, but at least it sets forth the context within which the $108 million is sought.

Now, Mr. Chairman, that completes my statement.

[The prepared statement follows:]

NOT TO BE RELEASED
UNTIL 10 AM (EST)
MARCH 22, 1979

Statement by Bardyl R. Tirana

Director, Defense Civil Preparedness Agency

Appropriations Hearings, Federal Emergency Management Agency

House Committee on Appropriations

HUD - Independent Agencies Subcommittee

Thursday, March 22, 1979

A description of two basic elements is required for the FY 1980 civil defense appropriation.

(1) the evolution of the Administration's new civil defense policy; and

(2) the resulting program for FY 1980 and beyond.

President Carter on September 29, 1978 adopted a new civil defense policy, which he is prepared to support with increased funding and a reorganization of related activities. In September 1977, the President had directed a study of issues related to U.S. civil defense. An inter-agency task force analyzed the current civil defense program, determined the changes which should be made, and offered a range of alternative policy options for the future.

A number of specific questions had been framed for the inter-agency study. Among these were: "What is the role of civil defense in strategic policy?", "Can civil defense make a significant difference in the outcome of a nuclear exchange?", "What civil defense measures would be most

useful?"; and finally, "If a role is identified, what should it be?" Hence, the study looked not only at whether or not civil defense would make a difference in nuclear war, but also at whether civil defense would play a role in a pre-attack crisis.

The study did not represent a new or sudden interest in the area of civil defense. Rather, this inter-agency effort followed from earlier work on similar questions and issues. This study, therefore, must be viewed as a continuum of discussion and analysis occurring within the Federal Government since the Kennedy Administration.

In addition to the policy study, other studies examined in detail the feasibility, costs, and performance of alternative U.S. civil defense programs. The intelligence community also produced a report on the status of the Soviet civil defense program. These contributed to the analysis and conclusions of the inter-agency policy study.

The inter-agency policy task force worked approximately one year. At the end of that time, the study, which contained a range of options for a future civil defense program for the United States, was presented to the Policy Review Committee of the National Security Council and then to the President. The options included: (1) essentially no program; (2) the current program; (3) a program providing for relocating (evacuating) the population of larger U.S. cities and other

risk areas should time permit during a period of strategic warning resulting from an international crisis; and (4) a short warning time, in-place protection program including construction of blast shelters in our cities. The relative lifesaving capabilities found in a heavy mid-1980's attack on military and urban/industrial targets would be: (1) no civil defense - some 20 percent total survivors; (2) the current program - some 30 percent survivors; (3) effective crisis relocation - some 80 percent; and (4) a blast shelter system - up to 90 percent. Of course, different attack scenarios would result in different levels of survival.

The principal differences between crisis relocation and blast shelter systems have to do with: (1) costs, (2) the time required to protect the population after warning, and (3) the far greater uncertainties associated with crisis relocation. A system including blast shelters for the risk population could cost over $60 billion, but urban residents could be sheltered with only minutes of warning. A crisis evacuation system would cost much less in peacetime and could perform nearly as well--provided that there was available the week or more needed to execute evacuation plans, that a timely decision was made to activate the plans, and that a number of other essential operations worked well (although not necessarily perfectly). Reasonably effective crisis relocation in some circumstances could result in about the same level of survival as that provided by a far more expensive

blast shelter system. Each of the options was presented to the President with an evaluation of its potential effectiveness and associated costs.

The President then, in Presidential Decision (PD) 41 directed that a new civil defense policy be implemented along the following guidelines:

-- that the United States civil defense program should enhance the survivability of the American people and its leadership in the event of nuclear war, thereby improving the basis for eventual recovery, as well as reducing vulnerability to a major Soviet attack;

-- that the United States civil defense program should enhance deterrence and stability, and contribute to perceptions of the overall U.S./Soviet strategic balance and to crisis stability, and also reduce the possibility that the Soviets could coerce us in times of increased tension;

-- that the policy not suggest any change in the U.S. policy of relying on strategic nuclear forces as the preponderant factor in maintaining deterrence; and,

-- that the program include planning for population relocation during times of international crisis as well as be adaptable to help deal with natural disasters and other peacetime emergencies.

The President's decision does not require a new crash program. Rather, the program will require only a modest increase in resource allocations, and will result in a

gradual enhancement of U.S. civil defense capability. The policy will also require the dual use of scarce resources at all levels of government by taking advantage of the commonalities in planning and response activities to both peacetime and attack emergencies.

As a policy statement, PD-41 did not expressly contain any program details or associated budget decisions. However, the underlying study for PD-41 outlined program options and their associated costs. One option stressed crisis relocation, the civil defense program alternative which the Secretary of Defense had decided to implement starting in FY 1980, subject to policy and budget review.

The President's policy decision supported the Secretary's program recommendation, which was designed to result ultimately in survival of at least two-thirds of the U.S. population in a large-scale, mid-1980's attack, given at least a week in which evacuation plans were executed and other preparations made. Annual costs would average about $230 million in FY's 1980 through 1984 (in FY 1979 dollars).

The FY 1980 request of $108.6 million represents the initial step towards implementing President Carter's policy and Secretary Brown's program decisions, and reflects the constraints affecting most programs for next year. This request constitutes a significant first step, and contains a real program growth of about six percent over the current level

of spending. This funding lays the foundation for developing crisis relocation capabilities at an accelerated pace in FY 1981 and future years.

More specifically, the following program elements will be enhanced in FY 1980: (1) the Host Area Shelter Survey will be intensified, to provide a data base for accelerating crisis relocation planning in FY 1981 and beyond (by identifying buildings suitable for temporary lodging, and those whose inherent fallout protection could be improved substantially by crisis actions); (2) pilot projects will be undertaken to construct austere Emergency Operating Centers with associated communications on a fully federally-funded basis, to provide cost and data for developing an affordable nationwide system of direction and control facilities; and, (3) an aggressive research and development program will be continued to refine the details and costs of a more effective civil defense program emphasizing crisis relocation.

The pace at which the program will be implemented will, of course, depend upon future budget decisions. By using a building block approach, it is feasible to develop and strengthen the relocation capability over a five year, seven year, or longer period of time.

While crisis relocation is a moderate cost approach to population protection, with a large lifesaving potential, it requires much more than paper plans alone. The plans, as

they are developed, must be exercised and understood by the State and local officials who would be responsible to carry them out. There are, in addition, support systems which must also be developed, such as Direction and Control, Communications, Radiological Defense, and Emergency Public Information and Education. These program elements cannot be deferred to the crisis period, since they require a number of years for development.

Current analyses suggest that paper plans alone for relocation, without supporting systems and preparations, would result in about half the total survival potential of a full system--about a 40 percent potential survival in a heavy, mid-1980s attack, rather than the 80 percent survival potential of a full crisis relocation system. Thus, an enhanced civil defense program stressing crisis relocation must include many elements beyond paper plans, and indeed such plans would account for only about 10 percent of the total program cost.

The 90 percent balance of civil defense funds would be required for the supporting systems described above, research, program management, and support of local and State emergency management organizations. The core of this program is the development of strong local, State, and Federal civil defense management capability without which relocation plans could not be effectively executed.

An important point of the President's policy decision is that civil defense capabilities are a factor to be taken into account in assessing the strategic balance. The FY 1980 budget request represents a start on developing capabilities consistent with this policy. Thus, this budget marks a turning point in U.S. civil defense.

Mr. BOLAND. Thank you very much, Mr. Tirana.
Mr. Vickery?

GENERAL STATEMENT: U.S. FIRE ADMINISTRATION

Mr. VICKERY. I guess if I had my fire chief's hat this would be the time to put it on, reporting for the Fire Administration here.

In addition to the prepared remarks, I would like to preface them with a few words.

I don't think most people realize that the present Fire Administration or the study which created the Administration really resulted from the riots in 1967 and 1968. Before and during that time, the police received a good deal of identification through the Kerner report and LEAA funding. At that time, Senator Magnuson became interested and instituted the legislation which resulted in the Commission to study and produce *America Burning*. Just four years ago those suggestions resulted in the United States Fire Administration.

We are only four years old serving some 2 million firefighters and some 2,000 fire departments in the United States in an attempt to supplement and complement what they are doing.

Mr. Chairman and Members of the Committee, I appear before you on behalf of the United States Fire Administration. The United States Fire Administration was created on November 1, 1974, as a result of passage of the Federal Fire Prevention and Control Act of 1974, Public Law 93–498.

This Act, which was signed into law on October 29, 1974, responds to the recommendations contained in the report, *America Burning*. This report, transmitted to the President on May 4, 1973, after nearly two years of intensive hearings and investigations, was completed by the National Commission on Fire Prevention and Control. The Commission was created by the Fire Research and Safety Act of 1968 to recommend a Federal fire program.

Also under this Act, the Secretary of Commerce was authorized to conduct a general fire research and safety program. The agency's name was changed from the National Fire Prevention and Control Administration (NFPCA) on October 5, 1978.

The goal of the USFA is to achieve significant reductions in the Nation's loss of life and property resulting from unwanted fire and to achieve significant reduction in nonfatal human injury due to fire. To achieve these goals, the levels of fire protection in the United States and the cost-effectiveness of public fire services must be improved.

To these ends, the USFA conducts programs in three major areas: education and training, national fire data center, and research and development. The education and training activity contains the National Academy for Fire Prevention and Control, the primary vehicle for upgrading the professional competence of fire services personnel and others, and the public education program. The research and development activity consists of the technology and management research program and the basic research programs of the Fire Research Center at the National Bureau of Standards.

Some of the highlights of Fiscal Year 1980 program changes are that the USFA is requesting a total 1980 decrease of $611,000 and one position below the 1979 appropriation level. Included in this amount is a decrease of $1,112,000 to be transferred to the National Bureau of

Standards for the Fire Research Center, an increase of $469,000 for adjustment-to-base and the general schedule pay raise, and a net increase of $32,000 and one position for program changes. The program changes are as follows:

For the National Fire Academy, this budget reflects a decrease of $358,000 and 4 positions.

For the National Fire Data Center, an increase of $513,000 and 4 positions is requested. This increase will provide technical field support to the increased number of National Fire Incident Reporting System (NFIRS) states, maintaining the 1978 level of service as the system grows toward its leveling off point in 1982. The increase will also help in getting fire data used, not just collected, at State and local levels. The data will be selected, interpreted, and published in ways most suited for State and local decision-makers.

For general administration, this budget reflects a decrease of $123,000 and one position.

Mr. Chairman, this completes my prepared statement. I will be glad to answer any questions you or Members of this Committee may have.

PHASED TRANSITION TO FEMA

Mr. BOLAND. Thank you very much, Mr. Administrator.

I note your statement and the justification indicate that you are transitioning in two phases. The U.S. Fire Administration, the Federal Insurance Administration, and the Federal Emergency Broadcast System will transition into FEMA by March 25, even though April 1 is the target date. The others will transition later, but all transfers will be completed by October 1, 1979, the end of the fiscal year.

Why do you have a phased transition?

Mr. VICKERY. I am speaking here after being in the City three weeks and being confirmed just recently as Administrator and having but brief exposure as Administrator. I might field a question here.

Mr. BOLAND. Any of the witnesses may respond.

Mr. VICKERY. My own personal information and the exposure I have had to that problem is that, although a great deal of planning has gone on, there has been a lack of decision-making for a number of reasons. To bring all five agencies in at one time would probably not be the most efficient way to do it.

We are trying to bring in two agencies, FIA and ourselves, and bring together the necessary support structure. Once that is in place, tested and functioning, then I will make the request that the other agencies be brought into the total FEMA structure.

Mr. Jett might want to expand a little on my explanation.

Mr. JETT. I am George Jett on the President's Reorganization staff.

Our reasoning for phasing it in, sir, basically, is as Mr. Vickery indicated. We are very interested in making sure that the reorganization comes together in a way that leasts disrupts the integrity and operation of these programs.

We do not have an activation plan with the administrative and support structure in place to bring the other agencies in.

So our decision was that would be delaved to leave those programs in the parent agencies where they continue to get support until

the support within FEMA is strong enough to be sure those agencies programs are not disrupted.

Mr. BOLAND. I presume that would be the answer of any of those who are directors and administrators.

CIVIL DEFENSE FUNCTIONS

Let me ask, with respect to Mr. Tirana's area, the Secretary of Defense and the National Security Council will have oversight responsibilities for the civil defense functions of FEMA; is that correct?

Mr. TIRANA. Yes, sir.

Mr. BOLAND. Do you think this will help or hinder the civil defense coordination?

Mr. TIRANA. It depends entirely on the mission given the Federal Emergency Management Agency by the President and the nature and character of the permanent administrator.

I think the Joint Chiefs expressed a position which I share, and indeed so did Evans and Novak, the journalists. This is a reorganization which could well serve national security interests if that is the direction or the will given the organization. It depends a great deal on personal working relationships between the Federal Emergency Management Agency and the Joint Chiefs of Staff and various elements of the military.

One of the predecessors of the Federal Emergency Management Agency, and nothing in this world is new, is the old War Mobilization Board, which operated back in World War II. I was going through a pile of papers and found that President Roosevelt had made his Vice President the Director of the War Mobilization Board, and because of conflict between the Vice President and the Secretary of Commerce, he removed them both and appointed Justice Byrne of South Carolina.

Anyhow, I gather it was one of the most powerful and effective agencies, although only a coordinating agency, that this country ever saw. The President gave it the will and he gave it a person with clout, with the ability to direct other Cabinet members to expend their efforts and funds on national security purposes.

The stature of the Administrator before the eves of the President and other members of the Cabinet and the Joint Chiefs is, in my judgment, going to be the single most important element in determining whether national security objectives will actually be met.

Mr. BOLAND. Does this oversight limit the authority of the Director of FEMA concerning civil defense?

Mr. TIRANA. It should, if it works properly, limit the authority of the Director of FEMA. Civil defense is a worst case scenario, if the bombs start flying. Before you ever get to the point of the bombs flying, there are potential tactical wars in some overseas theater perhaps, conflicts of a conventional nature. There are problems of mobilization for limited wars or scenarios short, in any event, of a general exchange between the Soviet Union and the United States. In other words, there are any number of problems which require planning to place the civilian manpower and industrial resources of the United States on a stand-by basis of support for overall national security objectives.

They get wound up in scenarios other than civil defense. If one doesn't learn to take care of those other scenarios and the lesser crises, certainly civil defense efforts would be meaningless.

Civil defense has to be coordinated with the industrial mobilization and manpower assessments. There is currently a lot of discussion about draft. All of these are problems on which the Department of Defense and the military take a lead and are the drivers. And it would be wrong for civil defense to be the tail wagging that dog.

AUTHORITY OF EMERGENCY MANAGEMENT COUNCIL

Mr. BOLAND. Briefly explain the membership and function of the Emergency Management Council. What specific authority does it have?

Mr. JETT. I will speak to that. I will quickly run through who the President announced the members will be.

They will be the Assistant to the President for National Security Affairs, the Assistant to the President for Intergovernmental Relations, and the Assistant to the President for Domestic Policy. That is Dr. Brzezinski, Jack Watson, and Stuart Eizenstat at this time. The Director of OMB and the Director of the Federal Emergency Management Agency were mentioned as members in the statement Mr. Vickery made. So those would be the five people making up the council.

Its function would be basically one of pulling together resources in the White House at a time when it was felt to be necessary, mainly by the FEMA Director, to focus attention at the Presidential level, in many cases, on issues that could not be resolved through relationships with the departments.

Principally, FEMA will have more coordinating roles over other emergency programs that will actually be housed and continue to be operated under Executive agencies and departments. This Council will be present to oversight how that coordinated process is developed.

The President wants a streamlined process where those programs are better conducted. This Council will be there to back up FEMA in providing that coordination as well as carrying out the emergency functions of the President.

CURRENT LOCATION PLANS

Mr. BOLAND. We all know it is not easy to establish a new Executive agency by bringing together several related offices under one roof. If any agency has proved that, it is the Department of Energy.

Are there any plans to collocate all or part of FEMA either in Washington or in the regions?

Mr. VICKERY. Yes, there are. At the present time GSA has our request for the procurement of space to bring them together. Also, there is a possibility of collecting the new National Fire Academy which we have just purchased at Emmitsburg, and parts of the existing training facilities of DCPA at Battle Creek. We hope to collocate as much of the agencies into one facility as we can.

Mr. BOLAND. You don't know how soon?

Mr. VICKERY. No, sir. May I expand a bit on Mr. Tirana's statement?

Mr. BOLAND. Surely, please feel free.

Mr. VICKERY. I think there are two things that should be mentioned about FEMA and how it will or could function. I don't think there is any question but that we can put together a more efficient organization operating from one central administrative point to serve these individual agencies.

At the present time there are three different agencies serving us; Commerce, HUD, and GSA. There is some proliferation of effort that doesn't always produce the most efficient administrative structure. I think there is no question but that we can more effectively and rapidly perform functions each day in a central structure.

Mr. BOLAND. That is possible. I never really found much fault with the Federal Insurance Administration or Federal Disaster Assistance Administration when they were part of HUD.

Mr. VICKERY. They have indicated to me at times that they would like to have more ability to respond and I think that can occur in one agency. Maybe an answer to Mr. Tirana's statement is that the citizens of America have never really responded very well to the fact that they needed civil defense or that there could be a national war-caused disaster.

As a result, there has been some lack of cooperation or understanding on the part of the public of how Civil Defense functions or whether it is performing efficiently. I am particularly impressed with Mr. Wilcox' 24-hour capability. I have been down there and visited with his organization.

I think what we have to do with this Agency by bringing together the emergency capabilities of these various organizations is mold an ongoing daily ability to deal effectively with natural disasters. There are a great many of these things happening throughout the United States all the time, whether they be floods, hazardous chemical problems, or whatever. If we can provide a mechanism or program through this Agency that dedicates itself to helping the citizens help themselves everyday in some sort of emergency, you will then have prepared them for what may be a national disaster of any kind.

I think this is a concept the citizens will buy and accept better than they have in the past.

PROJECTED COST SAVINGS THROUGH REORGANIZATION

Mr. BOLAND. You make a good point. Let me ask you about the President's message on the reorganization.

He stated that cost savings of between $10 to $15 million annually can be achieved by consolidating the headquarters and regional facilities and staffs as well as through the anticipated elimination by attrition of about 300 positions. That estimate was prepared by the Office of Management and Budget, isn't that correct, George?

Mr. VICKERY. Mr. Jett, I have asked you that same question. Maybe you can give him the same answer.

Mr. BOLAND. OMB did prepare that estimate.

What about it? What does it represent and where will these particular savings be realized?

Mr. JETT. Mr. Chairman, the savings represent the best estimate as to how many positions can be eliminated from the overall work force of these agencies principally through attrition.

The agencies that are coming in have certain attrition histories. We believe that as people leave the Agency for retirement or to seek other employment, we will find that many positions do not have to be filled because people coming into FEMA from the other transferring agencies will have that expertise in hand. We will be able to consolidate functions and responsibilities under the staff people that remain in the agency.

There is some duplication in emergency planning programs, for instance. There is some duplication in many of the support areas of the Agency.

So as attrition occurs—and the President promised people will not be losing their jobs—but as attrition occurs, we believe that we can turn most of those spaces back in.

Mr. BOLAND. When did OMB target these savings; 1982, 1981?

Mr. JETT. Mr. Chairman, I believe it is targeted for about a 2-year period.

Mr. BOLAND. Can the estimated savings be realized if the headquarters staffs are not collocated?

Mr. JETT. I am not able to estimate the impact of that. My guess would be that they would be able to be realized whether collocation occurs or not, but I am sure it would facilitate it.

Mr. BOLAND. Assuming no mission changes within the components, will the 1981 FEMA budget reflect fewer positions as a result of the consolidation? Your answer is going to be yes, isn't it?

You know our concern is too often the savings and benefits advertised as reasons for consolidating programs or establishing new agencies are never really realized. We will monitor this situation rather closely so the estimated savings that OMB has targeted will really come to fruition.

FUTURE CIVIL DEFENSE PLANS

In hearings before the Treasury, Postal Service and General Government Appropriations Subcommittee last year, you addressed future Civil Defense plans. I will quote your statement:

"I might add that that the Department of Defense has decided to implement, starting in Fiscal Year 1980, a Civil Defense program emphasizing crisis relocation, designed to result ultimately in survival of perhaps two-thirds of the United States population, given at least a week's warning of impending attack. Annual costs would average about $230 million in Fiscal Year 1980 through 1984 in constant Fiscal Year 1979 dollars."

Is it correct that the National Security Council prepared recommendations to the President based on the Civil Defense memorandum initiated by the Secretary of Defense?

What were the recommendations?

What was the President's decision?

How does the Civil Defense portion of the FEMA budget compare with your comments last year, Mr. Tirana?

Mr. TIRANA. In substance, yes. The President's decision was essentially a policy statement. As a policy statement, it did not contain any details. However, the underlying study outlined program options and their costs.

One was a Civil Defense alternative, which the Secretary of Defense has decided to implement starting in 1980. Subject to policy and budget review, the President supported the recommendation, which is the same recommendation upon which I testified last year.

So, yes, the $108 million requested for Fiscal Year 1980 represents the first year of a five-year period which would average $230 million per year.

Mr. BOLAND. Is it not true that the 1980 budget for Civil Defense would have to be in the range of $140 million or considerably more than requested to support the phased emphasis on crisis relocation?

Mr. TIRANA. The program decision of the Secretary contemplated roughly $140 million for the first year's level of effort. It was reduced because of tight fiscal restraints affecting most programs for fiscal 1980. The request of $108 million constitutes a significant first step and contains a real program growth of about 6 percent over the current level of spending, but still is less than the amount originally contemplated. This would mean more funds would have to be spent in the out years.

CURRENT CIVIL DEFENSE EFFORTS

Mr. BOLAND. With reference to another statement you made last year, and I quote:

"I would rate the effectiveness of the United States Civil Defense program very low. We do not have an effective Civil Defense program . . . in the event of a large scale nuclear attack, our best estimate is that perhaps 10 million lives would be saved by virtue of Civil Defense efforts of the past 27 years."

Although, our current Civil Defense efforts would save only 10 million lives, the new plan estimates two-thirds of the population, or roughly 145–150 million people, could be saved. However, the new plan calls for about $140 million in 1980. I just do not see how the 1980 request is going to get us to the desired result. It appears to be just business as usual, would you agree?

Mr. TIRANA. I agree with it. Even if the Congress appropriated $140 million as was authorized by the House of Representatives for fiscal 1979, that could not get us anyplace either unless the Congress is presently prepared to see the program through to completion. In my judgment, it does not make any sense to spend even the $108 million. One has to do what would amount to approximately a 5-, 6-, or 7-year level of effort, depending on how fast you want to spend money, until you get a completed program that could be effective against a scenario of Soviet evacuation of population.

Mr. BOLAND. We will turn to page 14 of the justification. The 1980 request is $139,121,000, which is $9,373,000, or 7.2 percent, greater than the comparable 1979 amount. Basically, this appropriation includes the former operation and maintenance and research, shelter survey and marking accounts from the Defense Civil Preparedness

Agency, and the salaries and expenses account from the Federal Preparedness Agency, correct?

Mr. TIRANA. That is my understanding.

STATE AND LOCAL MANAGEMENT PROGRAM

Mr. BOLAND. The State and Local Management program description begins on page 22. The 1980 request is $37,100,000, which is an increase of $2,100,000 over 1979. These funds are provided to be matched on a 50–50 basis by the States and local governments; that is correct, is it not?

Mr. TIRANA. Yes.

Mr. BOLAND. Do any of the States provide more than a 50-percent matching grant?

Mr. TIRANA. I think it is necessary for me to comment on how this money is really used.

I have viewed it as the price of admission of the Federal Government into State and local manpower and equipment resources. State and local governments put up a match of 50 percent in theory for attack planning.

In reality, the funds go to what I call total or all-risk contingency planning, so for example, your civil defense unit in Springfield would plan for crises other than attack. In fact they put little of their effort on nuclear attack, because that is not where local priorities are. However, in reality you have far more resources made available than the Federal share.

To use New York City, for another example, approximately $700,000 or $800,000 of this money is channeled through the New York City police and other agencies in the City of New York. There is an enormous wealth of manpower and equipment available for planning purposes. Now what percent of that is really available and has really been integrated into attack planning, I do not know; knowing New York City, I think very little.

So, it is hard to give you an honest answer.

Mr. BOLAND. Will you, for the record, provide the distribution formula to the States and provide a table showing State allocations for 1978 and 1979. Also please provide a detailed list of what you propose in 1980.

DISTRIBUTION FORMULA USED TO DETERMINE
STATE ALLOCATION

(1) There shall be established a basic amount which shall be the same for each State: $25,000.

(2) An additional amount shall be calculated for each State by applying the following percentage formula to the total sum in the appropriation request less the total of the basic amounts established for the States:

(a) One-third weight is given to the risk areas, which is measured by the ratio of the risk area population of the State to the national total of such population. (See TR-82, "High Risk Areas.")

(b) Two-ninths weight is given to the criticality of host areas, which is measured by the ratio of the host area population of the State to the national total of such population.

(c) One-ninth weight is given to population, which is measured by the ratio of the total State population to the national population.

(d) One-third weight to State of Development as follows:

One-sixth weight is given to an NCP complexity factor. It is the ratio of the complexity rating of each State to sum of the ratings for all States.

One-sixth weight to status of complexity in each State of: Shelter Plans, Direction and Control, Warning, RADEF, Emergency Public Information, and Emergency Services expressed as percent of completion, times the population ratio.

The Director, DCPA, will review and evaluate requests giving due regard to the following factors:

(1) The ability of the State and its political subdivisions to efficiently expend such an amount for civil defense personnel and administrative purposes.

(2) Special circumstances existing in the State at the time of allocation which require unusual expenditures for civil defense.

(3) Conditions peculiar to the State which make strict application of mathematical formula inequitable either to that State or other States.

(4) The relative cost of civil defense personnel and administative services in that State, that is, whether such costs are considerably above or below the national average for similar services and expenses.

(5) Substantial changes in the civil defense readiness of the State not reflected by its recent civil defense expenditures.

(6) Any situation where allocation to the State of an amount approximately equivalent to the basic amount would be disproportionate because the State is sparsely populated.

Personnel and Administrative Expenses

AREA	Final FY 1978 P&A Allocation	Initial FY 1979 P&A Allocation	Estimated FY 1980 P&A Allocation
TOTAL	31,600,000	35,000,000	37,100,000
REGION 1	6,506,321	7,240,143	7,679,093
Connecticut	462,000	513,602	544,740
Maine	417,439	444,356	471,296
Massachusetts	774,560	855,720	907,600
New Hampshire	87,649	104,113	110,425
New Jersey	965,000	1,071,061	1,135,997
New York	2,808,043	3,181,743	3,374,643
Rhode Island	224,962	244,096	258,895
Vermont	141,398	155,448	164,872
Puerto Rico	556,670	596,939	633,130
Virgin Islands	68,600	73,065	77,495
REGION 2	3,157,719	3,517,002	3,730,228
Delaware	127,621	142,466	151,103
Dist. of Columbia	182,492	194,269	206,047
Maryland	672,458	738,193	782,948
Pennsylvania	1,298,545	1,439,753	1,527,041
Virginia	670,385	749,677	795,128
West Virginia	206,218	252,644	267,961
REGION 3	5,779,102	6,262,965	6,642,672
Alabama	747,332	815,107	864,525
Florida	1,100,921	1,198,398	1,271,054
Georgia	945,532	1,029,956	1,092,399
Kentucky	447,948	490,155	519,872
Mississippi	465,332	514,419	545,607
North Carolina	875,609	954,160	1,012,008
South Carolina	621,010	632,000	670,316
Tennessee	575,418	628,770	666,891
REGION 4	5,007,422	5,650,042	5,992,589
Illinois	1,118,815	1,210,000	1,283,359
Indiana	429,791	500,000	530,314
Michigan	958,880	1,070,000	1,134,871
Minnesota	1,107,690	1,200,000	1,272,753
Ohio	598,116	770,000	816,683
Wisconsin	794,130	900,042	954,609
REGION 5	2,674,992	2,992,500	3,173,927
Arkansas	483,034	525,000	556,829
Louisiana	603,315	687,500	729,181
New Mexico	128,373	140,000	148,488
Oklahoma	492,197	550,000	583,345
Texas	968,073	1,090,000	1,156,084
REGION 6	2,972,265	3,222,214	3,417,568
Colorado	330,000	351,285	372,582
Iowa	421,725	459,804	487,681
Kansas	371,935	412,845	437,875
Missouri	490,700	539,769	572,494
Montana	261,150	280,837	297,863
Nebraska	307,450	333,759	353,994
North Dakota	222,695	238,344	252,794
South Dakota	254,500	268,570	284,853
Utah	206,810	223,959	237,537
Wyoming	105,300	113,042	119,895
REGION 7	4,100,833	4,572,301	4,827,552
Arizona	397,459	438,704	465,302
California	2,983,250	3,308,276	3,486,893
Hawaii	424,928	455,321	482,926
Nevada	270,574	290,800	308,430
American Samoa	0	15,000	15,909
Guam	24,622	49,200	52,183
Northern Mariana Is.	0	15,000	15,909
REGION 8	1,401,346	1,542,833	1,636,371
Alaska	290,752	297,420	315,452
Idaho	154,144	187,842	199,230
Oregon	359,936	398,966	423,154
Washington	596,514	658,605	698,535

OCPA Form 277, Sep 78 Replaces OCPA Form 277, 1 Jan 76, which will NOT be used.

REGIONAL AREA WORKSHEET

Mr. BOLAND. You have indicated that some of these funds are retained by the States to support local programs. That is correct, is it not?

Mr. TIRANA. Yes, that is principally what they are used for. It works out pretty well for the Federal Government because we get manpower and equipment.

Mr. BOLAND. Do you exercise any limitation on the use of funds?

Mr. TIRANA. In theory, yes; in reality, not much.

Mr. BOLAND. How about auditing? Do you audit the use of the funds?

Mr. TIRANA. Yes, but under the guidelines that I have indicated, the dual-use approach to the funds, virtually anything is approvable that is contingency planning and strengthens local emergency response capability and is not simply used to cover day-to-day expenses. So local government has to be idiotic to be unable to find a way to use the money legally.

EFFECT OF INFLATION ON FY 1980 BUDGET

Mr. BOLAND. On page 23, the last paragraph, I find this statement: "Funds requested for Fiscal Year 1980 provide for the expanded staffing funded in Fiscal Year 1979, plus an estimated 6 percent for price growth."

With inflation running considerably above 6 percent, will this have an effect of reducing the programs, or will it require the States to provide more support?

Mr. TIRANA. This does shrink the amount of real dollars available for matching funds for the States.

Mrs. BOGGS [presiding]. I do want to say on my own behalf how pleased I am on the formation of this Agency and the involvement of all the persons at this table. I want to thank you, all of you, for the tremendous help you have given to my own Congressional district and my State in the emergencies that we have to endure.

FEMA ACTIONS IN NEW ORLEANS CRISIS

It is particularly interesting to me to have you here today, March 22, because the Mississippi River crested at Carrollton Avenue at 22 feet as it was predicted it would do several weeks ago, which means it is unusually high for this time of year. I am very anxious to know if all of you who are due to be on-board by April 1 will indeed be coordinated sufficiently by that time?

I am especially thankful for the involvement of Mrs. Jimenez and Mr. Wilcox in the flooding we had in our area last year. The Office of Civil Defense, as is true in most areas of national disasters, is very well organized, and I hope could gear itself to being helpful in sudden disasters, particularly in the area of flooding which we usually have not had to endure in the last 50 years because of the warning systems.

We have not had to try to organize as quickly on such an emergency basis as we did last spring. I am hoping that you are going to bring into your work the services rendered by volunteer agencies throughout the community, as well. Is this what you expect to do?

Mr. VICKERY. We are making a concerted effort.

Mrs. BOGGS. Before I go back to the questioning, there was one thing I was curious about. Yesterday in my other subcommittee, we had an emergency meeting with the Nuclear Regulatory Commissioners. I notice that earthquake hazard responsibilities have been placed under FEMA. I think they were transferred from the Office of Science and Technology.

The reason for the emergency meeting was the closing of a nuclear power plant because of the possibility of earthquake hazards to some of the equipment they felt was not properly installed.

Will there be any coordination with the Nuclear Regulatory Commission and these other agencies which deal with hazards?

Mr. VICKERY. That is one of the functions that transfers next month. Again I will refer to Mr. George Jett, who is on the PRP.

Mr. JETT. FEMA's earthquake hazards reduction responsibility will be one of coordination. The Earthquake Hazard Reduction Act authorizes programs which are operational; FEMA will not have an operational role but one of coordination and oversight. That would involve the Nuclear Regulatory Commission, Interior, and others.

Actually there are about three dozen Federal agencies which have emergency operational programs of one form or another. To bring all those together in FEMA would have created another bureaucracy. They are very well located where they are in most cases. FEMA's role will be to help them work together in a coordinated involvement.

Ms. JIMENEZ. That is going to be in my division of FEMA, as well as overall hazard mitigation, so we will be concerned with other agencies and what they are doing in building and financing construction and discouraging building in hazardous areas.

Mr. WILCOX. One of the approximately 20 different kinds of natural disasters listed in the legislation administered by the National Disaster Assistance Administration is earthquakes. If and when an earthquake occurs which is beyond the ability of the State and local government to respond to, a declaration may be requested from the President. I think you would be interested to know that in our budget, we have $30,000 allocated for a survey of earthquake potential in the Hawaiian Islands in fiscal 1980.

In fiscal 1979, we have provided a similar amount in coordination with the President's Office of Science and Technology for another highly earthquake prone area, namely Alaska. In both those cases, consistent with the comment I made earlier, we are looking to the State to provide leadership, and the State is providing priorities, and we are providing technical assistance and money.

Mrs. BOGGS. Thank you. I was concerned about the coordination with the Nuclear Regulatory Commission, not only as to where the plant should be located and what the regulations should be concerning safety measures, but also if there was any real coordination in relief and emergency help if any difficulties did occur at any of these plants.

Mr. WILCOX. The studies we are funding in fiscal 1979 and 1980, will provide a continuing plan beyond that date, and certainly will provide a more sound informational base.

Mr. VICKERY. I think your remarks serve to emphasize that if FEMA operates in the way it is envisioned it will provide an additional measure of cooperation.

Mrs. BOGGS. Thank you very much. It gives me great confidence, Madam Administrator, that you will have these new responsibilities.

EMERGENCY OPERATIONS PILOT PROJECTS

On page 43, $4,000,000 is requested in 1980 for Emergency Operations Pilot Projects. The funds are intended to construct about thirty 2,000-square-foot facilities. How does this program relate to the increased emphasis on relocation?

Page 40 indicates that nuclear civil protection planning will not be completed until Fiscal Year 1985 at present funding levels. Does it not make sense to complete the planning before building the prototype facilities?

Mr. TIRANA. The prototype facilities relate to command control and communications when and if the bombs start falling. At the present time, there are about 140 million Americans in what have been designated as risk areas or areas that have a likelihood of being targeted. Take, for instance, New Orleans. There are good communications, and the police, mayor, and Governor in Baton Rouge would be able to command and control the movements of the State and municipalities and communicate with the public at large, but they do so out of their offices and office buildings which are right in the middle of high-risk areas. The moment the bombs fly, those operating centers get vaporized. So one needs emergency operating centers in locations where they are likely not to be targeted, and in sufficient numbers that they would survive any targeting.

You have to figure out how to do them cheaply. When you get them away from potential target areas they must be located in areas not as useful to the larger cities and State government. Therefore, local and State governments do not want to foot the bill. Therefore, Uncle Sam has to figure out a cheap facility which has a good protection factor against fallout, low maintenance; a dual-use facility so that State and local government can take over the operating expense.

Mrs. BOGGS. Is this $4 million part of the real growth reflected in the Defense Civil Preparedness part of the budget?

Mr. TIRANA. In small measure, what I did was take away from another account which we use to match funds for communication equipment, called the "supporting materials match." The police and fire departments would put up 50 percent and we would put up 50 percent and buy a siren which would be used for generally peacetime purposes. I wiped that program out. That was $3.5 million, and instead we put this $4 million program in.

Mr. BOLAND. What about the Emergency Operation Pilot Projects? I understand they are to be 100-percent Federally funded. Why should not the States contribute here?

Mr. TIRANA. The location and principal utility would not ideally serve local and State needs in peacetime. Therefore, local and State governments would not pay for them.

If we want a reliable system, we, the Federal Government, are going to have to pay for it.

Mr. BOLAND. What about this effort in future years? Do you foresee the Federal Government building thousands of these facilities across the Nation?

Mr. TIRANA. Not thousands. A number of facilities will be adequate for command and control purposes, and for continuity of State and local government, and which would be too many for the Soviet Union to target.

Back in the late 1950s or early 1960s, we founded a system of 10 regional centers. Six have been constructed underground. One is at Maynard, Massachusetts. But there are so few that if they have any value, the Soviet Union can easily target them and wipe them out.

If, on the other hand, they have no value, there is no purpose in keeping them. What we need is a large enough number which would cost the Soviet Union too much to wipe them out.

CONTINUITY OF GOVERNMENT DURING NUCLEAR ATTACK

Mr. BOLAND. On page 48 is included the function of scheduling and monitoring exercises to test continuity of government in the event of a nuclear attack.

How often are these tests conducted and what do they really involve?

Mr. MITCHELL. This is probably a question that would be directed to FPA.

This year, for example, in the realm of tests and exercises, we have had a national exercise put on both by the Department of Defense and the civil side of the government which FPA coordinated called Nifty Nugget. This was an exercise to test the U.S. capability to mobilize in a crisis.

As I mentioned earlier, we are constantly testing communications networks in the facilities that FPA has. We are testing the viability of the sites we currently operate in terms of their reasonability for use in emergency. As a result of this exercise, which I mentioned in my opening statement earlier, the President has asked the FPA to thoroughly review the entire system currently known as the National Arc, which is basically a plan for maintaining the national government, and all branches of government in a national emergency.

We are looking at alternatives to today's planning, which is very much as Mr. Tirana mentioned, that the reliance on fixed sites may be unrealistic today based on what we know about other nations being able to target sites in the United States. In this respect we are examining the options that would be cost-effective and efficient on which the government could operate in an emergency.

WESTERN VIRGINIA OPERATIONS OFFICE

Mr. BOLAND. Could you indicate what portion of the $8,226,000 is used for the Western Virginia operation office, or is that a classified figure?

Mr. MITCHELL. About $7 million is required annually to operate that facility out of the total continuity of government budget.

PROTECTION IN PLACE VERSUS RELOCATION PROTECTION

Mr. BOLAND. On page 52, the third paragraph, why is it still necessary to perform research on the tradeoffs of protection in place versus relocation protection after 27 years of existence?

Mr. TIRANA. The technology has changed rather substantially. Back in the time of the Cuban missile crisis, the Soviet Union had just for the first time developed a missile capability that could reach out into Gulf Coast cities. They did not have too much in weapons, and those they had were not MIRVed. Today they have numerous effective missile systems, the accuracy has been increased, the destructive power of the weapons has been increased.

Mr. BOLAND. Well, those are good answers.

What portion of this total research is contracted?

Mr. TIRANA. Most of it—all of it.

Mr. BOLAND. Will you provide for the record, detailed justification for the $13,488,000 for the Federal level communications request?

[The information follows:]

The $13,480,000 request will provide funds for the Interagency Communications System (ICS) which is a survivable communications systems in support of the Federal Preparedness Agency's (FPA) Continuity of Government Program. Included in this system are communications networks connecting the FPA Special Facility with the emergency headquarters of specific departments and agencies; the U.S. Government Mobile Radiotelephone Systems (MRS) which serves Presidential Successors and others; and facilities which support the activation and deactivation of the National Level Emergency Broadcast System (EBS).

LOCAL CIVIL DEFENSE TRAINING LEVEL

Mrs. BOGGS (presiding). Mr. Tirana, you stressed the importance of training during your hearings on the 1979 budget. If it is so important, how do you explain the very low percentages of local Civil Defense personnel trained?

Mr. TIRANA. It is very simple: we have not spent very much money on this. There is no other explanation. On the relationship between training and the Agency's budget, when one talks of protection of people and property at the local level—flood, snowstorm, I do not care what the emergency—Washington is an awfully long way away, and if it sends help at all, it comes too late. The local guys are the first on the scene. They are the ones who need to be trained to implement any Federal program.

But of the total Civil Defense Preparedness budget, very little has been under my control. We have matching funds of approximately $40 million which are viewed by the State and local governments as their share of the pie, and that is sort of an inviolate spot we do not touch. Then we have our own overhead which we do not want to touch.

Then we have been trying to figure out what kind of civil defense program could be effective, so we had to do the research and development, and that has left little to do anything else. So what we have done has not strengthened any capability anywhere, other than to form a fairly concrete idea of where the Nation could go if the Congress were to see fit.

At the moment, we have the capability, if we decide to develop it in terms of attack preparedness, to do a certain amount of training on the State and local level. If the Congress feels, however, it would not be wise to launch a program such as contemplated in H.R. 2704, then you are focusing your efforts on oil spills and things of that nature.

Mrs. BOGGS. Has the Agency requested more training funds than OMB has allowed?

Mr. TIRANA. Let me see if I can answer the question another way, because I do not think I am supposed to say what anyone requested of OMB.

Mrs. BOGGS. We ask that question all the time.

Mr. TIRANA. I think the rules for elements of the Department of Defense may be different, but I think I can give you the basic information.

If we had received or were requesting in the area of $140 million as contemplated by the program decision of the Secretary of Defense, there would have been a substantial increase in training funds.

Mrs. BOGGS. Thank you very much.

CITIZEN EMERGENCY INFORMATION

The Citizen Emergency Information budget is increasing four-fold in 1980, to $1,104,000.

Why was the 1979 effort only slightly more than half the 1978 program?

Mr. TIRANA. The year 1979, that is fiscal 1979, was a holding pattern. We did not have a mission. The general view toward my agency was that a lot of people wished it did not exist, because it was basically an embarrassment. We were not being asked to equate the protection of life with the cost of that protection. It was just that we had a civil defense program and were supposed to be carrying out the requirements of the Civil Defense Act, which we were not.

While the policy decisions were being made, we were in essence being left in a holding pattern. We could go neither backwards, forward, nor in any new direction. The holding pattern meant we would have in essence expended the same level as we had in the past, accomplishing little.

What I did with the increase was to spend the money on, for instance, a film on tornados, and basically putting out peacetime information because that was useful on a current basis. But I was not really doing anything in the way of long-term objectives.

Mrs. BOGGS. And the program has now quadrupled?

Mr. TIRANA. Yes, which is probably far too little. Civil defense is a peculiar animal. Any emergency preparedness is a peculiar animal because it depends on human behavior, and human behavior is a very hard thing to predict. It is likely to come about only because of human understanding. To try to get 210 or 215 or 220 million people to understand what emergencies are and what one should do about them, and to prepare material for use in emergencies when one does not know what the emergency is going to be, is a little difficult. It is a difficult

area to analyze, and an area to which a great deal of resources ought to go.

HAZARD MITIGATION AND DISASTER ASSISTANCE

Mr. BOLAND. We will turn to Hazard Mitigation and Disaster Assistance, page 83. Why do you need $500 for official reception and representation expenses?

Mr. THOMPSON. A review of other agencies' budgets indictated that it is customary for heads of agencies to be allowed some funds for these purposes. The amount was established by OMB as being an average amount that similar agencies had in their budgets. At one time, DCPA's predecessor had this item in its budget; the Secretary of Defense has a fund which is available to DCPA when necessary. I thing most agencies have it.

Mr. TIRANA. When I was over in Rome at the NATO-Civil Defense Conference, I think I took some of our NATO counterparts to dinner once. People come to the Department of Defense and you take them to lunch, et cetera.

FIRE ADMINISTRATION APPROPRIATION LANGUAGE

Mr. BOLAND. Why does the appropriation language contain specific mention of funding for the Fire Administration?

Mr. THOMPSON. There was a concern on the part of the Fire Administration that their funds might be reprogrammed into other elements of FEMA. They had a strong desire to have a separate appropriation for their program. This was a way of accommodating that desire without having a separate appropriation.

Mr. BOLAND. Is there any reason why the Fire Administration should have a separate appropriation?

Mr. VICKEREY. Perhaps George Jett would like to address this.

Mr. BOLAND. I do not know why this is specifically detailed in the appropriation language while others are not.

Mr. JETT. Actually, the reason is as Mr. Thompson stated, there was a high concern in the OMB and in the constituency groups that represent the fire services nationwide, that in bringing together these accounts in the President's budget, the money appropriated for the fire prevention authorities be set aside for those programs. Actually, the situation is that moneys appropriated are based on an authorization and are to be used for that portion in any event. But it was felt, in lieu of providing a separate appropriation, that a statement in the appropriation language setting forth a minimum for the fire account would be the best way to handle that. That is the way the OMB decided to structure the appropriations.

COMMUNITY PREPAREDNESS SERVICES

Mr. BOLAND. On page 90, on Community Preparedness Services, the figures at the top of that page are somewhat confusing. If you look at the 1979 budget authority, it is listed as $1 million, but right under it, the projected obligations are $300,000. In 1980, the reverse is true. The budget authority is $300,000 and the projected obligation is for $1 million. What accounts for that?

Mr. THOMPSON. This money is being transferred from a no-year account in NOAA; $1 million will be transferred to FEMA for 1979 with the understanding that we probably will not spend that actual amount in 1979. There are 21 vacant positions that are being transferred from NOAA to FEMA. We estimated at the time the budget was being made up that we would spend about $300,000 in FY 1979 for new hires and carry over $700,000 into 1980. Therefore, the request for 1980 is only $300,000.

NATIONAL FIRE DATA CENTER

Mr. BOLAND. On page 99, the Fire Data System has shown remarkable program growth in the past 2 years. For the record, provide workload statistics that support these increases.

[The information follows:]

RESPONSE FROM DATA CENTER, HOUSE APPROPRIATION COMMITTEE, FY 1980 BUDGET HEARING

The National Fire Data Center has indeed made great progress in the past 2 years. We have gone from zero states participating in our key program, the National Fire Incident Reporting System (NFIRS), in 1975, to 19 in 1977, 22 in 1978, 30 in 1979, and a planned 37 by the end of FY 1980. This growth in voluntary participation required a concomitant growth in technical assistance to the states, computer time, analysis time, and feedback reports to state and local governments. The product has been a growth in the national fire data base, a major expansion in our knowledge of the U.S. fire problem at all levels of government, and a nationwide system of compatible state and local fire data systems.

It takes about two to three years from the time we give a state a start-up grant until it produces its first full year of data. We had data from 2 states for FY 1976, 8 states for FY 1977 and an expected 14 for FY 1978, and 18 in FY 1979. Our data base in terms of numbers of fires has increased from 1 million in 1978 to 1.6 million in 1979, and is expected to double by 1980. This larger data base will be used to produce about 100 computer reports per month in 1980 versus 60 in 1978; each report in 1980 will, on the average, be more extensive than in 1978 because of the increased scope of the data base.

In the past year, after getting NFIRS launched, in a significant number of states, we have initiated a major quality control effort to help state and local governments improve the validity of their data. We are going from zero communities with improved quality control procedures in 1980 to 540 being served per year in FY 1980.

In the past year we also have developed the first NFIRS Student Manual for firefighters on how to collect NFIRS information at each fire, and have totally revised and extended the NFIRS software package at the request of the participating states.

Also in the past two years we have started an in-depth investigation program, leveraging funds from the Consumer Product Safety Commission (200 investigations for fires related to thermal insulation) and from HUD (600 investigations of mobile home fires).

We have also in this past two years completed the first major analysis of the fire problem in the U.S., and distributed the summary of it to the Congress, all fire departments in the U.S., and many others. We will have completed the second, third, and fourth report on Fire in the U.S. by 1980. These analyses are based on the National Fire Incident Reporting System and data from other, existing public and private sources such as the National Fire Protection Association's annual fire loss survey, and the HEW Center for Public Health Statistics Death Certificate Data.

Many research and analysis projects started in our first years of existence have come to fruition in the last two. We are packaging this information in a readable, easily accessible form for local governments to use, so that the research does not get wasted.

Mr. BOLAND. Also provide a list of States which have joined the National Fire Incident Reporting System (NFIRS). What is the total grant assistance provided under the NFIRS? Please supply the information for the record.

[The information follows:]

The 30 states which have joined NFIRS as of 4/1/79 are as follows:

Alaska	New Hampshire
Arizona	New Jersey
California	New York
Delaware	North Carolina
Georgia	Ohio
Illinois	Oregon
Iowa	Rhode Island
Maine	South Dakota
Maryland	Tennessee
Massachusetts	Utah
Michigan	Virginia
Minnesota	Washington
Missouri	West Virginia
Montana	Wisconsin
Nevada	Wyoming

The total grant assistance provided each participating state averages $20,000 the first year, $10,000 the second and none thereafter. The states provide the majority of funds for running their own systems, even in the first year. The total amount of funds available for grants to new states has fluctuated from year to year. Funds for eight states were available for FY 1979; funds for seven are requested for FY 1980. Funds for second year grants for 3 states were available in FY 1979; second year funds for the eight states started in 1979 are requested for FY 1980. The totals are $180,000 in 1979 and $220,000 in FY 1980.

Mr. VICKERY. There are 30 States that will be in by the end of the year.

Mr. BOLAND. The Center has been in existence for how long?

Mr. VICKERY. October, 1974.

