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**PROPOSED RESCISSION OF APPROPRIATIONS FOR
FISCAL YEAR 1980**

GOVERNMENT DOCUMENTS

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HEARINGS

BEFORE A

**SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
HOUSE OF REPRESENTATIVES**

NINETY-SIXTH CONGRESS

SECOND SESSION

**SUBCOMMITTEE ON THE DEPARTMENTS OF LABOR, HEALTH AND
HUMAN SERVICES, EDUCATION, AND RELATED AGENCIES**

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PART 1

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
Health Resources Administration**

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PROPOSED RESCISSION OF APPROPRIATIONS FOR FISCAL YEAR 1980

THURSDAY, JANUARY 31, 1980.

DEPARTMENT OF HEALTH AND HUMAN SERVICES HEALTH RESOURCES ADMINISTRATION

WITNESSES

DR. HENRY A. FOLEY, ADMINISTRATOR

DR. JAMES A. WALSH, ASSOCIATE ADMINISTRATOR FOR OPERATIONS AND MANAGEMENT

DR. DANIEL F. WHITESIDE, DIRECTOR, BUREAU OF HEALTH MANPOWER

WILFORD FORBUSH, DEPUTY ASSISTANT SECRETARY FOR POLICY COORDINATION

Mr. NATCHER. The committee will come to order.

We take up at this time a proposed rescission of appropriations for fiscal year 1980.

We have before the committee the Health Resources Administration; Dr. Henry A. Foley, the Administrator, is with us.

Dr. Foley, tell us who you have with you first, before you give us your statement.

Dr. FOLEY. Thank you, Mr. Chairman.

On my right I have Dr. James Walsh, Associate Administrator for Operations and Management of the Health Resources Administration; Mr. Bill Forbush, Office of the Secretary, Management and Budget. I have also Dr. Daniel Whiteside, Director, Bureau of Health Manpower.

Mr. NATCHER. We are delighted to have all of you before the committee at this time.

Dr. Foley, we will be pleased to hear you.

GENERAL STATEMENT

Dr. FOLEY. Thank you, Mr. Chairman.

I am here today to present for your consideration a proposal to rescind \$97.768 million for two health manpower programs, Health Professions Student Loans and Capitation to schools of the health professions other than schools of public health. Continued Federal assistance for these programs is no longer required; we are now directing our limited resources to programs addressing the nation's higher

priority goals of improving the geographic and specialty distribution of health professionals.

CAPITATION GRANTS

Health Professions Capitation grants provide Federal financial support to health professions schools on a formula basis, with certain conditions required. The program has been successful in meeting its original objectives, to expand the enrollment of health professionals and to stabilize the financial status of the health professions schools.

Since 1963, the first-year enrollment in medical and osteopathic schools, for example, has grown from 9,200 to the current level of 17,500. Accordingly, the number of physicians in active practice has increased over the past 10 years by 34 percent. Currently we have 433,600 physicians in practice, compared to 323,200 physicians in 1970.

There is however, a continuing need to attract these health professionals to areas not now adequately served. Accordingly, the Administration is directing health professions education funding to those programs that create a better geographic and specialty distribution among the professionals being trained. Evidence suggests that the support of targeted education programs represents a more effective mechanism to reach these objectives, such as those that influence graduate medical training in primary care.

Because these capitation grants, which support undergraduate medical training, have not proven to be an effective way of influencing specialty or geographic maldistribution problems, we are asking for a rescission of \$81.268 million for this program in the fiscal year 1980 budget.

HEALTH PROFESSIONS STUDENT LOANS

The proposed rescission for health professions student loans is based on the premise that students receiving Federal aid should agree to serve in a medically-underserved area, thus contributing to correcting the national imbalance of health personnel.

The health professions student loan program authorizes long-term, 7 percent interest loans to certain health professions students (MOD/VOPP). Since 1965, this program has assisted approximately 332,000 students. However, these loans do not require a service payback. Other programs, such as the National Health Service Corps Scholarship, are relied upon to alleviate specialty or geographic maldistribution. Students not selected for the National Health Service Corps Scholarship program have access to the Health Education Assistance Loan program, and the National Direct Student Loan program administered by the new Department of Education.