Mr. BOLAND. Provide the total amount of funding made available to the Center. Also, for the record, provide information which justifies that expenditure.

[The information follows:]

Total funding available to the National Fire Data Center from its inception has been as follows:

1975	$200,000
1976	1,138,000
1977	1,638,000
1978	2,213,000
1979	3,295,000
Total	8,484,000

Some of the major uses of these funds have been described in the previous two questions.

The General Accounting Office, in its performance audit of the U.S. Fire Administration in 1978, reported that the Data Center *was* being *effective* and that its program should be *increased* in the future to provide the information needed to decide on the priority of fire versus other national problems, and to allocate funds within fire, and to assess progress over time. The Department of Commerce Audit Office also audited the Data Center and recommended in 1978 that technical assistance to the states for NFIRS be expanded. OMB also scrutinized the Data Center Budget for FY 1980, and felt that the proposed increase in the budget was necessary to provide information for making program decisions.

We are very proud of this support for the Data Center's program from these three "watch dog" groups in two branches of government.

Mr. BOLAND. How many positions are devoted to the Research and Development program?

Mr. RITA. There are 14 positions associated with the research line item in the Fire Administration and approximately 100 positions that are funded at the Bureau of Standards with money we pass on through our appropriation.

Mr. BOLAND. What portion of the research is contracted?

Mr. RITA. About 80 percent.

NATIONAL FIRE ACADEMY

Mr. BOLAND. Turn to the Fire Academy justifications on page 107. This issue has become extremely complex, but I will try to summarize it briefly for the record.

The Federal Fire Prevention and Control Act of 1974 (Public Law 93–498) directed the Secretary of Commerce to establish, at the earliest practicable date, a National Academy for Fire Prevention and Control. Pursuant to Section 7 of that Act, a three-member Site Selection Board was established in January 1976, to make a recommendation to the Secretary of Commerce for the selection of a site for the Academy.

In July 1976, the Board recommended the former Marjorie Webster Junior College in the District of Columbia as its choice, and gave an alternative choice of the St. Joseph College facility in Emmitsburg, Maryland. These were the only two locations recommended by the Board of the more than 200 sites which had been reviewed.

The recommendation of the Site Selection Board was approved by then Secretary of Commerce Elliot Richardson in August 1976. Purchase and renovation design funds were appropriated by the Congress, and the property was purchased in May 1977, for $2.6 million.

The Department of Commerce submitted a Fiscal Year 1978 supplemental budget request to the Office of Management and Budget for $6.43 million to renovate and rehabilitate the Marjorie Webster site as the permanent location for the Academy. It also requested that the Academy only be housed at the site, with the rest of the U.S. Fire Administration remaining at its present location.

The Office of Management and Budget did not submit a request for funds to the Congress in either 1978 or 1979 for renovation or operation of the Fire Academy facility. However, the Second Supplemental Appropriations Act, 1978, provided $6.5 million for acquisition, construction, and/or rehabilitation of a site for the National Fire Academy, with direction that the Fire Administration not use the Marjorie Webster site but expedite acquisition of a new site. Further, it authorized the Administrator to sell the former Marjorie Webster facility and apply the proceeds to the limit of $9 million authorized for the Academy site.

In January 1979, the Fire Administration announced the selection of St. Joseph College in Emmitsburg, Maryland, as the new site for the Academy.

Has the Fire Administration purchased the Emmitsburg site yet? What is the purchase price?

Has the Fire Administration had any parties express serious interest in the property?

What is the asking price for the property? Do you estimate the Government will receive at least the $2.6 million paid for it?

Mr. MORELAND. We have completed a contract to purchase the St. Joseph's College and our present plan is to go to settlement tomorrow morning for a purchase price of $3.5 million for the physical facilities.

The plan calls for our ability to both purchase the site and rehabilitate it with the funds appropriated.

Mr. BOLAND. What about the Marjorie Webster site? Has there been any interest expressed in that property?

Mr. MORELAND. Yes, Mr. Chairman.

Mr. BOLAND. What is your asking price?

Mr. MORELAND. We have no specific asking price; our desire is to recoup our investment in it. The issue that is pending is a condition for our selling. It is to get a final determination as to whether our agency is bound by the limitation of the Federal Property Disposal Act. It is our opinion as an agency, we are not subject to the application of that Act. We have an informal opinion by the Comptroller General that is the case, and we are submitting it for a formal written decision. If we are exempt, we will be free to dispose of the plot to a private investor.

Mr. BOLAND. Did the Site Selection Board indicate those two sites?

Mr. MORELAND. Yes, they determined either Emmitsburg or Marjorie Webster would be suitable. They took Marjorie Webster for three reasons: First, the Agency at that time wanted to collocate all the Fire Administration at the same facility site; second, the Emmitsburg facility would not give up all the buildings that were a part of the campus—they wanted to retain about two of them to use in conjunction with the Mother Seton Shrine; and third, we were concerned that the commingling of tourists would be disruptive.

None of those now pertain and members of the Site Selection Board have now said they would select Emmitsburg.

Mr. BOLAND. If the Department would not want to go to Emmitsburg, would they still have to go?

Mr. MORELAND. No, they would not.

Mr. BOLAND. Was any effort made to survey some of the Federal installations?

Mr. MORELAND. Yes. There was a broad national solicitation of excess Federal property conducted in close liaison with the Department of Defense. States and local communities were all represented in the approximately 220 sites that were reviewed.

Mr. BOLAND. I am not familiar with the 220 proposals that were submitted, but it is difficult for me to understand why some Federally owned property cannot be selected instead of going out and selecting property the Government does not own. It occurs to me, there must have been some sites owned by the Federal Government which could have been utilized for the Academy.

Mr. MORELAND. The answer to that is, it is possible they could have selected such a site. The question that would remain, given all the considerations the Board had, was whether such a site could be suitably rehabilitated within the $9 million which was the Statutory limit for an Academy.

PROPOSED ACADEMY CLASS SCHEDULE

Mr. BOLAND. During hearings before the State, Justice, Commerce, Judiciary Appropriations Subcommittee last June, Mr. Lucht, the Deputy Administrator, stated classes were scheduled to begin September 1980, at the Marjorie Webster site. The original schedule had been October, 1979.

What is your target for starting classes at Emmitsburg?

Mr. MORELAND. January 1, 1980. The schedule there is allowed to be advanced because of the fact there is very nominal rehabilitation work necessary at the St. Joseph site.

Mr. BOLAND. Is there not considerable alteration to be done at Emmitsburg?

Mr. MORELAND. No, not in comparison to the level of rehabilitation necessary at Marjorie Webster.

NATIONAL FIRE ACADEMY REHABILITATION BUDGET

Mr. BOLAND. Have you any estimate of what the cost will be to rehabilitate Emmitsburg?

Mr. MORELAND. Yes. We would be happy to provide you a scenario on that whole aspect for the record, if you would care for that, Mr. Chairman.

[The information follows:]

Part I - COST SUMMARY ON REHABILITATION

The National Fire Academy has carefully analyzed the Feasibility Assessment of the Emmitsburg, Maryland site as developed by HTB, Inc., the USFA Management/Architectural Consultants. In general, the estimates provided by HTB are treated as the rehabilitation data base, with options to be chosen by the Academy and the USFA as to how much would be completed and in what time frame. The Academy and the USFA management have assessed these estimates with two major policy guidelines in mind, namely:

1. With the sale of the previous site property at Marjorie Webster College not yet consummated, it is the plan to keep the renovation/rehabilitation expense, including the new purchase price, to within the $6.1 approved authorization level (Phase I). The balance of the rehabilitation expense (Phase II) will be planned, but not incurred, until the proceeds of the sale of the Webster site are received by the USFA within the $9 million authorization level.

2. With the rehabilitation plan divided into two Phases, as explained in #1, careful planning of Phase I expenses should result in an "adequate" resident facility to begin on site programs. The Phase II expenses, however, are necessary to bring the resident facility up to the standards planned for a National Fire Academy.

As the following chart shows, the Administration and Academy carefully analyzed with the HTB base estimates and have decided on a total rehabilitation figure of $3,648,000 which is broken down into Phase I Expense of $1,750,000, and Phase II Expense of $1,898,000.

Building/Location	USFA/NFA Estimate (000)	Phase I Estimate (000)	Phase II Estimate (000)
Site	$ 181	$ 100	$ 81
A	180	180	0
B	32	32	0
C	146	146	0
D	433	433	0
E	1037	0	1037
F	332	332	0
G	0	0	0
H	489	220	269
I	11	0	11
J	775	275	500
K	32	32	0
L	0	0	0
M	0	0	0
N	0	0	0
O	0	0	0
	$3648	$1750	$1898

These Phase I and Phase II Rehabilitation Plans and Costs fit the guidelines as mentioned above. The following chart shows the planned allocation:

	Phase I Cost (000)	Phase II Cost (000)	Total Cost (000)
Total Estimate	$1,750	$1898	$3648
(Rehabilitation)	260	285	545
+ 15% Contingency	$2,010	$2183	$4193
+ Inflation 10% (1½ yrs.)	300	(2 yrs) 437	737
	$2,310	$2620	$4930
+ Design Fee (6%)	140	160	300
	$2,450	$2780	$5230

With a purchase price of $3,700,000,* the total cost of Phase I Renovation Plan would be within the $6.1 million level and the overall total within the $9 million level.

In arriving at these Phase I and Phase II Estimates, the USFA and the Academy made some major decisions on space utilization and cost, namely:

1. Decided that the ventilation and air-conditioning improvement costs were better incurred on a balanced basis over several years.

2. Decided to use only the dining facilities in Building K, for an indefinite period with the rest of the building boarded up.

3. Renovation expenses for Buildings, G, L, and N were not considered essential to the Academy Program. Buildings M and O will be used as they are.

Note: Although it was recommended that G, K, L and N should be boarded up, this decision should be delayed, pending the resolution of the co-location matter.

As a result of this Renovation Plan, Phase I and Phase II, it is the conclusion of the USFA and the Academy that the resident program can begin in a most reasonable time with adequate facilities being available and with a proper use of funds. However, as stated above, the expenses in Phase II are essential to the Academy's becoming the kind of facility as planned and should not be deferred.

Mr. BOLAND. Can the Fire Administration start rehabilitation before receiving the proceeds of the sale of the Marjorie Webster site?

Mr. MORELAND. Yes, sir.

Mr. BOLAND. The $6 million for Marjorie Webster included a projected inflation rate assuming construction would be completed in June 1979; is that correct?

Mr. MORELAND. Yes, sir, that is correct.

Mr. BOLAND. What rate of inflation did that assume?

Mr. MORELAND. Six percent.

Mr. BOLAND. Do available funds for rehabilitation of the Emmitsburg site include an adequate inflation cushion? In other words, will you be able to live within the total existing $9 million authorization?

Mr. MORELAND. Yes, they do.

Mr. BOLAND. So it is your judgment that you will be able to live within the total existing $9 million authorization?

Mr. MORELAND. Yes, Mr. Chairman.

Mr. BOLAND. What about operating expenses for the Academy? Do you plan to submit a supplemental for Fiscal Year 1980?

Mr. MORELAND. We plan to submit an amendment to the 1980 appropriations for the Academy for the operation and maintenance of the Emmitsburg facility.

FLOOD STUDIES AND SURVEYS

Mr. BOLAND. Turn to page 112 Flood Studies and Surveys.

As you have indicated, the request is for $74 million that compares with the 1979 current estimate of $85 million and the 1979 budget estimate of $114 million.

Ms. Jimenez, by letter dated December 11, you advised the Committee of your intentions to refocus the Flood Insurance program from emphasis on detailed flood insurance rate studies to technical assistance in the form of local flood plain management advice. You estimated this change could result in no studies prepared for 7,000 to 10,000 of the estimated 20,000 flood-prone communities nationwide. Based on estimated study costs of $25,000 each, this change may save above $200 million.

Will you describe the reasons for the refocus?

Ms. JIMENEZ. This past year I had a chance to take a look at the Federal Insurance Administration. It appears to me there were many communities in the 20,000 we were considering flood-prone that were small communities and had very little development and very little pressure for development in the flood plain. It did not seem sensible to map those communities. I took a look at some of the communities which for one reason or another were not participating. The reason they were not participating was because there was nothing happening in their flood plains. It seemed sensible to cut back the study effort so we could concentrate on areas where there is population and pressure for development.

By cutting back the study effort, we can work with communities where we know there are people living in hazardous areas to give them the technical assistance they need.

Mr. BOLAND. You can provide for the record examples of the flood plain advice your service will offer.

[The information follows:]

EXAMPLES OF FLOOD PLAIN ADVICE

Through its program of technical assistance FIA will deliver a variety of technical and advisory services to flood prone communities. Four of FIA's technical services are noteworthy:

(1) The first is FIA's identification of the ways communities can guide development away from flood hazard areas. the main emphasis will be on those ways that will be alternatives to the community's existing flood plain ordinance. These alternatives would include such things as acquisition of scenic or flowage easements, tax incentives, planned Unit Development, transfer of development rights, and fee simple acquisition.

(2) The second area of FIA's community assistance services is the providing of direct assistance to communities so that they can more effectively enforce the flood plain management measures already in effect. This direct assistance would include map interpretation, evaluation of variances, analysis of the impact of developments on potentials for increased flooding.

(3) The third type of technical assistance is the identification of federal and state programs available to implement selected flood plain management strategies. Many communities are not aware of such programs. A recent HUD survey of small communities identified assistance in obtaining grants as a priority need. Our assistance will take the form of showing how the packaging of federal programs, with which the communities may or may not currently be familiar, can contribute to hazard mitigation and flood loss reduction.

(4) The fourth key area is FIA's advisory role. FIA will advise communities in the development of planning decisions by providing information on the long-term economic effect of flood plain management decisions. FIA will also provide flood plain management considerations to help the community evaluate the costs and benefits of decisions.

The overall objective is to help communities improve the quality of flood plain management decisions by providing or helping locate tools, such as data or funding resources. When local decision-making includes informed flood plain management considerations, the goals of hazard mitigation and flood loss reduction will be advanced.

Mr. BOLAND. Have you contracted with the U.S. Army Corps of Engineers to manage the remaining flood insurance mapping effort?

Ms. JIMENEZ. I was negotiating with them but they have problems getting additional staff. I had anticipated that the staff presently devoted to the program, the figure runs from 140 to 170, could be converted to a status where they were supervising studies. We have not been able to work that out, but the Corps has promised they will take on additional studies since I have agreed they could be in a management mode rather than a direct study mode. Other Federal agencies such as TVA will be subcontracting.

Mr. BOLAND. You have to reimburse them for doing studies?

Ms. JIMENEZ. Yes.

Mr. BOLAND. What is the estimated cost of that effort?

Ms. JIMENEZ. It comes within our budget estimate. Instead of contracting directly with the architectural firms, we will do it through Federal agencies such as TVA. So it ends up being about the same. Furthermore, the Corps has excellent expertise in this area, which I feel we have not used to the maximum. I intend to use it in the future.

Mr. BOLAND. Is that reduction really due to the result of this program redirection?

Ms. JIMENEZ. That is right; it is a result of the program redirection. Taking a look at where we were and where we were going, it seemed we did not need to spend that extra money. Included in this figure, we are taking on additional responsibilities for hazard mitigation and earthquake damage. We will be able to handle these extra assignments within that budget authority.

CRIME INSURANCE POLICIES INCREASE

Mr. BOLAND. On page 134, the 1980 estimate reflects the 27-percent increase in the number of crime insurance policies issued, from 61,287 to 77,924, an increase of 16,637.

What accounts for that large increase?

Ms. JIMENEZ. The program in the past had not been well publicized.

Mr. BOLAND. I am surprised that it had not been.

Ms. JIMENEZ. Part of the problem, is that there are very few agents in the inner cities, and people are not aware they can buy the insurance. We have had a push on to let people know, including appearing on radio talk shows and generally publicizing the program. Also, we are going to have a little demonstration which we started last year which will involve community groups and will also involve, Mr. Boland, insurance companies. I think that even more than selling crime insurance, I would like to see the voluntary insurance market come back into the city and begin to write this insurance.

We are going to set up insurance information centers. They have agreed to take some of the risks they have turned down previously and perhaps take them on a voluntary basis. So my demonstration, if it is successful, will perhaps tell us that the crime insurance program is not necessary.

NATIONAL INSURANCE DEVELOPMENT FUND

Mr. BOLAND. On the preceding page, on page 133, the table reflects that the reserve of the National Insurance Development Fund is declining 33 percent from 1978 to 1980. The dollar change is from $75,514,000 to $50,270,000. The major reason is a net loss of about $18 million in the crime insurance program.

On page 138 you describe that funding, and I quote,

"To the extent that income in the crime insurance program is not sufficient to meet losses and expenses, operating balances accumulated from riot reinsurance operations are temporarily used to cover the difference. The Statute authorizes these losses to be reimbursed in future years either through premium income or appropriations."

Premium income has never exceeded losses and expenses, has it?

Ms. JIMENEZ. No, that is right.

Mr. BOLAND. With more policies issued, one might expect the program to break even soon, but the losses seem to get bigger each year.

What is the total amount borrowed from the fund that must be reimbursed?

Ms. JIMENEZ. It will be $75 million by 1980.

Mr. BOLAND. When do you estimate that the crime insurance programs will begin reimbursing the fund?

Ms. JIMENEZ. Sir, I wish I could tell you that is something we could hope to see very soon, but I don't anticipate that it would happen. If the crime insurance program continues at the same rate, and if we increase the number of policy holders, the losses will increase. It is a heavily subsidized program.

Mr. BOLAND. Do you have any plans to request an appropriation to reimburse the Fund?

Ms. JIMENEZ. It would seem that by 1983 we will either have to seek an appropriation or get permission to borrow from the fund.

Mr. BOLAND. On January 1, 1978, the Department of Housing and Urban Development began a government program with industry assistance under Part B of the National Flood Insurance Act of 1968. The contract was competitively awarded to EDS Federal Corporation. The estimated cost of the contract for the first year was $11,943,748. The estimate for an optional second year was $12,446,993. That is reflected on page 47.

What was the actual cost of the EDS contract in calendar year 1978?

Ms. JIMENEZ. We have had increases in workload. I believe the figure is $13.7 million for the first year of the contract.

Mr. BOLAND. Has the contract been renewed for 1979?

Ms. JIMENEZ. Yes, sir.

Mr. BOLAND. What was the estimated cost of that renewal?

Ms. JIMENEZ. I believe the estimated cost at the point the contract was renewed in May of 1978 was about the same figure, $13 million. Negotiations are going on right now subject to audit, changes in scope, et cetera.

Mr. BOLAND. Are you satisfied with the EDS execution of the contract?

Ms. JIMENEZ. Yes, sir. It was not an uncontroversial thing. When I walked in the door, that was the first thing I was confronted with, trying to handle the transition from the NFIA program which involved a number of insurance companies to one contractor.

The early days, I don't mind telling you, were hairy, but I think we have an operation that you can be proud of. In fact, many insurance company representatives have looked at it and are awed by it.

We think the service is as good, if not better, than that which was given under NFIA. We were tested this year, as Mrs. Boggs mentioned earlier. We had flooding in Louisiana and Massachusetts. We had more claims this year than were ever experienced by NFIA in any one year.

Mr. BOLAND. What about customer service? Has the service been maintained or improved?

Ms. JIMENEZ. I think it has been improved. I deal personally with any claimants who are concerned about the service, so I have a feeling that we are doing an excellent job.

For instance, in New Orleans we had something like 11,000 claims which, by and large, were settled within 40 days, which is very good.

DISASTER RELIEF

Mr. BOLAND. We will turn to page 151, the Disaster Relief request. That page indicates that the request for 1980 is $193,600,000, a small increase above the adjusted 1979 amount. $200 million was appropriated for 1979, correct?

Mr. WILCOX. Yes, sir.

Mr. BOLAND. The current estimate of $192,105,000 plus $7,895,000 for administrative expenses totaling $200,000,000, is noted on the bottom of the page.

However, on page 11 under FDAA administration expenses, that expense is listed as $8,115,000. How do you explain that variance?

Mr. THOMPSON. I can explain that, sir.

In all of the 1979 estimates in this budget, the proposed supplemental for pay raise is included. So there is a $220,000 proposed supplemental for pay included in 1979 for FDAA which would increase the $7,895,000 to $8,115,000.

Mr. BOLAND. How about the 1980 estimate for FDAA administration expenses shown on page 12? That is shown as $6,886,000. What is the correct figure?

Mr. THOMPSON. The correct amount is $6,400,000. There was an error in the President's budget. With making many changes in the President's budget schedules at the last minute, there was $486,000 that was overstated on the FDAA estimate over and above the OMB mark-up of the budget, which was $6,400,000.

I have discussed this with OMB and they have said they may come out with a budget amendment to correct the error. It would reduce the $6,886,000 to $6,400,000.

Mr. BOLAND. Why is the 1980 estimate for Disaster Relief $1,495,000 above the 1979 estimate? That is reflected on page 153.

Mr. WILCOX. In FY 1980, administrative expenses directly related to a particular disaster will be charged against that disaster rather than against administrative expenses as in prior years.

Mr. BOLAND. Will you provide for the record a list of all emergency and disaster declarations requested and declared in 1978 and 1979? (The information follows:)

FY 1978 & 1979 MAJOR DISASTER REQUESTS

FY 1978

State	Request Date	Type	Disposition	Date
Wisconsin *	8-24-77 (Appeal)		Denied	10-10-77
Missouri	10-03-77	Storms & Flooding	Denied, SBA declared	10-11-77
Tennessee	10-07-77	Storms & Flooding	Denied	10-18-77
Minnesota	10-12-77	Flash Flooding	Denied, SBA declared	10-31-77
Arizona	10-26-77	Storms & Flooding	Declared FDAA 540	11-04-77
Georgia	11-07-77	Dam Collapse-Flooding	Declared FDAA 541	11-07-77
Virgin Islands	10-21-77	Flash Flooding	Denied, SBA declared	11-07-77
North Carolina	11-09-77	Heavy rains-Flooding	Declared FDAA 542	11-09-77
Virginia	11-10-77	Storms & Flooding	Declared FDAA 543	11-12-77
Tennessee	11-10-77	Storms & Flooding	Declared FDAA 544	11-12-77
Louisiana	11-10-77 (Appeal)		Denied	11-17-77
New Jersey	11-15-77	Flooding	Denied, SBA declared	11-23-77
New York	11-12-77	Heavy Rains & Flooding	Denied, SBA declared	11-23-77
Tennessee	11-25-77 (Appeal)	Storms & Flooding	Denied	12-06-77
Georgia	11-22-77	Flooding	Denied	12-06-77
Washington	12-08-77	Storms, Mudslides, Flooding	Declared FDAA 545	12-10-77
South Carolina	11-09-77	Winter Freeze, Shrimp Loss	Denied	12-19-77
North Dakota	1-11-78	Winter Storms	Denied	1-25-78
Ohio	1-20-78	Snowstorm	Request withdrawn by State	1-30-78
New Jersey	1-04-78 (Appeal)	Flooding	Denied	2-02-78
California	1-26-78	Wind - Rain	Denied, SBA declared	2-02-78
Maine	1-19-78	Winter Weather	Denied, SBA declared	2-06-78
California	2-03-78	Flood	Denied, SBA declared	2-09-78
Pennsylvania	1-25-78	Snowstorms	Denied	2-09-78
Kentucky	1-26-78	Ice, Snow, Floods	Denied	2-10-78
Massachusetts	2-10-78	Flood, Snow, Ice	Declared FDAA 546	2-10-78
Arizona	1-30-78	Freezing	State withdrew request	2-13-78
California	2-14-78	Flood	Declared FDAA 547	2-15-78
New Hampshire	2-14-78	Snow, Rain, Flooding	Declared FDAA 549	2-16-78
Rhode Island	2-13-78	Snowstorm	Declared FDAA 548	2-16-78
Alabama	2-02-78	Wind & Flood	Denied	2-16-78
Maine	2-16-78	Winter Weather	Declared FDAA 550	2-17-78
Florida	2-06-78	Flood	Denied	2-17-78
New Jersey	2-10-78	Coastal Flooding	Denied, SBA declared	2-23-78
New York	2-08-78	Winter Weather	Denied, SBA declared	2-23-78
Ohio	2-10-78	Winter Weather	Denied	2-24-78
Florida	2-01-78 (Appeal)		Denied	2-24-78
Arizona	3-04-78	Storms & Flooding	Declared FDAA 551	3-04-78
Alabama	2-21-78 (Appeal)	Winds & Flooding	Denied	3-08-78
Connecticut	2-24-78	Storms, Ice & Flooding	Denied, SBA declared	3-14-78
Michigan	2-21-78	Snowstorms	Denied	3-23-78
Nebraska	3-23-78	Flooding	Declared FDAA 552	2-24-78
New York	2-23-78 (Appeal)	Winter Weather	Denied	3-28-78
Indiana	3-28-78	Flooding	Declared FDAA 553	3-29-78

FY 1978 (cont'd)

State	Request Date	Type	Disposition	Date
Illinois	3-25-78	Ice Storm	Denied	4-03-78
New Jersey	3-23-78 (Appeal)	Coastal Flooding	Denied	4-07-78
North Dakota	4-13-78	Snowmelt, Ice Storms, Storms	Declared FDAA 554	4-17-78
Minnesota	4-20-78	Snowmelt, Ice Jams, Storms	Declared FDAA 555	4-22-78
Alabama	4-24-78	Tornadoes	Emergency declared FDAA 3064	4-24-78
Ohio	1-30-78	Winter Weather	Denied	5-01-78
Virginia	4-28-78	Flooding	Denied, SBA declared	5-08-78
Illinois	5-05-78 (Appeal)	Ice Storm	Denied	5-08-78
Louisiana	5-07-78	Storms & Flooding	Declared FDAA 556	5-09-78
Alabama	5-17-78	Winds & Flooding	Denied	5-23-78
Montana	5-26-78	Storms & Flooding	Declared FDAA 558	5-29-78
Wyoming	5-26-78	Storms & Flooding	Declared FDAA 557	5-29-78
Georgia	6-26-78	Severe Cold Weather	Denied	6-30-78
Wisconsin	7-06-78	Storms, Flood, Hail	Declared FDAA 559	7-07-78
Minnesota	7-07-78	Storms, Flood, Hail	Declared FDAA 560	7-08-78
New Hampshire	7-07-78	Flooding	Denied	7-19-78
Texas	8-03-78	Storms & Flooding	Declared FDAA 561	8-03-78
Mississippi	7-31-78	Flash Flooding	Denied	8-09-78
Alabama	7-31-78	Rain, Lightning	Denied	8-09-78
Montana	8-03-78	Storms & Flooding	Denied	8-09-78
No. Marianas	8-17-78	Tropical Storm Carmen	Declared FDAA 562	8-18-78
Alabama	8-14-78 (Appeal)	Heavy Rains & Lightning	Declared FDAA 563	8-20-78
Arkansas	9-15-78	Storms & Flooding	Declared FDAA 564	9-15-78
Louisiana	9-18-78	Storms & Flooding	Declared FDAA 565	9-20-78
Texas	9-29-78	Storms & Flooding	Denied	9-30-78

*Requested in FY 1977 but denied in FY 1978

FY 1979

California	10-05-78	Landslide	Declared FDAA 566	10-09-78
California	10-27-78	Brush Fires	Emergency declared FDAA 3067	10-29-78
California	11-03-78 (Appeal)	Brush Fires	Amended	11-06-78
Louisiana	12-05-78	Storms & Tornadoes	Declared FDAA 567	12-06-78
Kentucky	12-11-78	Storms & Flooding	Declared FDAA 568	12-12-78
Kansas	12-07-78	Ice Storms	Denied	12-14-78
West Virginia	12-12-78	Storms & Flooding	Declared FDAA 569	12-14-78
Arizona	12-20-78	Storms & Flooding	Declared FDAA 570	12-21-78
New Mexico	1-16-79	Flooding	Declared FDAA 571	1-29-79
Mississippi	1-17-79	Ice Storms	Denied	1-22-79
Marshall Is.	1-23-79	Typhoon Alice	Declared FDAA 572	2-12-79
Hawaii	3-05-79	Rains	Declared FDAA 573	3-07-79
Florida	3-07-79	Flooding	Denied	3-09-79
Florida	3-20-79 (Appeal)	Flooding	Denied, Em. decl. 3075	3-24-79
Arkansas	3-08-79	Flooding	Denied	3-12-79
Georgia	3-09-79	Flooding	Denied, Emergency Declared FDAA 3072	3-13-79
Alabama	3-13-79	Flooding	Denied, Emergency Declared FDAA 3074	3-17-79
New Hampshire	3-14-79	Flooding	Emergency declared FDAA 3073	3-15-79

FY 1978-79 EMERGENCY REQUESTS

FY 1978

State	Request Date	Type	Disposition	Date
Arkansas	1-16-78	Tornado	Declared FDAA 3054	1-20-78
Rhode Island	1-20-78	Snowtorm	State withdrew request	1-23-78
Ohio	1-26-78	Blizzards & Snowstorms	Declared FDAA 3055	1-26-78
Michigan	1-27-78	Blizzards & Snowstorms	Declared FDAA 3057	1-27-78
Indiana	1-26-78	Blizzards & Snowstorms	Declared FDAA 3056	1-27-78
Illinois	1-30-78	Snowstorms	Denied	2-06-78
Rhode Island	2-06-78	Snowstorms	Declared FDAA 3058	2-07-78
Connecticut	2-07-78	Snowstorms	Declared FDAA 3060	2-07-78
Massachusetts	2-07-78	Snowstorms	Declared FDAA 3059	2-07-78
Pennsylvania	2-06-78	Snowstorms	Denied	2-09-78
Kentucky	1-30-78	Heavy Rains	Denied	2-09-78
Delaware	2-09-78	Snowstorm	Denied	2-10-78
North Dakota	2-14-78	Snowstorms	Declared FDAA 3061	2-16-78
North Dakota	2-09-78	Snowstorm	State withdrew request	2-16-78
New York	2-23-78	Coastal Flooding	Denied	3-08-78
Arkansas	4-21-78	Tornadoes	Declared FDAA 3062	4-22-78
Mississippi	4-21-78	Tornadoes	Declared FDAA 3063	4-24-78
Ohio	3-27-78	Ice Jams, Flooding	Denied	5-17-78
North Dakota	7-06-78	Storms & Tornadoes	Declared FDAA 3065	7-03-78
New York	8-03-78	Chemical Contamination	Declared FDAA 3066	8-07-78
Michigan	8-10-78	Sewer Rupture	Denied	8-18-78
North Carolina	8-15-78	PCB Contamination	Denied	9-29-78

FY 1979

Illinois	1-15-79	Snowstorm	Declared FDAA 3068	1-16-79
Indiana	1-16-79	Snowstorm	Denied	1-18-79
Wisconsin	1-16-79	Snowstorm	Declared FDAA 3069	1-19-79
Iowa	1-17-79	Snowstorm	Denied	1-20-79
Iowa	1-23-79 (Appeal)	Snowstorm	Denied	1-20-79
Indiana	1-19-79 (Appeal)	Snowstorm	Denied	1-22-79
Missouri	1-19-79	Snowstorm	Denied	1-22-79
Iowa	1-24-79	Snowstorm	Denied	1-31-79
Delaware	2-21-79	Snowstorm	Denied	2-26-79
Illinois	2-26-79	Winter Storms	Denied	2-28-79
Missouri	3-09-79	Ice Jams & Flood	Declared FDAA 3071	3-12-79
Washington	3-08-79	Flooding	Declared FDAA 3070	3-12-79

Do you have adequate resources to operate the remainder of Fiscal Year 1979 without supplemental funding?

Mr. WILCOX. As the written testimony indicates, we believe that there is every reason to think that we can. If we were to have an Agnes flood or a massive disaster of some other type, there would be a need for a supplemental. But we have about $130 million in unobligated balances which would appear to be adequate, more than adequate, to carry us through the end of the current fiscal year.

We could, for example, defer the payment of about $30 million of debt which has been obligated to HUD and deobligate that if necessary to free up that amount of money.

There is a lag time of about two months between the identification of project applications in the case of disaster and the obligation of those funds. So that means any disasters that occur after August 1, the expenses for the same could be carried over to the next fiscal year. So that everything indicates that we do not need a supplemental appropriation this year, unlike the last several years.

DISASTER RELIEF ACCOUNTING CHANGES

Mr. BOLAND. During the past year the disaster relief program has changed its method of accounting to allot certain administrative expenses to specific disasters.

Can you tell us the reason for this change and what would you expect the benefits to be?

Mr. WILCOX. Well, the amount that we have estimated that previously was charged to administrative expense that would now be carried under program obligations is $1,229,000, as I mentioned earlier. There are a good many expenses that are directly related to the occurrence of disasters and they are expenses which are not faced when the disaster does not occur. It has always been difficult and often virtually impossible to estimate disaster response travel and administrative costs after the fact. By separating day-to-day costs from disaster-related expenses, management, as well as OMB and the Congress, will have a better picture of agency activity and the responsible agency will be in a better position to identify, budget, monitor and control administrative expenses.

So that with the approval of HUD and the Office of Management and Budget, it was agreed to allocate those items to program obligations or permit the encumbering of program activities to cover those expenses.

I can give a rather dramatic and personal example. We had a freeze on administrative travel at one point and there was a landslide at Laguna Beach, California, and for good and sufficient reason, identified only with that landslide, it was necessary for me to fly to Los Angeles and go down to Laguna Beach for a day or two.

Under the previous policy, that amount had to be charged to administrative expense when in fact it was directly related to a specific emergency that had occurred, and I would not have needed to make the trip except for that emergency.

So this is a more accurate identification of those expenses which are really program-related and those that are overall administrative expenses.

Mr. BOLAND. The administrative expenses are not included in Disaster Relief Administration reflected on page 110 of the justifications; is that correct?

Mr. WILCOX. Can you tell me where you are referring on that page?

Mr. BOLAND. I am referring to the statement at the top of page 110. What I want to know is whether the administrative expenses are included in that $1,229,000 that is charged.

Mr. WILCOX. Those regional expenses that are administrative, training, travel——

Mr. BOLAND. Are those administrative expenses charged to the individual disasters?

Mr. WILCOX. No. Those are charged to administrative expenses, the travel for training costs, et cetera. It is only those costs which are directly responsive to and related specifically to individual disasters that will be encompassed in that $1,229,000.

SNOW REMOVAL REIMBURSEMENT POLICY

Mr. BOLAND. Last year we had considerable discussion with reference to snow removal reimbursement policy. The policy had been to reimburse local governments only for snow removal performed under contract.

There was built-in inequity under that system. The current policy is to reimburse local government for two-thirds of the cost of emergency snow removal performed either by their own work force or by contract. Is that correct?

Mr. WILCOX. That is right.

Mr. BOLAND. How did you happen to reach that determination?

Mr. WILCOX. We wanted to be responsive to the points that this Committee made so effectively, yet we did not want to increase the cost to the Federal Government.

Our calculations roughly indicated that those two changes interacting together, would give us about the same costs.

We want to emphasize that snow removal is a State and local responsibility. It always has been in this country. The only role of the Federal Government is to supplement the local and State efforts when an emergency involving protecting property, lives and public safety occurs.

It seemed to us to be appropriate; no State disagreed with this on a pre-disaster basis. There was never any disagreement with the one-third/two-third arrangement. No State has criticized that arrangement. There have been criticisms of other aspects, but the States have been satisfied with the one-third/two-third ratios.

Mr. BOLAND. So actually the response has been favorable to the new procedures, then?

Mr. WILCOX. To that portion of the new procedure. There have been other aspects of the program that——

Mr. BOLAND. Would one of the other aspects be that the local government may be reimbursed only for that portion of their emergency snow removal costs incurred after the time of the emergency declaration?

Mr. WILCOX. Yes, sir.

Mr. BOLAND. I am sure you have received communications complaining that this is inequitable and rewards a community that does nothing immediately after the snow hoping for an emergency declaration and punishes the community that incurs great expense by removing the snow before the declaration.

Does that sound reasonable?

Mr. WILCOX. It sounds reasonable on the face of it, but it is incorrect if one takes into consideration the program objectives which the United States has written into the legislation, which are to save lives and protect property and public safety. It is impossible to protect lives and public safety and property on a retroactive basis.

The program is not really designed to reward or penalize anybody. It is designed to do what I have said a couple of times, protect lives and property and public safety. We don't think that there are many communities or public officials that would stand back in the hopes of getting an emergency declaration. If they did, it would be an act of irresponsibility and it would be a very risky act because most of the snow requests that come in we turn down.

So, given the fact that would be an act of irresponsibility, and given the fact that it would be highly speculative and a gambling operation, we don't believe that communities will stand back.

Now some communities may be better prepared than others. If the lack of preparation on the part of one community means lives are threatened and public safety and property are involved, then the United States Congress has told the President that assistance is to be provided to such communities and not provided to those communities where those matters are not at issue.

Again, I emphasize that the Federal program for snow removal and all other kinds of national disaster assistance, including man-made disaster is intended to be supplemental. So that is the reason I have determined not to approve payment for work undertaken before Presidential declaration in the case of any emergency, not just snow removal.

All the States knew that in the early part of the winter. The only State that objected as far as I know is the State of Kentucky. The States that asked us to change this policy after the storm were really asking us to change the rules after the situation had occurred. They knew what the rules were ahead of time, and had no objection to them before the storm.

Mr. BOLAND. Thank you very much.

PERSONNEL TOTALS BY AGENCY

Mr. Thompson, will you supply for the record the number of positions associated with each agency and account transferred into FEMA and redirected on the crosswalk schedules on 9, 10 and 12?

Mr. THOMPSON. Yes, sir.

[The information follows:]

The dollars and number of positons redirected to the Executive Direction account from each agency for FY 1980 are as follows:

	Thousands	Positions
DCPA	$4,624	125
FPA	2,054	73
FIA	3,139	80
FDAA	744	30
USFA	395	15
Total	10,956	323

Mr. BOLAND. Larry?

Mr. COUGHLIN. Thank you very much, Mr. Chairman.

Let me apologize for being constantly in and out and also for the little bit of disconnected nature of the hearing as a result of the voting procedure upstairs.

I want to join the Chairman in welcoming the witnesses who are here representing the new Federal Emergency Management Agency. Mrs. Jimenez and Mr. Wilcox are already well known to us for their work in the Department of Housing and Urban Development. We look forward to working with all of you.

FEMA REORGANIZATION PLAN

The reorganization plan which Congress voted was really just a skeleton, as I see it. Congress created an Agency with only three programs: the United States Fire Administration (from Commerce Department), the Federal Insurance Administration (from HUD), and the Federal Emergency Broadcast System. Nowhere was there mention of the three primary emergency preparedness agencies: the Federal Disaster Assistance Agency, the Defense Civil Preparedness Agency, or the Federal Preparedness Agency.

Hence, I am glad to see in Mr. Vickery's opening statement that the President's March 25 Executive Order will authorize the transfer of FDAA, DCPA, and FPA.

When will those transfers occur?

Mr. VICKERY. Some time between next Monday and October 1.

Mr. COUGHLIN. How desirable is it to have three agencies transferred by Executive Order and therefore subject to future transfers? Why weren't they all transferred at one time?

Mr. VICKERY. I think we have responded to that.

Mr. Jett?

Mr. JETT. Let me speak to that briefly.

The reorganization plan by legislation mandates that we form FEMA and transfer Fire, Federal Insurance and EBS by April 1 and the President will meet that schedule.

We are quite ready to meet that schedule and are ready to support those programs in a very meaningful way so they will not be disrupted.

However, we don't think it is a good idea to transfer the other programs from their parent agencies to FEMA at this time.

They account for about 75 percent of the ultimate resources that will go to FEMA. We don't think the strategy and activation efforts have proceeded far enough to be sure that those programs are administratively supported effectively enough to move them from the parent agencies.

So we will be leaving DCPA in Defense, FPA in GSA, and FDAA in HUD for some months, but in any event we will transition them to FEMA before October.

Mr. COUGHLIN. Are some of the agencies dragging their feet on this or are they moving to implement the Executive Order?

Mr. VICKERY. There has been no dragging of feet by any of these people with whom I have participated with in the last few days, sir.

Mr. COUGHLIN. It is sometimes said that when agencies are forced to give up offices or sections to new or other agencies, the worst employees are sent, thereby giving the recipient a disadvantage.

Do you anticipate a problem?

Mr. VICKERY. I have not found a problem. In meeting with the other four individuals and discussing what we intend to do, I have found no reticence on their part or any attempt to subvert the program in any way.

Mr. COUGHLIN. Within FEMA I understand there will be 10 non-career positions at the GS–16 level to head the regional offices. These people are very instrumental in determining disaster areas. Shouldn't these people be career civil servants?

Mr. VICKERY. Mr. Jett, would you like to respond?

Mr. JETT. We have responded for the record to the Congress in the consideration of the reorganization plan on this issue. The President had previously changed the position of the regional directors of the Defense Civil Preparedness Agency from career to non-career reserving only the incumbency positions as career positions.

So the decision to make the regional directors of FEMA non-career employees was a decision that in some respects followed the intent of the President's earlier decision. Because the disaster relief declarations are basically made in Washington and all information is provided in Washington to Bill Wilcox and his people and then on to the President and the White House for consideration, we don't think there would be a process where disaster relief declarations would in any way become politicized.

Mr. COUGHLIN. I have heard the States of Georgia, Maryland, and Massachusetts, all with Democratic Governors, had no trouble being declared emergency disasters, while Ohio, with a Republican Governor, did not get the same attention from the Administration.

Is this true?

Mr. WILCOX. We have statistics that indicate that if you take the proportion of Democratic Governors to Republican Governors and the disaster declarations that occur, you will find with some random variation from month to month and year to year, a rather consistent proportion irrespective of party affiliation of the governor.

Mr. COUGHLIN. The General Accounting Office has stated that the real key is government-wide coordination during an emergency. In another report, the GAO commented that the United States lacks a

comprehensive Civil Defense policy. There is some suggestion that a policy should precede any organization. The Office of Technology Assessment was critical of the reorganization project for focusing on reorganization first instead of future substantive problems.

What is being done to insure that substantive questions are not overlooked?

Mr. TIRANA. In the perfect world you do make policy determinations first, figure out what programs you need to carry out policies, and, lastly, find out what the best and most efficient organization is. There was, for all practical purposes, no civil defense policy or program worthy of the name, but, for a lot of domestic political reasons, a tremendous pressure for a reorganization affected the question of civil defense.

When the President directed the reorganization study in August 1977 almost simultaneously in the same month, the Secretary of Defense directed a study of Civil Defense program options. The month following, September 1977, the National Security Council (NSC) directed a study of policy.

The decisions were supposed to come policy first, program second, and organization third. Because of serious questions about Soviet civil defense, and the need for more intelligence from the intelligence community and an assessment by the Director of Central Intelligence, the policy and program decision were delayed.

At the same time, we came to the conclusion that the best organization for Civil Defense, regardless of what program and policy you decide on, would be an all-risk, comprehensive approach consolidating the various agencies in the Federal Government that were fragmented all over the place, and restore things to the way they were before 1961.

All we are doing is turning back the clock when we talk about the Federal Emergency Management Agency as something new. What the reorganization really does is to undo the damage of the past 20 years and to simplify things the way they were in the 1950s.

Mr. COUGHLIN. If the substantive questions have really not been decided, what is the $108 million going to buy?

Mr. TIRANA. No, the substantive questions were decided, but only after the reorganization decision. The reorganization decision came June 19, 1978. The Secretary of Defense had made a tentative program decision on December 20, 1977, subject to Presidential and National Security Council policy review. The President's decision on policy was made on September 29, 1978, and endorsed or ratified, if you will, the earlier program decision of the Secretary of Defense and the reorganization decision.

So we had, as of September 29, 1978, all three decisions—policy, program, and organization—which affect Civil Defense Preparedness.

Mr. COUGHLIN. So what exactly is the $108 million going to buy?

Mr. TIRANA. By itself, nothing.

Mr. COUGHLIN. More plans?

Mr. TIRANA. No. It buys a beginning of the implementation of a crisis relocation capability. We don't get from A to Z until we go through approximately 5 to 7 years of appropriations and spend ap-

proximately $1 billion to $1.5 billion over the current level of expenditures.

Mr. COUGHLIN. Is that $1 billion to $1.5 billion going to purchase hardware or just a plan?

Mr. TIRANA. It will get a combination of plans and hardware. The plans are the smallest part of the program, about 10 percent of the total expenditures over a 7-year period.

But what we are talking about is trying to protect two-thirds to 80 percent of the population.

Mr. COUGHLIN. I understand that.

Mr. TIRANA. But how do we do it? First, you have to get people out of the high risk areas, evenly dispersed, so that there is no way that the Soviet Union can destroy a large segment of the population through blast and fire.

Mr. COUGHLIN. This is not going to go toward building more fallout shelters, is it?

Mr. TIRANA. It is not going to build any fallout shelters. We plan to use existing facilities like schools and office buildings in rural areas as fallout shelters on an expedient basis at a time of crisis by shoveling dirt against the sides. We will still have to stockpile ventilation kits and sanitation equipment. We don't plan to stockpile food. There are no more tins of biscuits.

But sanitation and ventilation kits, communication systems for command and control, radiological instruments, all of those are necessary.

The plans alone might get you to a 40 percent survival capability if everything worked very well. The plans plus the supporting items, the hardware, get you to somewhere around a potential 80 percent survival if everything works well.

STATE AND LOCAL EMERGENCY OPERATING CENTERS

Mr. COUGHLIN. On page 27 of the justifications there was a small program in existence for State and Local Emergency Operating Centers, for which I see there is no further funding. The description says that less than one-third of these Emergency Operating Centers are even considered as having a basic operational capability.

They are pretty inadequate, according to the description here in the justifications. Are we going to abandon those Centers, having already spent this money on them?

Mr. TIRANA. What they were mainly, they were termed emergency operating centers for Civil Defense. The reality is that they are the communications rooms in police stations and fire departments, like the Civil Defense Director in the City of Philadelphia is Joe Rizzo, the Fire Chief. In New York it is the police commissioner, and the Emergency Operating Center happens to be the operations room of the police department.

In the past, we put 50 percent Federal money into the construction of facilities the local and State governments would have constructed anyhow.

In a large scale exchange between the Soviet Union and the United States, most of these facilities would be wiped out because they are in probable target areas.

DIRECTION AND CONTROL SYSTEM

Mr. COUGHLIN. I see on page 30 of the justifications the same thing has happened for the Direction and Control System appropriation. We spent money on that in Fiscal Years 1978 and 1979 and now no funding is proposed for Fiscal Year 1980. Is that correct?

Mr. TIRANA. That is correct. They are for supporting materials, for instance, which would go to buy sirens. The local and State government would use the matching funds to purchase what in essence served a useful peacetime purpose, but it would have very little utility in a large scale exchange between the Soviet Union and the United States.

So, by chopping these things out, we are not in any way affecting the capability that is going to exist anyhow. What we are doing is ending a small program which is used like revenue sharing. I am not very popular with local governments for those two little deletions.

FALLING SHELTERS

Mr. COUGHLIN. How many usable fallout shelters are there in the United States?

Mr. TIRANA. Well, let's take New York City or the District of Columbia or the Capitol of the United States. If one walks in in this hallway, you will see a sign that says "Shelter" with an arrow pointing someplace.

If you go downstairs in the basement, that is a pretty good fallout shelter as long as you make the assumption that the Capitol is not struck and that no weapon falls anywhere in the vicinity of the District of Columbia.

If the Soviet Union decides to target the District of Columbia, those signs and shelters down in the basement are absolutely useless. Basically they provide a very good tomb.

So we have an abundance of space which we have identified could serve as good fallout shelters in the urban areas. We have more shelters than we need in existing buildings without having to build anything. We would still have to worry about sanitation and ventilation.

Where we don't have adequate shelter is in the rural or host areas to which one would have to evacuate a population of approximately 135 million people. I can think of some staggering problems on the Gulf Coast, Louisiana and Florida, where people don't dig basements because the water level is too high. In those areas, there is a lack of shelter.

So it is mostly in the wrong place.

Mr. COUGHLIN. What we are really saying then is that there are not any really operational fallout shelters in the United States today?

Mr. TIRANA. Anything is operational.

Mr. COUGHLIN. Not if it doesn't have the ventilation equipment and the sanitation equipment.

Mr. TIRANA. I would not say none. For instance, the 20th story of the Pan Am Building in New York City, in the center of the building, would be an awfully good fallout shelter, again assuming the weapon did not hit New York City.

Mr. COUGHLIN. I understand that.

Mr. TIRANA. Once you put people in the basement, then you have a more serious ventilation problem than sitting up on the 20th floor of the Pan Am Building in an area with natural internal circulation.

EMERGENCY OPERATIONS PILOT PROJECTS

Mr. COUGHLIN. On page 43 of the justifications, you have a sum of $4 million for Emergency Operations Facilities.

A little while ago we mentioned the money for Emergency Operating Centers has been eliminated. Is this putting the money back into the same thing you took it out of?

Mr. TIRANA. Yes, it is, but with a little bit of sleight of hand, too. We know that the State and Local Emergency Operating Centers in county seats, cities and States are going to exist anyhow because they have to exist for local political and managerial reasons. We don't have to put up the percent funding.

On the other hand, we know that they are not survivable in terms of nuclear attack and that we do not have Emergency Operating Centers in the rural or host areas, or not enough. We know that State and local governments would not pay for them, other than perhaps to provide the land on which the facility is built, because they don't serve local priorities.

If the Federal Government wants to design a system reliable for command, communications, and control for the civil population operated by State and local governments, then we are going to have to pay for it 100 percent.

So I have eliminated a 50 percent matching program which didn't buy anything that was not going to be there anyhow, and instead have set up funds to develop the prototypes for 100 percent funded programs which would be necessary for survival and which State and local governments are not going to buy.

Mr. COUGHLIN. Who will operate them?

Mr. TIRANA. Well, if they are well designed, they will serve some peacetime local and State needs and we will give them to State and local governments to operate and maintain and use however they will.

Hopefully, in that manner we will pass on the cost of maintenance to the local and State governments. At a time of crisis they would be used by local and State governments in any event, because that is the continuity of government that we are trying to assure.

Mr. COUGHLIN. So we are providing 100-percent financing in some communities. Could that be used for a new police station?

Mr. TIRANA. No, hopefully it would be for all risks and would tie into peacetime processes as well. But as far as the reason we pay 100 percent, attack preparedness would require that it be designed for fallout protection. We have few at the moment in the rural or host areas.

Mr. COUGHLIN. Have you chosen the locations for these?

Mr. TIRANA. No. In developing the Emergency Operations Facilities, we would try to spread them by region in some equitable manner, and try to pick those sites that would demonstrate different alternatives. Basically, we do not have the information as to how to design a low-cost Emergency Operating Facility the local and State government would use in peacetime.

EXPANSION OF PRODUCTIVE CAPACITY

Mr. COUGHLIN. On page 50 of the justifications, there is a category called "expansion of productive capacity" for which $1,300,000 was

spent in 1978 but no request for funding was made in 1979 or 1980. Does that mean the program was a failure?

Mr. MITCHELL. This particular program is part of FPA's responsibility, under Title III of the Defense Production Act.

The project you mentioned was an experimental project funded in 1978 but it has not been funded in 1979 or 1980. The project was originally envisioned as a 5-year effort. Enough is not known about the first year's effort to justify our asking for funds this year. More information about it is needed before requesting additional funds for the project.

Mr. COUGHLIN. Are some of those funds unobligated or are they all obligated?

Mr. MITCHELL. You mean for this year?

Mr. COUGHLIN. Has the whole $1,300,000 been spent?

Mr. CHOINIERE. The Department of the Interior has let contracts for this project. I do not believe all the funds have been spent but we have obligated the total amount.

SNOW REMOVAL

Mr. COUGHLIN. I have a brief follow-up question on snow removal. It seems unfair for a community to expend its own resources to remove snow when a community that sits on its hands and does not remove snow would be eligible for Federal funds. How has that situation been rectified?

Mr. WILCOX. It has not been rectified. The real concern was the one that Congressman Boland mentioned with respect to the fact that there was three-quarters reimbursement for contracting snow removal. For the reasons that I indicated a little while ago and perhaps other reasons as well, when we wrote the snow policy, in partial response to this Committee's concern, we did not change the existing policy that had been in effect at FDAA for emergencies. The date of the assistance is the date of the Presidential declaration. The fact that has been the policy is not justification for it.

Mr. COUGHLIN. Rather than the date of the emergency?

Mr. WILCOX. Rather than the date of the first flake of snow. If we had gone back in Illinois to the date of the first snow, we would have preceded the emergency. When the first flake of snow fell there was no emergency. It was only when 10 or 20 inches fell that there was an emergency. As I said before, it is not possible to save lives on a retroactive basis.

The misunderstanding about this legislation is that people want to think that it is a fiscal or budgetary relief plan. It is not a fiscal or budgetary relief program, and should it become such, it ought to be done up front through an amendment to the legislation, rather than by an administrative decision on my part or anybody else's part.

To the extent there is legislative history at all, I would go back to the April 21, 1977 debate led by Congressman Boland in opposition to a proposal from Congressmen from Indiana, Ohio, Pennsylvania, and Illinois, for $20 million of reimbursement for snow costs that were incurred at the time of emergency declarations in those four States. It was pointed out at that time, this is not a snow maintenance program nor is it intended to substitute for fiscal responsibilities of State and local governments to remove snow.

It is, according to the legislation—not by my decision, but by the law and Congress—it is intended to provide assistance when the capacity of the State to deal with the situation has been exceeded, in order to save lives, to protect property and public safety.

If we are to have a definition of fiscal stress, the way to confront that is front-end, by amendment to the legislation, an amendment which I personally think would be a mistake, rather than through an administrative decision on my part.

Mr. COUGHLIN. I guess I agree with you that this program should be one of involving the Federal Government in the snow-removal business as such. However, I still see a basic unfairness, when the amount of snow in fact creates an emergency, in saying that a community that expended its own funds before it became an emergency and tried to avoid the emergency is treated on a different basis than a community that did nothing.

Mr. WILCOX. Part of the problem is, what does the word "unfair" mean? Are we talking about some abstract philosophical definition of fairness, or the way the legislation defines it? The legislation says the Federal Government is to provide assistance when the State and local governments' capability has been exceeded. It is intended to provide a specialized resource.

You know what the really specialized resource for snow removal is—money.

We used to bring in the Corps of Engineers in other years because the Corps of Engineers, as I recall, paid for all the snow removal costs for which they contracted.

In New England in 1978, as Congressman Boland knows, the States requested the Regular Army assistance. No more, now that we have this new policy and they can get money frontend. They want money, and there is a very great danger this will become what it is, by all legislative history, not intended to become; that is, a budgetary stress and fiscal relief program.

So, I think the way we are administering it is fair within the definition of fairness provided in the legislation. If there is another definition of fairness, the legislation should be changed.

Mr. COUGHLIN. Have you asked for changes in the legislation?

Mr. MITCHELL. I would be opposed. The Administration opposes S. 188 introduced by Senators Percy and Stevenson to require that we go back to the beginning of the incident, the first flake of snow. The implication does not apply to snow only; it applies to earthquakes. What is the beginning incident of some of these things? You can have a very bad result by that kind of statutory change, but I am saying if it should be done, it should be done by legislation.

Mr. COUGHLIN. Thank you.

Mr. BOLAND. He makes an impressive argument, does he not?

Mr. WILCOX. It is not the first time I have made it.

Mr. BOLAND. Thank you very much. I think this hearing reflects the complexity one can expect during the first budget hearing when bringing together diverse agencies. Nevertheless, it has been a very pleasant day. So we thank the Acting FEMA Administrator, Gordon Vickerey. We were certainly delighted to have you and Gloria Jimenez, Mr. Wilcox, Mr. Mitchell, Mr. Tirana and George Jett. The justifications will be inserted in the record at this point. The Committee stands adjourned.

[The justifications follow:]

Justification of estimates

FISCAL YEAR 1980

FEDERAL EMERGENCY MANAGEMENT AGENCY

Submitted to Congress/January 1979

DATA CONTAINED IN THIS DOCUMENT IS FOR APPROPRIATIONS COMMITTEE USE

TABLE OF CONTENTS

GENERAL Page

Introduction to Justification of FEMA Estimate for FY 1980. 1

Appropriation and Budget Program Summary. 4

Proposed Appropriation Structure. 6

Crosswalk Schedules - Activities of DCPA and FPA. 7

Crosswalk Schedules - Activities of FIA, USFA and FDAA. 10

EMERGENCY PLANNING, PREPAREDNESS, AND MOBILIZATION APPROPRIATION

Appropriation Language. 13

Appropriation - Budget Program Summary. 14

Summary of FY 1980 Increases and Decreases - DCPA - Related Activities. . . 15

Schedule of Increases and Decreases, DCPA Programs. 16

Summary of FY 1980 Increases and Decreases - FPA - Related Activities . . . 18

Schedule of Increases and Decreases, FPA Programs 19

Distribution by Object Classification - Direct Program. 20

Financial Assistance to States. 21

Plans and Preparedness. 33

Warning and Communications. 59

Information and Education 68

Reimbursable Activities 79

HAZARD MITIGATION AND DISASTER ASSISTANCE APPROPRIATION

Appropriation Language. 83

Appropriation - Budget Program Summary. 84

Schedule of Increases and Decreases 85

Distribution by Object Classification - Direct Program. 86

Insurance and Hazard Mitigation 87

Fire Prevention and Control 91

Facilities - Fire Academy 106

Disaster Relief Administration. 108

Flood Studies and Surveys 112

Executive Direction 116

Page

Reimbursable Activities. 118

DEFENSE PRODUCTION ACT, LOAN GUARANTEE ACTIVITIES

Appropriation - Budget Program Summary 122

Loan Guarantee Activities. 123

NATIONAL INSURANCE DEVELOPMENT FUND

Budget Program Summary 125

Distribution by Object Classification. 126

Summary of Increases and Decreases - Riot Reinsurance Program. 127

Summary of Budget Estimates - Riot Reinsurance 128

Riot Reinsurance Program 129

Summary of Increases and Decreases - Crime Insurance Program 134

Summary of Budget Estimates - Crime Insurance. 135

Crime Insurance Program. 136

NATIONAL FLOOD INSURANCE FUND

Budget Program Summary 139

Distribution by Object Classification. 140

Summary of Increases and Decreases 141

Summary of Budget Estimates. 142

National Flood Insurance Fund. 144

DISASTER RELIEF

Appropriation Language 151

Appropriation - Budget Program Summary 152

Summary of FY 1980 Increases and Decreases 153

Summary of Budget Estimates. 154

Distribution by Object Classification. 155

Disaster Relief. 156

INTRODUCTION TO JUSTIFICATION OF FEDERAL EMERGENCY MANAGEMENT AGENCY ESTIMATES FOR FY 1980

The Federal Emergency Management Agency (FEMA) program for FY 1980 reflects the consolidation of five existing agencies and six disaster-related responsibilities into a single agency. Reorganization Plan No. 3 of 1978 and Presidential redelegations by Executive Order merge into one agency (FEMA) Federal programs to plan, coordinate and review preparedness, mitigation, and response to civil emergencies including accidental, natural, man-caused or wartime emergency or threat. The past fragmentation of these programs has caused redundancy and inefficiency in the Federal effort and confusion with respect to participation of and assistance to States and localities. The reorganization is designed to create a single Federal focus for State and local governments and to enhance the dual use of emergency preparedness and response resources at all levels of government by taking advantage of the similarities in planning and response activities for peacetime and attack emergencies.

Five existing agencies are being consolidated into the FEMA budget structure under two new activity classifications as follows:

Emergency Planning, Preparedness and Mobilization

-- The Defense Civil Preparedness Agency (Defense Department), which administers the National civil defense program;

-- The Federal Preparedness Agency (General Services Administration), which coordinates civil planning for national emergencies;

Hazard Mitigation and Disaster Assistance

-- The Federal Disaster Assistance Administration (Housing and Urban Development Department), which coordinates and funds federal disaster relief operations;

-- The Federal Insurance Administration (Housing and Urban Development Department), which manages the flood insurance and hazard mitigation programs; and,

-- The United States Fire Administration (Commerce Department), which administers the Federal fire prevention and control program in coordination with State and local governments.

The reorganization also transfers several other related functions to the new Federal Emergency Management Agency including: the community preparedness programs for weather emergencies from the National Oceanic and Atmospheric Administration; and the Earthquake Hazard Reduction Program, the Dam Safety Coordination Program, and the Federal Emergency Broadcast System oversight responsibility from the Office of Science and Technology Policy. In addition, two new programs are assigned to FEMA for the coordination of emergency warning and for the Federal response to the consequences of terrorist incidents.

This budget justification book has been prepared by consolidation of budget data submitted by the component agencies following the OMB mark-up of individual budget requests. While there has been some effort to provide a common format, there has been no attempt to revise the type or substance of material presented by the agencies.

Crosswalk schedules are provided in the general section at the front of the book to reflect the relationship between the current agencies and the budget activity classifications proposed for two new appropriations. The two new accounts are "Emergency Planning, Preparedness and Mobilization," which comprises the program activities of DCPA and FPA, and "Hazard Mitigation and Disaster Assistance" which includes the activities of the USFA and FIA, the personnel and administrative support costs of FDAA, and the "executive direction" of the entire Federal Emergency Management Agency. In this instance executive direction is defined as the FEMA Director, his immediate staff and common administrative functions such as procurement, personnel, accounting, budgeting, and general counsel.

The FEMA programs will reflect integration of common or overlapping programs and functions of the merged agencies where feasible. However, care has to be taken to insure that ongoing programs not be impeded in any way so as to avoid confusion among the States and local political subdivisions which must implement the preparedness and disaster response programs at the local level.

The FEMA program for FY 1980 reflects initial implementation of an emergency preparedness and disaster response program, at a slightly decreased funding level from FY 1979.

Civil Defense program emphasis in FY 1980 is aimed at developing the capability of relocating people from potential high risk areas to lower risk or host areas while maintaining an option for in-place protection. Initial efforts toward development of a relocation capability will be focused in those parts of the Nation where crisis relocation appears most feasible and credible and which present the fewest planning problems. Such risk areas include localities near strategic forces installations and small to medium-sized metropolitan areas.

The budget request for flood studies and surveys to support the national flood insurance program has been decreased by $11 million, from $85 million to $74 million. This reduction is the result of the redirection of program emphasis from concentration on the study effort to providing technical assistance to communities with completed studies to enable them to effectively manage their flood plans.

A significant change is proposed for funding the administration of the President's Disaster Relief activities. Heretofore disaster relief administrative expenses were financed by a 3% allocation in the no-year Disaster Relief appropriation. The FY 1980 budget requests annual funding under the Hazard Mitigation and Disaster Assistance appropriation.

For purposes of comparison, budget figures for FY 1978 and FY 1979 have been included even though FEMA will not have been in existence during that entire period of time.

To assist in identifying portions of this transition budget related to component agency programs, an agency designation is printed in the upper right corner of each page.

ALL COMPONENTS

FY 1980 BUDGET ESTIMATE

APPROPRIATION AND BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Appropriation/Budget Program	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
EMERGENCY PLANNING, PREPAREDNESS, AND MOBILIZATION				
Financial Assistance to States	21	$ 36,952	$ 40,651	$ 39,034
Plans and Preparedness	33	58,882	60,856	70,068
Warning and Communications	59	22,931	21,776	22,128
Information and Education	68	5,203	6,465	7,891
Total Appropriation		$123,968	$129,748	$139,121
Reimbursable Program	80	3,175	2,528	2,425
HAZARD MITIGATION AND DISASTER ASSISTANCE				
Insurance and Hazard Mitigation	87	$ 8,121	$ 9,078	$ 9,778
Fire Prevention and Control	91	13,828	17,785	16,389
Facilities, Fire Academy	106	0	6,400	0
Disaster Relief Administration	108	11,482	10,447	9,172
Flood Studies and Surveys	112	84,821	85,000	74,000
Executive Direction	116	10,252	10,713	10,956
Total Program Obligations		128,504	139,423	120,295
Unobligated Balance - Beg. of Year		(821)	(6,986)	(700)
Unobligated Balance - End of Year		6,986	700	
Total Appropriation		$134,669	$133,137	$119,595
Reimbursable Program	119	577	327	227
DEFENSE PRODUCTION ACT, LOAN GUARANTEE ACTIVITIES				
Unobligated Balance - Beg. of Year		$ (236)	$ 0	$ 0
Unobligated Balance - Lapsed		236	0	0
Total Appropriation	122	$ 0	$ 0	$ 0
NATIONAL INSURANCE DEVELOPMENT FUND				
Riot Reinsurance Claims		$ 1,509	$ 1,500	$ 1,000
Crime Insurance		20,049	24,049	30,027
Studies and Surveys		0	323	822
Administrative Expenses		226	227	227
Change in Undelivered Orders		81	0	0
Total Program Obligations		21,865	26,099	32,076
Financed by Interest Earnings, Insurance Premiums and Borrowings		21,865	26,099	32,076
Total Appropriation	125	$ 0	$ 0	$ 0

(Continued on following page)

ALL COMPONENTS

Appropriation/Budget Program	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
NATIONAL FLOOD INSURANCE FUND				
Insurance Underwriting Expense		$ 32,685	$ 35,468	$ 41,098
Loss and Adjustment Expense		146,994	153,419	171,504
Interest Expense		11,755	14,957	19,981
Adjustment of Prior Year Costs		(11,849)	0	0
Change in Undelivered Orders		2,847	(1,702)	0
Total Program Obligations		182,432	202,142	232,583
Financed by insurance premiums and borrowings		182,432	202,142	232,583
Total Appropriation	139	$ 0	$ 0	$ 0
DISASTER RELIEF				
Aid to Stricken Areas		$442,947	$198,385	$193,600
Adjustment of Prior Year Obligations		(4,345)	0	0
Total Program Obligations		438,602	198,385	193,600
Unobligated Balance - Beg. of Year		(4,166)	(6,280)	0
Unobligated Balance - End of Year		6,280	0	0
Total Appropriation	151	$440,716	$192,105	$193,600
GRAND TOTAL APPROPRIATIONS		$699,353	$454,990	$452,316

FEDERAL EMERGENCY MANAGEMENT AGENCY

PROPOSED APPROPRIATION STRUCTURE

Old		New	
86X4236	National Flood Insurance Fund, FIA, HUD	58X4236	National Flood Insurance Fund, FEMA
83X4235	National Insurance Development Fund, HUD	58X4235	National Insurance Development Fund, FEMA
11X0039	Disaster Relief, FDAA, Funds Appropriated to the President	11X0039	Disaster Relief, FEMA, Funds Appropriated to the President
47-4080	Defense Production Act, Loan Guarantee Activities, GSA	58-4080	Defense Production Act, Loan Guarantee Activities, FEMA
43-0604	Operation and Maintenance, DCPA, DOD 1/	58-0200	Emergency Planning, Preparedness, and Mobilization, FEMA
43-0605	Research, Shelter Survey and Marking, DCPA, DOD 1/		
47-0111	Salaries and Expenses, FPA, GSA 1/		
47-0113	Expenses, Defense Production Act, GSA		
47X0618	State and Local Preparedness, GSA		
86-0143	Salaries and Expenses, HUD 2/	58-0201	Hazard Mitigation and Disaster Assistance, FEMA
86-0147	Flood Insurance, FIA, HUD		
13X0800	Operations, Research and Administration, NFPCA		
13-0801	Facilities, NFPCA (three year fund)		
13X1450	Operations, Research and Facilities, NOAA 3/		

1/ Minor portion related to "Executive Direction" to be funded under Hazard Mitigation and Disaster Assistance account
2/ FIA and FDAA portion
3/ Community Services portion

43-133 O - 79 - 35

CROSSWALK SCHEDULE - FY 1978
ACTIVITIES OF DCPA AND FPA
(In thousands of dollars)

	FY 1978 BUDGET ESTIMATE	EMERGENCY PLANNING, PREPAREDNESS & MOBILIZATION APPROPRIATION					HM&DA APPN
		FIN ASST TO STATES	PLANS & PREP	WARNING & COMM	INFO & EDUC	TOTAL EPP&M	EXEC DIRECTION
DCPA - OPERATION AND MAINTENANCE	$ 70,336	$ 33,293	$ 20,252	$ 7,971	$ 5,203	$ 66,719	$ 3,617
Warning and Detection	11,621		2,919	7,514	1,188	11,621	
Emergency Operations	3,490		769	457	2,264	3,490	
Financial Assistance to States	33,293	33,293				33,293	
Management	21,932		16,564		1,751	18,315	3,617
DCPA - RESEARCH, SHELTER SURVEY AND MARKING	$ 20,926	$ 3,659	$ 16,902	$ 126		$ 20,687	$ 239
Shelters	9,792		9,427	126		9,553	239
Emergency Operating Centers	3,659	3,659				3,659	
Research and Development	7,475		7,475			7,475	
FPA - SALARIES AND EXPENSES	$ 37,122		$ 20,428	$ 14,834		$ 35,262	$ 1,860
National Resources Preparedness	1,970		1,970			1,970	
Continuity of Government Operations	28,217		13,383	14,834		28,217	
Research, Development and Program Coordination	3,727		3,727			3,727	
Systems Evaluation and Operation Support	0		0			0	
Service Direction	3,208		1,348			1,348	1,860
FPA - EXPENSES, DEFENSE PRODUCTION ACT	$ 1,300		$ 1,300			$ 1,300	
Expansion of Productive Capacity	1,300		1,300			1,300	
FPA - STATE AND LOCAL PREPAREDNESS	$ 0		$ 0			$ 0	
Program Development	0		0			0	
U. S. ARMY - OPERATION AND MAINTENANCE	$ 200						$ 200
Overhead Support of DCPA	200						200
GSA - S&E ADMINISTRATIVE STAFF & SUPPORT SERVICES	$ 353						$ 353
Overhead Support of FPA	353						353
GRAND TOTAL	$130,237	$ 36,952	$ 58,882	$ 22,931	$ 5,203	$123,968	$ 6,269

CROSSWALK SCHEDULE - FY 1979
ACTIVITIES OF DCPA AND FPA
(In thousands of dollars)

	FY 1979 BUDGET ESTIMATE	EMERGENCY PLANNING, PREPAREDNESS & MOBILIZATION APPROPRIATION					HM&DA APPN
		FIN ASST TO STATES	PLANS & PREP	WARNING & COMM	INFO & EDUC	TOTAL EPP&M	EXEC DIRECTION
DCPA - OPERATION AND MAINTENANCE	$ 78,070	$ 36,824	$ 22,664	$ 8,213	$ 6,465	$ 74,166	$ 3,904
Warning and Detection	12,200		3,041	7,963	1,196	12,200	
Emergency Operations	5,359		1,725	250	3,384	5,359	
Financial Assistance to States	36,824	36,824				36,824	
Management	23,687		17,898		1,885	19,783	3,904
DCPA - RESEARCH, SHELTER SURVEY AND MARKING	$ 19,810	$ 3,827	$ 15,431	$ 102		$ 19,360	$ 450
Shelters	10,819		10,267	102		10,369	450
Emergency Operating Centers	3,827	3,827				3,827	
Research and Development	5,164		5,164			5,164	
FPA - SALARIES AND EXPENSES	$ 37,657		$ 22,681	$ 13,461		$ 36,142	$ 1,515
National Resources Preparedness	2,226		2,226			2,226	
Continuity of Government Operations	8,223		8,223			8,223	
Research, Development and Program Coordination	0		0	0		0	
Systems Evaluation and Operation Support	23,984		10,523	13,461		23,984	
Service Direction	3,224		1,709			1,709	1,515
FPA - EXPENSES, DEFENSE PRODUCTION ACT	$ 0		$ 0			$ 0	
Expansion of Productive Capacity	0		0			0	
FPA - STATE AND LOCAL PREPAREDNESS	$ 80		$ 80			$ 80	
Program Development	80		80			80	
U. S. ARMY - OPERATION AND MAINTENANCE	$ 200					$ 0	$ 200
Overhead Support of DCPA	200					0	200
GSA - S&E ADMINISTRATIVE STAFF & SUPPORT SERVICES	$ 383					$ 0	$ 383
Overhead Support of FPA	383					0	383
GRAND TOTAL	$136,200	$ 40,651	$ 60,856	$ 21,776	$ 6,465	$129,748	$ 6,452

CROSSWALK SCHEDULE - FY 1980
ACTIVITIES OF DCPA AND FPA
(In thousands of dollars)

	FY 1980 BUDGET ESTIMATE	EMERGENCY PLANNING, PREPAREDNESS & MOBILIZATION APPROPRIATION					HM&DA APPN
		FIN ASST TO STATES	PLANS & PREP	WARNING & COMM	INFO & EDUC	TOTAL EPP&M	EXEC DIRECTION
DCPA - OPERATION AND MAINTENANCE	$ 82,807	$ 39,034	$ 21,375	$ 8,533	$ 7,891	$ 78,833	$ 3,974
Warning and Detection	13,798		3,930	8,268	1,600	13,798	
Emergency Operations	5,968		1,326	265	4,377	5,968	
Financial Assistance to States	39,034	39,034				39,034	
Management	24,007		18,119		1,914	20,033	3,974
DCPA - RESEARCH, SHELTER SURVEY AND MARKING	$ 25,793	$ 0	$ 25,236	$ 107	$ 0	$ 25,343	$ 450
Shelters	17,149		16,592	107		16,699	450
Emergency Operating Centers	0	0				0	
Research and Development	8,644		6,644			8,644	
FPA - SALARIES AND EXPENSES	$ 36,616	$ 0	$ 21,457	$ 13,488	$ 0	$ 34,945	$ 1,671
National Resources Preparedness	1,937		1,937				
Continuity of Government Operations	8,226		8,226				
Research, Development and Program Coordination	0						
Systems Evaluation and Operation Support	23,034		9,546	13,488			
Service Direction	3,419		1,748				1,671
FPA - EXPENSES, DEFENSE PRODUCTION ACT	$ 0		$ 0			$ 0	
Expansion of Productive Capacity	0		0			0	
FPA - STATE AND LOCAL PREPAREDNESS	$ 0		$ 0			$ 0	
Program Development	0		0			0	
U. S. ARMY - OPERATION AND MAINTENANCE	$ 200					$ 0	$ 200
Overhead Support of DCPA	200					0	200
GSA - S&E ADMINISTRATIVE STAFF & SUPPORT SERVICES	$ 383					$ 0	$ 383
Overhead Support of FPA	383					0	383
GRAND TOTAL	$145,799	$ 39,034	$ 70,068	$ 22,128	$ 7,891	$139,121	$ 6,678

CROSSWALK SCHEDULE - FY 1978
ACTIVITIES OF FIA, USFA AND FDAA
(In thousands of dollars)

		HAZARD MITIGATION AND DISASTER ASSISTANCE APPROPRIATION					
	FY 1978 ACTUAL	INS & HAZARD MITIGATION	FIRE PREV & CONTROL	FACILITIES FIRE ACADEMY	DISASTER RELIEF ADMIN	FLOOD STUDIES & SURVEYS	EXECUTIVE DIRECTION
SALARIES AND EXPENSES, HUD	$ 23,231	$ 8,121			$ 11,482		$ 3,628
FIA and Overhead portion	11,049	8,121					2,928
Temporary Housing - FDAA 1/	2,898				2,898		
FDAA Administrative Expenses	9,284				8,584		700
FLOOD INSURANCE, FIA, HUD	$ 84,821					$ 84,821	
Flood Studies and Surveys	84,821					84,821	
OPERATIONS RESEARCH AND ADMINISTRATION, NFPCA	$ 14,198		$ 13,843				$ 355
Education and Training	5,124		4,769				355
National Fire Data Center	2,150		2,150				
Research and Development	6,909		6,909				
Increase in Unobligated Balance Carried Forward	15		15				
FACILITIES, NFPCA	$ 6,150			$ 6,150			
Facilities	6,150			6,150			
OPERATIONS, RESEARCH AND FACILITIES, NOAA	$ 0	$ 0					
Public Forecast and Warning Services (Community Services portion)	0	0					
TOTAL FIA, USFA, & FDAA PROGRAMS	$128,400	$ 8,121	$ 13,843	$ 6,150	$ 11,482	$ 84,821	$ 3,983
Executive Direction - DCPA & FPA Portion 2/	$ 6,269						$ 6,269
Appropriations lapsing	179						
Total	$134,848						$ 10,252

1/ This item was reflected in the President's Budget Appendix under "Insurance and Hazard Mitigation"
2/ See Crosswalk for DCPA and FPA activities for detail

CROSSWALK SCHEDULE - FY 1979
ACTIVITIES OF FIA, USFA AND FDAA
(In thousands of dollars)

	FY 1979 BUDGET ESTIMATE	HAZARD MITIGATION AND DISASTER ASSISTANCE APPROPRIATION					
		INS & HAZARD MITIGATION	FIRE PREV & CONTROL	FACILITIES FIRE ACADEMY	DISASTER RELIEF ADMIN	FLOOD STUDIES & SURVEYS	EXECUTIVE DIRECTION
SALARIES AND EXPENSES, HUD	$ 23,062	$ 8,778			$ 10,447		$ 3,837
FIA and Overhead portion	11,917	8,778					3,139
Temporary Housing - FDAA 1/	3,030				3,030		
FDAA Administrative Expenses	8,115				7,417		698
FLOOD INSURANCE, FIA, HUD	$ 85,000					$ 85,000	
Flood Studies and Surveys	85,000					85,000	
OPERATIONS RESEARCH AND ADMINISTRATION, NFPCA	$ 17,623		$ 17,199				$ 424
Education and Training	6,748		6,324				424
National Fire Data Center	3,402		3,402				
Research and Development	8,059		8,059				
Decrease in Unobligated Balance Carried Forward	(586)		(586)				
FACILITIES, NFPCA	$ 0			$ 0			
Facilities	0			0			
OPERATIONS, RESEARCH AND FACILITIES, NOAA	$ 1,000	$ 1,000					
Public Forecast and Warning Services (Community Services portion)	1,000	1,000					
TOTAL FIA, USFA, & FDAA PROGRAMS	$126,685	$ 9,778	$ 17,199	$ 0	$ 10,447	$ 85,000	$ 4,261
Executive Direction - DCPA & FPA Portion 2/	$ 6,452						$ 6,452
Total	$133,137						$ 10,713

1/ This item was reflected in the President's Budget Appendix under "Insurance and Hazard Mitigation"
2/ See Crosswalk for DCPA and FPA activities for detail

CROSSWALK SCHEDULE - FY 1980
ACTIVITIES OF FIA, USFA AND FDAA
(In thousands of dollars)

	FY 1980 BUDGET ESTIMATE	HAZARD MITIGATION AND DISASTER ASSISTANCE APPROPRIATION					
		INS & HAZARD MITIGATION	FIRE PREV & CONTROL	FACILITIES FIRE ACADEMY	DISASTER RELIEF ADMIN	FLOOD STUDIES & SURVEYS	EXECUTIVE DIRECTION
SALARIES AND EXPENSES, HUD	$ 21,833	$ 8,778			$ 9,172		$ 3,883
FIA and Overhead portion	11,917	8,778					3,139
Temporary Housing - FDAA 1/	3,030				3,030		
FDAA Administrative Expenses	6,886				6,142		744
FLOOD INSURANCE, FIA, HUD	$ 74,000					$ 74,000	
Flood Studies and Surveys	74,000					74,000	
OPERATIONS RESEARCH AND ADMINISTRATION, NFPCA	$ 16,784		$ 16,389				$ 395
Education and Training	6,079		5,684				395
National Fire Data Center	3,895		3,895				
Research and Development	6,810		6,810				
FACILITIES, NFPCA	$ 0			$ 0			
Facilities	0			0			
OPERATIONS, RESEARCH AND FACILITIES, NOAA	$ 300	$ 300					
Public Forecast and Warning Services (Community Services portion)	300	300					
TOTAL FIA, USFA, & FDAA PROGRAMS	$112,917	$ 9,078	$ 16,389	$ 0	$ 9,172	$ 74,000	$ 4,278
Executive Direction - DPCA & FPA Portion 2/	$ 6,678						$ 6,678
Total	$119,595						$ 10,956

1/ This item was reflected in the President's Budget Appendix under "Insurance and Hazard Mitigation"
1/ See Crosswalk for DCPA and FPA activities for detail

APPROPRIATION LANGUAGE

EMERGENCY PLANNING, PREPAREDNESS, AND MOBILIZATION

For necessary expenses, not otherwise provided for, to carry out civil defense and emergency preparedness activities, including activities authorized by Section 103 of the National Security Act (50 U.S.C. 404), the Strategic and Critical Materials Stock Piling Act (50 U.S.C. App. 98-98h-8), the Federal Civil Defense Act of 1950 (50 U.S.C. App. 2251-2297), and the Defense Production Act of 1950 (50 U.S.C. App. 2061-2166), $139,121,000 of which not to exceed $37,100,000 shall be available for allocation under Section 205 of the Federal Civil Defense Act of 1950. (Additional authorizing legislation to be proposed for $108,600,000.)

FY 1980 BUDGET ESTIMATE

EMERGENCY PLANNING, PREPAREDNESS AND MOBILIZATION
APPROPRIATION - BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Budget Program/Project	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Financial Assistance to States	21	$ 36,952	$ 40,651	$ 39,034
State and Local Management	22	31,600	35,000	37,100
State and Local Maintenance & Services	25	1,693	1,824	1,934
State and Local Emergency Operating Centers	27	257	0	0
State and Local Supporting Materials	29	3,402	3,827	0
Plans and Preparedness	33	$ 58,882	$ 60,856	$ 70,068
Radiological Defense	34	3,140	3,277	4,168
State and Local Civil Protection and Planning Assistance	38	24,868	26,965	33,499
Federal Preparedness	46	20,428	22,681	21,457
Expansion of Productive Capacity	50	1,300	0	0
State and Local Preparedness	51	0	80	0
Research and Systems Development	52	9,146	7,853	10,944
Warning and Communications	59	$ 22,931	$ 21,776	$ 22,128
Federal-State-Local Communications and Warning Systems	60	8,097	8,315	8,640
Federal-level Communications	67	14,834	13,461	13,488
Information and Education	68	$ 5,203	$ 6,465	$ 7,891
Training and Education	69	3,775	4,846	5,427
Emergency Information	73	1,428	1,619	2,464
Total		$123,968	$129,748	$139,121

Summary of FY 1980 Increases and Decreases

DCPA - Related Activities

	($000)
1. FY 1979 Appropriations Enacted by Congress	$ 96,500
2. Proposed Pay Supplementals	+ 1,410
	97,910
3. Less Adjustment for Leach Amendment	- 30
4. Revised FY 1979 Estimate	$ 97,880
5. Net Increases in FY 1980	+10,720
6. FY 1980 Budget Request	$108,600

Distribution by Appropriation:

Emergency Planning, Preparedness and Mobilization	$104,176
Hazard Mitigation and Disaster Assistance	4,424
Total	$108,600

SCHEDULE OF INCREASES AND DECREASES
DCPA PROGRAMS
FY 1980 vs FY 1979
(In thousands of dollars)

	FY 1979	FY 1980	Increase or Decrease
FINANCIAL ASSISTANCE TO STATES	$ 40,651	$ 39,034	$- 1,617
State and Local Management	35,000	37,100	+ 2,100
State and Local Maintenance and Services	1,824	1,934	+ 110
State and Local Emergency Operating Centers	0	0	
State and Local Supporting Materials	3,827	0	- 3,827
PLANS AND PREPAREDNESS	$ 38,095	$ 44,591	$+ 6,496
Radiological Defense	(3,277)	(4,168)	+(891)
Equipment Engineering	190	525	+ 335
Logistical Support	244	245	+ 1
Fallout Forecasting	11	11	0
RADEF Equipment	140	149	+ 9
Maintenance and Calibration	2,456	3,000	+ 544
Program Staff	236	238	+ 2
State and Local Civil Protection and Planning Assistance	(26,965)	(33,499)	+(6,534)
Nuclear Civil Protection Planning	4,754	5,039	+ 285
National Shelter Survey	2,129	3,939	+ 1,810
Engineering Support Services	3,384	3,614	+ 230
Shelter Marking	0	0	0
Emergency Operations Pilot Projects	0	4,000	+ 4,000
Program Staff	16,492	16,691	+ 199
Regional Emergency Operating Centers	0	0	0
Red Cross Advisory Services	206	216	+ 10
Research and Systems Development	(7,853)	(10,944)	+(3,091)
Nuclear Civil Protection Planning	2,520	2,979	+ 459
Physical Protection	1,100	1,365	+ 265
Emergency Operations	225	1,480	+ 1,255
Systems Analysis	1,060	1,365	+ 305
Training, Education and Organization Research	259	455	+ 196
Systems Development	1,519	2,110	+ 591
Program Staff	1,170	1,190	+ 20
WARNING AND COMMUNICATIONS	$ 8,315	$ 8,640	$+ 325
Federal-State-Local Systems	(8,315)	(8,640)	+(325)
National Warning System	2,902	3,037	+ 135
Washington Warning System	584	616	+ 32
CD National Communications System	1,455	1,517	+ 62
CD National Radio System	1,262	1,286	+ 24
Other Communications Services	868	920	+ 52
Communications Support	155	155	0
Broadcast Station Protection Program	250	265	+ 15
Decision Information Distribution System	102	107	+ 5
Local Direction and Control Operations Procedures	737	737	0

(Continued on following page)

DCPA

	FY 1979	FY 1980	Increase or Decrease
INFORMATION AND EDUCATION	$ 6,465	$ 7,891	$+ 1,426
Training and Education	(4,046)	(5,427)	+(581)
Seminars	2,216	2,349	+ 133
Student Expenses	60	63	+ 3
RADEF Training	1,196	1,600	+ 404
Training Materials	382	405	+ 23
Program Staff	992	1,010	+ 18
Emergency Information	(1,619)	(2,464)	+(845)
Information on CD Programs	320	192	- 128
Liaison Services	17	75	+ 58
Architects and Engineers Technical Information	179	189	+ 10
Citizen Information	210	1,104	+ 894
Program Staff	893	904	+ 11
TOTAL EMERGENCY PLANNING, PREPAREDNESS AND MOBILIZATION APPROPRIATION	$ 93,526	$104,176	$+10,650
DCPA Portion of Executive Direction in Hazard Mitigation and Disaster Assistance Appropriation	4,354	4,424	+ 70
TOTAL DCPA - RELATED PROGRAMS	$ 97,880	$108,600	$+10,720

Summary of FY 1980 Increases and Decreases

FPA - Related Activities

	Perm Pos.	Man Years	($000) Amount
FY 1979 Appropriation Enacted by Congress	896	952	$39,245
Proposed supplemental for pay increases	-	-	1,187
Total	896	952	40,432
Less Transfer of Stockpile Acquisitions and Disposals to GSA	-70	-70	-2,675
Less adjustments for reimbursements and the Leach Amendment	-31	-48	- 100
Total, 1979	795	834	37,657
Changes from 1979 to 1980	-28	-28	-1,041
FY 1980 Budget Request	767	806	$36,616
Reimbursable Activity	55	65	2,300
Total Program	822	871	$38,916

Summary Justification of FY 1980 Budget Estimate

Direct obligational authority for FY 1980 is estimated at $36,616,000, a decrease of $1,041,000 from the authorized level for FY 1979. The decreased funding requirements are:

Increases:

Payment to Federal Building Fund for additional SLUC	$ 54,000
Two additional work days in FY 1980	146,000
Total increases	$ 200,000

Decreases:

Decreases resulting from program adjustments associated with zero base budgeting analysis and Leach Amendment requirements	$-1,231,000
GSA Improvement in FSS Supply System	- 10,000
Total decreases	$-1,241,000
Net decreases	$-1,041,000

Detail justifications are provided in the individual activities.

SCHEDULE OF INCREASES AND DECREASES
FPA - RELATED PROGRAMS
FY 1980 vs FY 1979
(In thousands of dollars)

	FY 1979		FY 1980		Increase or Decrease	
	Man Years	Amount	Man Years	Amount	Man Years	Amount
Federal Preparedness						
National Resources Preparedness	52	$ 2,226	45	$ 1,937	-7	$- 289
Continuity of Government Operations	302	8,223	302	8,226	-	3
Systems Evaluation and Operations Support	360	10,523	337	9,546	-23	- 977
Regional Offices & Foreign Affairs	66	1,709	68	1,748	- 2	39
Warning and Communications	-	13,461	-	13,488	-	27
FPA portion of Executive Direction 1/	54	1,515	54	1,671	-	156
Total, Direct	834	37,657	806	36,616	-28	-1,041
Total, Reimbursable	65	2,403	65	2,300	-	- 103
Grand Total	899	$40,060	871	$38,916	-28	$-1,144
Perm Pos Est (Total)	850		822		-	
Direct	(795)		(767)		(-28)	
Reimbursable	(55)		(55)		(-)	

1/ Included under Hazard Mitigation and Disaster Assistance appropriation.

EMERGENCY PLANNING, PREPAREDNESS, AND MOBILIZATION
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

Direct Obligations	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
11.0 Personnel Compensation	$ 29,728	$ 33,182	$ 32,960
12.0 Personnel Benefits	2,942	3,059	3,104
21.0 Travel and Transportation of Persons	927	1,006	1,043
22.0 Transportation of Things	49	37	52
23.1 Standard Level User Charges	2,083	2,120	2,220
23.2 Rent, Communications, and Utilities	19,929	19,989	23,345
24.0 Printing and Reproduction	328	293	347
25.0 Other Services	29,436	28,075	31,469
26.0 Supplies and Materials	622	880	886
31.0 Equipment	917	371	500
41.0 Grants, Subsidies, and Contributions	36,997	40,711	43,154
42.0 Insurance Claims and Indemnities	10	25	41
Total Direct Obligations	$123,968	$129,748	$139,121

PROGRAM: FINANCIAL ASSISTANCE TO STATES
(in thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
State and Local Management.	22	$31,600	$35,000	$37,100
State and Local Maintenance and Services. . .	25	$ 1,693	$ 1,824	$ 1,934
State and Local Emergency Operating Centers .	27	$ 257	$ 0	$ 0
State and Local Supporting Materials.	29	$ 3,402	$ 3,827	$ 0
Total.		$36,952	$40,651	$39,034

STATE AND LOCAL MANAGEMENT

FY 78: $31,600,000 FY 79: $35,000,000 FY 80: $37,100,000

PROGRAM DESCRIPTION

The Federal Civil Defense Act of 1950, as amended, states the policy and intent of Congress that "the responsibility for civil defense shall be vested jointly in the Federal Government and the several States and their political subdivisions." This policy is given effect largely by provisions of the Act which authorize Federal funds to match State and local expenditures for salary and administrative expenses of their civil defense staffs.

The objective of the State and Local Management Program is to assist States and their political subdivisions to develop a capability for operations to meet needs created by a civil defense emergency by providing funds on a 50-50 matching basis for the cost of staff and related expenses. Through this program State and local governments are expected to provide minimum numbers of personnel to adequately fulfill pre-emergency planning and training requirements. This professional staff is also expected to develop effective systems for warning, communications, direction and control, radiological defense and emergency public information. Field officers (located either at State Headquarters or throughout the State) will be supported to work directly with localities, in particular those without a civil defense staff.

Civil preparedness functions of government serve to provide protection and assistance for the people during both wartime emergencies and natural disaster situations. Personnel employed under the civil defense program while developing an efficient and effective nuclear disaster capability, also plan for the adaptation and use of locally available operational systems and services for other than enemy-caused disasters.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE AND LOCAL MANAGEMENT.	$31,600,000	$35,000,000	$37,100,000
1. State and Local.	$31,600,000	$35,000,000	$37,100,000

(Continued on following page)

43-133 O - 79 - 36

JUSTIFICATION OF ESTIMATE

To save lives and reduce property damage, States and their political subdivisions require a crisis management capability to cope with both wartime and peacetime emergencies. In order to achieve emergency preparedness, State and local governments require basic organizational arrangements and appropriate staff.

As of the end of fiscal year 1978, the 50 States, the District of Columbia, three territories and 2,441 local governments were provided Federal matching funds for personnel and administrative expenses. The population of counties and cities where these funds are being used to administer a civil defense program amounts to over 145 million people.

These civil defense staffs are skilled planners and technicians operating under the direct authority of their elected officials, and employed under an approved merit system.

1. STATE AND LOCAL.	$31,600,000	$35,000,000	$37,100,000

Federal matching funds to support personnel and administrative costs must be justified by State and local officials on the basis of work requirements for the planning, management and coordination of State and local government preparations for the protection of life and property from wartime emergencies or natural disaster situations. In terms of the FEMA program, this effort includes all things associated with Nuclear Civil Protection Planning (in-place and/or crisis relocation) and the development of the operational capability to conduct such operations, and the adaptation and use of locally available operational systems and services for other-than-enemy caused disasters.

Nuclear attack preparedness, as with any other type of preparedness, must exist at local, State, and National levels. Thus, one cannot have nuclear attack preparedness unless local and State governments have an adequate base of total preparedness for any risk.

Funds requested for fiscal year 1980 provide for the expanded staffing funded in fiscal year 1979 plus an estimated 6% increase for price growth. State and local agencies will be encouraged to maintain the basic organizational staff and limit travel and all other expenses to a bare minimum.

The table on the following page provides information on State and local program levels:

STATE AND LOCAL MANAGEMENT

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE LEVEL:			
Positions	1,228	1,281	1,281
Full Time	1,154	1,207	1,207
Part Time	74	74	74
Work Years	1,191	1,244	1,244
Participants	54	56	56
Funds	$11,218,303	$12,370,000	$13,112,000
Personal Services	9,047,358	10,100,000	10,706,000
Travel	475,353	490,000	520,000
Other	1,695,592	1,780,000	1,886,000
LOCAL LEVEL:			
Positions	4,369	4,540	4,540
Full Time	2,302	2,400	2,400
Part Time	2,067	2,140	2,140
Work Years	3,335	3,470	3,470
Participants	2,481	2,545	2,545
Funds	$20,381,697	$22,630,000	$23,988,000
Personal Services	17,958,468	20,010,000	21,210,000
Travel	493,843	520,000	550,000
Other	1,929,386	2,100,000	2,228,000
TOTAL:			
Positions	5,597	5,821	5,821
Full Time	3,456	3,607	3,607
Part Time	2,141	2,214	2,214
Work Years	4,526	4,714	4,714
Participants	2,535	2,601	2,601
Funds	$31,600,000	$35,000,000	$37,100,000
Personal Services	27,005,826	30,110,000	31,916,000
Travel	969,196	1,010,000	1,070,000
Other	3,624,978	3,880,000	4,114,000

STATE AND LOCAL MAINTENANCE AND SERVICES

FY 78: $ 1,693,295 FY 79: $ 1,824,000 FY 80: $ 1,934,000

PROGRAM DESCRIPTION

This program, which matches Federal funds (50/50) with State and local funds, provides mainly for the recurring operation and maintenance costs of State and local communications and warning systems.

Since Fiscal Year 1952, the Federal Government has financially assisted States and their political subdivisions in building extensive communications and warning systems which are essential in carrying out civil defense plans during an emergency. Civil defense equipment must be maintained and protected by the State or political subdivision in such a way as to assure its readiness for the civil defense functions for which it was acquired.

The civil defense warning systems, when needed, are guaranteed operable by assurances of adequate maintenance and other standby costs. Further, disaster-oriented communications, used daily or kept in standby, are available for natural disaster operations when many other communications facilities are temporarily out of operation. The Disaster Relief Act of 1974 specifically provides for the utilization and availability of the civil defense communications systems for the purpose of disaster warnings.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE AND LOCAL MAINTENANCE AND SERVICES.	$ 1,693,295	$ 1,824,000	$ 1,934,000
1. State and Local.	$ 1,693,295	$ 1,824,000	$ 1,934,000
a. Direction and Control	691,811	719,000	890,000
b. Alerting and Warning.	994,873	1,032,000	986,000
c. Emergency Public Information.	6,611	73,000	58,000

JUSTIFICATION OF ESTIMATE

Since 1952, the Federal government has assisted States in establishing adequate national emergency communications systems to support direction and control requirements of key State and local officials to complete the warning chain to the population in local jurisdictions. Once acquired, it is essential that these communications systems be maintained operationally ready in the event of an attack upon

(Continued on following page)

the United States. Without Federal assistance, it is doubtful that State and local governments could afford to maintain this essential capability. These emergency systems are established for operational support in the event of attack. The equipment must be maintained to assure that systems will continue to operate and prevent unnecessary loss of life during any emergency situation.

Funds requested for fiscal year 1980 provide for the current level of support plus an anticipated 6% price growth.

1. STATE AND LOCAL	$ 1,693,295	$ 1,824,000	$ 1,934,000
a. Direction and Control	691,811	719,000	890,000

Funds requested provide for recurring operation and maintenance costs of communications requirements. They also provide for operations support equipment to maintain communications between State, State area, and local jurisdictions emergency operating centers, and major State agencies while conducting emergency services operations during a disaster.

b. Alerting and Warning	$ 994,873	$ 1,032,000	$ 986,000

Funds requested provide for recurring maintenance and services requirements for the communications equipment of State and local warning systems.

c. Emergency Public Information	$ 6,611	$ 73,000	$ 58,000

Funds requested provide maintenance and services requirements for support of State and local emergency public information systems.

STATE AND LOCAL EMERGENCY OPERATING CENTERS

FY 78: $ 256,981 FY 79: $ 0 FY 80: $ 0

PROGRAM DESCRIPTION

The State and Local Emergency Operating Centers Program was established as part of a nationwide network of emergency operating centers developed to cope with the effects of a nuclear attack upon the United States. This network involves emergency operating centers at national, state and local levels so that key officials will be able to receive essential information, consider alternative courses of emergency action, make logical crisis decisions, communicate their decisions to their own and other government operating forces and in so doing bring the maximum of all available resources to bear on the situation.

The present network of Emergency Operating Centers consists of approximately 4000 facilities, about 1000 of which have been funded in part with Federal matching funds on a 50/50 basis. Information reported in the DCPA management system as of March 31, 1977 indicates less than one-third of these emergency operating centers are considered to have a basic operational capability, i.e., adequate fallout protection; an emergency power generator and available emergency fuel supply; effective communications systems; and a viable plan for emergency staffing of the facility.

Emergency Operating Centers are the final product of a cycle of accomplishments that includes a feasibility study, architectural design, construction, equipping, and local budgeting. Total time for this cycle varies according to size, location, relationship to other construction, and budgeting of funds by applicant governments. The cycle for new construction is generally from three to four years.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE AND LOCAL EMERGENCY OPERATING CENTERS	$ 256,981	$ 0	$ 0
1. State and Local	$ 256,981	$ 0	$ 0

(Continued on following page)

JUSTIFICATION OF ESTIMATE

The Federal Civil Defense Act of 1950, as amended, states the policy and intent of the Congress that "responsibility for civil defense shall be vested jointly in the Federal Government and the several States and their political subdivisions." This policy is given effect by provisions of the Act which authorize federal funds to match State and local expenditures for emergency operating centers.