In addition, loan funds will continue to be available from the revolving funds previously established in the health professions schools.

We are requesting a rescission of \$16.5 million in this program.

Mr. Chairman, I would like to point out that the rescission request for health professions capitation represents a change from the previously-submitted budget in that we are not requesting to rescind capitation grants to schools of public health.

I thank you for the opportunity to appear before you today, and I will be pleased to answer any questions you may have about these rescissions.

MESSAGE FROM THE PRESIDENT

Mr. NATCHER. Thank you, Dr. Foley.

We have received a message from the President, dated January 28, requesting the rescission of a total of \$104.218 million in the health professions training funds, including \$87.718 million for capitation grants and \$16.5 million for health professions student loans.

We have here the message from the President and at this point in the record we will place the pertinent parts of this message.

[The information follows:]

Rescission Proposal No.: R80-2

PROPOSED RESCISSION OF BUDGET AUTHORITY

Report Pursuant to Section 1012 of Public Law 93-344

*Department of Health, Education, and Welfare—
Health Resources Administration*HEALTH RESOURCES—7500712,¹ 756/00712, 75-0712

New budget authority (Public Law 96-123)-----	\$688, 202, 000
Other budgetary resources-----	7, 284, 526
Total budgetary resources-----	695, 486, 526
Amount proposed for rescission-----	104, 218, 000

¹ This account was the subject of a rescission proposal in fiscal year 1979.

OMB identification code: 75-0712-0-1-550.

Grant program: Yes.

Type of account or fund: Annual; Multiple-year, September 30, 1980; No year.

Legal authority (in addition to section 1012): Antideficiency Act.

Type of budget authority: Appropriation.

JUSTIFICATION

During the 1960's and early 1970's, the supply of health professionals increased dramatically, primarily as a result of increased Federal subsidies to expanded numbers of health professions students and training programs. Since 1960, the Federal government has spent about \$18 billion to help increase the supply of health professionals by 50 percent. Between 1960 and 1975, the number of physicians in active practice increased 46 percent. By 1990, the supply of active physicians is expected to reach nearly 600,000, or an increase of 58 percent between 1975 and 1990. Moreover, the physician to population ratio rose from 142:100,000 in 1960 to 174:100,000 in 1975, and is expected to reach 244:100,000 in 1990 or 40 percent greater than in 1975.

In recognition of these trends, the President's 1979 and 1980 Budgets proposed phasing down general institutional support and concentrating on alleviating the problems of geographic maldistribution through

service commitment scholarships and of overspecialization of medical practice through support of primary care training programs. These policies are continued in the President's 1981 Budget. The current adequate supply and potential oversupply during the 1980's underscore the point that special Federal subsidies are no longer required to increase the supply of particular categories of health professionals.

The \$104,218,000 in health professions training funds proposed for rescission in 1980 includes \$87,718,000 for capitation grants and \$16,500,000 for health professions non-service student loans. These funds have been identified as unnecessary to program needs for meeting the goal of providing health services to the medically underserved. This is in keeping with the strategy articulated in the President's 1980 and 1981 Budgets to terminate capitation grants and initiate phaseout of other institutional subsidies and student assistance programs that in the past have served to increase the supply of health professionals without regard to specialty or geographic shortages.

Capitation grants are not an efficient means for correcting either specialty or geographic maldistribution problems. The Administration supports various training programs that are more effective in addressing the health services needs of the coming decade, including service commitment scholarships, family medicine and primary care residency training grants, and grants to develop family medicine departments and for the training of nurse practitioners and physician assistants. Health professions schools will be able to accommodate the loss of capitation subsidies—which account for less than 5 percent of medical schools' total revenues—through increased tuition, State appropriations, more efficient management, or by reducing the high faculty costs created by faculty to student ratios in medical schools currently at 10 faculty members for every 13 students. Average medical tuition is now only about \$3,000 per year and as a percentage of total medical school revenues has remained at an average of 4–5 percent over the last ten years. Moreover, even with the loss of capitation subsidies, medical and other health professions schools will remain filled to capacity. The nation's 126 medical schools have 2.5 times as many qualified applicants as places and will be producing in excess of 16,000 new physicians annually during the 1980's.

The Budget proposes that the Health Professions Student Loan (HPSL) program be phased out in favor of service commitment programs, e.g., the National Health Service Corps (NHSC) scholarship program. While the HPSL program includes a partial Federal repayment provision (60 to 85 percent) for service in shortage areas, the Administration is proposing that the Health Education Assistance federally guaranteed loan program (HEAL)—which has the same loan-repayment provision—become the primary source of Federal loan support for graduate health professions training. The HEAL program will provide access to financial markets for health professions students who prefer not to make a service commitment. Health professions students are also eligible for Department of Education guaranteed student loans, which have an interest subsidy but are limited in annual amounts to \$5,000 and aggregate amounts to \$15,000. For the 1980–1981 academic year, it is estimated that the HEAL program will provide loan guarantees totaling \$40 million among 5,000 students in over 300 eligible institutions. The HPSL

program will continue to support health professions training through existing revolving fund resources which total \$16 million in 1980.

ESTIMATED EFFECTS

Federal support for HEW health professions training programs will continue at a level of \$410.4 million in 1980, including \$85.5 million for NHSC scholarships and \$108.5 million for primary care and family medicine training, area health education centers, and grants for nurse practitioner and physician assistant training. The proposed rescission of \$104 million will not affect the goal of providing improved health services to the medically underserved.

Outlay effect (estimated in millions of dollars)

1. Budget outlay estimate for fiscal year 1980 (anticipates congressional approval of this proposal)-----	\$565.6
2. Outlay estimate if this proposal is not approved-----	578.1
3. 1980 outlay savings attributable to this proposal-----	12.5
Outlay savings for fiscal year 1981-----	36.6
Outlay savings for fiscal year 1982-----	55.1

HEALTH RESOURCES ADMINISTRATION

HEALTH RESOURCES

Of the funds provided for "Health resources" for fiscal year 1980 in P.L. 96-123, making further continuing appropriations for the fiscal year 1980, \$104,218,000 are rescinded.

REVISED MESSAGE

Mr. NATCHER. Now Dr. Foley, as I understand, the message contains an error. The President meant to propose the rescission of a total of \$97.768 million rather than \$104.218 million; I believe that is correct.

Dr. FOLEY. Yes, it is, Mr. Chairman.

Mr. NATCHER. We further understand that he is not proposing rescission of the \$6.450 million appropriated for capitation grants for the schools of public health; I believe that is correct.

Dr. FOLEY. That is correct.

Mr. NATCHER. Is it your understanding that the President will send to the Congress a revised message which corrects this error?

Dr. FOLEY. Yes, it is, Mr. Chairman.

I have been told within the next couple of days, I would hope at least within that time frame.

[Clerk's note: The following revised message was sent to Congress on February 20, 1980.]

Rescission Proposal No : R80-2A

PROPOSED RESCISSION OF BUDGET AUTHORITY

Report Pursuant to Section 1012 of Public Law 93-344

*Department of Health, Education, and Welfare—Health Resources Administration*HEALTH RESOURCES 7500712¹, 756/00712, 75X0712

New budget authority (Public Law 96-123)-----	\$688,202,000
Other budgetary resources-----	7,284,526
<hr/>	
Total budgetary resources-----	695,486,526
Amount proposed for rescission-----	*97,768,000

*Changed from previous report.

¹This account was the subject of a similar rescission proposal in fiscal year 1979 (R79-4).

OMB identification code : 75-0712-0-1-550.

Grant program : Yes.

Type of account or fund : Annual; Multiple-Year September 30, 1980; and No-year.

Type of budget authority : Appropriation.