1. STATE AND LOCAL. . . . . $ 256,981 $ 0 $ 0

FEMA provides matching funds on a 50/50 basis, and/or technical advice and assistance to State and local governments, to stimulate the establishment of radiation fallout protected Emergency Operating Centers. Standards for EOCs are set by FEMA to assure an effective command and control system. Federal assistance is aimed at providing 339 State, State-Area and 5,681 local Emergency Operating Centers.

Chief executives and key officials, working out of EOCs, exercise crisis management prior to, during and following emergency situations. In a nuclear attack situation, State and local EOCs will serve as focal points for emergency activities including attack warning, receiving and issuing fallout information, directing the movement of people to shelters, controlling movement of people to host areas, damage assessment, and dissemination of emergency information and direction to political subdivisions and to the public.

There are two types of State EOCs: the primary type which serves State headquarters, and the Area type which is used to control and support a specific area of the State. State EOCs support local governments by making assistance available, and by establishing controls or priorities as necessary for effective use of resources. They also provide a link to the Federal Government through the Federal Regional Centers of the Federal Emergency Management Agency.

No funds are requested in FY 1980.

STATE AND LOCAL SUPPORTING MATERIALS

FY 78: $ 3,401,955 FY 79: $ 3,827,000 FY 80: $ 0

PROGRAM DESCRIPTION

The State and Local Supporting materials program provides Federal funds to be matched with State and local funds (50/50) for the procurement, and installation direction and control, of related equipment for such civil defense supporting systems as warning, communications, radiological defense, and emergency public information. All equipment projects must be justified on the basis of their contribution to nuclear attack preparedness. Items acquired with Federal contributions are authorized the following additional uses: (1) to combat or relieve the effects of disasters not resulting from enemy attack in accordance with P. L. 94-361, and (2) the general use of communications equipment subject to the following restrictions: (a) that such use does not involve unauthorized removal of the equipment from its place of use for civil defense purposes, and (b) that such use does not jeopardize its immediate availability in operating condition for civil defense purposes. Daily use of equipment eliminates standby costs since local governments assume 100% of the responsibility for maintenance and operation. Therefore, reliability for an attack emergency can be assured.

Since FY 1952, the Federal Government has financially assisted States and their political sub-divisions in building extensive communications and warning systems which are essential in carrying out civil defense plans during an emergency.

In order for a State or a political subdivision to be eligible for Federal contributions, the State civil defense agency must have either a full-time director or a full-time deputy director and the State must have a Federal Emergency Management Agency-approved civil defense program. Further, the political subdivision must have a civil defense agency which has been established pursuant to law and is responsible for the development of the activities and measures which go to make civil defense as defined in the Federal Civil Defense Act of 1950, as amended. In addition, the political subdivision must have a State-approved civil defense program consistent with the State program.

Items acquired with Federal contributions are maintained in usable condition and if consumed, lost, damaged, or destroyed, are replaced promptly by the State or political subdivision. Civil defense equipment is protected and maintained by the State or political subdivision in such a way as to assure its ready availability for the civil defense purpose for which it was acquired.

(Continued on following page)

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE AND LOCAL SUPPORTING MATERIALS . . .	$ 3,401,955	$ 3,827,000	$ 0
1. State and Local.	$ 3,401,955	$ 3,827,000	$ 0
a. Direction and Control System.	1,576,251	1,877,000	0
b. Emergency Services System	15,808	48,000	0
c. Warning System.	1,800,979	1,834,000	0
d. Emergency Public Information and Education	8,917	68,000	0

JUSTIFICATION OF ESTIMATE

This program, which equally matches Federal with State and local funds, provides for the procurement and installation of emergency operations support equipment. This equipment is primarily communications oriented and is intended to support the emergency operational requirements of the Direction and Control, Emergency Services, Warning, Radiological Defense and Emergency Public Information Systems. The program also covers the acquisition of emergency power generators and fuel tanks and other operational materials and equipment necessary to the effective operation of an Emergency Operating Center.

The program provides equipment in three categories: (1) for newly constructed operating centers, (2) for replacement of old unserviceable equipment in previously constructed operating centers which is no longer economical to repair, and (3) equipment to upgrade or expand system capabilities.

The lifesaving potential of this program is directly equated to the efficacy of the emergency operational plans of State and local governments and the ability of State and local officials to exercise their emergency management responsibilities.

1. STATE AND LOCAL. . . . . $ 3,401,955 $ 3,827,000 $ 0

a. Direction and Control System. . . . . $ 1,576,251 $ 1,877,000 $ 0

Funds provide for the procurement and installation of communications and operational support equipment and materials for State, State-Area, and local Emergency Operating Centers. This equipment will support the direction and control functions between the Emergency Operating Centers and major State agencies during a nuclear disaster by establishing radio communication capability between: State and State-Area EOCs and primary State operations forces, other State operations forces and the broadcast media; State-Area EOCs and State EOCs; local EOCs and primary local operations forces; local EOCs and other forces; local EOCs and the broadcast media; local EOCs and State or State-Area EOCs; and to establish wireline communications between EOCs and community shelter facilities.

b. Emergency Services System . . . . . $ 15,808 $ 48,000 $ 0

This project supports the State and local emergency services systems such as police, fire and rescue services. Federal funds are provided, which must be equally matched with State and local funds, in order that emergency services agencies may be furnished with equipment and materials, of the type and quantity not normally required for day-to-day emergency operations, in support of their assigned civil defense function.

(Continued on following page)

DCPA

c. Warning Systems. . . . . $ 1,800,979 $ 1,834,000 $ 0

Funds provide for the procurement and installation of communications equipment for State and local warning systems. These Systems provide for warning points which are the State and local portion of the Nationwide Civil Defense Warning Systems which are necessary to warn the public and alert key personnel and installations of an attack on the United States. Implementation of community emergency plans is dependent upon responsible authorities receiving timely attack warning information on which to base planned emergency actions.

d. Emergency Public Information . . . . $ 8,917 $ 68,000 $ 0

This project provides for procurement of equipment and materials necessary for local emergency public information system capabilities.

These systems provide for preparation and dissemination of critical information before and during an emergency situation to trigger public survival actions outlined in community emergency plans.

No funds are requested in FY 1980.

SUPPORTING MATERIALS

	Actual FY 1978	Estimate FY 1979
Alabama	$ 63,014	$ 49,100
Alaska	12,085	7,654
Arizona	3,371	26,000
Arkansas	47,575	56,764
California	204,931	323,600
Colorado	45,903	47,836
Connecticut	126,592	60,081
Delaware	14,382	14,000
District of Columbia	2,107	5,000
Florida	88,400	147,000
Georgia	37,493	48,100
Hawaii	134,903	18,000
Idaho	4,894	13,012
Illinois	198,967	191,233
Indiana	99,332	60,390
Iowa	55,524	61,232
Kansas	44,129	47,072
Kentucky	86,165	57,000
Louisana	46,531	48,503
Maine	14,119	31,380
Maryland	63,751	99,000
Massachusetts	53,014	94,507
Michigan	141,540	144,937
Minnesota	73,395	110,715
Mississippi	208,639	99,800
Missouri	77,449	80,330
Montana	21,541	22,962
Nebraska	28,652	30,616
Nevada	13,199	5,000
New Hampshire	6,000	19,135
New Jersey	21,491	111,700
New Mexico	26,997	28,703
New York	184,528	315,800
North Carolina	62,604	92,200
North Dakota	18,317	18,370
Ohio	176,044	181,171
Oklahoma	58,623	66,282
Oregon	20,011	45,504
Pennsylvania	185,403	218,200
Rhode Island	297	22,197
South Carolina	82,393	46,300
South Dakota	15,222	16,456
Tennessee	53,214	29,200
Texas	181,765	192,448
Utah	18,724	25,641
Vermont	4,650	16,456
Virginia	10,945	67,200
Washington	63,358	72,330
West Virginia	122,443	27,000
Wisconsin	68,829	116,754
Wyoming	7,799	9,185
Guam	0	35,000
Puerto Rico	0	46,686
Virgin Islands	700	5,358
	$ 3,401,955	$ 3,827,000

PROGRAM: PLANS AND PREPAREDNESS
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Radiological Defense	34	$ 3,140	$ 3,277	$ 4,168
State and Local Civil Protection and Planning Assistance	38	$24,868	$26,965	$33,499
Federal Preparedness	46	$20,428	$22,681	$21,457
Expansion of Productive Capacity	50	$ 1,300	$ 0	$ 0
State and Local Preparedness	51	$ 0	$ 80	$ 0
Research and Systems Development	52	$ 9,146	$ 7,853	$10,944
Total		$58,882	$60,856	$70,068

RADIOLOGICAL DEFENSE

FY 78: $ 3,139,771 FY 79: $ 3,277,000 FY 80: $ 4,168,000

PROGRAM DESCRIPTION

In the event of an all-out nuclear attack on the United States, it is expected that a predominant portion of the population would survive the initial blast. However, a majority of the surviving population would be potential victims of lethal fallout, i.e., radioactive debris sucked up in the mushroom cloud of a nuclear groundburst and scattered downwind for many miles as radioactive fallout. It is therefore essential that the civil defense system include a radiological defense capability consisting of instrumentation to measure the intensity of harmful gamma radiation and the cumulative exposure of the population to this radiation, a system and plan for the deployment of these instruments, trained personnel for operating the instruments, and a means of communicating radiological information. The ability to save lives in a fallout situation will depend largely on the adequacy of the foregoing coupled with the capability to shelter the people.

Radiation detection and measuring instruments are the only known means of determining the magnitude of the hazard to people, animals and crops of the lethal effect of radioactive fallout from a nuclear attack. These instruments are required to measure radiation exposure rates and cumulative exposures of the people in shelters and for warning people of over-exposure to radiation when performing emergency services outside of shelters for a limited period during a fallout environment. Closely related to this capability is the program to identify suitable shelter for the population, costs for which are included in the "Shelter" program of this budget.

This section of the budget provides for the development, procurement, and maintenance of the necessary radiological instruments. Costs for training of radiological defense officers and monitors are included in the Information and Education section of the budget. In addition, the salaries of specialized State and local radiological defense officers are eligible for Federal matching funds under the State and local management program (Financial Assistance to States).

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
RADIOLOGICAL DEFENSE	$ 3,139,771	$ 3,277,000	$ 4,168,000
1. National	$ 500,029	$ 445,000	$ 781,000
a. Equipment Engineering	211,559	190,000	525,000
b. Logistical Support	280,000	244,000	245,000
c. Fallout Forecasting	8,470	11,000	11,000
2. State and Local	$ 2,419,742	$ 2,596,000	$ 3,149,000
a. RADEF Equipment	122,000	140,000	149,000
b. Maintenance and Calibration of RADEF Equipment	2,297,742	2,456,000	3,000,000
3. Program Staff	$ 220,000	$ 236,000	$ 238,000

(Continued on following page)

JUSTIFICATION OF ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
1. NATIONAL	$ 500,029	$ 445,000	$ 781,000
a. Equipment Engineering	$ 211,559	$ 190,000	$ 525,000

Equipment engineering funds will be used to assure the continued operational readiness of State and local radiological defense systems and for pilot production and procurement of low cost ratemeters and dosimeters. Support of State and local systems will continue to be provided. This will be accomplished through technical support of State maintenance and calibration shops; continued review of procurements; including statistical sampling and testing of instrument inventories; and continued development of new or improved equipment. For example development will continue on the engineering of dosimeters based on darkening of fiber optics and on radiosensitive dyes.

In addition to continued support of State and local efforts, FY 1980 funds will be used for the pilot production of low cost ratemeters. These low cost radiological instruments are for exposure control for emergency workers and shelterees and are based on an ionization chamber detector with quartz fiber readout.

b. Logistical Support	$ 280,000	$ 244,000	$ 245,000

This program supports the radiological defense equipment necessary for civil preparedness purposes, not commercially available, which has been procured in advance of an emergency. To date 5.8 million instruments costing $52 million have been procured, 90% of which have been distributed to states for deployment to State and local levels for use in the event of nuclear attack or peacetime nuclear incidents.

Maintenance and modernization of this equipment is supported by a repair part supply system maintained by a federal depot. FY 1980 funding provides for procurement services, receiving, handling, temporary storage, testing, modernization, inspection, issue, disposal and documentation of all radiological items including radioactive material, spare parts and supplies. Modernization of the following instruments are planned:

500 CD V-700	Survey Meters
10 CD V-711	Remote Radiation Meters
100 CD V-781	Aerial Survey Meters
3,000 CD V-715	Radiological Survey Meters

The above work includes 9.0 work years of reimbursable effort from the Defense Logistics Agency.

c. Fallout Forecasting	$ 8,470	$ 11,000	$ 11,000

Fallout forecast data is required to predict likely contaminated areas and arrival times of fallout. Daily nationwide distribution is essential because of probable damage to communications during an attack.

FY 1980 funding provides for twice daily collection of direction and speed of upper winds at 70 National Weather Service observatories, computer processing of the observed wind data for forecasts for 133 locations and nationwide distribution of forecasts twice daily over FAA teletypewriter service "C". During a period of increased readiness additional forecasts will be provided.

(Continued on following page)

			DCPA
1. STATE AND LOCAL	$ 2,419,742	$ 2,596,000	$ 3,149,000
a. RADEF Equipment	$ 122,000	$ 140,000	$ 149,000

The following radiological spare parts will be purchased in FY 1980 to support the radiological equipment maintenance and calibration program at an estimated cost of $149,000.

Item	Quantity
Batteries, 1½ V "D" Cell	700,000
Batteries, 22½ V	800
Batteries, special test equipment	400
Cartons	20,000
Expendable items and selected repair parts	13,000

Bulk procurement of these items results in a much lower cost than if procured separately by the States.

b. Maintenance and Calibration of RADEF Equipment	$ 2,297,742	$ 2,456,000	$ 3,000,000

In order to provide an assured operational reliability of radiological equipment FEMA continally maintains an inspection and testing program. Annually 25% of the instruments in the field are tested for operability.

Inoperable sets are immediately replaced and samplings of instruments tested are sent to repair shops for further quality assurance tests which point to need for calibration, battery/component replacement or minor repairs thereby maintaining a high degree of operational capability of field instruments. FY 1980 funds will provide for the test for operability of instruments in 57,000 shelter and operational sets and reliability and assurance testing of a sampling of 16,000 retrofitted instruments, calibrate 82,000 high-range instruments, repair 30,000 FEMA-type instruments, and 10,000 military and non-CD type instruments, perform 2,100 wipe tests on FEMA-training source sets and other radioactive sets on loan to States, furnish replacement batteries to local jurisdictions on a two-year cycle and retrofitting 42,000 CD V-715 radiological survey meters. This effort employes 150 staff years of effort.

The following table summarizes the equipment in the States requiring maintenance and calibration services.

EQUIPMENT IN THE STATES REQUIRING MAINTENANCE AND CALIBRATION SERVICE
*As of August 30, 1978

ITEM	$ VALUE EACH	QUANTITY	TOTAL VALUE
CD V-700 Low Range Survey Meter	$ 21.95	353,900	$ 7,768,105
CD V-715 High Range Survey Meter	21.05	483,050	10,168,203
CD V-742 Dosimeter (0-200R)	4.23	2,328,607	9,850,008
CD V-750 Dosimeter Charger	4.13	420,873	1,738,205
CD V-717 Remote Reading Survey Meter	30.82	94,493	2,912,274
CD V-720 High Range Survey	21.05	49,399	1,039,849
CD V-730 Dosimeter (0-20R)	6.01	127,430	765,854
CD V-781 Aerial Survey Meter	748.41	1,171	876,388
CD V-457 Demonstration Unit	127.75	2,519	321,802
CD V-138 Training Dosimeter	5.35	120,817	646,371
Other Misc. Items (i.e., Barrier Shielding, Demonstrator, Calibrators, etc.)		397,155	5,070,275
TOTAL		4,379,414	$41,157,334

*Based on FY 78 State Inventory Submissions-Includes Federal Agency and Various User Instruments (Obsolete instruments excluded)

(Continued on following page)

The following table summarizes the status of selected elements of the RADEF program. The status of trained RADEF personnel is reflected in the Information and Education section of the budget.

STATUS OF RADEF SYSTEM CAPABILITY

Capability	Requirements: Program Areas	Requirements: Systems Approved	Deficiency: No.	Deficiency: %
Shelter	5,493	292	5,201	94.7
Local Self Protection	5,493	381	5,112	93.1
Local Monitoring, Reporting & Assessment (MR&A)	5,493	446	5,047	91.9

INSTRUMENTS REQUIRED

Radiological Instrument Sets	Quantity	On-Hand In States	Deficiency: No.	Deficiency: %
For Shelters	700,000	200,000	500,000	71.4
For Self Protection	100,000	100,000	0	---
For MR&A	100,000	100,000	0	---

3. PROGRAM STAFF . . . . . $ 220,000 $ 236,000 $ 238,000

Provides for the Headquarters program staff for Radiological Defense including the costs of personnel, travel and related administrative support. The work of the staff includes the development of requirements for, engineering for, distribution of, and maintenance of operational detection and countermeasures systems.

Obligations are distributed as follows:

	($000) FY 1978	FY 1979	FY 1980
Personal Services and Benefits	$ 171	$ 185	$ 187
Travel	7	7	7
Administrative Expenses	42	44	44
Total	$ 220	$ 236	$ 238
Number of Full Time Permanent Personnel	6	6	6

STATE AND LOCAL CIVIL PROTECTION AND PLANNING ASSISTANCE

FY 78: $24,868,726 FY 79: $26,965,000 FY 80: $33,499,000

PROGRAM DESCRIPTION

Shelter is the basic requirement for protection from nuclear attack. Survival from the direct effects of nuclear weapons (blast, heat and initial radiation) can occur if a person is in a shelter affording sufficient protection in relation to the distance from the point of detonation. All shelters used for protection from the fallout radiation which follows a nuclear detonation will permit survival if the protection afforded is adequate in relation to the intensity of the fallout, and if the occupants have sufficient water, food and ventilation to stay in the shelter for the necessary length of time.

Nuclear Civil Protection (NCP) planning is the identification of protection and protected areas, the allocation of people to those areas and the development of plans for sheltering and supporting the people in those areas. NCP planning provides for two options: relocation and in-place. It also includes the identification of resource and support requirements for these options. Essentially, it is the process of planning for shelter in two locations and the actions necessary to assure survival in the shelters.

DOD studies have shown that significant numbers of survivors can be added by protecting people in place. The number of survivors would depend on the severity and type of attack. If time and circumstances permit, the rate of survival can be substantially increased by relocating people from metropolitan and other high-risk areas during a period of severe crisis and providing protection against nuclear weapons effects in the lower risk host areas.

The National Shelter Survey (NSS) Program was started in late 1961 to locate and mark potential public fallout shelter space for use in event of an attack. To qualify for use, each shelter was required to meet specific protection standards and accommodate 50 or more persons.

During FY 1973, shelter surveys were expanded to consider shelter requirements for "all effects," that is, to identify shelters needed for the most likely peacetime or attack hazard that each community would face. Emphasis was placed on surveying buildings already in the inventory and selected new buildings, plus all schools and hospitals not previously included, for resistance to direct weapons effects (e.g., fire, blast, etc.).

The host area shelter survey, implemented in FY 1975, supports the CRP program by locating congregate care facilities and upgradable fallout shelter in designated host areas. These are usually buildings that do not meet public shelter standards but which could serve as congregated care housing for risk area evacuees. Additionally, the buildings are analyzed for potential fallout shelter upgrading, that is, expedient shelter improvement by placing earth on roofs and against exposed lower story walls. Through such actions, implemented during a period of crisis, the fallout protection of selected buildings could be improved to meet minimum public fallout shelter standards.

(Continued on following page)

43-133 O - 79 - 37

This program also provides for the in-house (Resident Engineering Support Group) staff to support the continued operation of the National Shelter Survey including supervision, guidance and assistance for the summer-hire student operations; assistance to architects and engineers on the Emergency Operating Center (EOC) program, and the design and construction of new buildings or modification of existing buildings to provide added protection against the effects of nuclear weapons; and assistance for the Broadcast Station Protection Program.

The federal program for marking public shelters was deleted for Fiscal Years 1979 and 1980 while credible civil defense program options were being developed.

A pilot project emergency operating centers program has been designed to determine whether a nationwide system of emergency facilities can be developed to meet civil defense requirements. These pilot centers will be fully federally funded and serve to develop the standardized facilities and equipment needed for civil defense, as authorized by sections 201(d) and 201(h) of the Civil Defense Act. This program will commence in FY 1980.

Effective direction and control under emergency conditions require a nation wide network of Federal, State and local emergency operating centers capable of performing and coordinating essential governmental functions. The eight Regional Emergency Operating Centers become the focal points for communications to the States and for the interchange of emergency information necessary for an effective civil defense preattack and postattack operation. Each has the capability of operating independently under emergency conditions to guide the immediate survival operations and the subsequent recovery effort in their respective geographical areas.

The Regional Emergency Operating Centers house the regional staff of the Federal Emergency Management Agency and the representatives of some 25 other Federal Government Departments and Agencies. Each underground center has been or is being designed to provide adequate protection from potential nuclear radiation and blast, and electromagnetic pulse (EMP) effects.

Red Cross Advisory Services to FEMA have been in effect continuously since 1956. By contract with the American National Red Cross, an experienced Red Cross disaster planner is assigned to each FEMA Regional office to serve as a resident advisor to the Regional staff in community disaster planning and to provide assistance and guidance to State and local government emergency preparedness planners. Their competence and expertise lies in the fields of emergency reception and care planning, medical support activities, and community action programs, as well as in liaison activities with Red Cross Division offices and local chapters, other voluntary agencies, and State and local government health and welfare departments.

DCPA

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
STATE AND LOCAL CIVIL PROTECTION AND PLANNING ASSISTANCE	$24,868,726	$26,965,000	$33,499,000
1. State and Local	$ 9,377,545	$10,267,000	$16,592,000
a. Nuclear Civil Protection Planning	4,232,932	4,754,000	5,039,000
b. National Shelter Survey	1,845,750	2,129,000	3,939,000
c. Engineering Support Services	3,161,000	3,384,000	3,614,000
d. Shelter Marking	137,863	0	0
e. Emergency Operations Pilot Projects	0	0	4,000,000
2. National	$15,491,181	$16,698,000	$16,907,000
a. Program Staff	15,247,622	16,492,000	16,691,000
b. Regional Emergency Operating Centers	49,559	0	0
c. Red Cross Advisory Services	194,000	206,000	216,000

JUSTIFICATION OF ESTIMATE

1. STATE AND LOCAL	$ 9,377,545	$10,267,000	$16,592,000
a. Nuclear Civil Protection Planning	$ 4,232,932	$ 4,754,000	$ 5,039,000

Nuclear Civil Protection Planning, particularly the relocation option, provides a tremendous basic potential for saving lives in the event of nuclear attack. Without such planning, the other activities included in the civil defense system would have a limited value for increasing the probability of survival among the people.

Presently, the planning for relocation is in the early stages. An initial capability for relocation and reception and care is expected to be completed for all of the higher risk areas by the middle of FY 1980. On the basis of the funding level requested for FY 1980, and if continued at that level, the detailed planning can be completed by about FY 1985.

NCP planning for the in-place option includes development or updating of both (a) the shelter allocation and emergency information materials for the public, and (b) civil protection procedures, based on the allocation, covering operations for sheltering and supporting the population. Initial in-place planning has been completed in 4,695 areas containing about 88 percent of the U. S. population. Plans have not been completed in the cities of Boston, Chicago, Detroit and New York and in a few rural counties. Many of those plans need to be updated because at the time that initial shelter surveys were conducted, techniques were available only for determining the protection characteristics against fallout. Subsequently, the survey techniques have been improved and in-place plans for approximately fifty metropolitan areas have been updated to include protection from direct effects. Because funding limitations over an extended period have placed severe limitations on survey, most in-place plans will be updated when the detailed risk and host area planning is done as part of the relocation option. This effort also includes exercising in areas where NCP planning has been completed.

Federally financed State planners will be used to accomplish the major portion of the NCP Planning Workload. Funds requested will provide for 152.5 work years by a professional planning staff supported by 42 clerical positions.

(Continued on following page)

Nuclear Civil Protection Planning Staff

	Prof. Positions	Clerical Positions	Work Years
FY 1978	143	50	193
FY 1979	143	50	193
FY 1980	152.5	42	194.5

Planning Schedule

	Relocation State Level	Relocation (Program Areas) Detailed Operations		In-Place Areas	Tests & Exercises	
		Initial Phase	Host	Risk	New or Update	Program Areas	State
FY 1978	5	1,302	184	180	97	0	0
FY 1979	0	939	427	100	21	0	0
FY 1980	35	97	118	87	17	204	14

b. National Shelter Survey. . . . . $ 1,845,750 $ 2,129,000 $ 3,939,000

Shelter against attack effects is the foundation of the civil defense program because survival of the population is a function of the level of protection available to people at the time they experience these effects. Attack effects can include radioactive fallout in any part of the United States, and direct effects (blast, heat) in risk areas near weapon detonations.

DOD studies show that significant numbers of survivors can be added by protecting people in-place (near their places of residence), with the number of added survivors depending on the weight and nature of the attack. Should time and circumstances permit relocating people from U. S. metropolitan areas and other high-risk areas during a period of severe crisis, and providing protection against fallout radiation in host areas, survival can be substantially enhanced.

Planning for the two protection options (in-place and crisis relocation) is described under Nuclear Civil Protection Planning. Shelter surveys identify the existing (and potential) protection which provides an essential basis for such NCP planning. Realizing the full lifesaving potential of shelter, under either population posture (in-place, or relocated), of course, requires additional capabilities described elsewhere, such as Warning, Direction and Control (including Emergency Operating Centers), Radiological Defense, and Emergency Public Information.

Shelter survey work is scheduled so that protection identified in a given year provides a basis for NCP planning in subsequent years (for both the in-place protection and relocation options).

In FY 1980, the bulk of the National Shelter Survey effort will be devoted to "host area" surveys, to provide a basis for detailed local-level planning for the crisis relocation contingency in FY 1981 and beyond. Some effort will be devoted to "all effects" surveys in risk areas, as a basis for updating community shelter plans for in-place protection.

More specifically, the FY 1980 host area survey effort will provide shelter data for later crisis relocation planning in an estimated 400 host counties in about 38 States. The facilities to be surveyed represent approximately 25 percent of the anticipated total host area survey workload. Therefore, the FY 1980 effort, coupled with the host area surveys completed in prior years, will bring us to approximately one-half the way through the anticipated total survey workload in host areas.

(Continued on the following page)

The work effort is principally accomplished by means of a "student hire" program wherein specially qualified college students working under the supervision of government architects or engineers are employed on a national basis to perform survey work. A nationwide training effort has been implemented by the Defense Civil Preparedness Agency (now a part of FEMA) to quality these students as shelter survey technicians. Special permission was obtained from the Civil Service Commission to hire architectural and engineering students who were qualified by taking and passing these courses. The program has been a successful one and has been repeated each year since its incpetion in 1970. In FY 1980, 380 student positions will be utilized in the shelter survey. Approximately 300 of these will be summer hires and 80 will be year-around cooperative education positions. (Students work 3 months, then attend school 3 months, etc.) Supervision of the student hires is performed by engineers located in FEMA Regional offices. The following table provides additional workload data:

Workload

	FY 1978	FY 1979	FY 1980
Number of Students:			
Summer Hires	232	232	300
COOP	22	22	80
Survey Supervisors	-	-	10
Number of Facilities to be Surveyed:			
Risk Areas	7,000	7,000	10,000
Host Areas	165,000	165,000	265,000
Total	172,000	172,000	275,000

Funds requested also provide for the processing of data gathered by the summer-hire and coop students. The Shelter Data Management branch edits and reduces data prior to insertion into the Master Record File (MRF). Appropriate data from the (MRF) in the form of reports and computer printouts is then sent to the respective Regions, States, and local CD officials.

Funds provide for technical support by recognized experts in various areas of concern to develop improved survey and analysis procedures; develop improved methods for upgrading structures to withstand blast and fallout; and to identify special facilities such as mines, caves, and tunnels for use as shelters. As new survey procedures and techniques are developed, they are incorporated in the Shelter Survey Technician Courses which are used to train the summer-hire students for the survey effort.

c. Engineering Support Services. . . . . $ 3,161,000 $ 3,384,000 $ 3,614,000

Prior to activation of FEMA, the overall operation of the Engineer Support program has been handled by 109 Corps of Engineers (COE) personnel located at the COE headquarters and at the DCPA Regions as Resident Engineering Support Groups. As a part of the reorganization plan these personnel will be reassigned to FEMA. The personnel are needed to coordinate the overall field work of the survey, serve as supervisors of the summer-hire and coop students, and assemble the field data preparatory to data processing. Also, assistance in Nuclear Civil Protection Planning is accomplished where requested by the Regional Director.

This program also provides for engineering guidance and expertise for the planning, design and development, and the construction of State and local Emergency Operating Centers (EOCs). The work encompasses modifications to existing State, State-area and local EOCs, new EOCs constructed with State and local funds, and new EOCs that were funded with FEMA matching funds in prior years and have not been completed. The work entails preliminary and final planning and design conferences

(Continued on following page)

with architects/engineers, review of construction drawings, interim and final construction inspections, operational inspections, and review of partial and final billings received against the project applications. The period of time from initial planning to actual construction completion of an EOC may vary from less than one year to several years.

Engineering guidance and technical expertise is also provided on projects involving the Broadcast Station Protection Program, including the addition of electromagnetic pulse (EMP) protection for stations. Support assures continued operational capability of selected broadcast stations to provide the President and government officials the means of reaching the public with official emergency information under fallout conditions.

In addition, the program provides engineering support in damage assessment, maintenance of the Federal Regional Centers, on-site assistance, and guidance to architectural/engineering firms on how to include shelter in the design of new buildings.

The impact of further reducing or eliminating Engineering Support Services would be to cripple the FEMA Regions technical capability. Important on-going programs for the development and hardening of emergency operating centers and emergency radio broadcast stations would be stalled for lack of technical input and guidance. Also, the Regional Directors would be at a serious disadvantage in not having the proper technical counsel in such areas as damage assessment, maintenance of Federal Regional Centers, providing electromagnetic pulse (EMP) protection, shelter development, and On-Site Assistance activities.

d. Shelter Marking.	$ 137,863	$ 0	$ 0

Since 1962, DCPA has sponsored engineering surveys of buildings across the Nation in order to locate fallout protected space for people to occupy in the event of an attack upon the United States. As a followup to the surveys, these buildings were marked with distinctive signs so the public would know where to go in the event of an enemy attack. The marking activity was accomplished by the Federal government through 1971, at which time the majority of buildings were marked. Since 1971, most sign maintenance and marking of new buildings has been handled by local governments either as an active on-going program or in the form of a crisis activated plan.

As a follow-on to surveys of counterforce areas, DCPA initiated in FY 1977 a fully Federally funded marking program for marking the best available shelter space in high risk areas and their associated host areas. Federal funding of the marking program was deleted for FY 1979 and 1980 while credible civil defense program options are being developed.

e. Emergency Operations Pilot Projects. .	$ 0	$ 0	$ 4,000,000

Emergency operations facilities will be constructed as pilot projects in crisis relocation host counties, away from large cities, to lessen their likelihood of being targeted. These facilities would have an average size of 2,000 square feet and cost about $65 per square foot to construct (e.g., earth-covered arch construction). A variety of types of facilities will be constructed to acquire data on comparative costs and other factors. Existing structures such as county courthouse basements, State highway district offices or existing sub-standard EOCs will have their fallout protection upgraded if this appears feasible and cost effective.

FY 1980 funding provides for pilot construction of approximately 30 of these prototype facilities in several representative host areas on a fully Federally funded basis.

(Continued on following page)

DCPA

2. NATIONAL	$15,491,181	$16,698,000	$16,907,000
a. Program Staff	$15,247,622	$16,492,000	$16,691,000

FEMA provides a wide variety of guidance and assistance to State and local civil preparedness organizations through direction interaction with FEMA regional staffs and through policies and guidance developed by Headquarters program managers. Funds requested provide for the costs of personnel, travel and related administrative support for the civil preparedness activities at Regional offices as performed by DCPA prior to the FEMA activation and for Headquarters personnel engaged in management of the programs to assist State and local preparedness planning, including the nuclear civil protection planning program.

FEMA regions have a broad mission assignment to develop and sustain civil preparedness capabilities at State and local government level to effectively operate in emergencies to save lives, protect property and sustain government control. It is necessary to provide an effective flow of information and assistance between Region, State and local governments in the development of plans and capabilities as well as in all actual emergency situations.

Obligations are distributed as follows:

	FY 1978	FY 1979	FY 1980
Personal Services and Benefits	11,640	12,688	12,664
Travel	557	615	651
Administrative Expenses	3,051	3,189	3,376
Total	$15,248	$16,492	$16,691
Full Time Permanent Personnel	436	433	433

b. Regional Emergency Operating Centers	$ 49,559	$ 0	$ 0

The Regional Emergency Operating Centers construction program has provided protected facilities in six FEMA Regional Headquarters. Requests for additional funds to complete this construction program for Region Five (Battle Creek, Michigan) and Region Nine (Santa Rosa, California) have been deferred until subsequent years. Funds obligated in FY 1978 were for improvements to the FRC's.

No funds are requested in FY 1980.

c. Red Cross Advisory Services	$ 194,000	$ 206,000	$ 216,000

Experience and expertise are essential personal elements in the provision of realistic assistance and guidance to local government officials and planners in Community Shelter Planning and Crisis Relocation Planning, community leadership and action programs, emergency reception and care planning, and first aid training. The Red Cross Advisors have this experience and expertise and therefore are critically needed on a continuing basis. The funds requested will provide for actual expenses incurred during FY 1980 by the American Red Cross in connection with the advisor program. This involves salaries, social security, retirement and health insurance, movement of employee, family, and household effects to Regional assignment, and equipment and supplies. No overhead or contract fees are charged to the Government by the American Red Cross for these services.

During FY 1979 and 1980 FEMA will be engaged in accelerated research, systems development and effectiveness analysis. As changes evolve in the civil defense system, the Red Cross advisors will be expected to make an important contribution in the implementation process through their knowledge of local emergency services programs and their unique capacity to deal with local governments through the Red Cross field organization.

(Continued on following page)

DCPA

Increased funding requested for FY 1980 includes no program growth; increases are requested for expected cost of price growth only.

FEDERAL PREPAREDNESS

FY 78: $20,428,000 FY 79: $22,681,000 FY 80: $21,457,000

PROGRAM DESCRIPTION

In performing its National Resources Preparedness responsibilities, FEMA evaluates current and possible future threats to the U. S. economy cuased by resource shortages and dependency on other nations; develops policies to accommodate or avoid these dependencies; provides guidance to Federal agencies, and local governments regarding employment of resources during periods of shortage; and develops concepts, plans, and systems for managing the Nation's critical resources in a range of crisis contingencies.

Against the context of an emerging worldwide increase in demand for critical industrial resources, coupled with technical, economic, and possibly political limitations on resource availability, the above activities are oriented to the development of policies and activities that are designed to improve the posture of the U. S. economy for a series of contingencies.

Under its Continuity of Government Operations activities, FEMA directs the preparation and implementation of policies, plans, and programs to meet approved objectives for general war and controlled conflict preparedness; provides planning and program guidance for conflict preparedness programs to Federal departments and agencies and to State and local governments, and provides overall direction for the development and testing of preparedness plans and facilities at all levels of government. The Agency develops and coordinates preparedness measures for nuclear contingencies and develops general policy guidance for the preparation of plans for emergencies caused by acts of terrorism.

In support of Federal Preparedness programs, FEMA directs and coordinates technical and scientific work programs; provides leadership and guidance in the development of an analytical base for broad nonmilitary defense policy; develops a research and development program designed to carry out assigned Executive Order responsibilities; provides advice and assistance to other agencies in planning for research in areas involving each agency's interest; provides overall direction, guidance, and coordination of special studies in broad resource areas; maintains close working relationship with the scientific community; provides computer and programming support to FEMA and other Federal departments and agencies with emergency preparedness responsibilities as requested; manages and coordinates the necessary communications systems essential to the continuity of government program.

(Continued on following page)

FPA

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
FEDERAL PREPAREDNESS	$20,428,000	$22,681,000	$21,457,000
1. National	$20,428,000	$22,681,000	$21,457,000
a. National Resources Preparedness	1,970,000	2,226,000	1,937,000
b. Continuity of Government Operations	13,383,000	8,223,000	8,226,000
c. Research, Development & Program Coordination	3,727,000	0	0
d. Systems Evaluation & Operations Support	0	10,523,000	9,546,000
e. Regional Offices and Foreign Affairs	1,348,000	1,709,000	1,748,000

JUSTIFICATION OF ESTIMATE

1. NATIONAL	$20,428,000 781 m/y	$22,681,000 780 m/y	$21,457,000 780 m/y
a. National Resources Preparedness	$ 1,970,000 56 m/y	$ 2,226,000 52 m/y	$ 1,937,000 45 m/y

National Resources Preparedness activities depend significantly on the development and application of quantitative analytical techniques, especially in the area of econometrics, to provide long-range resource assessments and the implications of these assessments on national stockpile policy, on preparation of the economy for crises, and on systems designed to manage the Nation's resources under crisis contingencies. For each of these areas, assessments are designed to support policy options with alternative levels of risks, benefits, and funding implications.

These activities are:

(1) Resources Assessment - By means of evaluations of world-wide production and resource availability, distribution features and trade interdependencies, provides supply-demand studies of natural, industrial and economic resources to identify critical requirements; recommends policy options regarding these requirements; and administers Title III of the Defense Production Act in relation to expansion of productive capacity.

(2) Resources Management - Provides planning for and coordinates Government response to immediate resource shortages that constitute an emergency situation; plans for standby resource control measures to ensure stability during emergency situations; develops plans for direct economic control measures for critical situations; administers Title I of the Defense Production Act as it relates to resource priorities and allocations; evaluates industrial preparedness programs of Federal agencies.

(3) National Defense Stockpile Policy - From National Security Council guidance, develops materials to be designated as strategic and critical; formulates policy recommendations concerning the level of stockpile objectives for strategic and critical material; determines materials to be designated as excess to national security requirements; provides guidance for disposal and management of the stockpile.

(Continued on following page)

Explanation of Changes, FY 1979 vs FY 1980

Program Changes - Decreases totaling $283,000 result from reduced activities in the areas of assistance to State civil crisis emergency planning, identification/evaluation of critical production resources, and assessment of U. S. dependence upon imports of critical materials and products. A decrease of $13,000 is associated with reduced employment under the Leach Amendment.

Other Changes - A decrease of $7,000 in standard level user charges is offset by a $14,000 increase for two additional work days in FY 1980.

b. Continuity of Government Operations.	$13,383,000 565 m/y	$ 8,223,000 302 m/y	$ 8,226,000 302 m/y

The Federal Emergency Management Agency performs necessary functions for preparedness planning for armed conflict, both general war and controlled conflict using limited or threatened military force, including nuclear weapons, in order to cause an opponent to modify his behavior in an acceptable manner. Broad policies and plans are developed for the nonmilitary preparedness of the Nation for such wars and for other violent contingencies where national sovereignty is not imperiled.

The Agency also manages a consolidated emergency operating facility for the Federal Government and supports and coordinates the use of it, administers the program for approved alternate headquarters facilities, administers appropriate systems for civilian emergency evacuation and transportation for war emergencies or accidental detonation of nuclear weapons, administers a coordinated program of systematic testing of emergency readiness measures, including communication systems, and monitors the readiness of other agency sites.

Included in this activity are the following functional elements:

(1) Continuity of Government Plans and Policy - Develops policies and plans for the nonmilitary preparedness of the Nation for general war, including evaluation and assistance to Federal agencies and State and local governments in performing their emergency functions; schedules and coordinates national tests and exercises to test continuity of government and emergency government measures in event of a nuclear attack; works with the Department of Defense and other agencies to assure compatibility between civil defense assumptions and program concepts used by the departments and agencies to assure that emergency preparedness efforts are mutually supporting and provide for cooperation with State governments; manages the National Defense Executive Reserve, coordinates procedures for United States participation in NATO civil emergency planning activities, and participates with Canada and NATO in developing and coordinating mutual preparedness measures.

(2) Western Virginia Operations Office - Performs management of emergency operating facilities.

Explanation of Changes, FY 1979 vs FY 1980

Program Changes - A decrease of $32,000 is associated with reduced employment under the Leach Amendment.

Other Changes - An increase of $45,000 is requested for the cost of two additional work days in FY 1980. A decrease of $10,000 is for anticipated changes in FSS's procurement of supplies and materials.

c. Research, Development and Program Coordination.	$ 3,727,000 119 m/y	$ 0 0	$ 0 0

This activity has been included in other Federal Preparedness programs in 1979 and 1980.

(Continued on following page)

d. Systems Evaluation and Operations Support	0 0	$10,523,000 360 m/y	$ 9,546,000 337 m/y

In support of Federal Preparedness programs, FEMA directs and coordinates technical and scientific work programs; provides leadership and guidance in the development of an analytical base for broad nonmilitary defense policy; develops a research and development program designed to carry out assigned Executive Order responsibilities; provides advice and assistance to other agencies in planning for research in areas involving each agency's interest; provides overall direction, guidance, and coordination of special studies in broad resource areas; maintains close working relationship with the scientific community; provides computer and programming support to FEMA and other Federal departments and agencies with emergency preparedness responsibilities as requested; manages and coordinates the necessary communications systems essential to the continuity of government program.

Explanation of Changes, FY 1979 vs FY 1980

Program Changes - Communications support activities are reduced by $1,020,000.

Other Changes - An increase of $70,000 requested for the cost of two additional work days in 1980.

e. Regional Offices and Foreign Affairs	$ 1,348,000 41 m/y	$ 1,709,000 66 m/y	$ 1,748,000 68 m/y

These funds provide for the program support for the several Federal Preparedness activities.

(1) Office of Director - This staff assists the Director in developing and coordinating the Federal, State, and local and international emergency preparedness plans under all emergency conditions.

(2) Regional Preparedness - The field staff provides direction and coordination of emergency preparedness programs to other Federal agencies, and State and local governments.

EXPANSION OF PRODUCTIVE CAPACITY

FY 78: $ 1,300,000 FY 79: $ 0 FY 80: $ 0

PROGRAM DESCRIPTION

Title III of the Defense Production Act authorizes the President to make provisions to expand productive capacity and supply of materials when in the interest of national defense. It is expected that administrative authority for this program will be delegated by Executive Order to the Director of the Federal Emergency Management Agency.

The U. S. is 100% dependent on imports of chromium, which is critical in our peacetime economy as well as the national defense in wartime. Our primary suppliers of chromium ore as well as chromium alloys are the Republic of South Africa, U. S. S. R., Southern Rhodesia, and Turkey. There is a history of supply interruptions of chromium during various conflicts including World War II, Korean War, Turkish conflict, and, most recently, the closing of the border between Rhodesia and Mozambique. Future possible interruptions and delays of delivery from South Africa and Southern Rhodesia, especially, would have a serious impact on the U. S. economy, international relations, and national defense.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
1. NATIONAL	$ 1,300,000	$ 0	$ 0
a. Expansion of Productive Capacity	$ 1,300,000	$ 0	$ 0

JUSTIFICATION OF ESTIMATE

1. National	$ 1,300,000	$ 0	$ 0
a. Expansion of Productive Capacity	$ 1,300,000	$ 0	$ 0

This project was initiated in FY 1978 as the first year of an envisioned five-year effort. Requirements have been postponed for FY 1979 and FY 1980 allowing for an evaluation of this first year activity. The $1,300,000 for chromium was allocated to the Department of Interior to carry out the projects under the policy direction of the Federal Preparedness Agency, now a part of FEMA. Funds were obligated in FY 1978 for chromium substitutes development in the amount of $500,000 and for chromium recovery in the amount of $800,000.

This program was previously funded under the appropriation entitled "Expenses, Defense Production Act, GSA."

STATE AND LOCAL PREPAREDNESS

FY 78:	BA	$ 0	FY 79:	BA	$ 0	FY 80:	BA	$ 0
	(OBL)	($ 0)		(OBL)	($ 79,684)		(OBL)	($ 0)

PROGRAM DESCRIPTION

Funds are utilized to assist State governments in developing programs for the management of their resources in time of emergency. Each State contributes funds and personnel to the program.

ESTIMATE

		Actual FY 1978	Estimate FY 1979	Estimate FY 1980
State and Local Preparedness. . .	BA	$ 0	$ 0	$ 0
	(OBL)	(0)	(79,684)	(0)

JUSTIFICATION OF ESTIMATE

Appropriations were last enacted for this account in FY 1965 and were to remain available until expended. The $79,684 balance in the account has been held for contingencies in this program. This deferral action has been taken under the provisions of the Anti-deficiency Act (31 U.S.C. 665), which authorizes the establishment of reserves for contingencies, and under Section 1013, P.L. 93-344.

The requirement for these funds will be reviewed upon the establishment of FEMA.

No resources are requested for this program in FY 1980.

RESEARCH AND SYSTEMS DEVELOPMENT

FY 78: $ 9,145,801 FY 79: $ 7,853,000 FY 80: $10,944,000

PROGRAM DESCRIPTION

The function of the Federal Emergency Management Agency Research and Systems Development program is to meet the current and projected needs of FEMA for scientific and technical data and improved methodologies in civil preparedness. In pursuit of this function, research must maintain a continuing program to evaluate the hazards associated with the advancing technology in nuclear weapons effects; to develop and evaluate means or techniques for (a) reducing vulnerability to these effects, (b) to upgrade the technical basis for emergency operations and (c) to permit analyses at various levels of civil preparedness and its appropriate interfacing strategic systems. Inherent in the total effort are consideration of systems which, as technology changes and international situations fluctuate, offer the best changes for decreasing loss of life and property, reducing injury, and increasing the capability to recover from nuclear disaster.

The nature of research conducted by and for FEMA is of the class defined as "Applied Research"; i.e., "the application of knowledge, material, and/or techniques directed toward a solution to an existent or anticipated requirement" as opposed to "Basic Research".

The research program focuses on a systems approach with emphasis on the conceptualization, design, modeling, validation and assessment of the cost and effecitveness of various optional system design features which permit trade-offs. These trade-offs involve: protection in-place vs protection via relocation; system development and systems surge times vs system costs (or system element costs); effectiveness of distributed systems vs hardening of fixed system elements. The supporting components of potential civil defense systems are analyzed from their technical aspect, their feasibility from both an economic and time phased point of view, and their potential dual-use application for both in-place and relocated postures and nuclear or natural disaster situations. This approach thus provides the Agency with a firm basis for program decisions while providing flexibility in the decision choices. The research is conducted in five categories: Nuclear Civil Protection Planning Research; Physical Protection Research; Emergency Operations Research; Systems Analysis Research; and Training, Education and Organizational Research.

The Systems Development program produces and field tests guidance for State and local governments on developing and using an effective capability for saving lives and protecting property in the event of large scale nuclear crises or attacks.

People, facilities, equipment and supplies, both those of the local government itself and those available to the community in periods of emergency, are the basic ingredients of local emergency operations capability. Systems Development provides guidance on meshing all of these ingredients in the most effective and economical way for emergency operations, and on the unique aspects of each governmental department's or other agency's response to large scale disasters as compared, for example, with normal police department operations. Systems Development is conducted in close consultation and cooperation with State and local officials and

(Continued on following page)

relevant professional orga such as the International Association of Chiefs of Police.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
RESEARCH AND SYSTEMS DEVELOPMENT	$ 9,145,801	$ 7,853,000	$10,944,000
1. Nuclear Civil Protection Planning	1,779,085	2,520,000	2,979,000
2. Physical Protection	1,421,834	1,100,000	1,365,000
3. Emergency Operations	1,735,403	225,000	1,480,000
4. Systems Analysis	1,292,385	1,060,000	1,365,000
5. Training, Education and Organizational Research	1,246,210	259,000	455,000
6. Systems Development	574,084	1,519,000	2,110,000
7. Program Staff	1,096,000	1,170,000	1,190,000

JUSTIFICATION OF ESTIMATE

1. Nuclear Civil Protection Planning . $ 1,779,085 $ 2,520,000 $ 2,979,000

Among the major unanswered questions relating to survival of the Nation in a nuclear context are those related to economics, in the broadest sense of the term, and those involving modelling of critical factors so that options can be explored and compared. Current research efforts will establish a reasonable exploratory base for launching a full spectrum program of modelling the factors that will have been firmly identified. These include medical management, rapidly changing events on the economic scene and socio-economic impact of various control mechanisms available to the government for economic stabilization.

Requirements have been developed to explore a large number of economic matters, including the following: electric power distribution controls, other energy sources, federal agency roles in relocation, rapid assistance for reconstruction, regional problems, fiscal support of relocation, and emergency production.

Within the field of management of crisis relocation there are important problems in austere feeding guidance and in the use of the resources on the fringes of damaged areas. Reconstruction decisions are not straightforward in such cases. In addition the training and education associated with proper management of relocation problems must be reassessed as we become more knowledgeable about the operations themselves.

About 36 work years of effort will be undertaken, distributed among 15 work units. Modelling studies in post-attack problems, industrial, commercial and economic recovery and energy distribution will form a part of the workload. Medical management, emergency production, industrial survival, resources distribution, emergency food and individual problems, salvage of residuals and associated training requirements will be keyed to a dispersed operational framework. Fire prevention and other public safety matters will be similarly addressed.

(Continued on following page)

DCPA

2. Physical Protection. . . . . $ 1,421,834 $ 1,100,000 $ 1,365,000

Physical protection includes the protection of the population from nuclear effects in low risk areas and from blast effects in high risk areas. Protection is also desired for industry or at least for selected elements of industry. Low cost radiation protection appears attainable through construction of expedient shelters or the upgrading of existing buildings. However, the effective stocking and ventilation of shelters require further study. Risk area blast protection is a much more difficult problem. Some forms of blast protection upgrading for both people and equipment appear promising and should be developed.

About 16 work years of effort will be undertaken which will be distributed among 12 work units. Final development of an initial nuclear radiation shielding methodology will be pursued. Additional searches will be made for sheltering concepts both for radiation protection in low risk areas and for blast protection in high risk areas. This will entail research in evaluating blast and fire damage and in defining the attack environment as affected by the interaction of blast with burning elements. Special emphasis will be given to expedient forms of radiation and blast protection. Some study will also be devoted to single and dual purpose blast shelter of permanent types. Damage functions will be developed not only for industrial facilities and items but also for people and operational elements such as emergency services. Studies of shelter stocking requirements, stock distribution, ventilation of shelters and the emergency use of existing equipment will be made.

3. Emergency Operations. . . . . $ 1,735,403 $ 225,000 $ 1,480,000

Prior research studies of the potential use of satellites and development of dispersed/adaptive systems will produce clear definitions of likely avenues of research most feasible for agency exploitation. These will include use of other federally controlled systems (such as Emergency Electrical Power Administration), tele-medicine, Emergency Broadcast Systems coverage augmentation, data display, and remote radef and other data acquisition.

Emergency Operations Systems studies cover use of emergency operating centers (planned and existing) as backbone for governmental function in total guidance for local government/industry/business interfacing and upgrading of continuity and survival, EMP survey and state of the art evaluation, and C^3 system effectiveness analysis.

In order to assure immediate access to the most advanced knowledge in fields of importance to the agency, FEMA has continuously sponsored university and learned bodies and institutions research. Benefits are evident in the analysis of peace-time disasters for relevence to wartime situations, including limited field studies. Accordingly the National Academy of Sciences, the National Council on Radiation Protection and Measurements and special programs of the United States Forest Service will be supported on a continuing basis.

About 17 work years of effort will be undertaken, distributed among 7 work units. Main efforts will be in the area of telecommunications system development and adaptions to natural and wartime disaster situations. Other studies will include industrial protection and security, operations centers, operational guidance, natural disaster analysis, and support to scientific bodies.

4. Systems Analysis. . . . . $ 1,292,385 $ 1,060,000 $ 1,365,000

A major reprogramming of the Agency's efforts took place in fiscal year 1978 to identify and resolve the critical issues affecting the design and effectiveness of various options. The research and development reprogramming has focused on the conceptualization, design, modeling, validation and performance predictions for potential optional civil defense systems. The systems analysis area of the research

(Continued on following page)

43-133 O - 79 - 38

and development program, relying on inputs from the other research areas, concentrates on melding the various subsystem components into overall system designs. Work, begun on an accelerated basis in FY 1978, will continue in FY 1979 or will move into later phases of the studies as the results of prior work indicate.

The design of an effective civil defense system is highly dependent on our capability to analyze the system with sufficient accuracy that appropriate emphasis is given to the elements of the system and their interaction so that the system will, in fact, perform effectively. The analytical approaches must be pursued on several fronts simultaneously in concert with the evolving role of civil defense in the strategic posture and the evolving threats which affect the system. At the same time the dual-use characteristics of the system must be maximized insofar as possible.

About 16 work years of effort will be undertaken which will be distributed among 12 work units. Work will be undertaken to extend current models for evaluating civil defense systems performance by incorporating the dynamics of people movement, including response to warning and the exit from shelter for various purposes. An effort will be made to improve current methods for doing industrial damage assessment and to evaluate industrial hardening alternatives. Studies will be undertaken to improve the understanding of interfaces within civil defense and with other federal programs. Forward looking research on future threats will be continued and effort will be maintained to monitor the progress of Soviet Civil Defense. The strategic role of civil defense will be evaluated and special emphasis will be given to post attack recovery. Studies will be continued to increase the dual use applications of elements of the civil defense system particularly as may be related to natural disasters and terrorism.

5. Training, Education and Organizational Research	$ 1,246,210	$ 259,000	$ 455,000

Basic to all civil defense systems is the training and education of the operators in the many elements of the system and the public - the recipients of the services of the system. The goal of a civil defense system is saving lives and reducing injury to people and minimizing damage to property. A major factor in the eventual effectiveness of the system is understanding and receptiveness of the ultimate consumer - the public. To this end a major effort is being undertaken to design, develop, test, and validate models of public civil defense education systems. The systems deliver to the public the information, guidance, and understanding of the hazards associated with disasters (in particular nuclear warfare) and the procedures they will be expected to take to insure proper attainment of the overall civil defense goals. Content, mode of transmission, timing for best receptivity, make-up of relevant audience groups, degree of coverage and costs are among the factors which need to be addressed.

Much work on specific items of training content has been done in the past, e.g. fitting role task descriptions to the requirements for training to enable performance of a given job. However a fully integrated description has never been attempted, but is now feasible because of previous research.

The research will be addressed to three distinct social environments of civil preparedness programs namely, (1) normalcy --- current peace time environment (2) crisis expectant or a significant increase in public perceptions of war probabilities and the attendant information seeking and, (3) crisis surge or a period when both the government and the public are taking action.

About 6 work years of effort will be undertaken distributed among 5 work units. Four of these work units will continue fiscal year 1979 research efforts. They will complete the development and field testing aspects of the research in the areas of organizational relocation, public education, shelter/lodgings, training content, and program linkage with Department of Energy programs. Two work units will be undertaken designed to complete role task analysis of state and local civil preparedness coordinators. Two work units would be very closely coordinated and perhaps

(Continued on following page)

merged in later fiscal years, because such analysis is required on almost a continuous basis. Research dealing with analysis of operational functions required for all disasters including energy crises will be continued. A new work unit will analyze an opportunity to use existing host area training delivery systems.

6. Systems Development. . . . . $ 574,884 $ 1,519,000 $ 2,110,000

Systems Development projects are essential to develop the programs and guidance which, when applied in communities throughout the nation, result in improved capabilities for lifesaving under attack conditions. As noted in the discussions on Shelter Surveys and on Nuclear Civil Protection Planning, civil defense has potential to add many millions of survivors, over and above those who would be expected to survive a large-scale nuclear attack on the United States if there were no civil defense program. One basic civil defense option is to protect people "in-place," in best-available shelter near their residences. However, if time and circumstances permitted relocating population from U. S. metropolitan areas during a period of intense crisis, and an attack then occurred, there would be millions of additional survivors.

Actually realizing such increased survival, however, would require much more than just shelters and plans for their use, or plans for the contingency of crisis relocation. Rather, capabilities must exist throughout the United States for making effective use of available shelter, whether the population was in an in-place posture, a relocated posture, or (as would be not unlikely) partly relocated and partly in-place. Such emergency operating capabilities include for example, Warning; Direction and Control (Emergency Operating Centers, and ability of key local and State officials to conduct coordinated operations from such centers); Radiological Defense, and Emergency Public Information. In past years, Systems Development projects have developed new programs and guidance in these and related areas (e.g., Crisis Relocation Planning, Community Shelter Planning), and have improved existing programs (e.g., Radiological Defense).

In FY 1980, the Systems Development program remains substantially increased over the FY 1978 level. This reflects a generally increased emphasis on both research and development, to develop systems which will be effective in potential threat environments anticipated through the mid-1980's. The FY 1980 Systems Development program also reflects the substantially increased Research effort being undertaken in FY 1979.

Funds requested in FY 1980 will provide for:

a. Citizen Protection Systems. . . . . $ 560,000

As with most projects in the program, those involving citizen protection will be based primarily on material generated from research efforts conducted in previous years.

Systems Development projects in the area of Citizen Protection will include:

(1) Pilot Test for Crisis Relocation Planning -- This effort will be devoted to conduct of a pilot test of detailed planning for the crisis development of fallout protection in host areas for evacuees from high-risk areas as well as for host area residents. The project will produce recommendations for improved guidance and detailed operational planning for crisis upgrading of shelters that need to be developed ($145,000).

(2) Crisis Relocation Planning -- CRP guidance will be revised to cover increased population dispersal and relocation of portions of the risk area population ($70,000).

(Continued on following page)

(3) Industrial Protection Planning -- Building upon a base started in FY 1979, development of prototype planning for industrial protection against nuclear weapons effects will be continued ($70,000).

(4) Rapid-Deployment Civil Defense Systems -- Systems for rapid buildup of civil defense capabilities developed in FY 1979 will be evaluated ($130,000).

(5) Operational Effectiveness System -- In FY 1980, a system for assessing operational effectiveness of civil defense systems will be tested using a functional model developed in prior years ($75,000).

(6) Shelter Management System -- Continue the development and testing of a system to provide a nationwide cadre of Shelter Management Officers who would be responsible for training shelter managers during a period of international crisis ($70,000).

b. Radiological Defense Systems. . . . . $ 150,000

Insuring the readiness and reliability of radiological systems is essential for the protection of the population in case of nuclear disasters. This is difficult to accomplish for systems like RADEF which are expected to be operationally ready when needed but which are not actively used in peacetime. Radiological defense system projects will include:

(1) Development of a Nationwide Shelter Monitoring Capability -- This will provide the radiological defense of shelterees including quantitative and qualitative requirements for equipment, trained personnel, training programs and emergency operations procedures and test methods ($75,000).

(2) Development of Nationwide Emergency Services Capabilities -- Nationwide capabilities and components thereof for the self protection of emergency services and essential facilities and industries will be developed. Wherever practical provisions shall be made for dual use of State and local capabilities for peacetime nuclear incidents ($50,000).

(3) Assessment Capabilities Development -- This will provide for monitoring, reporting and assessment capabilities for all levels of government including automated techniques for rapid gathering and assessment of data ($25,000).

c. Direction and Control, Communications and Warning Systems. . . .$ 1,200,000

In FY 1980 funds are requested to formulate options for developing a more survivable system of protected broadcast stations for providing emergency information to the public; options for developing effective State and local Direction and Control systems by means other than the current matching-funds approach; emergency staffing, organization, and exercising for State and local Emergency Operating Centers; and the construction and test of remote attack effects sensors which can be interrogated by wire or radio from an Emergency Operating Center.

d. Emergency Public Information and Education Systems. . . . . $ 100,000

Continue development of a system for training and educating the population in survival actions (including development of appropriate materials for public dissemination), during a period of developing crisis.

e. Management Systems. . . . . $ 100,000

In FY 1980 funds are being requested to continue studies and finalize the development of the comprehensive analysis to be made in FY 1979 of the effectiveness, acceptability, feasibility, desirability, and costs of alternatives to the present civil defense management structure (which includes matching-fund support of State and local civil defense staffs, plus fully-funded support for primarily attack-oriented program elements such as crisis relocation planning and development of radiological capabilities).

(Continued on following page)

DCPA

7. Program Staff. . . . . $ 1,096,000 $ 1,170,000 $ 1,190,000

Provides for the program staff for research and systems development activities including the cost of personnel, travel and related administrative support. The work of the staff includes planning, developing and directing research and systems development related to civil preparedness.

Obligations are distributed as follows:

	($000)		
	FY 1978	FY 1979	FY 1980
Personal Services and Benefits. . . .	$ 757	$ 814	$ 813
Travel.	14	16	17
Administrative Expenses	325	340	360
Total.	$1,096	$1,170	$1,190
Number of Full Time Permanent Personnel.	21	20	20

PROGRAM: WARNING AND COMMUNICATIONS
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Federal-State-Local Communications and Warning Systems.	60	$ 8,097	$ 8,315	$ 8,640
Federal-level Communications	67	14,834	13,461	13,488
Total		$22,931	$21,776	$22,128

FEDERAL-STATE-LOCAL COMMUNICATIONS AND WARNING SYSTEMS

FY 78: $ 8,097,495 FY 79: $ 8,315,000 FY 80: $ 8,640,000

PROGRAM DESCRIPTION

The present Civil Defense Warning System is a combination of Federal, State and local systems which are designed to convey warning of enemy attack to Federal, State and local governments and the civilian population. The National Warning System (NAWAS) is the Federal portion of this system and provides the means for disseminating warnings to State governments and, by special arrangements, directly to selected political subdivisions.

NAWAS is essential to the civil defense program because it is the system that conveys warning of attack to Warning Points throughout the Nation. From these key locations, warning messages are further disseminated to all populated places to trigger public survival action outlined in community emergency plans. The concept of emergency planning, including movement to shelter, is based upon the premise that local governments and the people will receive timely warning.

NAWAS consists of Government full period voice circuits leased from the telephone companies. It is operational 24 hours a day and is designed specifically for simultaneous issuance of warnings to all stations connected on the system. These warnings originate at the National Civil Defense Warning Center located in the Combat Operations Center of the North American Air Defense Command (NORAD), Colorado Springs, Colorado. In addition, there is an alternate Warning Center that can assume the functions of the National Civil Defense Warning Center if necessary. NAWAS consists of two portions: (a) a command control circuit that interconnects the Warning Centers, FEMA Headquarters, and the FEMA Regions; and (b) warning circuits connecting with strategic locations throughout the Continental United States known as Warning Points. These latter installations are located in State and local police headquarters, sheriff's offices, fire departments, and civil defense headquarters which are continuously manned.

Under a 1955 National Security Council Directive, FEMA is responsible for the installation and operations of a special warning system for the Washington, D. C. metropolitan area, the Washington Warning System (WAWAS).

WAWAS is essential to the civil defense program as it provides warning for the seat of the Federal government. It triggers the implementation of emergency plans both for government agencies and the residents of the area. Effective and efficient operation of WAWAS will greatly increase the survival potential of the Federal government and the population.

WAWAS is composed of: (a) an outdoor warning system consisting of sirens installed and in operation in the District of Columbia and several local adjacent jurisdictions; (b) a wireline area communications circuit serving all Washington area civil defense headquarters, specific military headquarters, and certain other key Federal Government locations (this wireline circuit is provided with radio backup); and (c) a Bell and Lights Circuit serving Washington area government installations providing indoor warnings to these points. Procedures and equipment also

Continued on following page)

are available to broadcast warnings over commercial broadcast stations in the area. The FEMA Region Three office at Olney, Maryland provides supervision and coordinates the WAWAS program directly with U. S. Army Communications Command and with the States and local governments involved.

The Civil Defense National Communications System (CDNACS) is the primary teletype and voice communications network used for direction and control of emergency operations. CDNACS includes a dedicated teletype network for transmitting record communications between the national headquarters, a relocation headquarters, regional offices, states and territories, and selected Canadian civil defense locations. This teletype network simultaneously accepts and processes messages from teletype terminals and provides automatic message switching between users. The automatic switching feature allows users to send messages to a single address or to a multiple number of addresses within the system. The system includes ten mini-computers used as automatic switches at Federal Regional Centers (FRCs), two dedicated inter-regional teletype circuits into each FRC, and seventy dedicated teletype circuits for FRC communications with State, territorial and Canadian civil defense locations.

The voice segment of CDNACS includes a combination of Automatic Voice Network circuits (AUTOVON) and dedicated, full-period, leased circuits and supplies voice circuits between national headquarters, relocation sites, regional officies, and State Emergency Operating Centers (EOCs). AUTOVON circuits assure access to all continental United States AUTOVON subscribers. Additionally, each regional office has circuit preemption capability. The full-period dedicated circuits provide direct lines on an individual basis between each regional office and its States. Hardened cable routes containing most of the voice and teletype system circuits have been completed for six of the Federal Regional Centers.

The CDNACS voice system incorporates seventy-one AUTOVON circuits among the Federal Regional Centers, National Headquarters, and relocation sites; sixty-one circuits are required to serve the present eight regions. Ten additional circuits will be required for two more regions when FEMA is established -- bringing the total to seventy-one. Forty-seven circuits of the 61 presently required are installed.

The requirement for two dedicated commercial voice circuits between the FRCs and each of their respective States, and the District of Columbia, has been submitted to the U.S. Army Communications Command. Fifty-four circuits are presently installed - six are available on a suspend and restore arrangement with AT&T.

The Civil Defense National Radio System (CDNARS) is a high-frequency radio network used for backup to the teletype and voice systems. Control facilities for the radio, voice, and teletype services are collocated with the wire voice and teletype positions to make them readily available during emergencies. The system is operational in 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, the Canal Zone and Guam -- as well as in an emergency relocation site and the FEMA Regional offices.

Other supplemental communications equipment is employed at National, Regional and State civil preparedness operations centers to support day-to-day and emergency operational requirements. This equipment category includes facsimile machines, news wire service printers and National Weather Service teletypes. Also involved is ancillary equipment including hardened cable complexes to support emergency communications and warning systems at FEMA Regional Centers, the data land lines associated with the AUTODIN system, lines involved with AUTOVON, and a Secure Voice terminal in FEMA Operations Centers for communication with Joint Staff, Military Service Staff, Command Centers and subordinate Commands.

State warning systems are established by and under the direction of the particular State to relay warnings and other emergency information received over NAWAS to political subdivisions that are not served by NAWAS. They are the State portions of the Nationwide Civil Defense Warning System and are necessary for further dissemination of warning from Warning Points so that all jurisdictions within a State

(Continued on following page)

are reached. The implementation of community emergency plans is dependent upon responsible authorities receiving timely attack warning information on which to take planned emergency actions. State Warning Systems add to the State's emergency communications system.

Facilities utilized vary from State to State. Each State has warning plans which specify communications to be used and procedures to be followed. The majority use State Public Service Radio Systems (police, highway, conservation, and similar departmental networks); others use telephone, tone activated radio, teletype or special systems such as Bell and Lights. County sheriff radio nets are often linked to State networks and assist in spreading the warning throughout the counties. The Federal Government provides technical and financial assistance in establishing effective warning systems and in resolving special problems. Special studies are continuously made on possible use of additional communications facilities that can further assist in spreading the warning.

Local warning systems are the means to warn the public and alert key personnel and installations of an attack on the United States.

The presence or absence of local warning systems directly affects the implementation of community emergency plans as the local warning system is the means of initiating public action to take protective measures. The effectiveness of these systems is directly related to the options that local authorities can take to exercise their plans for community emergency operations.

Each community has, or should have, a workable and reliable warning plan. Assistance in planning is provided by the State and Federal Governments. Plans vary according th the varying conditions and leadership of the individual communities. The Federal Government provides technical and financial aid in establishing warning systems. Local warning systems can be divided into outdoor and indoor systems:

1. Generally used for outdoor warning are sirens, horns, whistles and voice sound installations. Sirens are the most widely used devices.

2. Indoor systems consist of bell and lights systems, group alerting, sequential telephone calling, tone activated radio systems, and the use of established voice sound systems such as MUZAK and similar background music services. Many communities have local arrangements and agreements for their direct access to commercial radio systems and cable television systems for broadcasting warnings and other information during emergencies.

FEMA also provides guidance and criteria for reliable statewide and local emergency communications systems which will (1) provide all civil government political subdivisions within each State a means to exercise direction and control of their respective resources through the most effective use of all existing systems; and (2) provide attack warning information to the civilian population, radiological defense information, damage assessment data, situation reports and other essential civil defense operational traffic.

Local direction and control procedures are developed and maintained for emergency operations to be conducted by key local officials in protected Emergency Operating Centers, with necessary communications to operating departments, emergency services and State government. Procedures apply to both the relocation and in-place civil protection modes.

The Federal Emergency Management Agency predecessor organizations in conjunction with the Federal Communications Commission established the Broadcast Station Protection Program to insure nationwide Emergency Broadcast System (EBS) Presidential programming coverage under fallout conditions. To provide for sustained operations under fallout conditions, the Federal Government has paid the cost for selected EBS radio stations to provide fallout protected studios, emergency power generators, radio links to local government Emergency Operating Centers, electromagnetic pulse (EMP) protection and emergency programming equipment.

(Continued on following page)

This emergency broadcast capability from Emergency Operating Centers also can be used during natural disasters. To enhance attack and natural disaster emergency broadcast capabilities, assistance is being provided by FEMA, FCC, and the National Weather Service in cooperation with the broadcast industry to develop State and local area EBS procedures.

The Decision Information Distribution System (DIDS) was designed to provide a nationwide low-frequency one-way radio communications network to warn and inform public officials of a nuclear attack or major peacetime disaster. It was intended to augment and improve the present system on which the Nation now depends for dissemination of emergency information.

Operation of the prototype system and any further deployment was discontinued after FY 1976 pending the results of a program to integrate and upgrade the capabilities of the National Warning System (NAWAS), NOAA Weather Radio (NWR), and commercial broadcast stations to meet the stringent requirements for attack warning.

Prior to activation of the Federal Emergency Management Agency, the Federal-State-Local communications and warning activities were performed for DCPA by the U. S. Army Communications Command (USACC) on a reimbursable work order basis. In accordance with the FEMA reorganization plan, the USACC personnel assigned to this activity will be transferred to FEMA.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
FEDERAL-STATE-LOCAL COMMUNICATIONS AND WARNING SYSTEMS	$ 8,097,495	$ 8,315,000	$ 8,640,000
1. National	$ 7,502,495	$ 7,578,000	$ 7,903,000
a. National Warning System	2,649,000	2,902,000	3,037,000
b. Washington Warning System	575,000	584,000	616,000
c. CD National Communications System	1,375,000	1,455,000	1,517,000
d. CD National Radio System	1,042,000	1,262,000	1,286,000
e. Other Communications Services	945,000	868,000	920,000
f. Communications Support	333,000	155,000	155,000
g. Broadcast Station Protection Program	456,964	250,000	265,000
h. Decision Information Distribution System	126,531	102,000	107,000
2. State and Local	$ 595,000	$ 737,000	$ 737,000
a. Local Direction and Control Operations Procedures	595,000	737,000	737,000

JUSTIFICATION OF ESTIMATE

In accordance with the Civil Defense Act of 1950, as amended, it is the basic mission of FEMA to save lives in the event of enemy attack. Because of the interdependence of the various elements of the system and the number of variables related to a potential enemy attack (i.e., time of day, day of week, season of year, types of weapons, distribution of targets, types of weapon bursts, weather conditions, the element of surprise, etc.) it would be difficult, if not impossible to determine a separate, reasonably specific life-saving capability for each element of the civil defense system.

(Continued on following page)

An adequate warning system to warn the general public, governments, and other institutions of impending enemy attack would be expected to save lives, under certain conditions many lives. In any community the number of lives saved would depend on a number of factors, some of which are (1) the amount of time available before the weapons are delivered, (2) the availability of shelter (i. e., blast or fallout protected space), (3) actions previously taken in expectation of an attack, (4) the location of the community relative to targets, (5) the capability of the local government to respond in a coordinated manner to provide emergency services and information to its citizens on what to do and where to go, (6) the capability to measure and react to radioactive fallout conditions, (7) the availability of essentials such as water and food to the sheltered people, and (8) the variables mentioned above regarding the nature and timing of the attack itself.

It seems obvious that an attack warning would cause many people to seek shelter and even in the absence of a coordinated civil defense system, some lives would be saved. On the other hand, given a fully-developed civil defense capability, without warning, many lives could be needlessly lost. A warning capability is essential to the national civil defense system if we are to protect our people.

The warning costs associated with this portion of the budget relate to providing warning to Federal, State and local government levels. Dissemination beyond that point is a local responsibility. However, FEMA assists State and local governments in this area by providing matching funds as reflected in the "Financial Assistance" and "Emergency Operating Centers" sections of the budget.

Fiscal Year 1980 estimates provide for expanded national warning and communications efforts.

1. NATIONAL	$ 7,502,495	$ 7,578,000	$ 7,903,000
a. National Warning System (NAWAS)	$ 2,649,000	$ 2,902,000	$ 3,037,000

(1) Recurring Charges . . . . . $ 2,387,000

Provides for the continued lease of the telephone warning circuits and control circuits.

(2) Operations . . . . . $ 650,000

Provides for system testing and operation at two National Warning Centers which include a control circuit linking 22 key government warning points, two major news services and seven broadcast networks which further disseminate warning to 2,350 strategic locations throughout the 50 States, the military and civilian population. Fiscal Year 1980 funds will continue to support 20 work years of effort.

b. Washington Warning System	$ 575,000	$ 584,000	$ 616,000

(1) Recurring Charges . . . . . $ 232,000

Provides for continued lease costs for 46 dedicated full-period voice circuits, and for 500 dedicated siren circuits for full warning coverage of the Washington Metropolitan Area.

(2) Operation and Maintenance . . . . . $ 384,000

Provides for system operation and testing at the alternate national warning center at Olney, Maryland. This includes operation of the full-period telephone warning circuit with radio backup and a bell and lights system for indoor warning at federal installations. Includes $305,000 for a maintenance and repairs contract. Operation of the system is accomplished through two work years of effort.

(Continued on following page)

DCPA

c. CD National Communication System (CDNACS). . . . . $ 1,375,000 $ 1,455,000 $ 1,517,000

(1) Recurring Charges. . . . . $ 851,000

Provides for lease costs of 126 dedicated circuits, 168 analog facsimile units for Regions and States and 12 digital units for National Headquarters and Regions.

(2) Operation and Maintenance. . . . . $ 543,000

Provides for 26 work-years for system operation ($364,000), operating supplies, message unit charges and maintenance and spare parts for facsimile equipment ($155,000), and facsimile equipment maintenance training ($24,000).

(3) Engineering Development. . . . . $ 123,000

Provides 2 work years of effort for development of a broadcast capability for headquarters and regions, interface of facsimile with the computer, and circuit switching arrangements to permit full utilization of voice communications systems available to regions.

d. CD National Radio System (CDNARS). . . $ 1,042,000 $ 1,262,000 $ 1,286,000

(1) Recurring Charges. . . . . $ 61,000

Funds requested for FY 1980 provide for continuing lease costs for dedicated circuits to remote transmitters at two Regional Centers and one antenna field.

(2) Operation and Maintenance. . . . . $ 1,225,000

Funds requested for FY 1980 provide for operation of the radio system plus all required equipment maintenance at 50 State Emergency Operating Centers, the District of Columbia, Puerto Rico, the Canal Zone, and ten FEMA Regional Offices. This includes utilities and spare parts for 63 locations estimated to cost $253,000.

This system provides essential emergency radio back-up to the FEMA CDNACS system to insure an emergency operations and communications capability between the Headquarters and Regions and between Regions and States. This work employs 39 work years of effort.

e. Other Communications Services. . . . . $ 945,000 $ 868,000 $ 920,000

Provides for various types of equipment and services required for communications capability which are not provided elsewhere in FEMA's communications systems or support. They are (1) teletype service to transmit weather data to the regions for use in radioactive fallout prediction ($27,000); (2) protected cables between regions and telephone company centrals ($216,000); (3) AUTODIN teletype service for transmittal of classified data between FEMA, the regions and DOD agencies ($265,000); (4) AUTOVON telephone voice service between FEMA, the regions and DOD agencies ($387,000); (5) AUTOSEVCOM secure voice terminal in FEMA Operations Center for exchange of classified information with Joint Staff, NMCC, ANMCC and Military Staff and Command Centers on a day-to-day and crisis basis; and (6) Executive Secure Voice Network (ESVN) terminals at FEMA Operations Center, regions and emergency relocation sites for classified information exchange.

f. Communications Management Support. . . $ 333,000 $ 155,000 $ 155,000

Funds requested will provide for 12 work years of effort for continuing administrative and technical support of day-to-day operations and for development

(Continued on following page)

and maintenance of emergency CD capability at National, State and local levels.

g. Broadcast Station Protection Program. .$ 456,964 $ 250,000 $ 265,000

Through this program, an extensive nationwide broadcast capability has been established to disseminate emergency public information to the majority of the population prior to, during and following an attack upon the United States with nuclear weapons. To date in 600 stations across the nation, studios with fallout protection, emergency generators with fuel tanks, programming equipment within the protected studios and a two-way radio capability with community Emergency Operating Centers have been provided at Federal expense. This basic equipment capability is now being enhanced by the development of emergency broadcast system plans covering the 566 FCC operational areas across the country, together with installation of electromagnetic pulse protection devices which will enhance the capability of the stations to broadcast during this phenomenon. The present protected stations have a combined capability to broadcast emergency information and emergency instructions across the geographic areas of the U. S. covering over 95% of the population.

Actions to maintain a capability for continuous broadcasting under fallout conditions will be continued during FY 1980.

FEMA will maintain the system capability in FY 1980 by providing for replacements, modifications, and relocation costs, if necessary, for protected stations in the system. The additional funds are requested for an estimated 6 percent increase in prices.

h. Decision Information Distribution System. . . . . .$ 126,531 $ 102,000 $ 107,000

DIDS is a rapid, reliable, low frequency radio warning system designed to survive effects of nuclear weapons. The prototype system located on the Aberdeen Proving Ground (Edgewood) near Chase, Maryland was completed in May 1974. It was operated and maintained by the U. S. Army Communications Command.

Funds requested in FY 1980 will provide for retaining the Edgewood site in a caretaker status, and are broken out as follows:

Leases	$14,300	
Operation	18,000	(bi-monthly tests)
Maintenance	74,700	
(Guard Services)		
(Facility Engineering)		
(Electric Power)		
(Ground Maintenance)		
	$107,000	

2. STATE AND LOCAL. . . . . .$ 595,000 $ 737,000 $ 737,000

a. Communications Planning Support . . . .$ 595,000 $ 737,000 $ 737,000

Provides for technical assistance in the development, updating and review of State and Local Warning and Communications plans and procedures for Radio Amateur Civil Emergency Services (RACES), direction and control, emergency public information, and emergency services activities. FY 1980 funds provide for continuation of 24 work years of effort.

FEDERAL-LEVEL COMMUNICATIONS

FY 78: $14,834,000 FY 79: $13,461,000 FY 80: $13,488,000

PROGRAM DESCRIPTION

FEMA has the responsibility to manage, operate and coordinate the necessary communications systems essential to the continuity of government programs.

PROGRAM: INFORMATION AND EDUCATION
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Training and Education.	69	$ 3,775	$ 4,846	$ 5,427
Emergency Information	73	1,428	1,619	2,464
Total.		$ 5,203	$ 6,465	$ 7,891

TRAINING AND EDUCATION

FY 78: $ 3,774,808 FY 79: $ 4,846,000 FY 80: $ 5,427,000

PROGRAM DESCRIPTION

The objective of the FEMA training and education program is to increase the overall effectiveness and efficiency of civil preparedness efforts at all levels by training persons involved in these efforts to better discharge and perform Civil Preparedness functions, ranging from generalized management responsibilities through specific technical skills.

The FEMA training and education program provides instruction to a wide spectrum of persons involved in Civil Preparedness. The objectives of the training and education program are to: (1) train State and local civil defense staff who work continuously on emergency planning and operations; (2) provide emergency operations orientation for State and local elected officials who have ultimate responsibility for the protection and safety of their citizens; (3) provide orientation to leaders in the private sector, including labor and industry, on disaster consequences and the contributions they can make to emergency readiness; and (4) train personnel for the management and operation of radiological defense systems including State and local RADEF officers and radiological monitors.

The principal means for providing current training needs is through specialized courses which are conducted at State and local levels. The courses are supported by a contract in each of the FEMA Regions to provide professional instructors. The work includes Nuclear Civil Protection Planning training, local public officials conferences, plans and operations workshops, emergency operations simulations, and basic and advanced CD management workshops. The contracts also serve as a vehicle for conducting Civil Defense Career I and Career II courses within the FEMA Regions.

Depending upon the group to be trained a variety of instructional methods are used: classroom sessions, workshops, conferences, home study, simulations and exercises. In order to provide for greater standardization in instruction and to provide a means for training large numbers of people during a crisis build-up, FEMA has placed increased emphasis on the use of television modules for training.

The FEMA Staff College at Battle Creek, Michigan designs and conducts advanced civil preparedness courses, and develops and disseminates necessary plans and training materials for State Seminars and Nuclear Civil Protection training. It also develops course materials and related methodologies, initiates educational research and development activities, and designs and administers home study courses. The Staff College is also responsible for developing, reviewing, recommending and coordinating FEMA training programs and activities, and for providing training and education guidance to FEMA Regions, States, and local units of government. The salaries, administrative and housekeeping expenses associated with operating the Staff College are included under the Management budget activity.

FEMA Regions provide training to the States and their political subdivisions through contracts and work orders between the Region and a State; by providing highly qualified instructors to the States via contract; and by using their professional staff to assist States in training planning and as instructors.

(Continued on following page)

DCPA

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
TRAINING AND EDUCATION	$ 3,774,808	$ 4,846,000	$ 5,427,000
1. State and Local	$ 3,774,808	$ 4,846,000	$ 5,427,000
a. Seminars	1,410,648	2,216,000	2,349,000
b. Student Expense	45,943	60,000	63,000
c. RADEF Training	1,187,837	1,196,000	1,600,000
d. Training Materials	227,380	382,000	405,000
e. Program Staff	903,000	992,000	1,010,000

JUSTIFICATION OF ESTIMATE

In the event of a nuclear attack on the United States, it is expected that the awesome responsibility to save as many lives as possible will fall largely on the local governments and their emergency services organizations. Experience in natural disasters demonstrates clearly the importance of (1) advance planning, and (2) personnel trained in responding to emergencies. The FEMA training programs are aimed at preparing State and local civil defense personnel to function effectively in their jobs in order to maximize the life-saving capabilities of their communities. Information reported in the FEMA management system, reflects that as of September 30, 1978, only 10% of local coordinators were fully trained and 12% of CD staff members were fully trained. Also, as of September 30, 1978, about 23% of the required RADEF Officers and 29% of the monitors had been trained. A significant training workload remains for FY 1980 and subsequent years.

1. STATE AND LOCAL	$ 3,774,808	$ 4,846,000	$ 5,427,000
a. Seminars	$ 1,410,648	$ 2,216,000	$ 2,349,000

It is essential that newly appointed State and local coordinators receive training and establish contact with their counterparts as soon as possible after their appointment and that the contact be maintained and training updated on a periodic basis. To meet this requirement FEMA supports Basic and Advanced Workshops for local coordinators in each State. In addition to these seminars, specialized seminars are scheduled for Nuclear Civil Preparedness Planning training, local public officials conferences, plans and operations workshops, emergency operations simulations exercises, basic and advanced CD management workshops and Career I and Career II Civil Defense Coordinator courses. Instruction for the courses is provided principally by State personnel and instructors supplied by Regional support contracts. FEMA supports these training programs by providing planning and development assistance, instructors from regional staffs or by contract, instructional materials and training aids, 100% funding for participant travel and per diem, and minor local printing costs. In FY 1980, it is estimated that 713 seminars will be conducted, providing training to 18,000 students.

FEMA will remain actively engaged in the development of credible civil defense options through research and systems development activities. As new guidance is developed, these seminars will be a principal means of instructing State and local officials to bring about redirection of the civil defense system on a nationwide basis.

b. Student Expense	$ 45,943	$ 60,000	$ 63,000

Under the Student Expense program, FEMA reimburses 50% of the travel and transportation costs of local students attending courses at the FEMA Staff College.

(Continued on following page)

43-133 O - 79 - 39

This activity was developed to encourage local subdivisions to increase their civil defense readiness by facilitating the training of civil defense directors, their staffs and instructors. Career Phase III and Career Phase IV courses will be conducted in FY 1980 under this program. DCPA

c. RADEF Training. . . . . $ 1,187,837 $ 1,196,000 $ 1,600,000

To ensure that each State and local jurisdiction is prepared to meet radiological disaster it is necessary to provide for both the specialized instruments for radiation measurement and the trained personnel to organize and direct RADEF operations and to operate instruments and correctly interpret radiation information provided. The program is designed to provide a basic system which could become a highly effective capability during a one-to-two week crises period. This requires a cadre of 19,000 RADEF officers and over 1 million volunteer radiological monitors to satisfy manpower requirements in a crises period. Personnel will be trained as RADEF officers, capable of planning, organizing, training, equipping, and directing radiological defense operations, and providing technical advice to decision makers at State and local levels. RADEF officers who qualify as instructors will be utilized to develop and manage a home study course to train the radiological monitors who will man the pre-selected monitoring and reporting stations. Total training costs include $1,530,000 for 69.5 staff years of effort and $70,000 for training materials.

Workload

	No. of Participants FY 1979	FY 1980
Radiological Defense Officer - Basic.	1,614	2,500
Radiological Defense Instructor Workshop.	1,132	1,500
RADEF Monitoring.	11,729	20,000
Aerial Monitoring	1,339	1,350
RADEF Personnel Update (includes RM's, ARM's and RDO's).	6,701	10,000

The following table summarizes the status of selected elements of the RADEF program.

TRAINED PERSONNEL REQUIRED

FY 1980 Request	Personnel	Number	Trained To Date	Deficiency No.	Deficiency %
	Full Time State RADEF Officer	52	19	33	63.5
2,500	S/L RADEF Officers	23,000	3,949	19,051	82.8
	S/L Radiological Monitors				
20,000	For Self Protection	216,000	47,864	168,136	77.8
25,000	MR&A	375,000	90,542	284,458	75.9
	*Shelters	1,000,000	0	1,000,000	100.0

*Shelter Monitors would be trained during the crisis period preceding an attack.

d. Training Materials. . . . . $ 227,380 $ 382,000 $ 405,000

Training materials are principally required to support civil preparedness training at the local levels of government, and the federally financed contractual programs that are designed to increase the capability of civil preparedness professionals.

(Continued on following page)

DCPA

(1) New Training Materials. . . . . $ 184,000

NCP Orientation Materials for State and Local CD Staffs
NCP Materials for Public Officials Conferences
Development of Instructional TV Modules
Reproduction of Instructional TV Modules

(2) Reprints and Replacements . . . . . $ 221,000

Radiological Defense Field Instructional Materials
Career Development Program Materials
Civil Preparedness Director/Coordinator HS-1
Introduction to Radiological Monitoring HS-3
Civil Defense, U. S. A. HS-6
Instructional TV Cassette Replacements
Emergency Operations Simulation Materials
State NCP Planners Training Materials

e. Program Staff. . . . . $ 903,000 $ 992,000 $ 1,010,000

Provides for the program staff for training and education including the costs of personnel, travel and related administrative support. The work of the staff includes developing and directing operation of a national system providing civil preparedness training and education at the Federal, State and local levels.

Obligations are distributed as follows:

	($000)		
	FY 1978	FY 1979	FY 1980
Personal Services and Benefits. . . .	617	685	684
Travel.	16	18	19
Administrative Expenses	270	289	307
Total.	$ 903	$ 992	$ 1,010
Number of Full Time Permanent Personnel	25	25	25

EMERGENCY INFORMATION

FY 78: $ 1,428,145 FY 79: $ 1,619,000 FY 80: $ 2,464,000

PROGRAM DESCRIPTION

The Federal Civil Defense Act of 1950, as amended, authorizes the administering agency to "publicly disseminate civil defense information by all appropriate means. . ." Under this Congressional authority, the public information mission is to (1) disseminate information about the purpose and status of the national civil preparedness program; and (2) develop and distribute instructions and information to government, private institutions, and individual citizens. This information is intended to result in the appropriate response prior to, during, and after a nuclear attack or peacetime disaster.

The effectiveness of public emergency information is dependent on the plans, procedures, and tools used both in a period of rising tension or crisis and in peacetime emergencies. To disseminate public information on a nationwide scale, the Federal Emergency Management Agency works with all media of communication, using nearly every kind of information tool: news releases, news photos, fact sheets, speeches by agency officials, briefing materials, general and specialized pamphlets and publications, motion pictures, and radio and television spots.

The needs of the States and their political subdivisions as well as those of the Federal Government are met by providing for the release to the public of progressively more specific and detailed civil defense emergency information, and instructions that have a day-to-day application for the saving of life and the protection of property.

Civil defense effectiveness depends, in the last analysis, upon citizens' understanding of attack hazards and of practical countermeasures. This understanding can be developed in a limited manner in peacetime by stressing the dual-use concept of preparing for natural disaster and nuclear attack hazards at the same time. In periods of increased international tension, however, citizens expect and demand such information and will absorb it rapidly, as demonstrated both by experience in the Berlin and Cuban crises and by social scientists' analyses. Accordingly, this emergency public information program provides material and structure to meet citizen needs and expectations, and is consistent with an overall program approach based upon surging to a highly effective posture in a one-to-two week crisis period. One means to accomplish this is to prepare these materials in advance and preposition them, ready for use at the appropriate time.

FEMA conducts a continuous liaison activity to seek out business and industrial firms, and national organizations which are important to the disaster preparedness program of the nation, and to offer them technical guidance and encouragement in disaster preparedness and community preparedness leadership.

Professional competence within the architectural and engineering profession is to be developed by means of disseminating technical information for use in planning and designing effective shelter protection in all buildings, whether new or renovated, against the direct effects of nuclear weapons. As new engineering methods

(Continued on following page)

and design techniques evolve from FEMA-sponsored research or from the architect/ DCPA engineering community, they are also publicized by means of revising existing technical publications and/or developing new ones.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
EMERGENCY INFORMATION	$ 1,428,145	$ 1,619,000	$ 2,464,000
1. National	$ 55,190	$ 320,000	$ 192,000
a. Information on the CD Program	55,190	320,000	192,000
2. State and Local	$ 159,357	$ 196,000	$ 264,000
a. Liaison Services	1,965	17,000	75,000
b. Architects and Engineers Technical Information	157,392	179,000	189,000
3. Citizen	$ 365,598	$ 210,000	$ 1,104,000
4. Program Staff	$ 848,000	$ 893,000	$ 904,000

JUSTIFICATION OF ESTIMATE

The objective of this information program is to create an awareness of the conditions associated with a nuclear attack or peacetime disaster so that government officials and the general public will react appropriately when official instructions are issued. Experience in major disasters has shown that response is always in proportion to advance knowledge and prior preparations. A segment of the program involves the preparation and prepositioning of emergency information materials for use during and after major emergencies..

The FEMA management system provides data on the status of the emergency information systems at the local level of government. As reported by this system as of September 30, 1977, less than 50% of the civil defense organizations in the U. S. have completed emergency public information procedures, prepared guidance material, or entered into agreements with the media to provide emergency information to the public.

During FY 1979 and 1980, FEMA will greatly intensify its effort to establish a basis for a credible nation-wide civil defense system through increased activities in research and systems development. As segments of the system are developed and proven, FEMA's public information program will play a key role in disseminating new guidance and information to State and local civil defense organizations and to the public.

1. NATIONAL	$ 55,190	$ 320,000	$ 192,000
a. Information on CD Programs	$ 55,190	$ 320,000	$ 192,000

Funds requested for FY 1980 will provide for:

(1) Publications	$ 72,000
(a) FORESIGHT	$ 42,000

(Continued on following page)

The purpose of FORESIGHT, a Federal Emergency Management Agency DCPA quarterly magazine, is to provide a forum to exchange information and ideas on civil defense and to interest and encourage key officials throughout the country to support the program.

The magazine is sent quarterly to nearly 50,000 people, including all members of Congress, Federal, State, and local civil defense officials, all State governors, USDA agricultural agents, military representatives, industrial defense coordinators, selected research agencies, architects and engineers, libraries, and national organizations.

(b) Federal Guidance on Emergency Public Information. . . $ 30,000

Getting accurate, official information and instructions to the people in an emergency is a key civil preparedness responsibility often overlooked by officials until an emergency occurs. This item provides civil preparedness officials with guidance on factors to consider in making local newspapers and radio and television stations part of the "emergency information team" in a major emergency.

(2) News Wire Service. . . . . $ 37,000

This involves the cost of Associated Press and United Press International teletype news service to the Federal Emergency Management Agency Headquarters, and Regional offices to obtain information which relates to or impacts upon civil preparedness and which helps FEMA officials plan and administer the national program and assess results of the program activities.

(3) Graphics Requirement Contract. . . . . $ 20,000

This provides for design, layout and finished art for graphics such as publications, posters, charts, vu-graphs, 35 mm slides and maps; and for photography.

(4) News Photo Service . . . . . $ 9,000

This will provide for the maintenance of a news photo library on civil defense subjects. This is used to provide illustrations for newsletter stories, magazine articles, purchase of photos for FORESIGHT and for other information disseminating activities of the Agency.

(5) Blanket Account for Motion Pictures and Associated Services. $ 30,000

Includes purchase of 16mm color news and feature footage from commercial and government sources for use in FEMA films; also special on-the-spot coverage, including sync-sound interviews, where needed, from commercial and government sources such as the U. S. Army Audio Visual Agency. Editorial, laboratory, and shipping charges are included.

(6) Special Liaison with State and Local Civil Defense Directors Associations . . . . . $ 19,000

Maintenance of close information contact with the U. S. Civil Defense Council (organization of local civil preparedness directors) and with the National Association of State Directors for Disaster Preparedness -- including routine provision of information on civil defense activities to the editor of the USCDC Bulletin. These funds are used also to purchase copies of the Bulletin.

(7) Blanket Account for Office Services and Materials. . . . . $ 5,000

This account includes funds to be used primarily for necessary projection and recording equipment and for expendable supplies, such as videotape and audio cassettes.

(Continued on following page)

			DCPA
2. STATE AND LOCAL.	$ 159,357	$ 196,000	$ 264,000
a. Liaison Services.	$ 1,965	$ 17,000	$ 75,000

(1) Business, Industry and National Organizations. . . . . $ 75,000

FEMA conducts a continuing information and guidance program directed at business and industry in order to provide the companies involved with accurate and necessary information on measures to be taken to protect people and facilities from the effect of nuclear weapons and natural disasters.

Employer-directed programs in the workplace are effective in gaining the attention and support of roughly 90 million working Americans. Furthermore, inasmuch as the workers are at the workplace about one-fifth of their time, employers can provide necessary programs and facilities to protect these workers during the work day, and if possible, extend this to plans for the safety of their families.

Presently available guidance will be revised to reflect these policies and programs being emphasized. These are expected to be NCP, with emphasis on CRP, and specific guidance to industry on their role in CRP.

The above funds will be required to provide the necessary materials and publications in sufficient quantities required to reach a significant portion of the business and industrial community.

b. Architects and Engineers Technical Information.	$ 157,392	$ 179,000	$ 189,000

Provides for developing, printing, procuring and distributing technical information and publications to maintain the flow of new information and guidance to architects and engineers and others interested in the construction and engineering aspects of civil defense.

Funds requested in FY 1980 will provide for the following:

(1) The development, printing, procuring, and distribution of various technical publications emphasizing the FEMA programs. In addition to the design case studies and technical reports, updating and development of textbooks for ongoing and correspondence courses will be accomplished . . . . . $ 150,000

(2) The collection of data on various types of new buildings being designed and constructed will be continued for the preparation of new publications and other promotional activities. . . . . $ 39,000

3. CITIZEN.	$ 365,598	$ 210,000	$ 1,104,000
a. Information on the CD Program . . .	$ 365,598	$ 210,000	$ 1,104,000

(1) Basic Emergency Public Information and Instructions . . . . $ 300,000

Basic citizen survival instructions for all possible major disasters will be prepared and issued in a variety of formats -- handbook, leaflets, and materials for use by local newspapers, radio and television stations.

Supplies of these materials, available for immediate use throughout the Nation, will be maintained by State and local civil preparedness officials for distribution during emergencies.

(Continued on following page)

DCPA

(2) Unique Emergency Instructions . . . . . $ 458,000

Certain citizen survival instructions, (shelter-use and crisis relocation instructions, for example) cannot be centrally produced for nationwide use since they are unique to each locality. Funds requested provide for Federal support of locally produced instructions.

(3) Production of Major Public Information Films. . . . . $ 150,000

A major mission of FEMA is protection of the population against nuclear enemy attacks and as such, at least one annual film production should deal with that subject. In keeping with the dual-use concept of civil defense, and realizing the need of State and local civil defense units to cope with natural disasters, however, at least one film production should deal with a current major natural disaster.

Funds requested provide for two major shows at an average cost of $ 75,000 per show.

(4) Release Prints on Major Films . . . . . $ 42,000

Funds will provide for the procurement of 300 release prints each at approximately $21,000 per show.

(5) TV Public Service Announcements . . . . . $ 42,000

Production of a minimum of six one-minute television public service announcements at an average production cost of $7,000 per spot.

(6) Release Prints of TV Spots. . . . . $ 27,000

Procurement of 1,000 release prints of each spot at approximately $4.50 per print. Total of six spots.

(7) One Minute Public Service Radio Announcements. . . . . $ 15,000

Six radio spots per year, to be distributed to radio stations in two sets of 3 each, at approximately 6-month intervals. These would either be a continuation of the current "Civil Defense Pays Off" theme or a similar later series. Production cost of $2,500 per spot.

(8) Release Printing of Radio PSA's. . . . . $ 30,000

Each set of 3 announcements will be released on a 7-inch electrical transcription disc, with the cost of printing, packaging and distribution coming to approximately $2.50 per kit. Distribution will be nationwide to 6,000 commercial and educational radio stations. Price per mailing, $15,000; at two mailings a year.