JUSTIFICATION²

During the 1960's and early 1970's, the supply of health professionals increased dramatically, primarily as a result of increased Federal subsidies to expanded numbers of health professions students and training programs. Since 1960, the Federal Government has spent about \$18 billion to help increase the supply of health professionals by 50 percent. Between 1960 and 1975, the number of physicians in active practice increased 46 percent. By 1990, the supply of active physicians is expected to reach nearly 600,000, or an increase of 58 percent between 1975 and 1990. Moreover, the physician to population ratio rose from 142:100,000 in 1960 to 174:100,000 in 1975, and is expected to reach 244:100,000 in 1990 or 40 percent greater than in 1975.

In recognition of these trends, the President's 1979 and 1980 Budgets proposed phasing down general institutional support and concentrating on alleviating the problems of geographic maldistribution through service commitment scholarships and of overspecialization of medical practice through support of primary care training programs. These policies are continued in the President's 1981 Budget. The current adequate supply and potential oversupply during the 1980's underscore the point that special Federal subsidies are no longer required to increase the supply of particular categories of health professionals.

² Changed from previous report.

The \$97,768,000 in health professions training funds proposed for rescission in 1980 includes \$81,268,000 for capitation grants and \$16,500,000 for health professions non-service student loans. These funds have been identified as unnecessary to program needs for meeting the goal of providing health services to the medically underserved. This is in keeping with the strategy articulated in the President's 1980 and 1981 Budgets to terminate capitation grants by 1981 and initiate phaseout of other institutional subsidies and student assistance programs that in the past have served to increase the supply of health professionals without regard to specialty or geographic shortages.

Capitation grants are not the most efficient means for correcting either specialty or geographic maldistribution problems. The Administration supports various training programs that are more effective in addressing the health services needs of the coming decade, including service commitment scholarships, family medicine and primary care residency training grants, and grants to develop family medicine departments and for the training of nurse practitioners and physician assistants. Health professions schools will be able to accommodate this loss of capitation subsidies—which account for less than 5 percent of medical schools' total revenues—through increased tuition, State appropriations, more efficient management, or by reducing the high faculty costs created by faculty to student ratios in medical schools currently at 10 faculty members for every 13 students. Average medical tuition is now only about \$3,000 per year and as a percentage of total medical school revenues has remained at an average of 4 percent to 5 percent over the last ten years. Moreover, even with the loss of these capitation subsidies, medical and other health professions schools will remain filled to capacity. The nation's 126 medical schools have 2.5 times as many qualified applicants as places and will be producing in excess of 16,000 new physicians annually during the 1980's.

The Budget proposes that the Health Professions Student Loan (HPSL) program be phased out in favor of service commitment programs, e.g., the National Health Service Corps (NHSC) scholarship program. While the HPSL program includes a partial Federal repayment provision (60 percent to 85 percent) for service in shortage areas, the Administration is proposing that the Health Education Assistance federally guaranteed loan program (HEAL)—which has the same loan-repayment provision—become the primary source of Federal loan support for graduate health professions training. The HEAL program will provide access to financial markets for health professions students who prefer not to make a service commitment. Health professions students are also eligible for Department of Health, Education, and Welfare guaranteed student loans, which have an interest subsidy but are limited in annual amounts to \$5,000 and aggregate amounts to \$15,000. For the 1980-81 academic year, it is estimated that the HEAL program will provide loan guarantees totaling \$40 million among 5,000 students in over 300 eligible institutions. The HPSL program will continue to support health professions training through existing revolving fund resources which total \$16 million in 1980.

ESTIMATED EFFECTS ²

Federal support for HEW health professions training programs will continue at a level of \$416.8 million in 1980, including \$85.5 million for NHSC scholarships and \$108.5 million for primary care and family medicine training, area health education centers, and grants for nurse practitioner and physician assistant training. The proposed rescission of \$97.8 million will not affect the goal of providing improved health services to the medically underserved.