(9) Special Support Services for State and Local Civil Defense and Other FEMA Directorates. . . . . $ 40,000

This includes film, television and radio production support and assistance to State and local civil defense units, with public information training, or briefing films required to meet special local needs or conditions. It also includes similar efforts on short technical films for FEMA program directorates.

4. PROGRAM STAFF. . . . . $ 848,000 $ 893,000 $ 904,000

Provides for the program staff for information services at the agency Headquarters including the cost of personnel, travel and related administrative support. The work of the staff includes planning, developing and disseminating all types of materials for informing the general public, government officials and special audiences about the U. S. civil preparedness program, including official information

(Continued on following page)

and instructions aimed at saving and sustaining human life in the event of a nuclear attack or major natural disaster.

Obligations are distributed as follows:

	($000)		
	FY 1978	FY 1979	FY 1980
Personal Services and Benefits. . . .	638	680	679
Travel.	12	13	13
Administrative Expenses	198	200	212
Total.	$ 848	$ 893	$ 904
Number of Full Time Permanent Personnel	19	18	18

EMERGENCY PLANNING, PREPAREDNESS, AND MOBILIZATION
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

Reimbursable Obligations	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
11.0 Personnel Compensation	$ 1,823	$ 1,421	$ 1,469
12.0 Personnel Benefits	166	176	157
21.0 Travel and Transportation of Persons	13	55	55
23.2 Rent, Communications, and Utilities	447	347	158
25.0 Other Services	80	41	41
26.0 Supplies and Materials	583	466	523
31.0 Equipment	63	22	22
Total Reimbursable Obligations	$ 3,175	$ 2,528	$ 2,425

PROGRAM: REIMBURSABLE ACTIVITIES
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Plans and Preparedness				
Federal Preparedness.	81	$ 3,103	$ 2,403	$ 2,300
State and Local Civil Protection and Planning Assistance	82	27	50	50
Research and Systems Development.	82	0	25	25
Information and Education				
Information Activities.	82	45	50	50
Total		$ 3,175	$ 2,528	$ 2,425

REIMBURSABLE ACTIVITIES

FY 78: $ 3,175,000 FY 79: $ 2,528,000 FY 80: $ 2,425,000

PROGRAM DESCRIPTION

FEMA provides support to other Federal agencies on a reimbursable basis when such activities are cost-effective for the government through improved space and equipment utilization and employee productivity. The following is a tabulation of reimbursable activities by previous agency title:

	($000) FY 1978	FY 1979	FY 1980
Federal Preparedness Agency	$ 3,103	$ 2,403	$ 2,300
Defense Civil Preparedness Agency	72	125	125

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
REIMBURSABLE ACTIVITIES	$ 3,175,000	$ 2,528,000	$ 2,425,000
1. Plans and Preparedness	$ 3,130,000	$ 2,478,000	$ 2,375,000
a. Federal Preparedness	3,103,000	2,403,000	2,300,000
b. State and Local Civil Protection and Planning Assistance	27,000	50,000	50,000
c. Research and Systems Development	0	25,000	25,000
2. Information and Education	$ 45,000	$ 50,000	$ 50,000
a. Information Activities	45,000	50,000	50,000

JUSTIFICATION OF ESTIMATE

1. PLANS AND PREPAREDNESS	$ 3,130,000	$ 2,478,000	$ 2,375,000
a. Federal Preparedness	$ 3,103,000	$ 2,403,000	$ 2,300,000

(1) Corps of Engineers (COE) Saudia Arabia Project. The FEMA (formerly FPA) Special Facility is the COE stateside headquarters for this project. An inter-agency agreement was negotiated with the COE to provide them administrative support on a reimbursable basis. Approximately 300 Corps personnel are located at the Special Facility. . . . . (1,600,000)

(Continued on following page)

(2) Cafeteria. Two cafeterias are operated at FEMA's Western Virginia Operations Office for a two-fold purpose (a) for emergency readiness, and (b) to provide food for employees since the location of the office is remote to commercial eating facilities. Employees are charged for the food and the receipts are applied against the cost of the food and supplies for the cafeteria. . . . . (240,000)

(3) Executive Secure Voice Networks (ESVN)/AT&T. FEMA provides services to GSA to carry out this project on a reimbursable basis . . . . . (82,000)

(4) Computer Support to Other Federal Agencies. FEMA (formerly FPA) provides computer support to other agencies on a reimbursable basis. The Congressional Joint Committee on Taxation, Corps of Engineers, and the Treasury Department are the major users of this service. . . . . .(307,000)

(5) FEMA (FPA) Miscellaneous. This category covers several smaller types of reimbursements such as: (a) costs of travel in association with NATO which are reimbursed by the State Department; (b) costs incurred by the Western Virginia Operations Office for other government agencies which are unique to that office; and (c) costs incurred by the Western Virginia Operations Office for services to AT&T in connection with communications such as electricity. . . . . (71,000)

b. State and Local Civil Protection and Planning Assistance. . . . . $ 27,000 $ 50,000 $ 50,000

(1) Local Disaster Centers. The Disaster Relief Appropriation reimburses the Emergency Planning, Preparedness and Mobilization Appropriation for personnel and travel associated with the staffing of local disaster centers . . . . .(25,000)

(2) General Services Administration Communications. Reimbursement associated with switchboard operations at the Federal Regional Centers (formerly DCPA Regions 1, 2, and 3). . . . . .(25,000)

c. Research and Systems Development. . . .$ 0 $ 25,000 $ 25,000

(1) Research. Reimbursements are for supporting the publication of the Directory of Fire Research and a volume of fire research abstracts and reviews by the National Academy of Sciences and other miscellaneous research and development contracts . . . . . .(25,000)

2. INFORMATION AND EDUCATION. . . . . .$ 45,000 $ 50,000 $ 50,000

a. Information Activities. . . . . .$ 45,000 $ 50,000 $ 50,000

(1) Engineering Training. FEMA (formerly DCPA) performs as the lead-agency in sponsoring a summer institute held at the Staff College in Battle Creek, Michigan, for engineering and architecture faculty. The course covers multi-protection design of structures and the cost of the institute is shared by FEMA, the National Science Foundation, and the American Society for Engineering Education . . . . . .(50,000)

APPROPRIATION LANGUAGE

HAZARD MITIGATION AND DISASTER ASSISTANCE

For necessary expenses, not otherwise provided for, to carry out activities under the National Flood Insurance Act of 1968, as amended and the Flood Disaster Protection Act of 1973 (42 U.S.C. Chap. 50), the Urban Property Protection Act of 1968, as amended, and the National Insurance Development Act of 1975 (12 U.S.C. 1749 bbb), the Disaster Relief Act of 1974 (42 U.S.C. 5121 et. seq.), the Earthquake Hazards Reduction Act of 1977 (42 U.S.C. 7701-06), the Federal Fire Prevention and Control Act of 1974 (15 U.S.C. 278f, 278g, and 2201-2219), the National Science and Technology Policy Organization and Priorities Act of 1976 (42 U.S.C. 6601, 6671) and Reorganization Plan No. 3 of 1978, 43 F.R. 41943, $119,595,000; including not to exceed $500 for official reception and representation expenses and including not less than $16,389,000 for programs of the United States Fire Administration, and not less than $3,894,000 shall be transferred to the Fire Research Center, Department of Commerce, for expenses necessary to carry out the provisions of Sec. 18 of the Federal Fire Prevention and Control Act of 1974. (Additional authorizing legislation to be proposed for $30,000,000.)

ALL COMPONENTS

FY 1980 BUDGET ESTIMATE

HAZARD MITIGATION AND DISASTER ASSISTANCE

APPROPRIATION - BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Budget Program	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
INSURANCE AND HAZARD MITIGATION	87	$ 8,121	$ 9,078	$ 9,778
Insurance and Hazard Mitigation	88	8,121	8,778	8,778
Community Preparedness Services	90	0	300	1,000
FIRE PREVENTION AND CONTROL	91	$ 13,828	$ 17,785	$ 16,389
Education and Training	92	4,769	6,324	5,684
National Fire Data Center	98	2,150	3,402	3,895
Research and Development	102	6,909	8,059	6,810
FACILITIES, FIRE ACADEMY	106	$ 0	$ 6,400	$ 0
DISASTER RELIEF ADMINISTRATION	108	$ 11,482	$ 10,447	$ 9,172
FLOOD STUDIES AND SURVEYS	112	$ 84,821	$ 85,000	$ 74,000
EXECUTIVE DIRECTION	116	$ 10,252	$ 10,713	$ 10,956
Total Program Obligations		$128,504	$139,423	$120,295
Unobligated Balance - Beg. of Year		(821)	(6,986)	(700)
Unobligated Balance - End of Year		6,986	700	
Unobligated Balance - Lapsing		179		
Total Appropriation		$134,848	$133,137	$119,595
Reimbursable Program		577	327	227

ALL COMPONENTS

HAZARD MITIGATION AND DISASTER ASSISTANCE
INCREASES OR DECREASES
FY 1980 vs FY 1979
(In thousands of dollars)

	FY 1979	FY 1980	INCREASE OR DECREASE
INSURANCE AND HAZARD MITIGATION	$ 9,078	$ 9,778	$ + 700
Insurance and Hazard Mitigation	8,778	8,778	0
Community Preparedness Services	300	1,000	+ 700
FIRE PREVENTION AND CONTROL	$17,785	$16,389	$ -1,396
Operations, Planning and Evaluation - Fire Academy	584	605	+ 21
Education and Training Development - Fire Academy	2,331	2,028	- 303
Assistance Program - Fire Academy	982	675	- 307
Operations - Public Education	146	157	+ 11
Assistance Program - Public Education	268	279	+ 11
Education, Research and Development - Public Education	1,172	1,192	+ 20
General Administration	841	748	- 93
Operations and Planning - National Fire Data Center	301	309	+ 8
Fire Data System - National Fire Data Center	1,568	1,829	+ 261
Reference and Referral Service - National Fire Data Center	230	237	+ 7
Data Analysis and Use - National Fire Data Center	916	1,125	+ 209
Computer Systems Support - National Fire Data Center	387	395	+ 8
Operations, Planning and Evaluation - Research and Development	326	336	+ 10
Technology Development - Research and Development	1,210	1,215	+ 5
Management Research - Research and Development	1,488	1,365	- 123
Fire Research Center	5,035	3,894	-1,141
FACILITIES, FIRE ACADEMY	$ 6,400	$ 0	$ -6,400
National Academy for Fire Prevention and Control	6,400	0	-6,400
DISASTER RELIEF ADMINISTRATION	$10,447	$ 9,172	$ -1,275
FLOOD STUDIES AND SURVEYS	$85,000	$74,000	$-11,000
EXECUTIVE DIRECTION	$10,713	$10,956	$ + 243
Federal Insurance Administration	3,139	3,139	0
Federal Disaster Assistance Administration	698	744	+ 46
Defense Civil Preparedness Agency - Operation and Maintenance	3,904	3,974	+ 70
Defense Civil Preparedness Agency - Research, Shelter Survey and Marking	450	450	0
U. S. Army	200	200	0
Federal Preparedness Agency	1,515	1,671	+ 156
General Services Administration - Overhead	383	383	0
U. S. Fire Administration	424	395	- 29

ALL COMPONENTS

HAZARD MITIGATION AND DISASTER ASSISTANCE
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

Direct Obligations	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
11.0 Personnel Compensation	$ 23,233	$ 24,027	$ 24,798
12.0 Personnel Benefits	2,024	2,273	2,239
21.0 Travel and Transportation of Persons	2,320	2,007	1,774
22.0 Transportation of Things	27	147	51
23.1 Standard Level User Charges	1,367	1,621	1,673
23.2 Rent, Communications, and Utilities	1,595	1,378	1,535
24.0 Printing and Reproduction	972	827	869
25.0 Other Services	93,391	96,390	82,921
26.0 Supplies and Materials	626	652	733
31.0 Equipment	61	119	92
32.0 Lands and Structures	0	6,400	0
41.0 Grants, Subsidies, and Contributions	2,888	3,582	3,610
Total Direct Obligations	$128,504	$139,423	$120,295

43-133 O - 79 - 40

PROGRAM: INSURANCE AND HAZARD MITIGATION
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Insurance and Hazard Mitigation.	88	$ 8,121	$ 8,778	$ 8,778
Community Preparedness Services.	90	0	300	1,000
Total		$ 8,121	$ 9,078	$ 9,778

INSURANCE AND HAZARD MITIGATION

FY 78: $ 8,121,000 FY 79: $ 8,778,000 FY 80: $ 8,778,000

PROGRAM DESCRIPTION

The Federal Emergency Management Agency (formerly FIA) administers three congressionally mandated Property Insurance Programs: the Riot Reinsurance Program, the Crime Insurance Program, and the Flood Insurance Program. Additionally, in conjunction with other Government agencies and the private insurance industry, studies are made of insurance availability problems within the Nation, and recommendations prepared or various options for resolving these availability problems.

The Riot Reinsurance Program and the Crime Insurance Program are administered by the Office of Urban Property Insurance. The Flood Insurance Program is administered by the Office of Flood Insurance. As of January 1, 1978, FIA (now FEMA) began utilizing a contractor rather than the government-insurance industry agreement to carry out the flood insurance operations. There has been and will continue to be rapid growth in this program, but neither this growth nor the change to contractor operation is expected to materially increase the Federal staff required for the program.

The primary functions of the field staff have been enrolling communities in the program, coordinating studies, providing technical assistance and community monitoring.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
INSURANCE AND HAZARD MITIGATION.	$ 8,121,000	$ 8,778,000	$ 8,778,000

JUSTIFICATION OF ESTIMATE

a. Office of Urban Property Insurance. No change is proposed for this office which is responsible for administering the contracts and agreements between the Government and the primary insurers in the Riot Reinsurance Program, and is responsible for all aspects of the Crime Insurance Program including liaison with State officials, supervision of the private companies who act as crime insurance servicing agents, and increasing community awareness of the availability of the program.

b. Office of Flood Insurance. A decrease of 6 positions is proposed for FY 1980. These positions are being transferred to the field to handle increased requirements for technical assistance. This office consists of three operating divisions as follows:

(1) Flood Plain Management Division - establishes criteria for flood plain management in conjunction with other Government and State agencies, and reviews State and local flood plain management measures.

(Continued on following page)

(2) Engineering and Hydrology Division - establishes the methods and techniques for the study and evaluation of flood hazards, directs the engineering and hydrology studies and arranges for publication of all maps and related information.

(3) Field Support Division - develops the systems and techniques for field operations, coordinates community consultation procedures, and monitors the activities of the regional staff.

c. Office of Insurance Examination and Actuarial Services - No changes are planned for this office in FY 1980. The office is responsible for actuarial services, economics and statistics, review of Fair Access to Insurance Requirements (FAIR) Plans operating methods and practices, insurances and bonding, and claims review of all FEMA insurance programs to insure that Congressional intent is effectively carried out and that funds are properly utilized.

d. Field Staff. The increase in staff proposed for FY 1980 reflects the transfer of 6 positions from headquarters for increased technical assistance. The primary functions of the field staff have been enrolling communities in the program, coordinating studies, providing technical assistance and community monitoring.

COMMUNITY PREPAREDNESS SERVICES

FY 78:		FY 79:		FY 80:	
BA	$ 0	BA	$ 1,000,000	BA	$ 300,000
(OBL)	(0)	(OBL)	($ 300,000)	(OBL)	($1,000,000)

PROGRAM DESCRIPTION

Since 1973, a State and local disaster preparedness program has been in existence (started by the National Weather Service) with primary emphasis on hurricanes, floods, and winter storms. The objective of the program is to plan and develop preparedness programs designed to save lives and mitigate the social and economic impacts of natural disasters. State and local agencies are assisted in developing natural disaster preparedness plans, and in conducting periodic disaster drills including school drills. Proper response to warnings is encouraged, and the aid is enlisted of the media in information-educational campaigns to increase public awareness of the threat of natural disaster.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
COMMUNITY PREPAREDNESS SERVICES.	$ 0	$ 300,000	$ 1,000,000

JUSTIFICATION OF ESTIMATE

Twenty-one positions, formerly allocated to the National Weather Service, will be required by FEMA to conduct this program. The positions are those of Disaster Preparedness Specialists.

The increase is caused by supporting a full compliment of personnel for a full year. FY 1979 reflects institution of a new program mid-year and a lapse for delay in filling vacancies.

PROGRAM: FIRE PREVENTION AND CONTROL
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Education and Training	92	$ 4,769	$ 6,324	$ 5,684
National Fire Data Center	98	2,150	3,402	3,895
Research and Development	102	6,909	8,059	6,810
Total		$ 13,828	$ 17,785	$ 16,389

EDUCATION AND TRAINING

FY 78:	BA	$4,799,000	FY 79:	BA	$5,944,000	FY 80:	BA	$5,684,000
	(OBL)	($4,769,000)		(OBL)	($6,324,000)		(OBL)	($5,684,000)

PROGRAM DESCRIPTION

The United States Fire Administration's (USFA) education and training activity contains the National Academy for Fire Prevention and Control, and the Public Education Program. These are the primary vehicles for developing and delivering training and education programs which will improve the ability of fire service personnel and others in reducing fire losses, and for the development and dissemination of effective public fire education programs to States, communities, and high-risk groups.

Also included under this activity are the administration and operations costs to direct the accomplishment of USFA program objectives.

The objectives of the Academy are to develop and test the effectiveness of courses and curricula for use by the Academy, State and local governments, and colleges and universities in the delivery of training and education courses through the Academy system; to provide assistance to States through grants for the development of (1) statewide education and training organizational designs and (2) comprehensive statewide education and training plans; to provide technical assistance to State and local agencies for practical application of innovative subject areas taught by the Academy and to vocational training programs and colleges and universities in order to encourage new education and training programs or strengthen existing programs in fire technology, management, and administration.

The Public Education objectives are to develop the States' capacity to deliver tested fire education programs to communities, and fire departments and high risk groups; to develop and test strategies to control factors which contribute to rural fire; to guide the communities in developing programs to solve their specific fire problems; to establish a public fire education evaluation system; to establish an urban fire loss reduction program; and, to implement an arson prevention and control program.

The administration and operations objectives are to provide overall management direction, including planning, coordination and evaluation of USFA activities; to provide public information services; to distribute public safety awards; to develop model State fire protection organizational concepts; to coordinate Federal fire protection programs; to prepare an Annual Report to Congress; to provide operations and maintenance support to the National Academy for Fire Prevention and Control site.

(Continued on following page)

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
EDUCATION AND TRAINING	$ 4,769,000	$ 6,324,000	$ 5,684,000
1. National Academy for Fire Prevention and Control	$ 3,475,000	$ 3,897,000	$ 3,308,000
a. Operations, Planning and Evaluation	445,000	584,000	605,000
b. Education and Training Development	2,279,000	2,331,000	2,028,000
c. Assistance Programs	751,000	982,000	675,000
2. Public Education	$ 836,000	$ 1,586,000	$ 1,628,000
a. Operations	103,000	146,000	157,000
b. Assistance Program	263,000	268,000	279,000
c. Education, Research and Development	470,000	1,172,000	1,192,000
3. Administration and Operations	$ 458,000	$ 841,000	$ 748,000
a. General Administration	458,000	841,000	748,000

JUSTIFICATION OF ESTIMATE

The Academy is organized into three program areas: operations, planning and evaluation; education and training development; and assistance programs. These activities provide for upgrading the professional competence of fire service personnel and others in order to achieve significant reduction in the Nation's loss of life and property resulting from unwanted fire, and to achieve significant reductions in non-fatal injury due to fire.

Fire education programs targeted to communities and to high-risk groups can significantly reduce fire deaths, injuries, property loss and incidence. Documented fire education programs have demonstrated that fire rates can be decreased by as much as 70 percent when such programs are addressed to specific fire problems and specific high-risk groups in geographic regions or communities. The Public Education Program conducts research to determine the most effective methods to educate the public and high-risk groups. Tested programs are disseminated to the States and communities through the public education assistance program. Technical assistance in planning, implementation and evaluation of fire education programs is provided to the fire service; Federal, State and local agencies; national organizations and associations; and medical and educational groups.

1. NATIONAL ACADEMY FOR FIRE PREVENTION AND CONTROL . . . . . $ 3,475,000 $ 3,897,000 $ 3,308,000

a. Operations, Planning and Evaluation . $ 445,000 $ 584,000 $ 605,000

This program provides overall guidance and administration of the Academy system. The program also provides for administrative staff support to the Board of Visitors, which reviews the programs of the Academy annually and makes recommendations to the Director of FEMA regarding the operation of the Academy. This program also provides short and long range planning; budget planning; facility management particularly relating to the resident site; and overall Academy data/information systems, as well as evaluation of the total Academy effort.

b. Education and Training Development. . $ 2,279,000 $ 2,331,000 $ 2,028,000

The Academy develops and delivers programs to improve the ability of the fire service and others in reducing fire losses. Courses are being developed, based

(Continued on following page)

upon educational research, while maximum advantage is being taken of already existing and tested programs. The Academy is developing a nationwide delivery system which utilizes and complements existing State and local educational efforts. The Academy program will serve as the hub of a nationwide network which disseminates educational programs to and through existing fire training schools, fire science programs in community colleges, and fire management and fire protection engineering programs at the college or university level. USFA

This program develops the course material which will be tested and delivered by the Academy system. The National Survey on Training and Education conducted during 1975 and 1976 recommended that the Academy offer courses responsive to fire service and fire protection practitioner needs. This Survey verified that training and education are severely lacking in quality and quantity throughout the Nation. For example: 70 percent of the fire departments do not require officer development training; 60 percent do not conduct inspector training; 24 States do not provide fire prevention training. Where education and training is provided, often it is not based upon sound principles of educational technology or fire safety practices. Fire losses in the United States are primarily affected by decisions made by people on the State and local level. To reduce fire losses, more technically qualified people are needed and, through them, more informed decisions must be made.

Academy course products are developed within three broad subject matter areas: (1) fire protection management and executive development, (2) instructional and educational methods, and (3) technical practices.

The first area will generally serve the executives and officers of the fire service. This Executive Development Series will include Level I for company officers, Level II for battalion officers and Level III for chiefs and assistant chiefs. Development will continue in anticipation of a resident facility. This series of courses will comprise 60 percent of the resident program. The second will address the needs of fire service instructors and others who teach or develop educational programs for technical practitioners or managers/administrators. The last will respond to technical personnel such as fire investigators, public fire education specialists, architects, building code officials and fire protection engineers. Within these three broad areas, there will be regularly sequenced "building block" courses, many of which will be transferable, as well as special courses/seminars needed to respond to fire problems of national priority.

Transferable course packages will consist of specially prepared materials ready for use by qualified instructors. They generally include visual aids, instructors guides, learning and performance objectives and tests. Most importantly, these packages will have a multiplier effect by being transferable.

In FY 1980, courses will be available in the following subject areas: Arson Detection, Fire/Arson Investigation I, Educational Methodology I and II, Systems Analysis, Preparation of Master Plans, Labor/Management Relations, National Fire Incident Reporting System, Fire Safe Building Design for Practicing Architects, Management Overview for Fire Service Officers I and II, Pesticide Fire and Spill Control, Public Education-Orientation, Life Safety Codes, Physical Fitness, Smoke Detectors, Hazardous Materials, and Operational Risk Analysis. Over 3,460 students will be trained. In addition, the Master Planning Overview will be presented to approximately 500 students.

Also in FY 1980, the development of additional course packages will continue. These include Fire Inspector I, Educational Methodology III, and Emergency Medical Service (EMS) Management. Specific courses in the Executive Development Series which will provide managerial and technical training for fire officers will continue in development, with the Executive III Series possibly ready in FY 1980, and the Executive II Series continuing in development.

(Continued on following page)

			USFA
c. Assistance Programs	$ 751,000	$ 982,000	$ 675,000

The National Survey on Training and Education also indicated a lack of commitment by many State governments to organize or fund fire service education and training programs. The report further stated that "the fragmentation of fire service training in some States results in the absence of identifiable organizations or agencies through which Federal programs can be routed". This results in fire service personnel being deprived of education and training necessary to provide the best protection to their communities. The assistance program allows States to establish organizations and develop plans so that appropriate education and training is provided to fire service personnel and others through the State.

The USFA has developed and announced to all States, territories and the District of Columbia, a grant program entitled, "The Academy Planning Assistance Program" (APAP). The program provides financial assistance to individual States so that they can identify and coordinate existing education and training resources, assess education and training needs throughout the State, and develop a statewide fire education and training design to meet the needs identified. APAP provides a two-step grant assistance program to develop: (1) a statewide organizational design, and (2) a five-year education and training plan for the State.

In FY 1980, APAP grants will be let to approximately 18 States. This will enable a total of 46 States and territories to complete the first phase, and 21 States and territories to complete the second phase, of the APAP program. The average amount for first phase grants is $12,000 and for the second phase, $50,000. In addition, utilizing guidelines developed in FY 1978, one or two grants to State or local organizations will be awarded for the development of innovative education and training techniques.

This budget provides for a decrease of $358,000 and four positions for the Academy in FY 1980. The Academy's education and training development effort for the Technical Series are affected. This includes three positions and $63,000 for personnel costs in the delivery effort and one position and $25,000 for personnel costs in the program development effort. With this $88,000 reduction in personnel costs, there is also a $110,000 cut in travel funds, a reduction in adjunct faculty support of $110,000 and a reduction of $50,000 for printing.

A total of 36 of the 158 course offerings, affecting 1,020 students, will not be offered in FY 1980, and 115 fewer sets of course packages will be sent to State training directors and State fire marshals. The development of the Marine Fire course, scheduled to be developed in FY 1980, and the Aircraft Rescue course, already in process, will be delayed.

2. PUBLIC EDUCATION	$ 836,000	$ 1,586,000	$ 1,628,000
a. Operations	$ 103,000	$ 146,000	$ 157,000

This program provides direction, fiscal, evaluation and planning support to USFA's public education programs.

b. Assistance Program	$ 263,000	$ 268,000	$ 279,000

This program is USFA's primary vehicle for delivery of proven fire education programs to the States, communities and high-risk groups. The program has three major functions: (1) provides grants to States to develop their capacity to deliver fire education programs to communities and high-risk groups; (2) establishes a national public fire education resource system to coordinate exchange of educational materials among the States and territories; and, (3) develops the States' capacity to provide communities and fire departments with technical assistance in public education program planning, implementation, and evaluation.

The Public Education Assistance Program (PEAP) is conducted in three phases which are accomplished in a minimum of three years. States assume full responsibility after the third year. In FY 1980, second year grants of $15,000 each will be awarded to two States, and third year grants of $15,000 each will be awarded to an

(Continued on following page)

additional four States completing the evaluation phase in FY 1979. USFA

In FY 1980, publication of resource bulletins and public education monographs will continue to provide the fire service with successful methods of increasing the public's fire safety knowledge.

Smoke Detector Seminars were conducted in all 50 States to provide technical assistance to over 12,000 fire educators and professionals, who in turn have initiated State and local smoke detector education programs. In FY 1980, similar topical workshops will be developed and provided to the field.

c. Education, Research and Development. .$ 470,000 $ 1,172,000 $ 1,192,000

This program develops, through research and testing, effective public fire education program materials and teaching methods. The program is focused on five major areas: (1) planning and management of public fire educational programs, (2) fire educational programs for high-risk groups, (3) residential fire education, (4) fire education programs for special environments, and (5) arson prevention and control.

Education research and development projects are carried out in four phases: (1) when a high-risk environment or high-risk population is identified, a needs assessment is conducted, (2) educational and loss reduction strategies are designed, (3) educational materials are developed and then pilot tested, and (4) when fully validated, the educational materials and strategies are transferred to the PEAP for broad dissemination to the public and to high-risk groups.

In FY 1979, a manpower base for a national residential survey program was developed in cooperation with the Title IX, Older American Act which makes senior citizens available to perform community services. In FY 1980, the Public Education Office will continue to coordinate and provide technical assistance to cities and fire departments who wish to initiate this program.

Projects initiated in FY 1979 and planned for continuance in FY 1980 include:

- developing and testing media/audio visual materials to be used by local communities and fire departments to reduce cooking fires which currently cause 40% of all household fires;

- publishing a case study on planning methods used by communities to design fire education programs to solve their fire problems;

- developing curricular content for the Public Fire Education Specialist III at the program manager level;

- publishing an evaluation manual to guide communities in monitoring impact of their public fire education programs;

- publishing methods of counseling juvenile firesetters to change their fire-setting behavior.

New projects in FY 1980 will include:

- determination of major causes of rural fires and practical solutions;

- development and testing of an urban intervention strategy based on the Fire Response Team Method (saturate neighborhood with information about the cause of a recent fire and how it could have been avoided).

Development and dissemination of the Arson Early Warning System and funding was specifically mandated in FY 1979. The Arson Early Warning System collected information which was used to break up a $6,000,000, thirty-four member arson-for-profit ring. The system analyzes key housing, insurance code, financial and commercial indicators to determine if a building is being set up for arson. The system is being packaged for use in municipalities. In FY 1980, it will be pilot-tested in two cities.

(Continued on following page)

USFA

3. ADMINISTRATION AND OPERATIONS.	$ 458,000	$ 841,000	$ 748,000
a. General Administration.	$ 458,000	$ 841,000	$ 748,000

The Office of the Administrator is responsible for the overall management of the USFA. Specific functions include the establishment of overall policy, budget review and approval, general review and evaluation of all activities, final review and approval of individual objectives and programs, and liaison with key governmental officials and members of the fire community.

The Office of Information Services disseminates information to members of the fire community, other Federal organizations, and the general public concerning the activities and products of the USFA and fire protection in general. Specific activities include publishing Fireword and other bulletins, preparing press releases, maintaining liaison with media representatives, and coordinating the preparation of the Administrator's Annual Report to Congress.

This budget provides for a decrease of $93,000 and one position in the base program in FY 1980. Two major activities are included in this decrease. One of the activities being decreased is the development of a National Fire Plan that would have incorporated initial and reasonably accurate analysis of the causes and effects of fires into detailed fire scenarios. The second activity (ongoing in FY 1979) includes the one position to monitor Congressional hearings, prepare Congressional correspondence, draft legislation, and monitor The Congressional Record daily. These reductions can now be sustained without adverse program effects.

NATIONAL FIRE DATA CENTER

FY 78:		FY 79:		FY 80:	
BA	$2,213,000	BA	$3,295,000	BA	$3,895,000
(OBL)	($2,150,000)	(OBL)	($3,402,000)	(OBL)	($3,895,000)

PROGRAM DESCRIPTION

This activity assures that accurate, timely, understandable information is available with the necessary detail and comprehensiveness, to compare fire with other national problems; setting priorities among fire programs; targeting fire protection programs to the groups most in need; identifying alternative solutions to fire protection problems; assessing progress over time; and helping public and private agencies use available information to make better fire protection decisions.

The objectives of this activity are to develop an accurate measure of the magnitude of the Nation's fire problem and its major characteristics and trends; to assist State and local governments in improving their fire data systems; to assist other government agencies and private organizations in collecting fire related data; to undertake detailed investigations of selected types of fires; to lead in the development of an international fire reporting network which will provide information relevant to the U. S. fire problem; to have fire data used on the local, State, and Federal levels for making more rational, cost-effective decisions on remedial programs, regulations, and codes, and resource allocations; to develop and implement a fire reference service which collects, classifies, and disseminates information to the fire community; and to provide USFA with computer data processing and software development support.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
NATIONAL FIRE DATA CENTER	$ 2,150,000	$ 3,402,000	$ 3,895,000
1. National Fire Data Center	$ 2,150,000	$ 3,402,000	$ 3,895,000
a. Operations and Planning	300,000	301,000	309,000
b. Fire Data System	527,000	1,568,000	1,829,000
c. Reference and Referral Service	228,000	230,000	237,000
d. Data Analysis and Use	724,000	916,000	1,125,000
e. Computer Systems Support	371,000	387,000	395,000

JUSTIFICATION OF ESTIMATE

A coherent body of accurate and dependable data is needed for decision making by the USFA, Federal, State and local governments, the fire service, researchers and technicians, educators, and others concerned with fire prevention and control. The National Fire Data Center is developing a fire data bank by tapping existing data sources and developing new ones to fill major gaps and improve validity. The collected information, statistical and non-statistical, is analyzed and made

(continued on following page)

USFA

available to State and local governments and other public and private agencies to identify problem areas, select the appropriate course of action, and evaluate program progress over time.

1. NATIONAL FIRE DATA CENTER	$ 2,150,000	$ 3,402,000	$ 3,895,000
a. Operations and Planning	$ 300,000	$ 301,000	$ 309,000

This element plans, administers, and evaluates the Data Center's activities to assure the accomplishment of its objectives. It also insures, through user and effectiveness studies, that the Center's products meet users' needs efficiently and economically.

b. Fire Data System	$ 527,000	$ 1,568,000	$ 1,829,000

While many States and most local fire jurisdictions collect fire data, the collected statistics are frequently not compatible and do not present a cohesive picture of the U. S. fire experience. The objective of this program is to collect the data needed to develop an accurate statistical picture of the U. S. fire experience. The program: (1) gathers statistical data on fires, including the causes of fires, the types of property involved, the number of deaths and injuries, and dollar loss through National Fire Incident Reporting System (NFIRS) and other sources; (2) provides technical support and partial financial assistance to aid States in initiating or upgrading their own statewide fire incident reporting and help local governments improve their data systems; (3) collects fire-related data from public and private sector sources; (4) operates an investigative program to collect in-depth data on selected types of fires, such as those involving fatalities or household consumer products, and on major fires; (5) leads in the development of an international fire data collection system in order that relevant foreign experience can be applied to U. S. problems; and (6) produces and distributes quarterly feedback reports to participating States, and special reports based on the NFIRS data to Congress, the fire service, Federal agencies, industry, and other users.

By the end of FY 1979, 30 States will have joined the NFIRS. In FY 1980, seven States will be added to the network; these States will be provided technical support and partial financial assistance, and the eight States that joined the NFIRS in FY 1979 will be given second-year grants. Data collection will begin for the new States and will increase for the States that joined the network previously. Improved quality control procedures will be devised and put to use in 60 communities each of nine NFIRS States, thereby increasing the confidence with which the data can be used at the local, State, and national levels. Collection of data from sources other than the fire service will be continued. Support will be provided to improve existing private sector fire data collection efforts that provide useful information. In-depth investigations will be made of major fires that occur, and of key problems selected and funded jointly with the Consumer Product Safety Commission and HUD.

An increase of two positions and $261,000 is requested in FY 1980 to: (1) maintain technical field support to the increased number of NFIRS States at the FY 1979 level of service, as the system grows toward full participation and leveling-off in FY 1982, (2) revise the NFIRS training package to keep up with changes in definitions, improved output reports, improved quality control procedures, and feedback from State and local government users, (3) install improved quality control procedures in 60 communities in each of three additional NFIRS States. Experience to date has indicated that personnel turnover, inadequate training, and varying interpretations of the coding structure are causing errors in the data received by USFA from the States. While the data is already useful for many purposes, these errors must be decreased to make the data useful for a broader range of decision making on the local, State, and national levels, (4) provide partial support to representatives from NFIRS States to plan and attend the annual

(continued on following page)

NFIRS Users Conference, so that ideas on solving problems in implementing the data systems can be shared, and so that the States can recommend how we should make NFIRS more useful, and (5) service approximately 50% more requests per month for special reports based on the NFIRS data base.

c. Reference and Referral Service. . . . .$ 228,000 $ 230,000 $ 237,000

The objective of this program is to provide basic library and reference service to the USFA staff and to provide bibliographic tools that help the fire service, industry, and others access the published literature relevant to critical fire problem areas. The operating premise of the USFA Fire Reference Service is not to provide expensive one-on-one services, but rather to help others help themselves by developing bibliographic guides and generally applicable search tools. The program uses existing Federal and non-federal information services to the greatest extent possible and channels information requests to other services whenever that is appropriate.

In addition to basic library service for the USFA staff and responding to a limited number of requests for technical information from the staff, the fire service, and others, the Reference Service will continue production, at the FY 1978 level, of the bimonthly publication, Fire Technology Abstracts, which identifies and indexes for retrieval much of the book, journal, and report literature not covered in other sources. The special arson collection will be kept up-to-date and indexed for retrieval.

d. Data Analysis and Use. . . . . $ 724,000 $ 916,000 $ 1,125,000

This program analyzes the data from the NFIRS and other sources to produce national fire data estimates, help identify fire problems and establish priorities among them, and suggest remedial actions. The program also evaluates the validity of the NFIRS data and develops ways to improve its quality; and it evalutates selected fire protection programs, develops evaluation methodologies, and provides consultation on statistical methods and experiment design to other USFA programs.

In FY 1980, the program will produce the fourth annual estimates of the national fire experience, defining trends in its magnitude and characteristics, and including more detailed analyses of special problems, and of selected States and communities. An analysis of the rural fire situation, which has been relatively neglected, will be conducted. A few small studies indicate that the rural death rates may be approximately 50 percent greater than urban, but the uncertainties are so large that the actual differences may be anywhere from zero to 100 percent. Standardized techniques for estimating dollar losses due to fire will be improved and a manual showing how they should be used will be distributed to local fire departments through NFIRS and by other means. Statistical consulting to the USFA programs will be continued on a limited basis.

The increase of two positions and $209,000 in FY 1980 will help get fire data used, not just collected, at State and local levels. This is the most important shift in emphasis since the Data Center started five years ago. This objective often is left implicit, often is taken for granted, and often does not get accomplished, thereby wasting much of the effort in developing good data. Fire data will be selected, interpreted, and published in ways most suited for use by State and local decision makers. This requires translating the technical reports prepared by mathematical statisticians into simple English and a manual on fire data use will be published and widely distributed. Technical assistance will be provided to three States and 10-15 cities in how to use local fire data to improve department management and to keep city management informed.

e. Computer Systems Support. . . . . .$ 371,000 $ 387,000 $ 395,000

This program develops and uses computer software to meet Data Center and other USFA requirements, and arranges for computer terminals needed on site. At the

(continued on following page)

present time, USFA does not plan on purchasing automated data processing equipment, but will continue to use government or private computer services. USFA

This program element provides ADP support for the NFIRS, national fire loss estimates, library cataloging, and USFA administrative systems. It also continues to provide ADP consulting to USFA. It is expected that over a million fire incident records will be entered into the system in FY 1980. Special computer reports will continue to be produced from the NFIRS data base for Congress, other Federal agencies, the fire service, industry and others.

RESEARCH AND DEVELOPMENT

FY 78:	BA $6,831,000	FY 79:	BA $7,732,000	FY 80:	BA $6,810,000
	(OBL) ($6,909,000)		(OBL) ($8,059,000)		(OBL) ($6,810,000)

PROGRAM DESCRIPTION

The USFA research and development activity contains the Fire Technology and Management Research Program, and the Fire Research Center in Gaithersburg, Maryland. These elements provide improved planning, research and technology necessary to decrease significantly fire-caused deaths, injuries, and economic losses, and to improve the effectiveness of fire protection. In addition, the Fire Research Center develops, through research, the technical base necessary to support the Nation's goal of reducing fire losses by 50 percent within the next generation.

The objectives of the Fire Technology and Management Research Program are to define and recommend an integrated, national fire research policy, i.e., what research needs to be conducted, how and when the research should be accomplished and how research products should be disseminated for effective application; to improve personal protective equipment for firefighters and fire detection and suppression devices for residences; to improve the effectiveness of fire safety codes, standards, and regulations and the enforcement and administration of these codes by State and local officials; to establish systematic master planning methods for urban, rural, State, county and Federal use in determining affordable levels of fire protection; and to improve the effectiveness of community fire protection through local utilization of the results of management studies.

The objectives of the Fire Research Center are to reduce the number of sustained ignitions in the environment by providing the technical basis for selecting proper materials, controlling design of common ignition sources, and determining arson; to reduce the spread and growth of a fire and its combustion products (given a sustained ignition) by developing improved criteria for materials selection and new or improved design concepts; to improve the probability of arresting fires at an early stage through the development of test methods, standards, and design guides for automatic detection and suppression devices and systems; and to provide protection for people in a building fire through improvement of alarm, communication, escape, and rescue systems.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
RESEARCH AND DEVELOPMENT	$ 6,909,000	$ 8,059,000	$ 6,810,000
1. Fire Technology and Management Research	$ 2,166,000	$ 3,024,000	$ 2,916,000
a. Operations, Planning and Evaluation	259,000	326,000	336,000
b. Technology Development	391,000	1,210,000	1,215,000
c. Management Research	1,516,000	1,488,000	1,365,000
2. Fire Research Center	$ 4,743,000	$ 5,035,000	$ 3,894,000
a. Fire Research	4,743,000	5,035,000	3,894,000

(Continued on following page)

43-133 O - 79 - 41

JUSTIFICATION OF ESTIMATE

The fire technology and management research subactivity identifies, refines and transfers technologies that can have an impact on fire safety, and develops new techniques for evaluating and improving the delivery of fire prevention and control activities.

Stating that fire losses in the U. S. are unacceptably high, Congress established a Fire Research Center (FRC) at the National Bureau of Standards (NBS) under the Federal Fire Prevention and Control Act of 1974 (P.L. 93-498). The fire responsibilities assigned to the FRC include studying the various processes in fire itself and the effects of fire on its victims, including firefighters. In response to its legislated responsibility the FRC has analyzed available data on fires and classified fire incidents into a group of scenarios. Strategies to intervene in each scenario have been devised using the key elements of the fire safety design approach; namely, first to reduce ignitions, next to manage the fire impact either by managing the fire itself or by managing the exposed people or property. This analysis has produced the four objectives listed in the Program Description.

1. FIRE TECHNOLOGY AND MANAGEMENT RESEARCH. .	$ 2,166,000	$ 3,024,000	$ 2,916,000
a. Operations, Planning and Evaluation . .	$ 259,000	$ 326,000	$ 336,000

This program provides overall management direction and administrative support. Also, fire and related technology is examined in order to determine how this technology can be transferred from researchers to potential users. Pilot projects to implement this "technology transfer" are conducted. In addition, tasks necessary to develop a national fire research policy are carried out. The FY 1979 program increase provided for the initiation of an effort whose end result is the development of a coordinated national fire research and development policy.

b. Technology Development.	$ 391,000	$ 1,210,000	$ 1,215,000

This program applies existing technology to new functions without the need for additional basic research. The major project in this line item is evaluation and development of systems and devices to solve the residential fire problem. Over 67 percent of all fire deaths and over 60 percent of all fire-related injuries occur in residences. The project is directed specifically toward a reduction of deaths, injury and economic loss resulting from residential fires. Rather than focusing on one potential solution to this problem, we are utilizing a program that views residential fire protection as a system with several alternative methods. We are utilizing the technologies of sprinkler systems, smoke and fire detectors, and early fire department remote alert systems in attempting to solve this problem. A recent study of actual fire situations where a fatality occurred estimated that fire deaths, injuries and property losses could have been reduced by substantial amounts had there been an installation of a suppression or remote alarm system. It is a fact that sprinkler systems in commercial installations are 98% effective in property loss reductions. Our projects transfer the commercial sprinkler technology to residential application and have proven that residential systems are effective and use considerably less water. In FY 1979, the Congress recognized the importance of this program and provided a significant increase for the residential sprinkler development system. This increase will make it possible to complete the development of full performance specifications and necessary testing for such a system so that the private sector can then develop and merchandise the hardware applications. The initial application of the system will be in new homes, with continuing development projects for use in existing residential structures. Projects also continue in this line item for the improvement in the effectiveness and reliability of smoke detectors and in the development of performance criteria for remote alarming systems.

(Continued on following page)

The Congress identified master planning as a program of major importance, following the recommendations of the National Commission on Fire Prevention and Control. New, rather than conventional, methods of determining fire protection programs at the local level are being developed. Competition for scarce public funds requires a higher degree of thorough planning so that public safety programs are not arbitrarily reduced. The major emphasis in this line item has been in the development of tools to assist communities in their fire prevention and control master planning efforts. This has resulted in the development and distribution of an "Urban Guide for Fire Prevention and Control Master Planning," a "Basic Guide for Fire Prevention and Control Master Planning," and "Introduction of Master Planning" package. A major report was delivered to the Congress in FY 1979 on USFA's efforts in developing the concepts and encouraging the use by communities of the master planning process. This report clearly indicates the benefits and successes of such a program and proposed a program of assistance to local communities for future budget considerations.

In FY 1980 master planning programs in the States and local jurisdictions will be encouraged and improved. Ongoing master planning efforts will be monitored and evaluated so that the tools previously developed can be improved and upgraded. As a result of the initial dissemination of the procedural manuals that have been developed, an increasing number of communities are becoming involved in master planning activities. Also, new procedures are being developed that will require field testing. For example, guidelines for master planning in multi-jurisdictional areas, developed during FY 1979, will be field tested beginning in FY 1979 and FY 1980. In FY 1979 the program emphasis in this line item will shift from a major emphasis on master planning development projects to projects of a specific nature that are identified by communities as they develop their master plans. For example, the FY 1979 program increases provided for a study to determine the feasibility of a municipal based fire insurance program, with guidelines on how to establish the system. As funds permit, other fire management problems will be studied, such as the projects on problems of manning levels, resource allocation, alternative funding mechanisms, management improvements, systems efficiency, and special systems problems (e.g., arson investigation techniques and emergency medical integration).

Efforts to review, analyze and suggest improvements in fire safety codes and standards, as well as the ways these codes and standards are developed, adopted and administered, will continue. This regulatory impact program is based upon the authority granted in Section 12 of the Federal Fire Prevention and Control Act. The analysis of the performance goals of codes, begun in FY 1979, will continue. The increase for the study of the economic impact of codes was not funded in either FY 1979 or FY 1980. The effort to identify and evaluate effective approaches to code administration will continue as a means to develop techniques that can be employed by local communities. Limited work on the Fire Safety Effectiveness Statement Program, authorized by Section 13 of the Federal Fire Prevention and Control Act, begun by reprogramming funds in FY 1979, will continue. The FY 1979 program increase provided for the initiation of a project to evaluate the performance goals of major building and fire prevention codes, particularly as they applied to life safety.

Surveys continue to show firefighting to be the most hazardous occupation in the Nation. Over the last decade, one survey reported an annual average of 88 accidential deaths per 100,000 firefighters. This compares with an annual average of 58 accidential deaths for policemen. Yet many firefighters wear protective clothing that has been essentially unimproved for many years. Utilizing existing technology developed for other purposes, and in cooperation with the National Aeronautics and Space Administration (NASA), a project to improve firefighters protective clothing is being continued. Under development is an integrated protective ensemble that will be adaptable for the variety of fire situations facing the structural firefighter and offer the greatest amount of personal protection. Draft standards for some firefighter protective equipment already exist as interim standards for use by voluntary and regulatory agencies. As new products

(continued on following page)

result from the USFA/NASA project, standards for equipment items will be upgraded. Fabrication and field testing of the combined ensemble will be conducted during FY 1979 and FY 1980.

c. Management Research	$ 1,516,000	$ 1,488,000	$ 1,365,000

The management research program conducts studies of the operations and management aspects of fire service operations to identify methods for improving the efficiency and effectiveness of these operations, and encourages and assists local jurisdictions in the development of master plans for fire prevention and control; reviews, evaluates and suggests improvements in State, local, Federal, and voluntary fire prevention codes, buildings codes and regulations, and other codes and standards impacting the fire situation.

2. FIRE RESEARCH CENTER	$ 4,743,000	$ 5,035,000	$ 3,894,000
a. Fire Research	$ 4,743,000	$ 5,035,000	$ 3,894,000

The Center's research is organized into two categories: basic (fire science) and applied (fire safety engineering). The fire science programs develop new information for use directly by the fire research community and for setting priorities for the development of test methods and standards by the fire safety engineering programs. Activities in fire science include studies involving chemistry, physics, fluid dynamics, and the analysis of actual fire incidents. The fire safety engineering programs develop test methods, standards, design specifications, and recommended practices for use by the USFA, various voluntary standards-writing organizations, mandatory standards-writing groups in Federal agencies, model code groups, and State and local authorities. Fire safety engineering programs address the fire safety of consumer products, building construction, furnishings, fire detection and control systems, and building design concepts. The content and priorities of the Center's programs are determined as part of a careful planning process in consultation with the Administrator of the USFA and the Assistant Secretary of Commerce for Science and Technology and carried out at NBS and through a program administered by the Center. After the transfer of USFA functions to the Federal Emergency Management Agency (FEMA), this consultation will be continued. The Center has outlined year by year the milestones, the required resources, and the estimated reduction of fire loss associated with each strategy. The current plan, which runs from FY 1977 to FY 1982, has been jointly reviewed and approved by the Administrator of USFA and the Assistant Secretary of Commerce for Science and Technology. A revised edition of this, covering FY 1979 to FY 1983, is being prepared in consultation with the Administrator of USFA.

Accomplishments for FY 1980 related to the major objectives include:

- Reduction of ignitions: Publish handbook of fire investigative data and proceedings with emphasis on arson detection.

- Reduction of spread and growth: Validate laboratory flame spread test for furnishings; Develop performance criteria for mattresses in institutional occupancies.

- Improvement of detection and suppression: Complete a draft full-scale test method for smoke detectors which takes account of relative performance against different kinds of fires; develop econometric model for assessing the total impact of residential fire protection design.

- Protection for people: Determine smoke and gas movement patterns for multi-family residences; publish design criteria and test methods for equipment to control smoke and toxic gas movement; develop criteria for effective alarm and communication systems for buildings based on improved knowledge of fire spread and growth in buildings.