Outlay effect ²

(Estimated in millions of dollars)

1. Budget outlay estimate for fiscal year 1980 (anticipates congressional approval of this proposal)-----	\$566.4
2. Outlay estimate if this proposal is not approved-----	578.1
3. 1980 outlay savings attributable to this proposal-----	11.7
Outlay savings for fiscal year 1981-----	34.4
Outlay savings for fiscal year 1982-----	51.7

HEALTH RESOURCES ADMINISTRATION

HEALTH RESOURCES

Of the funds provided for "Health resources" for fiscal year 1980 in Public Law 96-123, making further continuing appropriations for the fiscal year 1980, \$97,768,000 are rescinded.

CAPITATION GRANTS

Mr. NATCHER. Am I correct, Dr. Foley, in thinking that the revised rescission would eliminate all capitation grants to schools of medicine, dentistry, veterinary medicine, optometry, podiatry and pharmacy?

Dr. FOLEY. Yes, Mr. Chairman.

Mr. NATCHER. How many schools of each type are currently eligible to receive these grants?

Dr. WHITESIDE. We have 189 schools of medicine, osteopathy and dentistry and 111 in veterinary medicine, optometry, podiatry and pharmacy that have been participating in this program.

AVERAGE CAPITATION GRANT AMOUNTS

Mr. NATCHER. How much is the average capitation grant to each of these types of schools? What about that, Dr. Whiteside?

Dr. WHITESIDE. For schools of medicine, osteopathy and dentistry, the average would be about \$370,000 per school.

Mr. NATCHER. What about the others now, veterinary, and so forth?

Dr. WHITESIDE. They would be considerably lower, but may I provide the actual average for you for the record?

Mr. NATCHER. That will be fine. We will place it in the record at this point.

[The information follows:]

AVERAGE OF CAPITATION GRANTS TO VOPP SCHOOLS

	Fiscal year 1979 awarded	Fiscal year 1980 estimate
Veterinary medicine.....	\$193,383	\$144,000
Optometry.....	101,420	81,385
Podiatry.....	199,785	162,400
Pharmacy.....	109,030	88,971
Average VOPP awards.....	150,905	119,189

ANNUAL EXPENDITURES OF HEALTH PROFESSIONS SCHOOLS

Mr. NATCHER. What are the total annual expenditures of each of these types of schools? Can you give us some idea? If you can't, you can supply that for the record.

Dr. WHITESIDE. We have that information from the schools and if we may, I prefer to provide it for the record.

Mr. NATCHER. All right.

[The information follows:]

ANNUAL EXPENDITURES OF HEALTH PROFESSIONS SCHOOLS

Percent data on annual expenditures of health professions schools are available for only a few disciplines. These figures are shown below.

In millions

Medical (M.D.) schools: 1976-77 (111 schools).....	\$3,851
Dental schools (July 1, 1977 to June 30, 1978) : 1977-78 (57 schools)....	449.5
Veterinary medical schools: July 1, 1977 to June 30, 1978 (23 schools)....	162.1

Sources: Medical Education in the United States, 1977-1978, JAMA, Dec. 22/29, 1978; Financial Report, Fiscal Year Ending June 30, 1978, American Dental Association; and Unpublished data from the Association of American Veterinary Medical Colleges.

Mr. NATCHER. In what month are these grants normally awarded?

Dr. WHITESIDE. They are usually awarded late in the fiscal year. We award these grants in September.

Mr. NATCHER. The schools have already put together their budgets, relying upon this money, is that not correct?

Dr. FOLEY. That is correct, Mr. Chairman.

Although I think the record of the last three or four years, with discussion that we have had both in this Administration and in the previous Administration with this committee, has given a fairly clear signal to the schools, particularly to the budget officers, that the funding in this area was precarious. We are aware that some schools in fact prepared two types of budgets, one with capitation included, the other alternative budget without capitation included.

Mr. NATCHER. Does the Administration believe that there should be no further expansion in enrollments in health professions schools?

Dr. FOLEY. We do suggest that for physicians, dentists, and osteopaths.

On the other hand, in our second report to Congress on the health professions, we have questioned this with regard to podiatrists, that in that area there is certainly a need for an increased number, although we do not see a need for an increased number of optometrists, pharmacists and veterinarians beyond the levels now enrolled.