PROGRAM: FACILITIES, FIRE ACADEMY
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Facilities, Fire Academy.	107	$ 0	$ 6,400	$ 0
Total		$ 0	$ 6,400	$ 0

FACILITIES, FIRE ACADEMY

FY 78: BA $6,150,000 (OBL) (0)

FY 79: BA $ 0 (OBL) ($6,400,000)

FY 80: BA $ 0 (OBL) ($ 0)

PROGRAM DESCRIPTION

This budget activity provides for the purchase and renovation of the National Academy for Fire Prevention and Control site at Emmetsburg, Maryland.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
FACILITIES, FIRE ACADEMY	$ 0	$ 6,400,000	$ 0
1. National Academy for Fire Prevention and Control	$ 0	$ 6,400,000	$ 0

JUSTIFICATION OF ESTIMATE

1. NATIONAL ACADEMY FOR FIRE PREVENTION AND CONTROL	$ 0	$ 6,400,000	$ 0

During FY 1977, a supplemental three-year (FY 1977-1979) multiple-year appropriation provided USFA with $2,850,000 for acquiring a site for the National Academy for Fire Prevention and Control. In May 1977, $2,600,000 was used to purchase the Marjorie Webster Junior College site in Washington, D. C. The remaining $250,000, initially earmarked for architectural and engineering studies for renovation of this site, has carried over into FY 1979. In FY 1978, another supplemental three-year (FY 1978-FY 1980) multiple-year appropriation of $6,150,000 was provided, and USFA was directed by the House and Senate Conference Report to sell the Marjorie Webster Junior College site and acquire a new site for the Academy. Use of money from the sale of the college was authorized for acquiring a new site. A decision has been made by USFA, and negotiations are underway to acquire the St. Joseph's College campus in Emmetsburg, Maryland. Balance of funds will be used to renovate the site.

PROGRAM: DISASTER RELIEF ADMINISTRATION
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Disaster Relief Administration.	109	$ 11,482	$ 10,447	$ 9,172
Total.		$ 11,482	$ 10,447	$ 9,172

DISASTER RELIEF ADMINISTRATION

FY 78: $11,482,000 FY 79: $10,447,000 FY 80: $ 9,172,000

PROGRAM DESCRIPTION

Personnel who coordinate the disaster relief program are responsible for administering a comprehensive national program of Federal disaster assistance, including both preparedness and response activities. When a disaster strikes, Federal Emergency Management Agency (FEMA) personnel evalute the damage and requirements for Federal assistance; develop recommendations to the Director and the President for major disaster or emergency declarations; administer the President's Disaster Relief Funds for providing assistance under Public Law 93-288; and coordinate assistance by other Federal agencies and voluntary organizations. In addition, FEMA administers preparedness and operational readiness programs.

The types of assistance provided to disaster victims include:

- assistance to individuals, such as temporary housing; mortgage and rental relief payments; unemployment assistance; loans to individuals, businesses, and farmers; distribution of food coupons; grants to individuals; legal services; and counseling.

- assistance to States and local governments, such as financial grants or direct Federal assistance for debris clearance; protective and health measures; repair or replacement of roads, bridges, sewer and water systems, public buildings and equipment, and public utilities; and funding for repair or replacement of private, non-profit facilities serving the public interest.

- other forms of assistance, such as grants to assist States in developing and improving plans, programs and capabilities for disaster preparedness and response; and other programs and activities designed to prepare for, or minimize the effects of, natural disasters.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
DISASTER RELIEF ADMINISTRATION	$11,482,000	$10,447,000	$ 9,172,000

JUSTIFICATION OF ESTIMATE

The temporary housing program previously delegated to HUD has been transferred to FEMA. The estimates for disaster relief administration include both regular administrative expenses and those for the temporary housing program.

(Continued on following page)

Administrative expenses will no longer be provided from a limitation of three percent of the total funds appropriated to the President but will be included within a separate Federal Emergency Management Agency appropriation (Hazard Mitigation and Disaster Assistance). Included in FY 1978 and FY 1979 totals are administrative expenses directly related to disaster response. These costs are not part of the FY 1980 estimate and will be applied directly to appropriations for the President's disaster fund.

There is a continuing workload in operational readiness activities and general program management. On September 30, 1978, FDAA (now FEMA) was administering 126 open disaster agreements. The workload in FY 1980 is expected to continue at approximately the same level. The magnitude of the workload, and the extent to which temporary augmentation staff are used, will vary with the level of the disaster activity.

Program offices and their responsibilities are as follows:

a. Preparedness and Temporary Housing Office, responsible for disaster research, preparedness, training, and readiness evaluation activities, in addition to the management and coordination of the Mobile Home Strategic Storage Centers and Temporary Housing assistance provided to disaster areas.

b. Public Assistance Office, responsible for the administration and coordination of disaster program authorities for providing assistance to public entities.

c. Individual Assistance Office, responsible for direction, management, and coordination of Federal and private relief programs for the rehabilitation of disaster victims.

d. Emergency Information Office, provides advice and assistance to Central and field office staffs in the dissemination of information about the Federal assistance available in disaster and emergency situations.

e. Reports and Evaluation Staff, monitors developing or actual natural or other non-war disaster emergencies, prepares situation reports, coordinates initial damage assessments, and analyzes reports on disaster assistance efforts.

f. Program Support Staff, develops recommendations and supporting documentation of requests for major disaster and emergency declarations. Prepares appropriate materials for formal notification of disaster and emergency declarations and develops the Federal-State Agreements.

g. Regional Offices

(1) Provide direction and overall coordination for the Federal disaster assistance program activities delegated to them by the Director.

(2) Directs and administers Federal disaster assistance authorities in the several States constituting the respective Region. Provide overall direction, coordination, and management of Federal disaster preparedness and assistance activities at the Regional level.

WORKLOAD

Below is a table listing major disasters, emergencies, and designations for fire suppression assistance on a three-year comparable basis:

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Disaster Requests.	77	100	100
Declared major disasters, emergencies, and fire suppression assistance	41	48	48

The request for 1980 is $1,275 less than the FY 1979 estimate. This is because administrative expenses directly related to disaster response will be charged to disaster relief funds appropriated to the President.

PROGRAM: FLOOD STUDIES AND SURVEYS
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Flood Studies and Surveys	113	$ 84,821	$ 85,000	$ 74,000
Total		$ 84,821	$ 85,000	$ 74,000

FLOOD STUDIES AND SURVEYS

FY 78: $ 84,821,000 FY 79: $ 85,000,000 FY 80: $ 74,000,000

PROGRAM DESCRIPTION

The process by which a community ultimately enters the regular program usually begins with a determination that the community contains areas of special flood hazards. Flood Hazard Boundary Maps are prepared for the community which indicate the location of these areas, and the community is notified of its flood prone status. Communities must then either apply for participation in the program or demonstrate that they are not flood prone. If, within one year of notification, they do not elect to participate in the program and are unable to demonstrate that they are not flood prone, they become ineligible for Federal financial assistance for acquisition or construction in the flood prone areas of such communities, except for special provisions relative to previously existing and occupied structures.

Communities that elect to participate in the National Flood Insurance Program become eligible for federally subsidized flood insurance after they first adopt and enforce the minimum required flood plain management measures and officially apply for participation in the program.

At this point, property owners in the community may obtain flood insurance at subsidized rates up to the maximum coverage permitted under the emergency program. In order to make additional coverage available at actuarial rates under the regular program, FEMA typically must initiate and conduct a time consuming detailed risk zone and elevation study (formerly funded in the National Flood Insurance Program) which results in a Flood Insurance Rate Map. During the study, representatives of the community are kept advised of progress and given an opportunity to provide input. Following the completion of the detailed study, FEMA is required by statute to afford local community officials an opportunity to formally examine the final draft rate map and appeal its elevations. When all appeals have been settled and necessary revisions made to the rate map, the community then enters the regular program. In order for the community to remain in the regular program it must adopt and enforce appropriate regulations.

If a community has no identified special flood hazard areas, or if developmental pressures and flooding conditions are such that a detailed risk zone and elevation study would not be cost beneficial, a community may enter the regular program without a detailed elevation study or with a study that is less costly and less complex than the detailed elevation study.

The National Flood Insurance Act of 1968, as amended, authorized studies (formerly funded in the National Flood Insurance Program) to determine the extent to which protection against natural hazard perils other than floods is not available from public or private sources, and the feasibility of such insurance protection being made available. During FY 1979 and FY 1980, studies will be initiated in a variety of areas where the insurance mechanism may be a viable method for mitigating the impact of natural disasters.

(Continued on following page)

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
FLOOD STUDIES AND SURVEYS.	$84,821,000	$85,000,000	$74,000,000

JUSTIFICATION OF ESTIMATE

Flood Studies and Surveys.	$84,821,000	$85,000,000	$74,000,000

The request for studies and surveys is $74 million, a reduction of $11 million from FY 1979. This funding level will provide for ongoing studies; for restudies of areas in which growth, urbanization, structural changes, or improved methodology have made it necessary for an existing study to be revised; for the initiation of about 448 new flood studies; and for studies of other natural disaster perils where insurance protection may be appropriate. These funds will also be used to enable the States to assist their communities in administering and enforcing prudent flood plain management programs.

The number of new studies initiated represents a substantial reduction from the studies initiated in previous years. This reduction of studies and costs is the result of redirection of program emphasis from the study effort to technical assistance. The remaining unstudied communities are primarily in areas where there is minimal risk of flooding combined with limited growth potential, and consequently there will be little return on Federal funds expended for studies. Instead of an emphasis on studies, there will be a shift in emphasis to technical assistance to meet the Congressional objective of guiding construction away from flood hazard areas.

Flood Hazard Boundary Maps are prepared which show the local community and the special flood hazard areas. These maps are based on such information as historical records of high water, hydrological and hydrographic analysis of the area and the watershed, climatological studies, and (for coastal areas) analysis of storm tracts and bathymetry.

Flood prone communities that elect to participate in the National Flood Insurance Program become eligible for federally subsidized flood insurance. In order to qualify for this insurance, communities must adopt and enforce minimal flood plain management measures to minimize exposure of new construction to flood hazards, and must officially apply for participation in the National Flood Insurance Program. As of October 31, 1978, there were 16,108 communities eligible for flood insurance.

Hydrological and engineering studies are necessary to establish elevations for probable frequency of inundation at a significant number of flood stages, and the resulting map divides the flood hazard area into a number of rate zones with the estimated actuarial premium rates to provide flood insurance on a self-sustaining basis. These rates are further differentiated to reflect the type of structure, the elevation of the lowest habitable floor, and the use of the structure.

Because these studies are necessary before critically flood prone communities can establish truly effective flood plain management measures and enter the regular program, their completion as rapidly as possible, along with providing technical assistance to communities already in the regular program, is a high priority within FEMA. The following table shows the progress made to date and projections through FY 1980:

(Continued on following page)

STATUS OF DETAILED
RISK ZONE AND ELEVATION STUDIES

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Studies completed, beginning of year.	2,179	3,075	4,575
Studies assigned during year: Communities not in regular program (new).	(1,922)	(900)	(448)
Additional areas within communities in the regular program (restudy update).	(186)	(217)	(302)
Studies completed during year (appeal process started).	896	1,500	1,200
Studies completed, end of year (accumulative)	3,075	4,575	5,775
Communities with elevations in regular program at end of year.	2,186	3,234	4,540
Communities without elevations in regular program at end of year a/	568	1,501	1,701

a/ Minimal flooding hazard

ALL COMPONENTS

PROGRAM: EXECUTIVE DIRECTION
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Executive Direction	117	$ 10,252	$ 10,713	$ 10,956
Total		$ 10,252	$ 10,713	$ 10,956

EXECUTIVE DIRECTION

FY 78: $10,252,000 FY 79: $10,713,000 FY 80: $10,956,000

PROGRAM DESCRIPTION

Provides for the salaries, travel, and administrative expenses related to the Director of the Federal Emergency Management Agency, his immediate staff and the common administrative functions, such as accounting, budget, personnel, procurement, security, and general counsel activities necessary to the operation of the agency.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
EXECUTIVE DIRECTION.	$10,252,000	$10,713,000	$10,956,000

JUSTIFICATION OF ESTIMATE

DISTRIBUTION OF EXECUTIVE DIRECTION BY COMPONENT

	($ 000)		
	FY 1978	FY 1979	FY 1980
FIA.	$ 2,928	$ 3,139	$ 3,139
FDAA	700	698	744
DCPA O&M	3,617	3,904	3,974
DCPA RSSM. . . .	239	450	450
ARMY	200	200	200
FPA.	1,860	1,515	1,671
GSA Ovhd	353	383	383
USFA	355	424	395
	$10,252	$10,713	$10,956

The request for Executive Direction is comprised of anticipated costs of salaries and benefits of personnel assigned to administrative functions in the five agencies and an estimated share of travel and administrative and housekeeping support. It also includes the costs related to overhead positions to be transferred from parent agencies upon activation of FEMA.

ALL COMPONENTS

HAZARD MITIGATION AND DISASTER ASSISTANCE
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

Reimbursable Obligations	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
11.0 Personnel Compensation	$ 200	$ 177	$ 177
12.0 Personnel Benefits	20	18	18
21.0 Travel and Transportation of Persons	12	12	12
23.2 Rent, Communications, and Utilities	2	2	2
25.0 Other Services	109	18	18
41.0 Grants, Subsidies, and Contributions	234	100	0
Total Reimbursable Obligations	$ 577	$ 327	$ 227

PROGRAM: REIMBURSABLE ACTIVITIES
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Insurance and Hazard Mitigation.	120	$ 226	$ 227	$ 227
Fire Prevention and Control.	120	351	100	0
Total.		$ 577	$ 327	$ 227

REIMBURSABLE ACTIVITIES

FY 78: $ 577,000 FY 79: $ 327,000 FY 80: $ 227,000

PROGRAM DESCRIPTION

FEMA provides support to other Federal agencies on a reimbursable basis when such activities are cost-effective for the government through improved resources utilization and employee productivity. The following is a tabulation of reimbursable activities by previous agency title:

	($000) FY 1978	FY 1979	FY 1980
Federal Insurance Administration	$ 226	$ 227	$ 227
U. S. Fire Administration	351	100	0

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
REIMBURSABLE ACTIVITIES	$ 577,000	$ 327,000	$ 227,000
1. Insurance and Hazard Mitigation	$ 226,000	$ 227,000	$ 227,000
2. Fire Prevention and Control	$ 351,000	$ 100,000	$ 0

JUSTIFICATION OF ESTIMATE

1. INSURANCE AND HAZARD MITIGATION $ 226,000 $ 227,000 $ 227,000

a. Administrative Expenses - National Insurance Development Fund. Reimbursements are received from the National Insurance Development Fund for salaries of personnel and other operating expenses of the organization directly responsible for the operation of the Riot Reinsurance and the Federal Crime Insurance Programs .(227,000)

2. FIRE PREVENTION AND CONTROL $ 351,000 $ 100,000 $ 0

a. U. S. Fire Administration. In FY 1978, the United States Fire Administration performed reimbursable services for the following organizations: Consumer Product Safety Commission for statistical data on fire incidences, casualties, property damage and losses for various products; Department of Housing and Urban Development for studies of fires in mobile homes; Economic Development Administration, Department of Commerce, for the development of an Arson Early Warning System; National Bureau of Standards, Department of Commerce, for Fire Technology abstracts; and Department of Energy for personal services.

FIA/USFA

In FY 1979, one project for the Consumer Product Safety Commission on smoke detector reliability is currently underway. . . . . .(0)

FY 1980 BUDGET ESTIMATE

DEFENSE PRODUCTION ACT, LOAN GUARANTEE ACTIVITIES

APPROPRIATION - BUDGET PROGRAM SUMMARY
(in thousands of dollars)

Budget Program/Project	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Loan Guarantee Activities.	123	$ 0	$ 0	$ 0
Total Obligations		$ 0	$ 0	$ 0
Unobligated Balance - Beg. of Year		(236)	0	0
Unobligated Balance - Lapsed		236	0	0
Total Appropriation		$ 0	$ 0	$ 0

PROGRAM: LOAN GUARANTEE ACTIVITIES
(In thousands of dollars)

	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Loan Guarantee Activities.	124	$ 0	$ 0	$ 0
Total		$ 0	$ 0	$ 0

LOAN GUARANTEE ACTIVITIES

FY 78: $ 0 FY 79: $ 0 FY 80: $ 0

PROGRAM DESCRIPTION

Under this program, guarantees are given on loans made by public or private financing institutions, including Federal Reserve Banks, to facilitate performance of defense production contracts. Currently, there are no loan guarantees outstanding and none are contemplated in the future. Therefore, processing fees paid by recipients of loan guarantees of $236 thousand have been paid into the Treasury in FY 1978.

FY 1980 BUDGET ESTIMATE

NATIONAL INSURANCE DEVELOPMENT FUND

BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Budget Program/Project	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Riot Reinsurance	129	$ 1,509	$ 1,500	$ 1,000
Crime Insurance	136	20,049	24,049	30,027
Studies and Surveys		0	323	822
Administrative Expenses		226	227	227
Change in Undelivered Orders		81	0	0
Total Program Obligations		$ 21,865	$ 26,099	$ 32,076
Financed by Interest Earnings, Insurance Premiums and Borrowings		21,865	26,099	32,076
Total Appropriation		$ 0	$ 0	$ 0

NATIONAL INSURANCE DEVELOPMENT FUND
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

		Actual FY 1978	Estimate FY 1979	Estimate FY 1980
25.0	Other Services	$ 4,907	$ 5,295	$ 6,928
42.0	Insurance claims and indemnities	16,877	20,804	25,148
	Total costs funded	$ 21,784	$ 26,099	$ 32,076
94.0	Change in selected resources	81	---	---
99.0	Total Obligations	$ 21,865	$ 26,099	$ 32,076

43-133 O - 79 - 42

NATIONAL INSURANCE DEVELOPMENT FUND

RIOT REINSURANCE PROGRAM

SUMMARY OF FY 1980 INCREASES AND DECREASES
(In thousands of dollars)

PROGRAM HIGHLIGHTS

	Actual FY 1978	Budget Estimate FY 1979	Current Estimate FY 1979	Estimate FY 1980	Increase + Decrease - FY 80 vs FY 79
Program Levels:					
Riot Reinsurance Premiums. .	$ 889	$ 1,210	$ 1,170	$ 1,170	....
Investment Income.	5,062	5,069	3,726	3,060	-666
Riot Reinsurance Claims. . .	1,509	500	1,500	1,000	-500
Administrative Expenses. . .	113	115	113	113	....
Studies and Surveys.	...	...	...	500	+500
Budget Outlays	$ -4,568	$ -5,712	$ -3,283	$ -2,617	+666

RIOT REINSURANCE PROGRAM

SUMMARY OF BUDGET ESTIMATES

No appropriation is requested for the Riot Reinsurance Program for FY 1980. The program will continue to be funded from premiums and investment income through the National Insurance Development Fund.

CHANGES FROM ORIGINAL FY 1979 BUDGET ESTIMATES

The slight decrease in estimated reinsurance premiums earned during FY 1979 is the result of more refined estimates based on FY 1978 experience.

The decrease in investment income projected for FY 1979 results from a decreasing fund balance as a result of increasing costs in the Crime Program.

The increase in claims for FY 1979 is the result of large losses from the New York blackout which are still being paid.

The decrease in administrative expenses for the Riot Reinsurance Program results from more refined estimates based on FY 1978 experience.

The decrease in net receipts results primarily from the factors cited above, a decrease in premiums earned and investment income and an increase in claims paid.

EXPLANATION OF INCREASES AND DECREASES

The decrease in investment income is the result of the projected decrease in the fund balance resulting from losses in the Crime Insurance Program which is funded from the same fund.

The decrease in claims is the result of most New York blackout claims being paid before FY 1980.

The increase in studies and surveys is based on an estimate of $500,000 for a study of the availability of essential property insurance. It will address insurance marketing mechanisms to promote a competitive insurance market; the potential for investing insurance funds into inner city programs; arson for profit; and current insurance policy language to develop forms of insurance appropriate to meet current needs. This study is an integral part of the Administration's urban policy and is consistent with the needs expressed by the National Commission on Neighborhoods.

The decrease in net receipts results from a decrease in investment income and an increase in studies and surveys, which more than offset the decrease in claims.

RIOT REINSURANCE PROGRAM

FY 78: BA $ 0 FY 79: BA $ 0 FY 80: BA $ 0

PROGRAM DESCRIPTION

The deteriorating insurance market in inner city areas and the civil disturbances of the mid-sixties made it virtually impossible for many property owners and small businessmen to obtain insurance. Congressional concern over the lack of insurance availability for these properties which, except for their location, were insurable risks, resulted in the programs authorized by the Urban Property Protection and Reinsurance Act of 1968 (Title XI of the Housing and Urban Development Act of 1968). Riot Reinsurance availability was expressly conditioned upon continuing participation by insurers in approved Fair Access to Insurance Requirements (FAIR) Plans for citizens requiring "essential property insurance." The authority to offer new riot reinsurance contracts terminates on September 30, 1980, under existing legislation. The budget estimates for the Riot Reinsurance Program assume that legislation will be enacted to extend the program beyond that expiration date since severe commercial market capacity shortages are forcing more of the population into FAIR Plans.

Private insurers, working together under the supervision of the State insurance regulatory authority, establish plans, called Fair Access to Insurance Requirements (FAIR) Plans, to assure property owners an opportunity to obtain essential property insurance. These plans may be established pursuant to State statute making participation mandatory for all property insurers authorized to do business in the State; they may be established pursuant to general regulatory authority where the regulatory power of the State insurance official so permits; or they may be established through a voluntary association of insurers acting under the supervision of the insurance authority where local circumstances permit.

FAIR plans are intended to assure that every property will be considered and rated for insurance purposes on the basis of the use and condition of such property without respect to its location or other exposure to hazard beyond the control of its owner or occupant. Company participation in a FAIR plan meeting minimum standards is a prerequisite to Federal reinsurance in any State. These minimum standards are:

- Before a property may be declined for insurance or subjected to higher rates, there must be an inspection, without cost to the owner, to determine the insurability of the property as measured against reasonable underwriting standards relevant to the peril for which insurance is desired.

- A written report must be prepared on the inspection setting forth the condition of the property, the applicable premium rate and, if the property has been found deficient, the specific improvements needed to render such property insurable or insurable at an unsurcharged rate.

- An industry placement facility must be made available through which the owner of an eligible property, who has been unable to secure coverage in the normal market, can obtain coverage at rates based upon the actual condition of the property without respect to hazards which are beyond his control.

- There must be supervision by the State insurance regulatory authority to assure that the rights of citizens are fully protected and that the plan operates

(continued on following page)

equitably. Insureds must be notified of the availability of a procedure for submitting complaints to the appropriate insurance department.

- There must be a continuing program of public education so that the plan receives widespread public notice.

States have been urged to adopt a Full Insurance Availability system. This would enable persons who are currently uninsured, or who have been forced into the substandard and unlicensed markets, or into FAIR plans or automobile assigned risk plans, to purchase essential insurance at an appropriate rate from the insurer of their choice. Under this proposal, no insurance company could refuse to sell property or casualty coverage to any insurable risk. At the same time, the Full Insurance Availability system reflects the right of insurers to seek a reasonable profit and provides procedures whereby so-called residual market losses can be distributed more equitably than is done currently. The system entails no Federal role, no Federal or other public subsidy, and would require all risks to pay a premium appropriate to the exposure they represent. The complete implementation of Full Insurance Availability could eliminate the need for FAIR Plans in the 28 States where they now exist, but such implementation cannot be anticipated in the near future.

Reinsurance protection against excess losses due to riot or civil disorder is offered to insurers that participate in FAIR Plans in cooperating States.

(1) Where reinsurance is purchased by a primary insurer from the Federal Government, it must be purchased to cover losses resulting from riots or civil disorders on all the following property insurance lines:

- fire and extended coverage;
- vandalism and malicious mischief;
- other allied lines of fire insurance;
- burgulary and theft; and
- similar coverages under multiple perils policies, including commercial and homeowners' policies.

Reinsurance coverage may also be purchased, at the option of the insurers, to protect against excess riot or civil disorder losses in any of the following lines of insurance:

- inland and ocean marine;
- glass;
- boiler and machinery; and
- aircraft physical damage.

(2) Reinsurance is provided in cooperating States to participating insurers through annual contracts with the Federal Emergency Management Agency (formerly Federal Insurance Administration) which run from October 1 to September 30 each year. The standard reinsurance contract expiring September 30, 1979, was made available on the basis of a provisional premium computed at an annual rate of 0.02 percent of the insurer's direct earned premiums on reinsured lines, subject, however, to liability of the insurer for payment of additional premium of up to 0.25 percent, payable in incremental steps of 0.05 percent depending upon loss experience, if the total of all losses under all contracts for the contract year exceeds the total of all provisional premiums under such contracts.

Primary insurers are required to retain a portion of losses for their own account. The current contract provides for a net retention equal to the greater of $1,000 or 2-1/2 percent of the insurer's direct earned premiums. The contract also provides for assessment of insurers within a State up to the amount of their unabsorbed net retentions if that is required to cover aggregate losses in that State.

(Continued on following page)

Terms for the succeeding contract are expected to be similar to those now in effect.

(3) The National Insurance Development Fund is credited with all premium and other receipts and is charged with all loss payments to reimburse a participating insurer in cooperating States for the amount of the approved claims for losses from riots and civil disorders in that State in excess of its net retention. In addition, as indicated above, assessments may be made against participating insurers to cover severe losses. It is anticipated that the favorable loss experience will continue and that the reserves being accumulated in the Fund against possible catastrophic occurrences will be sufficient to obviate any need for resorting to the authorized borrowing authority of $250 million appropriated for the Riot Reinsurance Program.

In order for Federal reinsurance to be available, the State must enact legislation under which it agrees to reimburse the Federal government for payment of Federal reinsurance losses from riots or civil disorders in that State up to a maximum equal to five percent of the total insurance premiums on lines reinsured by the Federal Government in the State. The State may, consistent with its constitution, raise the necessary reimbursement funds through appropriation from the general funds, assessments against insurers, special levies, etc. It is expected that more States would participate if the requirement for State sharing of losses were eliminated.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
RIOT REINSURANCE	$ 0	$ 0	$ 0

JUSTIFICATION OF ESTIMATE

1. FAIR Plans. The following tabulation shows the status of State Fair Plans and enactment of State-sharing legislation as of December 31, 1978:

States with Operative FAIR Plans -- FEMA Reinsurance Available

California	Kentucky	North Carolina
Connecticut	Maryland	Ohio
Delaware	Massachusetts	Oregon
District of Columbia	Michigan	Pennsylvania
Georgia	Minnesota	Puerto Rico
Illinois	Missouri	Rhode Island
*Indiana	New Jersey	Virginia
*Iowa	New Mexico	*Washington
*Kansas	New York	Wisconsin

*An asterisk indicates that the FAIR Plan is voluntary, except for Washington where it is mandatory for the largest insurers. All other FAIR Plans are statutory or mandatory.

In Louisiana, the FAIR Plan continues in operation, although reinsurance was discontinued because of the State's failure to enact the State-sharing legislation.

(continued on following page)

2. Insurance Policies in Force Under FAIR Plans. The Plans have become important as sources for essential property insurance for risks unable to obtain placement through the normal market. In many States, the FAIR Plans have become the largest single writer of fire and extended coverage insurance. From inception to March 31, 1978, 6.2 million policies had been written. The amount of insurance in force as of that time was $28.9 billion.

3. Review and Compliance. The Review and Compliance Division was established pursuant to a provision of the Housing and Urban Development Act of 1970. It has the responsibility for determining that FAIR Plans are complying with the Act and the regulations promulgated pursuant to the Act. Technical examinations were completed in 1978 in Indiana, Kentucky, Maryland, Michigan, Missouri, New Mexico, New York, Ohio, and Wisconsin.

4. Extent of Losses. At the time the Act was passed, studies of the extent and geographic distribution of riot losses in prior years, particularly 1967 and 1968, indicated that a fund of approximately $50 million would be needed to cover riot and civil disorder losses on a State-by-State basis if they were on the order of size of the Newark, Detroit and Watts riots. Factoring in actual and projected inflation in housing construction costs, the balance of the National Insurance Development Fund excluding draw-downs for the Crime Insurance Program available for riot losses will be about $121 million in 1980. This should be adequate to cover riot losses of the magnitude experienced in the late 1960's.

The following table summarizes claims under the riot reinsurance contracts through September 30, 1978:

CONTRACT PERIOD	CLAIMS PAID	CLAIMS PENDING	CLAIMS DENIED
		(Dollars in Thousands)	
1968-1969	$ 2,861	$ ---	$ 1,979
1969-1970	3,187	---	1,803
1970-1971	2,834	---	831
1971-1972	1,379	---	320
1972-1973	449	---	161
1973-1974	355	---	---
1974-1975	670	---	---
1975-1976	377	---	---
1976-1977	127	---	800
1977-1978	1,081	1,500	---
TOTAL	$13,577	$1,500	$ 5,894

Although claims are estimated at $1,500,000 for 1979 and $1,000,000 for 1980, the actual amount incurred for future claims under the program will, of course, depend on riot or civil disorder occurrences which remain actuarially unpredictable.

5. National Insurance Development Fund Income and Reserves. The Fund balance from premiums and earnings, less payments for claims, administration, studies and surveys, was nearly $73 million as of September 30, 1978. The balance is expected to drop to approximately $62 million by September 30, 1979. For 1980, claims payments and expenses are expected to exceed premiums received and income earned by about $15.9 million -- a net operating income from the Riot Reinsurance Program of approximately $2.6 million, and a net loss of approximately $18.6 million in the Crime Insurance Program.

The Fund was established from proceeds from the operation of the Riot Reinsurance Program. It has also been used as the vehicle for the initial funding of the Crime Insurance Program, and it receives deposits from crime insurance premiums and other receipts. Separate accounts are maintained for each program within the overall Fund. Temporary funding provided for the Crime Insurance

(continued on following page)

Program from the R[illegible]ance Fund is expected to be reimbursed to that program. The statu[illegible]ational Insurance Development Fund is projected as follows:

	(In thousands of dollars) Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Unobligated fund balance - start of year	$331,930	$325,514	$314,791
Riot Reinsurance Program			
Reinsurance premiums earned	889	1,170	1,170
Investment income	5,062	3,726	3,060
Reinsurance claims	-1,509	-1,500	-1,000
Administrative expenses	- 113	- 113	- 113
Studies and surveys	...	...	- 500
Subtotal, Riot Reinsurance	$ 4,329	$ 3,283	$ 2,617
Crime Insurance Program			
Insurance premiums earned	9,498	10,480	13,325
Insurance claims	-15,368	-19,304	-24,148
Operating expenses	- 4,681	- 4,745	- 5,879
Studies and surveys	...	- 323	- 322
Administrative expenses	- 113	- 114	- 114
Subtotal, Crime Insurance	$-10,664	$-14,006	$-17,138
Change in selected resources (undelivered orders)	- 81	...	...
Unobligated fund balance, end of year	325,514	314,791	300,270
Borrowing Authority	250,000	250,000	250,000
Fund reserve	75,514	64,791	50,270

NATIONAL INSURANCE DEVELOPMENT FUND

CRIME INSURANCE PROGRAM

SUMMARY OF FY 1980 INCREASES AND DECREASES
(In thousands of dollars)

PROGRAM HIGHLIGHTS

	Actual FY 1978	Budget Estimate FY 1979	Current Estimate FY 1979	Estimate FY 1980	Increase + Decrease - FY 80 vs FY 79
Program Levels:					
Number of policies issued. .	50,011	54,000	61,287	77,924	+ 16,637
Premiums earned.	$ 9,498	$ 9,288	$ 10,480	$ 13,325	$+ 2,845
Insurance losses incurred. .	15,368	17,280	19,304	24,148	+ 4,844
Operating expenses	4,681	5,454	4,745	5,879	+ 1,133
Studies and surveys.	---	100	323	322	---
Administrative expenses. . .	113	115	114	114	---
Budget Outlays	$ 13,971	$ 13,047	$ 13,883	$ 16,117	$+ 2,234

CRIME INSURANCE PROGRAM

SUMMARY OF BUDGET ESTIMATES

No appropriation is requested for the Crime Insurance Program for FY 1980. To the extent available, the program is funded from premium income. Additional temporary funding is provided through the National Insurance Development Fund.

CHANGES FROM ORIGINAL FY 1979 BUDGET ESTIMATES

The increase in estimated number of policies issued is based on actual FY 1978 experience which was above projections for that period as a result of increased concentration on marketing efforts in this program.

The increase in premiums earned is the result of a greater number of policies in force than previously projected.

The increase in insurance losses incurred is the result of increased policies in force.

The decrease in operating expenses is a result of more refined projections based on FY 1978 experience.

The slight decrease in administrative expenses is a result of refined estimates based on FY 1978 experience.

The increase in outlays is a result of the factors mentioned above, an increase in losses which more than offsets the increase in premiums earned and the decrease in expenses.

EXPLANATION OF INCREASES AND DECREASES

The expected increase in the number of policies issued and in the amount of premiums earned is a direct result of publicity and promotional activities which are making more people aware of the Federal Crime Insurance Program, the addition of new States so that more residents and businessmen become eligible for the insurance, and the impact of the decline in voluntary market availability of crime insurance.

The increases in estimated losses and operating expenses are the result of the added exposure resulting from increased insurance sales and expenses connected with a greater number of policies in force.

The increase in budget outlays results from additional losses and increases in operating expenses which more than offset increases in premium income.

CRIME INSURANCE PROGRAM

FY 78: BA $ 0 FY 79: BA $ 0 FY 80: BA $ 0

PROGRAM DESCRIPTION

The President's National Advisory Panel on Insurance in Riot-Affected Areas, in its January 1968, report entitled "Meeting the Insurance Crisis of Our Cities", pointed out that one important factor in the deterioration of inner city areas was the unavailability of basic insurance coverages, including insurance against burglary, robbery, and theft. A study of the availability of crime insurance, conducted by the former Federal Insurance Administration in 1970, concluded that there was a critical problem of availability of insurance in many areas. The Federal Crime Insurance Program, as authorized, became effective in August 1971.

Inflation and declines in securities markets sharply reduced the surplus funds of private insurers, and these factors aggravated the problem by reducing the amount of insurance coverage available through the private sector. This and continuing crime problems in the Nation have heightened the use of residual market mechanisms generally and the Federal Crime Insurance Program specifically.

Title VI of the Housing and Urban Development Act of 1970 (P.L. 91-609), approved December 31, 1970, authorized a program of direct insurance through the facilities of the Federal Government for properties located in States where the private market or programs under State supervision either do not make crime insurance available or make it available only at prohibitive cost. This law is an amendment to the National Insurance Development Program (Title XII, National Housing Act) and utilizes the same funding mechanism as the Federal Riot Reinsurance Program. Legislative authorization to enter into new insurance contracts terminates on September 30, 1980. The budget estimates assume that legislation will be enacted to extend the program beyond this date.

Continuing reviews are conducted to determine whether crime insurance is available at affordable rates either through the normal insurance market or through State action. Some States with relatively less serious crime problems have implemented adequate programs on the local level. In those States the Federal Crime Insurance Program is generally not introduced. For example, in California and Michigan, separate programs have been designed with funding being provided through State action from its general funds or through a special "loading" on all property insurance policies written in the State. New Jersey has also established a State program, but since the Governor and the Insurance Commissioner requested that Federal crime insurance also be available because of a critical affordability problem in various parts of the State, the Federal program operates in the State along with the State-sponsored program.

Where practicable, surveys to determine whether crime insurance is available and affordable are conducted through existing organizations. State Insurance Commissioners, Governors, Mayors, Insurance Associations, representatives of business and consumer interests, and where necessary, educational institutions and nonprofit organizations are used to conduct these investigations. The source of funds for these studies is the National Insurance Development Fund. For both FY 1979 and FY 1980, $100 thousand is proposed for these continuing studies.

(Continued on following page)

In 1974, the former Federal Insurance Administration published its report on the availability problems of insurance generally. This report, "Full Insurance Availability", recommends a voluntary market approach to the handling of residual risks. In any State adopting such a program, if the plan covers crime insurance and makes such coverage available at affordable rates, the Director will give prompt consideration to terminating the availability of Federal Crime Insurance in favor of this preferable approach.

During 1975, Massachusetts and Rhode Island made homeowners insurance, including crime insurance coverage, available through their FAIR plans. FEMA (formerly FIA) has directed letters to Federal crime insurance policyholders in those States suggesting that they "comparison shop" this broader, more comprehensive coverage.

Crime Insurance is a direct Federal program in which the Federal Government assumes the risk-bearing function. The insurance is available to businesses and residences in participating jurisdictions without regard to the actuarial risk, if protective devices have been installed. Revised regulations to liberalize the requirements for protective devices for commercial coverage became effective March 1, 1978. When these devices, which are required for crime insurance on residences and commercial burglary and combined coverage (but not commercial robbery insurance) have been installed, insurance is made available at affordable rates. Premium rates are currently based on crime statistics compiled by the Federal Bureau of Investigation and vary with the geographic location. For commercial crime insurance the premium rates currently vary depending on the type of business and the amount of gross receipts together with the FBI statistics. The regulations are currently being revised to provide for a uniform premium rate in all eligible jurisdictions as well as a single commercial classification in order to simplify premium rating procedures.

The program is carried out by a contractor who services the policies through regularly licensed property insurance agents and brokers or directly with policyholders. Since December 1976, all services have been provided by a single company which was selected competitively. A pilot project to determine the effectiveness of utilizing community based organizations to promote the Program is currently underway.

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
CRIME INSURANCE PROGRAM	$ 0	$ 0	$ 0

JUSTIFICATION OF ESTIMATE

1. Jurisdictions Covered. Based on a study during 1971 of crime insurance availability at affordable rates, it was determined that there was a critical problem in ten jurisdictions. Subsequently, fifteen additional jurisdictions have been determined to have availability/affordability problems and have been added to the program. The following table depicts the jurisdictions presently covered, the date of their entry into the program, and the policies presently in force.

(Continued on following page)

CRIME INSURANCE POLICIES
BY STATE

(As of September 30, 1978)

STATE	DATE OF ENTRY	RESIDENTIAL	COMMERCIAL	TOTAL
Alabama	7/77	78	71	149
Arkansas	8/76	49	25	74
Colorado	9/75	74	89	163
Connecticut	8/71	215	123	338
Delaware	3/74	73	14	87
District of Columbia	8/71	138	296	434
Florida	2/74	2,243	579	2,822
Georgia	9/75	388	359	747
Illinois	8/71	1,509	665	2,174
Iowa	5/77	2	6	8
Kansas	4/73	301	42	343
Maryland	8/71	169	304	473
Massachusetts	8/71	2,630	983	3,613
Minnesota	8/76	49	12	61
Missouri	8/71	1,488	510	1,998
New Jersey	2/73	1,124	500	1,624
New York	8/71	20,606	7,525	28,131
North Carolina	4/78	77	18	95
Ohio	8/71	761	411	1,172
Pennsylvania	8/71	2,973	1,577	4,550
Puerto Rico	6/78	6	2	8
Rhode Island	8/71	125	102	227
Tennessee	8/72	158	451	609
Virginia	1/77	55	56	111
Virgin Islands	10/78	---	---	---
Total		35,291	14,720	50,011

2. Funding. Both the Crime Insurance Program and the Riot Reinsurance Program are funded through the National Insurance Development Fund. To the extent that income in the Crime Insurance Program is not sufficient to meet losses and expenses, operating balances accumulated from riot reinsurance operations are termporarily used to cover the difference. The statute authorizes these losses to be reimbursed in future years either through premium income or appropriations. By the end of 1980, the operating balance in the National Insurance Development Fund is expected to be nearly $46 million. In addition to this, the fund has an authorization of $250 million in Treasury borrowings. A detailed status of the fund is presented in the Riot Reinsurance section.

As a consequence of providing insurance at statutorily required "affordable" rates to risks normally shunned by the private insurance industry, losses and expenses in 1980 are estimated to exceed premium income by about $17.1 million. Premium income of $13.3 million and losses of about $24.1 million are projected. Operating expenses of $5.9 million to cover commissions, writing policies, maintaining accounts, conducting inspections, and settling claims are projected, as are studies and surveys and administrative expenses of $.4 million.

FY 1980 BUDGET ESTIMATE

NATIONAL FLOOD INSURANCE FUND

BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Budget Program/Project	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Insurance Underwriting Expense	$ 32,685	$ 35,468	$ 41,098
Loss and Adjustment Expense	146,994	153,419	171,504
Interest Expense	11,755	14,957	19,981
Change in Undelivered Orders	2,847	-1,702	0
	$194,281	$202,142	$232,583
Adjustment of Prior Year Costs	-11,849	0	0
Total Program Obligations	$182,432	$202,142	$232,583
Financed by Insurance Premiums and Borrowings	182,432	202,142	232,583
Total Appropriation	$ 0	$ 0	$ 0

NATIONAL FLOOD INSURANCE FUND
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
25.0 Other Services	$ 30,590	$ 35,468	$ 41,098
42.0 Insurance Claims and Indemnities	137,240	153,419	171,504
43.0 Interest and Dividends	11,755	14,957	19,981
Total Costs Funded	$179,585	$203,844	$232,583
94.0 Change in Selected Resources	2,847	-1,702	---
99.0 Total Obligations	$182,432	$202,142	$232,583

NATIONAL FLOOD INSURANCE FUND

SUMMARY OF FY 1980 INCREASES AND DECREASES
(In thousands of dollars)

	ACTUAL FY 1978	BUDGET ESTIMATE FY 1979	CURRENT ESTIMATE FY 1979	ESTIMATE FY 1980	INCREASE + DECREASE - FY 80 vs FY 79
Program Levels: a/					
Communities eligible.	16,097	16,500	16,194	16,322	+ 128
Policies in force, end of year:					
Number.	1,342,892	1,605,000	1,512,000	1,731,000	+ 219,000
Amount.	$45,879,008	$54,000,000	$54,093,000	$62,204,000	$+8,111,000
Flood Insurance claims (amount) . . .	146,994	139,935	153,419	171,504	+ 18,085
Insurance underwriting expense. . . .	32,685	33,136	35,468	41,098	+ 5,630
Premium income.	105,801	133,695	127,557	145,478	+ 17,921
Budget Outlays.	$ 62,900	$ 50,604	$ 86,751	$ 87,900	$+ 1,149

a/ Financial data through FY 1978 has been adjusted to make all financial data comparable purusant to Federal assumption of operating responsibility for the Flood Insurance Program.

NATIONAL FLOOD INSURANCE FUND

SUMMARY OF BUDGET ESTIMATES

No appropriation is requested for the National Flood Insurance Program. The National Flood Insurance Fund is financed by Treasury borrowings and insurance premium earnings. The Director is authorized to borrow $500 million from the Treasury with an additional $500 million available with approval of the President and notification to Congress.

CHANGES FROM ORIGINAL FY 1979 BUDGET ESTIMATES

The estimated number of communities eligible for flood insurance has been slightly increased based on more current estimates and growth during FY 1978.

The number of policies in force will be slightly less than previously anticipated. Slower than expected growth in the areas in which insurance is available has tended to reduce policies below previous projections.

The amount of insurance in force will be slightly higher than previously projected, because the amount of coverage per policy is increasing.

Claims and underwriting expenses are projected higher than previously anticipated. The increase in claims is a result of increased coverage per policy. The slight increase in underwriting is a result of more accurate projections of processing costs based on experience in operating the program with the Part B contractor.

Premium income will be slightly less than previously anticipated because of fewer policies in force.

The increase in budget outlays is the result of changes explained above.

EXPLANATION OF INCREASES AND DECREASES

The increase in the number of eligible communities in which insurance is available reflects expected growth as knowledge of the program becomes more widespread, and FEMA identifies more of the remaining flood prone communities of the Nation.

An increase in the number of policies in force is anticipated because there will be additional communities in which flood insurance is available and because of increased consumer awareness of the program's benefits. The Flood Disaster Protection Act of 1973 requires the purchase of insurance in communities where it is available as a condition of receiving some forms of Federal financial assistance for acquisition and construction of buildings or projects within special flood hazard areas identified by the Federal Emergency Management Agency. Thus, as additional communities with special flood hazards are identified and as existing structures are refinanced and new structures built, additional policies will be sold.

(continued on following page)

43-133 O - 79 - 43

The increase in insurance losses incurred is the result of the increased number of policies expected to be in force. The increase in underwriting expense is the result of the increase in policies. The increase in premium income is the result of the greater number of policies in force.

The slight increase in budget outlays results from increases in losses and operating expenses which more than offset an increase in premiums and a decrease in the appropriation.

NATIONAL FLOOD INSURANCE FUND

FY 78: $ 0 FY 79: $ 0 FY 80: $ 0

PROGRAM DESCRIPTION

The National Flood Insurance Act of 1968 authorizes a National Flood Insurance Program and studies of other natural disaster perils where insurance protection may be appropriate. The flood program enables property owners to buy insurance against losses resulting from physical damage to or loss of real or personal property arising from floods.

Amendments to the program which were enacted in December 1969 expanded the definition of "flood" to include mudslides (i.e., mudflows) caused by accumulations of water, which cause a river of mud to slide down a hill causing property damage to buildings and provided for a temporary emergency program to speed up the availability of coverage. Additional amendments enacted in 1971 clarified the types of coverage.

The Flood Disaster Protection Act of 1973 (P.L. 93-234), effective December 31, 1973, further amended the program. The Act substantially increased the limits of coverage and made other changes in available insurance coverage. In addition, the Act provided strong incentives for the purchase of flood insurance and for community participation, designed to reduce future Federal disaster relief outlays.

The Act also required consultation with appropriate elected officials of local governments regarding the community's flood hazard, established procedures for communities wishing to appeal HUD determinations regarding the flood hazard, and repealed the prohibition against payment of Federal disaster assistance benefits for losses to property eligible for flood insurance.

The Act was amended in 1974 to require lenders to notify borrowers when the property they wished to purchase is in a flood hazard area and to allow special consideration for actuarial rates in areas where Federal flood protection works are underway.

In 1977, the Act was amended to increase the limits of coverage under the regular program, provide reimbursement for map appeals under some circumstances, and provide low interest loans for reconstruction in floodways and eliminate the requirement for federally related mortgage institutions to require flood insurance in nonparticipating communities.

The Act contemplates a dual approach to the problem of flood damage. Insurance will be available on a subsidized basis for existing structures and at risk premium (actuarial) rates for new structures to cover flood losses; and, as a condition for availability of insurance, communities must also adopt and enforce flood plain management measures to reduce the probability and severity of damage.

Legislative authorization to enter into new insurance contracts is scheduled to terminate on September 30, 1980. Authority for the Emergency Program was recently extended to September 30, 1980. The Budget estimates assume that legislation will be enacted to extend these dates.

(Continued on following page)

Flood insurance can only be offered in areas that adopt and enforce flood plain management measures. Criteria have been promulgated which have the following objectives:

- To restrict the unwise and unsafe development of land exposed to severe flood damage;

- To guide the development of proposed construction away from areas threatened by severe flood hazards;

- To provide minimum building safety standards for any structures which may be constructed in such areas;

- To assist in reducing damage caused by floods; and

- To improve the long-range land management and use of flood prone areas.

(1) Notification to Flood Prone Communities. Section 201 of the Flood Disaster Protection Act of 1973 requires the publishing information on known flood prone communities and to notify them of their tentative identification as such. To accomplish the task, the Federal Emergency Management Agency (FEMA) issues a Flood Hazard Boundary Map to each flood prone community. The community must thereafter either apply for participation in the program or satisfy the Director that it is no longer flood prone. A hearing may be granted to resolve disputed cases, but the Director's decision is final.

Communities are given time to comment, prior to placing the maps in effect, in order to provide a forum for community input. As of the end of October 1978, 1,438 maps had been rescinded and 13,236 more revised. In addition, 2,451 determinations to eliminate individual lots from the flood plain were issued. FEMA will continue to work closely with the communities on any difficulties that develop.

There are approximately 19,000 known flood prone communities in the Nation, many of which have come to the Agency's attention since the passage of the 1973 Act. As information becomes available concerning other flood prone communities, FEMA is required to notify these communities of their status.

(2) Community Eligibility. Flood insurance coverage is available only in communities which have been designated as eligible. In order to qualify for the sale of flood insurance, the community must:

- Adopt and enforce flood plain management measures which meet minimum Federal standards designed to minimize exposure of future construction to flood hazards; and

- Officially apply for participation in the National Flood Insurance Program.

Although a community may enter the program at any time, it should take these actions within one year after being notified of its flood prone status. Should the community fail to do so, no Federal financing is available for the acquisition or construction of buildings in identified areas of special flood hazard--with the exception of special provisions for previously existing and occupied structures--until the community enters the program or the Director revokes the identification.

The regular program authorized by the 1968 Act envisions the study of each area in which flood insurance is made available in order to determine the insurance premium rates which would be required--on a sound actuarial basis--to pay all expenses and losses over a reasonable period of years. As a basis for the establishment of such rates, contracts are entered into with other Federal agencies (U. S. Corps of Engineers, U. S. Geological Survey, etc.) or with qualified private firms to develop data, such as flood frequency and depth damage relationships, necessary for setting actuarially sound premium rates. The requested appropriation is for this purpose.

(Continued on the following page)

Recognizing that the studies could not all be undertaken at once and that there would be delays in a community becoming eligible for the regular program, Congress enacted emergency provisions in 1969, making it possible for the Director to designate a community as eligible for flood insurance without the necessity of waiting for completion of the ratemaking study, thus accelerating the extension of insurance availability to new areas.

Pursuant to the Housing and Urban Development Act of 1969, as amended, flood insurance may be made available until September 30, 1980, for participating areas prior to establishment of actuarial rates. Flood plain management measures are required under the emergency program, but the limits of coverage under this phase are considerably less than the limits available under the regular program.

Coverage. All existing buildings and their contents in communities where flood insurance is available, through either the emergency or the regular program, are eligible for a first layer of coverage at subsidized premium rates. Full-risk actuarial rates are charged to new construction or substantial improvements commenced in identified special flood hazard areas after December 31, 1974, or after the effective date of the Flood Insurance Rate Map issued to the community, whichever is later. In communities in the regular program, a second layer of flood insurance coverage is available at actuarial rates on all properties and full actuarial rates for both layers apply to all new construction or substantial improvements located in special flood hazard areas.

Coverage is available for one- to four-family residential properties, and other residential properties, other business properties, churches, agricultural properties, properties occupied by private nonprofit organizations, and properties owned by local and State governments and agencies thereof.

The Flood Disaster Protection Act of 1973 broadened the scope of insurance coverage to include erosion losses caused by abnormal water levels and similar unforeseeable flood related conditions, and made it clear that flood related mudflow losses are covered.

The following table summaries the limits of insurance available under existing law:

	EMERGENCY PROGRAM	REGULAR PROGRAM	
		1ST LAYER OF COVERAGE	2ND LAYER OF COVERAGE
Structure:			
Single-family residential.	Up to $ 35,000	Up to $ 35,000	$ 35,001-$185,000
Other residential	Up to $100,000	Up to $100,000	$100,001-$250,000
Small business.	Up to $100,000	Up to $100,000	$100,001-$250,000
Other non-residential . .	Up to $100,000	Up to $100,000	$100,001-$200,000

	EMERGENCY PROGRAM	REGULAR PROGRAM	
		1ST LAYER OF COVERAGE	2ND LAYER OF COVERAGE
Contents:			
Residential (per unit). .	Up to $ 10,000	Up to $ 10,000	$ 10,001-$ 60,000
Small business.	Up to $100,000	Up to $100,000	$100,001-$300,000
Other-nonresidential. . .	Up to $100,000	Up to $100,000	$100,001-$200,000

NOTE: Higher coverage available under the Emergency Program in Hawaii, Alaska, Virgin Islands and Guam.

(Continued on following page)

The National Flood Insurance Act provides for the establishment of "chargeable" or subsidized premium rates designed to encourage the sale of flood insurance, at less than full actuarial levels. Subsidized flood insurance premium rates were reduced after Hurricane Agnes, when only one percent of those at risk were covered by insurance, in order to encourage further sale of policies.

The 1973 Act provides that all flood insurance may be written at subsidized rates on construction in participating communities until December 31, 1974, or until the effective date of the Flood Insurance Rate Map (FIRM) with 100-year flood elevation data, whichever is later. Subsequent new construction and additional limits of coverage for existing construction within the identified special flood hazard areas of a Flood Insurance Rate Map will be eligible for flood insurance only at actuarial rates.

The following table shows the current subsidized premium rates available for limits of coverage:

	LIMITS OF COVERAGE AND SUBSIDIZED RATES			
	STRUCTURE		CONTENTS	
TYPE OF STRUCTURE	COVERAGE	RATE a/ (Per Unit)	COVERAGE	RATE a/
Single-family residential.	$ 35,000	$0.25	$ 10,000	$0.35
All other residential.	100,000	0.25	10,000	0.35
All nonresidential b/.	100,000	0.40	100,000	0.75

a/ Rates per $100 of coverage,
b/ Includes hotels and motels with normal occupancy of less than six months.

Studies and investigations of specific areas to determine flood risk at various elevations are carried out in conjunction with the U. S. Army Corps of Engineers, Soil Conservation Service, U. S. Geological Survey, National Oceanic and Atmospheric Administration, Tennessee Valley Authority, Bureau of Reclamation and (as necessary) State and local agencies and private engineering firms. These studies are used to estimate probable average annual damages from flooding that have a one percent chance of occurrence in any given year, and the pure risk rate for flood insurance. In addition, the full-cost premium rates (i.e., actuarial rates) take into account all costs of conducting the insurance business.

Some sparsely populated special flood hazard areas, however, as well as flood risk zones outside the special flood hazard areas, do not warrant detailed studies to determine elevations. In these areas, actuarial zone rates are used.

The National Flood Insurance Act of 1968, as amended, authorizes flood insurance on a national basis to be provided by a joint program with the Federal Government and the private insurance industry or through the facilities of the Federal Government. Until December 31, 1977, flood insurance was provided by a joint government-insurance industry program. As of January 1, 1978, the Federal Government assumed the full responsibility for operating the program. The financial impact of that decision is a reduction in total Federal costs and in actuarial premium rates charged to policyholders.

(Continued on following page)

ESTIMATE

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
NATIONAL FLOOD INSURANCE FUND.	$ 0	$ 0	$ 0

JUSTIFICATION OF ESTIMATE

The process by which a community ultimately enters the regular program usually begins with a determination by FEMA that the community contains areas of special flood hazards. Flood Hazard Boundary Maps are prepared for the community which indicate the location of these areas, and the community is notified of its flood prone status. Communities must then either apply for participation in the program or demonstrate that they are not flood prone. If, within one year of notification, they do not elect to participate in the program and are unable to demonstrate that they are not flood prone, they become ineligible for Federal financial assistance for acquisition or construction in the flood prone areas of such communities, except for special provisions relative to previously existing and occupied structures.

Communities that elect to participate in the National Flood Insurance Program become eligible for federally subsidized flood insurance after they first adopt and enforce the minimum required flood plain management measures and officially apply for participation in the program.

At this point, property owners in the community may obtain flood insurance at subsidized rates up to the maximum coverage permitted under the emergency program. In order to make additional coverage available at actuarial rates under the regular program, the Director typically must initiate and conduct a time consuming detailed risk zone and elevation study (now funded from the Hazard Mitigation and Disaster Assistance Appropriation) which results in a Flood Insurance Rate Map. During the study, representatives of the community are kept advised of progress and given an opportunity to provide input. Following the completion of the detailed study, FEMA is required by statute to afford local community officials an opportunity to formally examine the final draft rate map and appeal its elevations. When all appeals have been settled, necessary revisions made to the rate map, and appropriate ordinances adopted, the community then enters the regular program.

If a community has no identified special flood hazard areas, or if developmental pressures and flooding conditions are such that a detailed risk zone and elevation study would not be cost beneficial, a community may enter the regular program without a detailed elevation study or with a study that is less costly and less complex than the detailed elevation study.

1. Identification of Special Flood Hazard Areas. Flood Hazard Boundary Maps are prepared which show the local community and the special flood hazard areas. These maps are based on such information as historical records of high water, hydrological and hydrographic analysis of the area and the watershed, climatological studies, and (for coastal areas) analysis of storm tracts and bathymetry.

2. Community Eligibility. Flood prone communities that elect to participate in the National Flood Insurance Program become eligible for federally subsidized flood insurance. In order to qualify for this insurance, communities must adopt

(Continued on following page)

and enforce minimal flood plain management measures to minimize exposure of new FIA construction to flood hazards, and must officially apply for participation in the National Flood Insurance Program. As of October 31, 1978, there were 16,108 communities eligible for flood insurance.

3. Detailed Risk Zone and Elevation Studies. (Funded from Hazard Mitigation and Disaster Assistance Appropriation.) Hydrological and engineering studies are necessary to establish elevations for probable frequency of inundation at a significant number of flood stages, and the resulting map divides the flood hazard area into a number of rate zones with the estimated actuarial premium rates to provide flood insurance on a self-sustaining basis. These rates are further differentiated to reflect the type of structure, the elevation of the lowest habitable floor, and the use of the structure.

Because these studies are necessary before critically flood prone communities can establish truly effective flood plain management measures and enter the regular program, their completion as rapidly as possible, along with providing technical assistance to communities already in the regular program, is a high priority within the Federal Emergency Management Agency.

4. Other hazard mitigation studies. (Funded from Hazard Mitigation and Disaster Assistance Appropriation.) The 1968 Act authorized studies to determine the extent to which insurance protection against natural hazard perils other than flood protection being made available. During FY 1979 and FY 1980, studies will be initiated in a variety of areas where the insurance mechanism may be a viable method for mitigating the impact of natural disasters.

5. Use of Federal Agencies and Others. Pursuant to law, the risk zone and elevation studies are performed, to the extent that personnel and expertise are available, by other Federal agencies having special technical capability to perform the work through interagency agreement. The Congress directed these agencies to give the highest practicable priority to the completion of these studies. However, as the volume of studies increases, limitations on resources available in other Federal agencies require that an increasing proportion of the total study effort be performed by States, other public organizations, and by private contractors. Competitive procedures are followed to secure the highest quality work.

6. Program Financing. The instrument through which the Federal Government fulfills its financial responsibilities is the National Flood Insurance Fund which is financed by Treasury borrowings. The Director is authorized to borrow $500 million from the Treasury with an additional $500 million available with approval of the President and notification to Congress. The first $500 million is expected to be obligated by the end of FY 1981.

The financial transactions of the program and the status of the National Flood Insurance Fund are as follows:

(Continued on following page)

NATIONAL FLOOD INSURANCE FUND
FINANCIAL TRANSACTIONS a/
(In thousands of dollars)

	CUMULATIVE 9/30/77	ACTUAL FY 1978	ESTIMATE FY 1979	ESTIMATE FY 1980
Policies in force:				
Number	1,156,481	1,342,892	1,512,000	1,731,000
Amount	$35,215,916	$45,879,008	$54,093,000	$62,204,000
Program costs, funded:				
Agents commissions & taxes	$ 57,688	$ 18,356	$ 22,833	$ 26,041
Operating expenses	68,490	14,329	12,635	15,057
Total underwriting	126,178	32,685	35,468	41,098
Losses	282,216	138,265	145,646	162,810
Loss adjustment	22,491	8,729	7,773	8,694
Total loss & adjustment	$ 304,707	$ 146,994	$ 153,419	$ 171,504
Interest on Treasury borrowing	25,620	11,755	14,957	19,981
Total program costs, funded	$ 456,505	$ 191,434	$ 203,844	$ 232,583
Changes in selected resources	655	2,847	-1,702	---
Total obligations	$ 457,160	$ 194,281	$ 202,142	$ 232,583
Offsetting collections, received	267,681	105,801	127,557	145,478
Obligations, net (Federal subsidy)	$ 189,479	$ 88,480	$ 74,585	$ 87,105
Adjustments to prior years (made in 1978) b/	36,865	-36,865	---	---
Obligations, net (including adjustments)	$ 226,344	$ 51,615	$ 74,585	$ 87,105
Cumulative obligations, net (Federal subsidy)	226,344	277,959	352,544	439,649
Unobligated balance, end of year	$ 273,656	$ 222,041	$ 147,456	$ 60,351

a/ Financial data through 1978 has been adjusted to make all financial data comparable pursuant to Federal assumption of operating responsibility on 1/1/78.

b/ Includes adjustment to prior year costs of -$11,849 and unearned premiums applicable to prior years transfer in of $25,016.

APPROPRIATION LANGUAGE

DISASTER RELIEF

For necessary expenses in carrying out the functions of the Disaster Relief Act of 1970, as amended (42 U.S.C. 4401), the Disaster Relief Act of 1974, as amended (42 U.S.C. 5202), and Reorganization Plan No. 3 of 1978, authorizing assistance to States and local governments, $193,600,000, to remain available until expended.

FY 1980 BUDGET ESTIMATE

FUNDS APPROPRIATED TO THE PRESIDENT
DISASTER RELIEF

APPROPRIATION-BUDGET PROGRAM SUMMARY
(In thousands of dollars)

Budget Program/Project	Page No.	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Aid to Stricken Areas	156	$422,947	$178,385	$173,600
Change in selected resources		20,000	20,000	20,000
Total Program Obligations		$442,947	$198,385	$193,600
Recovery of prior year obligations		-4,345	---	---
Unobligated balance available, start of year		-4,166	-6,280	---
Unobligated balance available, end of year		6,280	---	---
Total Appropriation		$440,716	$192,105	$193,600

NOTE: Excludes the following amounts for administrative expenses to be transferred to the Hazard Mitigation and Disaster Assistance appropriation.

Budget Authority (appropriation)	$ 9,284	$ 7,895

FUNDS APPROPRIATED TO THE PRESIDENT
DISASTER RELIEF

SUMMARY OF FY 1980 INCREASES AND DECREASES
(In thousands of dollars)

	ACTUAL FY 1978	BUDGET ESTIMATE FY 1979	CURRENT ESTIMATE FY 1979	ESTIMATE FY 1980	INCREASE + DECREASE - FY 80 vs FY 79
Disaster Relief Obligations.	$442,947	$198,385	$198,385	$193,600	$- 4,785
Appropriations	440,716	192,105	192,105	193,600	1,495
Budget Outlays	$461,007	$275,600	$275,600	$241,397	$-34,203
Number of Disaster and Emergency Declarations .	39	48	48	48	---

FUNDS APPROPRIATED TO THE PRESIDENT
DISASTER RELIEF

SUMMARY OF BUDGET ESTIMATES

SUMMARY OF BUDGET REQUEST

An appropriation of $193.6 million is requested for FY 1980 to provide major disaster and emergency assistance to individuals and State and local governments affected by natural disasters. These funds would also cover all administrative expenses directly related to disaster response. A portion of these costs was previously applied to the three percent authorization applied against funds appropriated to the President for disaster relief. This adjustment will not result in a cost increase for administering the program.

Although the number and magnitude of disasters cannot be predicted, the appropriation request of $193.6 million will provide FEMA with the ability to meet the immediate funding requirements of emergencies and disasters. Should the provision of authorized assistance require funds in excess of this amount, supplemental appropriations would be necessary.

CHANGES FROM ORIGINAL FY 1979 BUDGET ESTIMATES

Adjusted to reflect amount for activities transferrred to Hazard Mitigation and Disaster Assistance, Federal Emergency Management Agency:

Budget Authority. . . .	$7,895
Outlays	7,895

DISASTER RELIEF
DISTRIBUTION BY OBJECT CLASSIFICATION
(In thousands of dollars)

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
25.0 Other Services	$203,630	$ 89,118	$ 91,995
41.0 Grants, Subsidies, and Contributions	239,317	109,267	101,605
99.0 Total Obligations	$442,947	$198,385	$193,600

DISASTER RELIEF

FY 78: $ 440,716 FY 79: $ 192,105 FY 80: $ 193,600

PROGRAM DESCRIPTION

1. Introduction. Under the provisions of the Disaster Relief Act of 1974 (P.L. 93-288), the President is authorized to provide a wide range of Federal assistance to supplement the relief efforts of State and local governments in response to major disasters and other emergencies. The Director of the Federal Emergency Management Agency will be delegated the responsibility for providing most of these services under Executive Order. Prior to activation of FEMA the authorities have been exercised by the Federal Disaster Assistance Administration (FDAA) under a redelegation from the Secretary of Housing and Urban Development

The Director, Federal Emergency Management Agency will be responsible for managing assistance programs authorized under the Act. This includes the administration of disaster recovery assistance authorized by P.L. 93-288 for disaster victims and State and local governments, the coordination of disaster region activities of other Federal agencies, as well as technical and financial assistance to States for preparedness planning.

2. Declaration Procedure. If the response to a disaster situation is beyond the effective capability of State and local governments, the Governor may request a Presidential declaration of a major disaster or emergency. This request contains an estimate of the amount of Federal assistance needed for the affected areas, and assurances that a reasonable commitment of State and local resources will be made for disaster relief.

FEMA Regional personnel review the Governor's finding that a major disaster or emergency exists by assessing the extent of damage and the Federal assistance required. This assessment is forwarded to the Director of FEMA. The Director then reviews this information and recommends appropriate action to the President, who makes the final determination as to whether a major disaster or emergency declaration is necessary. The Governor may appeal an adverse decision to the President through the FEMA Director.

Kinds of Declarations. There are two major kinds of declarations: a major disaster and an emergency. A major disaster is any hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, drought, fire, explosion, or other catastrophe which causes damage of sufficient severity and magnitude to warrant major disaster assistance by the Federal Government. This kind of situation is definitely beyond the capability of State and local resources, and requires a wide range of Federal assistance.

An emergency may also be caused by any of the above mentioned phenomena. However, an emergency is less encompassing and requires specialized assistance to meet a specific need that the Federal Government is uniquely able to provide. For example, the President in 1978 declared emergencies for the New England States of Massachusetts, Rhode Island and Connecticut to provide Federal assistance for snow removal for emergency access when required for the public health and safety.

(Continued on following page)

The Disaster Relief Act of 1974, also authorizes the President to provide assistance, including grants, equipment, supplies, and personnel, to a State for the suppression of a forest or grassland fire on public or private lands that threatens to become a major disaster. This authority will be delegated to the Director of FEMA. The Governor of a State requests such assistance through the FEMA Regional Director and supports the request with information on the nature of the threat and the need for Federal assistance.

3. Administration and Direction. Once a major disaster or emergency is declared, the FEMA Director appoints a Federal Coordinating Officer (FCO) to coordinate the administration of relief activities. The FCO works closely with State and local officials and other Federal agencies to assure rapid and effective assistance. All relief efforts for declared disasters or emergencies, including those authorized by separate statutes and provided by other Federal agencies and the relief efforts of volunteer organizations, are coordinated by the FCO. This is done in an effort to provide as comprehensive service as possible and also reduce response time and eliminate duplication.

4. Major FEMA Programs. There are many different relief programs available through FEMA and other Federal agencies. Many of these services are authorized under the Disaster Relief Act of 1974. However, agricultural relief, small business, and flood control programs are provided by specific Federal agencies under separate enabling legislation. Some of these programs are discussed in this Justification. Three general forms of assistance are available from FEMA: Public Assistance (aid to the State and local governments), Assistance to Individuals and Families (aid for the disaster victims), and Preparedness Assistance.

a. Public Assistance. Soon after a disaster declaration, State and local officials are briefed on the types of assistance available and the application procedure. (States, their political subdivisions, and Indian tribes and Alaska Native Villages are eligible applicants.) Generally, a project application is submitted within 90 days of a major disaster declaration, and within 30 days of an emergency declaration. Damage Survey Reports, prepared by Federal engineers, which document damage and recommend the eligible restorative work and eligible costs, are the basis for the application. Grants are made for emergency protective measures, debris clearance, and the repair and restoration of damaged public and certain private, nonprofit facilities.

(1) Debris removal is normally accomplished by the affected local government, with financial assistance from FEMA. However, if that local government requests, and FEMA determines that direct Federal assistance is necessary, FEMA can direct another Federal agency to perform the work.

(2) Emergency protective measures include, but are not limited to, search and rescue, demolition of unsafe structures, warning of further risks and hazards, public health and safety measures, and other actions necessary to remove or to reduce immediate threats to public health and safety, public property, or private property when in the public interest.

(3) Repair or Restoration of Public Facilities. FEMA provides funds for the permanent repair or restoration of public facilities belonging to a State or local government. A public facility includes any publicly owned building or structure, including those used for educational or recreational purposes, any airport facility; any park; any street or road not built with Federal funds, any flood control, navigation, irrigation, reclamation, water supply and distribution or watershed development facility; and any public power or sewage treatment facility. The Act also provides assistance for the repair or restoration of certain private nonprofit educational, utility, emergency, medical and custodial facilities damaged or destroyed by a major disaster.

(Continued on following page)

(4) Other Programs. In addition to the above, a number of other forms of assistance are available through FEMA. Emergency communications and emergency public transportation may be furnished. Community disaster loan assistance may be provided; under this program, FEMA can make loans, for up to 25 percent of the annual operating budget for the fiscal year in which the disaster occurred, to a local government which has suffered a substantial loss of taxes and other revenue because of a major disaster and demonstrated a need for Federal financial assistance in order to perform its municipal functions.

b. Individual and Family Assistance.

Coordination. In order to supply necessary services to individuals in a quick and effective manner, the FCO establishes one or more Disaster Assistance Centers in the disaster area shortly after a disaster declaration. At these centers, victims can meet with Federal, State, local, and private organization representatives to receive advice and assistance in applying for disaster services. A wide range of assistance is available; typically, disaster victims may require temporary housing, disaster loans for repair of homes and personal property, and individual and family grants to meet disaster-related necessary expenses and serious needs.

Combined Application/Verification Process. FEMA is currently working on a combined application/verification process. It would combine the application forms for three high-use programs -- temporary housing, home/personal property loans, and grants. FEMA and the other Federal agencies involved endorsed this idea during congressional oversight hearings on the disaster program in March 1978. The process also provides for one home verification visit, rather than the separate and numerous visits currently performed by the three agencies. The process would be a function of the Federal Coordinating Officer, and his/her representatives would take the application and perform the single verification. The individual agencies would determine eligibility and, meeting as a panel, formulate an "assistance package" to be presented at one time to the applicant. Each applicant would be assigned an advisor to act as a liaison between the applicant and the "system". Although costs for performing these functions would be borne by FEMA, it would reduce the financial outlay by the Federal Government. Additional benefits include: reduction of confusion caused by separate applications and verifications, a single point of contact for disaster victims, less possibility of duplication of benefits, and greater responsiveness of the Federal Government to disaster victims.

(1) Temporary Housing. Under this program a State or Federal agency, with funds from the President's disaster relief fund, provides temporary housing to facmilies requiring such assistance as a result of a major disaster or emergency. Temporary housing assistance may be provided in various forms, including unoccupied government-owned housing, rentals, mobile homes and other readily fabricated dwellings, or in lieu of other forms of temporary housing, minimal repairs to make damaged dwellings habitable.

Temporary housing may be provided for up to 12 months rent-free. Housing Advisors work with disaster victims to develop appropriate housing plans and to locate available permanent housing which these disaster victims can afford. If no suitable housing can be found after 12 months, occupants are charged a fair market rental, taking into consideration their financial condition.

Under this program, rental or mortgage payments may also be made on behalf of individuals and families who, as a result of financial hardship caused by a major disaster, have received written notice of eviction or dispossession.

(2) Disaster Unemployment Assistance. The U. S. Department of Labor, through the State employment service, administers job placement and disaster unemployment assistance programs for persons unemployed as a result of a major disaster, upon authorization from FEMA. FEMA furnishes advances from the Disaster Relief Fund for the Department of Labor to provide benefits under this program.

(continued on following page)

43-133 O - 79 - 44

Compensation may be provided until the victim is able to obtain a job, or for up to one year after the declaration of a major disaster. The compensation provided cannot exceed the maximum amount of payment under the State's unemployment compensation program. During the time that the person is unemployed, the State Employment Service makes every effort to find the individual a suitable position.

(3) Individual and Family Grants. In instances where assistance from governmental disaster programs or other means is unavailable or insufficient to meet necessary expenses or serious needs of individuals and families, the Governor of the State may request Individual and Family Grant assistance from FEMA. This program authorizes grants up to $5,000 per individual or family to meet disaster related necessary expenses or serious needs which cannot be met through other means. FEMA provides 75 percent of the funds for this program; the State contributes the remaining 25 percent. The State administers the program, and individuals and families must apply within 60 days of the disaster declaration. FEMA provides technical assistance to States by helping them develop administrative plans required for participation in this program.

Grants can be used for a number of disaster related purposes. The funds may be used to obtain required medical or dental care. For housing, grants may be utilized to repair or replace, clean, provide access and remove debris from residences. The grant program is also being used to provide a temporary housing resource, allowing the States to make grants for limited home repairs to damaged residences. In the States where limited home repairs have been made available both the State and the recipients have expressed great satisfaction. It has also proven a cost savings to the Federal government as the State pays 25% of the grants for limited home repairs. Personal property, including clothing, household items, appliances, and tools and equipment essential for employment, may also be cleaned, repaired, or replaced. Expenditures to obtain public transportation or to repair or replace private transportation are allowable, provided the loss of transportation was disaster related. Grants are also permitted for funeral expenses.

Any expense or need which may be described as non-essential, luxury or decorative is not eligible. Further, business losses, improvements to real or personal property, landscaping, real or personal property used exclusively for recreation, and financial obligations incurred prior to the disaster are also ineligible.

(4) Other Programs. Other forms of individual and family assistance are also available.

(a) Crisis Counseling Assistance, funded by FEMA, is supplied by the National Institute of Mental Health. Disaster victims are eligible to receive professional counseling services to relieve mental health problems caused or aggravated by disasters.

(b) Legal services are provided through the Young Lawyers Section of the American Bar Association, also through appropriate Federal or State agencies or direct mission assignment to a legal services provider.

c. Preparedness Assistance. In order to improve the capabilities of State and local governments, as well as FEMA and other Federal Agencies, to meet disaster needs and to avoid or reduce potential disaster effects, FEMA provides financial and technical assistance to the States, provides training and education aids on assistance in disasters, and conducts or sponsors special studies of particular relevance to improved disaster response and mitigation.

(1) State Disaster Preparedness Grants. Under this program, States were eligible for up to $250,000 from FEMA to develop plans, programs, and capabilities for disaster preparedness and prevention. States were required to develop comprehensive and detailed plans and programs for reducing vulnerability to disasters and for providing effective assistance when disasters occur, including

(continued on following page)

FDAA

assistance to individuals, businesses, and local governments. FEMA also may give matching grants of up to $25,000 a year to each State for the updating, improving, and maintaining of State disaster plans and capabilities. These programs should include identification of specific kinds of potential disasters and appropriate responses, adequate training of disaster staffs, and assistance to local jurisdictions in the development of their own disaster preparedness and response capabilities, among other activities. Closely related to this program is FEMA's technical assistance to States in developing comprehensive preparedness plans and in reviewing State legislation to determine that it conforms with the Disaster Relief Act of 1974 or that new State measures need to be enacted.

(2) Training and Education. In addition to the recruitment of disaster reservists, FEMA provides training for these and regular personnel in the various assistance programs under the Act. Also, briefings are developed for presentation in declared emergencies and major disasters to State and local officials and to disaster assistance applicants.

(3) Special Studies. In addition to encouraging, supporting, and reviewing disaster-related research by others, FEMA conducts its own critiques of assistance operations in selected disasters and studies of potential needs and effectiveness. Most of the latter projects are performed for FEMA on a contract basis by other Federal agencies or organizations.

5. Programs Provided by Other Agencies. Many Federal agencies provide disaster and emergency assistance under separate enabling legislation exclusive of the Disaster Relief Act of 1974. Some of these programs are available even without a Presidential declaration of a disaster or emergency.

The Department of Agriculture provides a variety of measures, including: crop insurance, a crop loss disaster program, disease and pest control, emergency livestock feed, various conservation measures, rural electrification, and industrial development in small cities and rural areas. Business disaster loans, economic injury loans, and loans for product loss, and home repair rebuilding loans, are available to disaster victims from the Small Business Administration. The Army Corps of Engineers undertakes a number of flood control programs. The Department of Health, Education, and Welfare supplies emergency health services, surplus property, and provides for the restoration of schools and health facilities damaged by disasters. In addition, aid for highway repair on the Federal Aid System is made available by the Federal Highway Administration; and the Department of Commerce provides aid for commercial fisheries, building damage research, and fire accident analysis. The Department of the Interior supports grants for earthquake hazard reduction and other activities, and the National Weather Service operates a forecast and warning service for severe weather phenomena. The Department of Agriculture is authorized to give emergency food stamps to eligible disaster victims. The Internal Revenue Service furnishes advice, counseling, and guidance on tax matters to disaster victims. The Veterans Administration and Social Security Administration also provide counseling to their clientele during major disasters. In the case of VA, forbearance on mortgage payments may be arranged.

In addition to the assistance provided by FEMA, various Housing and Urban Development programs may be of benefit to disaster victims. Community Development Block grants from HUD may be made available to affected localities. Adjustments to Federal loans, insured home loans, and loans for mobile home financing, property improvements, and rental housing are all available under various housing acts.

6. Volunteer Agencies. In any disaster or emergency, numerous volunteer organizations provide invaluable help and assistance. Three such volunteer agencies are recognized under the Disaster Relief Act of 1974: The American National Red Cross, the Mennonite Disaster Service, and the Salvation Army. Under the direction of the Federal Coordinating Officer, these organizations work closely with FEMA and other Federal agencies in supplying food, clothing, shelter, and medical care to

(continued on following page)

disaster victims, in conducting search and rescue operations, and in helping to repair and restore damaged facilities.

PROGRAM ACTIVITY

Over $442 million was obligated in FY 1978 for payment for disaster relief services performed in response to situations which occurred in 1978 and prior years. The following table indicates the amounts obligated in 1978 by categories of assistance:

Category of Assistance	Amount ($ 000)
Public Assistance	$217,190
Temporary Housing	121,311
Disaster Unemployment Assistance	6,397
Individual and Family Grants	11,838
Disaster Preparedness	220
Fire Suppression Assistance	3,520
Snow Emergencies	67,918
Other Emergencies	14,337
Administrative Support and Salaries	9,500
Total	$452,231
Transfer to Hazard Mitigation and Disaster Assistance, FEMA	-9,284
	$442,947

1. Disaster and Emergency Declarations. The President declared 26 major disaster and 13 emergencies and the Administrator of FDAA approved two fire suppression grants during 1978. Twenty-two of the major disasters were caused by floods. A total of 27 States and one Territory received Federal disaster assistance under these authorizations, which were made in response to 77 requests for assistance from State Governors. After each request, the extent and nature of the damage and the need for Federal assistance were carefully assessed before a recommendation was made to the President.

An assistance agreement executed between the Federal Government and a State remains in effect until all authorized recovery work has been completed. All 26 major disasters and 12 of the emergencies declared in 1978 remain open. As of September 30, 1978, assistance was also being provided under 100 major disaster declarations and 26 emergencies declared prior to the beginning of 1978.

The following tables list the disasters and emergencies declared during 1978:

FALL FLOODS

State	Type	Date Declared	
Arizona	Major	1977: Nov. 4	Severe storms and flooding
Georgia	"	Nov. 7	Dam collapse, flooding
North Carolina	"	Nov. 9	Severe storms and flooding
Virginia	"	Nov. 12	Severe storms and flooding
Tennessee	"	Nov. 12	Severe storms and flooding
Washington	"	Dec. 10	Severe storms, mudslides and flooding

(continued on following page)

WINTER STORMS

State	Type	Date Declared	
Arkansas	Emergency	1978: Jan. 20	Tornadoes
Ohio	"	Jan. 26	Blizzards and snowstorms
Indiana	"	Jan. 27	Blizzards and snowstorms
Michigan	"	Jan. 27	Blizzards and snowstorms
Rhode Island	"	Feb. 7	Blizzards and snowstorms
Massachusetts	"	Feb. 7	Blizzards and snowstorms
Connecticut	"	Feb. 7	Blizzards and snowstorms
Massachusetts	Major	Feb. 10	Coastal storms, flood, snow, ice
California	"	Feb. 15	Coastal storms, mudslides & floods
North Dakota	Emergency	Feb. 16	Blizzards and snowstorms
Rhode Island	Major	Feb. 16	Snow and ice
New Hampshire	"	Feb. 16	Winds, tidal surge & coastal floods
Maine	"	Feb. 17	Winds, tidal surge & coastal floods

SPRING FLOODS AND TORNADOES

Arizona	Major	1978: Mar. 4	Severe storms and flooding
Nebraska	"	Mar. 24	Storms, ice jams, snowmelt & floods
Indiana	"	Mar. 29	Severe storms and flooding
North Dakota	"	Apr. 17	Storms, ice jams, snowmelt & floods
Minnesota	"	Apr. 22	Storms, ice jams, snowmelt & floods
Arkansas	Emergency	Apr. 22	Tornadoes *
Mississippi	"	Apr. 24	Tornadoes *
Alabama	"	Apr. 24	Tornadoes *
Louisiana	Major	May 9	Severe storms and flooding
Wyoming	"	May 29	Severe storms, flooding, mudslides
Montana	"	May 29	Severe storms and flooding

SUMMER STORMS, FIRES, AND OTHER CAUSES

North Dakota	Emergency	July 7	Severe storms and tornadoes *
Wisconsin	Major	July 7	Storms, flood, hail, tornadoes
Minnesota	"	July 8	Storms, flood, hail, tornadoes
Texas	"	Aug. 3	Severe storms and flooding
New York	Emergency	Aug. 7	Chemical waste
Oregon	Fire Suppression	Aug. 11	Grave Creek Fire
North Marianas	Major	Aug. 18	Tropical Storm Carmen
Alabama	"	Aug. 20	Heavy rains and lightening
Colorado	Fire Suppression	Sep. 12	Deer Creek Canyon Fire
Arkansas	Major	Sep. 15	Severe storms and flooding
Louisiana	"	Sep. 20	Severe storms and flooding

*These Emergency declarations authorized the transfer of Federally-owned mobile homes to the States for the housing of families in the disaster areas. No funding was required, because the homes had been purchased for use in previous disasters.

2. Disaster Assistance Provided. In response to the disasters and emergencies declared in 1978, FDAA coordinated the provision of a wide range of public assistance to States and local governments and assistance to individuals and families. Preparedness planning and technical assistance was also provided to State and local governments throughout the year. These activities are discussed in detail in the following sections.

a. Public Assistance. About 67 percent of the funds supplied for disaster relief are provided for public assistance activities, such as debris removal, the

(continued on following page)

repair and restoration of damaged facilities, fire suppression assistance, and other activities. This includes emergency work to protect life, public health and safety, and property and permanent restoration activities which are more extensive and may require planning, design, and formal contracting. In 1978, over $217 million was obligated for public assistance activities. These obligations were made for disasters and emergencies which occurred in 1978 and prior years.

(1) Emergency Assistance. Federal equipment and personnel were supplied to assist in snow removal and cleanup after the storm that hit New England and the North Central States in early Feburary 1978. Nearly $68 million was obligated for the removal of snow from these storms alone. Storms and flooding including coastal flooding in Massachusetts, Maine and New Hampshire in February 1978 required extensive assistance to remove debris and wreckage from roads, utilities, buildings, and homes damaged by these floods. Emergency assistance totaled $14.3 million.

(2) Repair and Restoration of Damaged Facilities. Numerous public facilities including road systems, water control facilities, public buildings and related equipment, and public utilities and certain private nonprofit facilities were damaged as a result of major disaster situations, in FY 1978. Over $115 million was obligated to repair and restore these facilities.

In addition, over $3.9 million was obligated to repair and restore private nonprofit facilities including educational, custodial care, and medical facilities.

(3) Hazard Mitigation. With a view towards minimizing the effects of disasters and reducing the cost of Federal disaster assistance, increased attention has been focused on hazard mitigation, floodplain management, and the use of flood and other hazard insurance.

b. Individual and Family Assistance. This type of assistance includes such items as temporary housing, disaster unemployment assistance, and individual and family grants. Obligations were incurred for $37 million from the President's Disaster Relief Fund for these purposes in 1978 to assist 118,880 disaster victims. The total cost of providing these services is estimated to be about $83 million for disasters declared in FY 1978.

(1) Temporary Housing. This program was accomplished through HUD in some disasters and by the States with Federal reimbursement in others. Eight States in all performed temporary housing missions during 1978. All eight States have demonstrated the ability to successfully administer the program less expensively than the Federal Government has administered housing programs of comparable size in other disasters. As a result of their successes, other States have expressed interest in participating in disaster temporary housing programs in the future. Temporary housing for all disasters in 1978 was provided to approximately 9,550 families and over $19 million was obligated for this activity. It is estimated that the total cost of this program will be $37,356,000.

(2) Disaster Unemployment Assistance. The Department of Labor was authorized to provide $6.3 million in disaster unemployment assistance for 98,330 individuals.

(3) Individual and Family Grants. Approximately $11.8 million was obligated in 1978 for the 75 percent Federal contribution for individual and family grants. Over 12,800 individuals and families were aided by this program. These funds were used for a wide range of serious needs including home repair, restoration of personal property, and disaster-related medical and dental care.

The affected States were responsible for administering the grant program and paying 25 percent of grant costs.

(continued on following page)

(4) Other programs. The National Institute of Mental Health offered Crisis Counseling Assistance to disaster victims in North Carolina and Massachusetts at a cost of $510,000 to the President's Disaster Relief Fund.

c. Preparedness.

(1) State Disaster Preparedness Grants. All but one of the 57 States (as defined by the Act) have been awarded grants of up to $250,000 for the preparation of State emergency plans and other disaster preparedness and mitigation efforts. (The Canal Zone withdrew its application. The new Commonwealth of the Northern Mariana Islands received a subgrant from the Trust Territory of the Pacific Islands, of which the Northern Marianas had been a part.) By the end of the 1978 fiscal year, 33 States had completed work under these "development" grants. Obligations, all before FY 1978, totaled $13,703,189, with actual disbursements expected to approximate $13 million by the time the last few of these grants are completed, in June 1979.

Also by September 30, 1978, one or more of the annual "improvement" grants of up to $25,000 had been awarded to 27 States. Most of the remaining States will receive this matching grant during FY 1979 and then annually thereafter. It is estimated that requests for this grant will approximate $1.1 million (out of a possible $1,425,000, including the now eligible Northern Marianas) per year.

(2) Training and Education. FY 1978 saw the completion of several types of training materials to support Regional training efforts geared to improve the response capability of the Agency. These training modules included "Disaster Public Assistance: An Applicant's Briefing," a tape-slide presentation made to all State and local officials applying for disaster relief under P.L. 93-288; "Your Disaster Assistance Center," a super-8 mm motion picture briefing to be shown to individuals applying for disaster assistance; and a series of pamphlets and posters designed to inform disaster victims about the assistance available to them and how to apply for it.

In addition to the materials developed, special courses were conducted for some 125 reservists supporting the delivery of public and individual assistance.

During FY 1979, efforts continue to improve the response of Federal agencies to disasters by the development and refinement of programs and materials. This work includes a series of three tape-slide presentations to be used in the training of damage assessors. In addition, a new course of instruction complete with training packages will be developed and deployed to support the training of staffs responsible for the new combined-application, caseworker concept being field-tested. A task analysis of the functions of the Agency will serve as a basis for the development of a training curriculum to support Agency operations in the event of a "maxi-disaster".

The FY 1980 training efforts will be concerned initially with the conversion of existing materials to support the policy and programs of the new Federal Emergency Management Agency and to become part of a training program to meet the needs of the five combined agencies.

(3) Earthquake Loss Studies and Contingency Plans. For FY 1979, the preparation of studies has been resumed to determine property loss and casualties in selected populated areas with high seismicity. During the fiscal year, Anchorage and surrounding areas and possibly one eastern metropolitan area will be the subject of such studies, with strong participation of State and local officials, the U. S. Geological Survey, local scientists and engineers, and Federal regional staff. The studies will become the basis for plans for Federal, State, and local officials to respond to strong earthquakes.

(continued on following page)

The earthquake preparedness program will continue in FY 1980 with Federal, State, and local contingency response planning based on the 1979 earthquake damage studies. Further studies may include the Hawaiian Islands or another eastern city. In addition, a program plan will be developed on the seismic portion of the Mississippi Valley area; because of the complexity of the problem, a preliminary analysis is deemed essential before undertaking a full-fledged damage study.

(4) Special Studies. In FY 1978, the Academy for Contemporary Problems, a nonprofit research organization sponsored by the major public-interest groups, prepared a compendium of Federal programs of potential use to State and local officials engaged in long-range recovery operations after a disaster. The compendium will be issued in FY 1979 as an expanded and updated version of the Digest of Federal Assistance Programs.

An analysis of how disaster relief needs of individuals, businesses, and communities are met without Federal assistance was started in FY 1978 and will be completed in FY 1979. Originally planned as a special study but for cost-effective reasons actually being performed by staff personnel with the aid of a consultant, this analysis is based on several hundred field interviews with victims and government officials in nine geographic areas. The results will provide an input to policy decisions on the reasonableness of the disaster declaration process.

Special problems that may arise in providing temporary housing to victims of disasters in arctic regions (Alaska) are being investigated. This will serve as a basis for improved procedures that FEMA will institute to handle this specialized form of assistance.

d. Assistance Provided by Other Federal Agencies. Each major disaster declaration authorizes assistance from other Federal agencies, for example, the Small Business Administration (SBA) and the Department of Agriculture's Farmers Home Administration (FmHA). In 1978, SBA provided to major disaster areas $154 million in home/personal loans and $105 million in business loans. FmHA provided $26 million in loans to farmers. A variety of assistance comes from several other Federal agencies, although it is not triggered by the declaration itself. This year, the Federal Highway Administration provided $36 million to rebuild roads and bridges in disaster areas. The U. S. Office of Education provided $8 million to public schools that suffered disaster damage. The Department of Agriculture provided free food stamps and several types of assistance to farmers. The Department of Agriculture approved applications for emergency food stamps for approximately 357 thousand individuals. The Corps of Engineers rebuilt dams, levees, and other water control facilities.

e. Volunteer Agencies. The Red Cross, Salvation Army, Mennonite Disaster Service, and other volunteer agencies furnished food, clothing, shelter, and other relief and recovery assistance to disaster victims. Relief efforts in declared disasters were coordinated with FDAA.

STATUS OF THE FUND

The following table shows the actual and estimated status of the Disaster Relief Fund for the fiscal years 1978 - 1980 in thousands of dollars:

	Actual FY 1978	Estimate FY 1979	Estimate FY 1980
Unobligated balance, start of year	$ 4,166	$ 6,280	---
Recovery of prior year obligations	4,345	---	---
Appropriations	450,000	200,000	$193,600
Obligations incurred	452,231	206,280	193,600
Unobligated balance, end of year	$ 6,280	---	---

WITNESSES

	Page
Altman, Hon. R. C	73, 127, 269
Baroni, Geno	269
Brodsky, A. B	1
Bryant, D. L	343
Comerford, John	269
Denning, Dr. B. N	127
Dunham, Col. M. G	1
Friedman, S. J	269
Jett, George	453
Jimenez, G. M	453
Kallen, A. D	269
Knight, George	343
Matheson, D. D., Jr	127
McFadden, C. V	73
McNeirney, James	343
Mitchell, J. A	453
Peterson, Dr. K. A	127
Shuck, R. E	1
Thompson, D. A	453
Tirana, B. R	453
Vickery, Gordon	453
Whiteside, W. A	343
Wilcox, W. H	453

INDEX

Page

Department of the Treasury:
New York City guarantee program 73–125
Administrative request 88–89
Staffing 89, 101, 107, 109–111
Pay raise supplemental 101–102
Budget gap 89–92, 97
Budget justification 119–125
Channeling Federal funds into New York City 113–118
Contract negotiations 93–94
New York City pension funding 103–107
Plans for New York City Police Department 94
Health and Hospitals Corporation 95
Countercyclical aid program 113
Federal lending assistance 112
Financial plan requirements 112–113
Forecast of city budget deficits 93
New York City debt 102–103
Status of balancing budget 98–100
New York City entering public credit markets 95
Long-term borrowing 96
Prepared statement 75–86
Profits made by Federal Government 107–108
Total accumulated deficits 98
General revenue-sharing program 127–268
Administration proposals 159, 248
Antirecession programs 161–164
Targeted fiscal assistance 160, 164, 165, 166
Justification of the budget estimates 250
Payments to State and local government fiscal assistance trust fund 266–268
Salaries and expenses 260–265
National Development Bank 249
Prepared statement 131–155

Federal Emergency Management Agency 453
Authority of emergency management committee 495
Biographical sketches:
Bardyl Tirana 455
Gordon Vickery 454
William Wilcox 457
Citizen emergency information 507
Civil defense functions 494
Community preparedness services 508
Continuity of Government during nuclear attack 505
Crime insurance 466
Crime insurance policies increase 518
Current civil defense efforts 498
Current location plans 495
Direction and control system 531
Disaster relief 519
Disaster relief accounting changes 524
Distribution formula used to determine State allocation 500
Earthquake hazards responsibilities 503
Effect of inflation on fiscal year 1980 budget 502
Emergency operations pilot projects 504, 532
Examples of flood plain advice 517
Expansion of productive capacity 532
Falling shelters 531
Federal insurance program 463

Federal Emergency Management Agency—Continued	Page
FEMA actions—New Orleans crisis	502
FEMA reorganization plan	527
Fire administration appropriations language	508
Flood insurance studies and flood plain management	465
Flood studies and surveys	516
Future civil defense plans	497
General statements:	
DCPA	482
FDAA	473
FEMA	458
FIA	461
FPA	469
USFA	492
Hazard mitigation and disaster assistance	508
Insurance and hazard mitigation	466
Justification of estimates:	
Defense Production Act, loan guarantee activities	659
Disaster relief	689
Emergency planning, preparedness, and mobilization appropriation	500
General	538
Hazard mitigation and disaster assistance appropriation	620
National flood insurance fund	676
National insurance development fund	662
Local civil defense training level	506
National Fire Academy	511
National Fire Academy rehabilitation budget	513
National Fire Data Center	509
National Flood Insurance Act of 1968, Part B	519
National insurance development fund	518
Personnel and administrative expenses	501
Personnel totals by agency	526
Phased transition to FEMA	493
Program management	468
Projected cost savings through reorganization	496
Proposed academy class schedule	513
Protecton in place versus relocation protection	506
Riot reinsurance	467
Snow removal	533
Snow removal reimbursement policy	525
State and local emergency operating centers	530
State and local management program	499
West Virginia Operations Office	505
General revenue-sharing program	127–268
Administration proposals	159, 248
Antirecession programs	161–164
Targeted fiscal assistance	160, 164, 165, 166
Justification of the budget estimates	250
Payments to State and local government fiscal assistance	266–268
Salaries and expenses	250–265
National Development Bank	249
Prepared statement	131–155
National Consumer Cooperative Bank	269
Appropriation	270
Hon. Roger C. Altman, Assistant Secretary of the Treasury:	
Prepared statement	272–277
Summary	278
Budget request	278–279
Self-help fund	279
Personnel and organization	279–281
Number of cooperatives	282
Demand for loans	282
Technical assistance	282–283
Priority between cooperatives	283–284
Split between urban and rural co-ops	284

National Consumer Cooperative Bank—Continued
Hon. Roger C. Altman, Assistant Secretary of the Treasury—Con. Page
Fiscal year 1979 supplemental request 284–285
Funding requirements 285
Appropriation language 286
Capitalization of the bank 286
Direct loans and guarantees by the bank 286
Limitation on guaranteed loans 287
Borrowing from public or private sources 287
Salaries and expenses 287
Relationship between loans and personnel 287–288
Hiring of personnel 288
Shared costs between bank and office of self-help 288–293
Travel requirement 293–294
Number of consultants 293–294
Space costs 294–295
Other services 296–297
Establishment of the bank 298–299
Definition of low income 299
Loans at market rates 299–300
Loans made based on capital investment 300
Guaranteed Loans 300
Default rate on soft loans 300–301
Residential housing cooperatives 301
Purchasing shares of stock in existing cooperatives 301–302
Redeeming the Treasury's class A stock 302
Stock purchase requirement 302
Office of Self-Help 302–303
Financing cooperative apartments 303
Housing co-ops and section 8 303–304
Self-Help loans 304–305
Justification for appropriations 306–339

Neighborhood Reinvestment Corporation 343
Administrative expense, NRC 397
Apartment improvement program 395
Budget justification 435
Conferences and workshops 423
Consultants, use of 419
Contractual arrangements for local reimbursements 396
Delivery mechanism for State funds 433
Development grants and revolving loan funds 433
Employee benefits 425
Employees, permanent 429
Employees status 414
Expansion pattern 432
Federal Home Loan Bank System administration 396
Federal Home Loan Bank System finding contribution 411
Financial Institutions Regulatory and Interest Rates Control Act 429
General statement 346
HUD, cooperation with 396
Insurance industry involvement 401
Local neighborhood housing services boards 400
Neighborhood preservation development 405
Organization table 417
Personnel procedures 414
Printing and supplies, telephone costs 429
Professional services budget 427
Program development process 399
Program selection and monitoring 412
Regions 394
Relationship with other redevelopment programs 398
Rural areas, increased responsibilities 397
Smaller cities, NHS funding 412
Training for NHS programs 412
Travel budget 421
Urban reinvestment task force, leveraged impact 402

	Page
Selective Service System	1–72
Area offices, number planned	11
Automated data processing:	
Computer system funding requirements	32
Conversion of computer programs	20
Decentralized information processing	22
Interim computer system	32
Joint use of other government computers	21
Keystone to operations	29
Upgrading computer capability	14
Use during mobilization	20
Use of FEMA computer	24
Budget request to OMB	7
Denver regional office, establishment	13
Director's position, status of	36
Inductee delivery schedule, proposed	8
Induction capability	7
Local and appeal boards:	
Eligibility for membership on	21
Recruitment and training of members	10
Manpower requirements, change by DOD	24
Mobilization timetable	14
News media, use of	23
Personnel devoted to planting	16
Personnel, location of	17
Planning activities:	
Contingency plans	15
Revisions	19
Testing (Nifty Nugget)	19
Registration:	
CBO's review of election machinery use	12
Cost in peacetime	36
Harris public opinion survey	24
Methods considered	11
Reports on Selective Service:	
Department of Defense	9
President's reorganization project	30, 33
Reserve Forces:	
Functions of	17
Plans for the use of	9
Training	12
Supplemental appropriation request:	
Computer enhancement	14
Purpose of request	31
Need for 10 regional offices	29
Universal service program	34
Youth Conservation Corps	35

○