AVERAGE TUITION CHARGES

Mr. NATCHER. What is the average tuition charged the physicians at the various types of schools?

Dr. FOLEY. It can range—I would ask Dr. Whiteside to submit for the record in each specific type of school. Perhaps you have those figures with you.

Dr. WHITESIDE. In academic year 1979-80, in a private school of medicine average tuition is about \$7,000 a year; for public institutions for a resident student it would be \$1,900 a year, for a nonresident in a school of medicine it would be about \$3,800 a year.

If I may, I will submit for the record the average tuition cost for the other disciplines.

Mr. NATCHER. Very well.

[The information follows:]

AVERAGE TUITION FOR 1979-80 SCHOOL YEAR

Schools	Private	Public resident	Public nonresident
Medicine.....	\$6,958	\$1,921	\$3,824
Osteopathic.....	7,859	2,181	3,721
Dental.....	6,061	1,957	
Veterinary.....	7,950	1,416	3,231
Optometry.....	4,948	1,567	2,945
Podiatric.....	5,500	(1)	(1)
Pharmacy.....	2,852	789	1,952

¹ All podiatric schools are private institutions.

Mr. NATCHER. Would not the elimination of capitation funds have a tendency to further drive the tuition cost up? Would that not be the result?

Dr. FOLEY. There will certainly be a marginal impact on the tuition increases, Mr. Chairman. We have looked at the increases in this past 5 years that are going on at medical schools. If you look at the percentage that capitation represents of the total budget, with the increase in inflation, capitation is a relatively small proportion of that. In fact, it does not seem to be reflected into the increases that we have seen in tuition at this point in time. But we do agree that there would probably be some marginal impact on tuition, and also the need for other resources to be obtained. State funding or private philanthropic dollars for public schools.

AUTHORIZING LEGISLATION

Mr. NATCHER. This program expires at the end of this year, is that correct?

Dr. FOLEY. That is correct.

Mr. NATCHER. Is there any move before the authorizing committee to have it extended?

Dr. FOLEY. No; there is not, with perhaps the exception of the capitation for schools of public health. We are not clear on that at this moment.

EFFECT OF PHYSICIAN SUPPLY ON HEALTH COSTS

Mr. NATCHER. The administration apparently believes that increasing the supply of doctors and other health professions is driving up health costs. Do you have any data or studies which support that conclusion?

Dr. FOLEY. We have some studies, Mr. Chairman.

I would like to clarify for the record the administration's position in terms of funding for health professions. It is that the funding ought to be targeted for support so that students have a service responsibility particularly to provide medical or health services to underserved populations, underserved areas of the country.

That is the basic premise for the position that we are offering in regard to the budget we presented to the Congress this year, and also to the new proposed health professions legislation proposal that the administration will submit in a month or month and a half to the authorizing committee. It is not necessarily premised on whether or not the physicians are driving up cost by inducing demand. We recognize that may be the case in some areas.

The basic premise or position that the Department and the administration are coming from, however, is the question of targeting our resources in way so we know that students who are using them are likely to end up serving underserved populations. So it is a very specific targeted strategy, Mr. Chairman.

Mr. NATCHER. Dr. Foley, would it be possible that increasing the supply of health professionals would cause prices to go down or at least cause prices to rise more slowly?

Dr. FOLEY. Well, in the area of the physician production we have seen no evidence that an increased supply of physicians leads to a reduction in price in any of the medical market sectors in the country. We have seen evidence that the increase in supply does lead to a distribution of physicians to other parts of the country.

There has been since 1960, the period we have looked at is from 1960 to 1977, an increase of physicians in populations of 50,000 and below, approximately 14 percent above the number of physicians that were in those locales in 1960. So there has been a greater distribution of physicians, but they are not necessarily driving down price in that process. They are just finding newer markets to provide their services, as they should.

HEALTH PROFESSIONS STUDENT LOANS

Mr. NATCHER. How many schools, Doctor, are currently participating in the health profession student loan program?

Dr. WHITESIDE. I believe it is 304.

Mr. NATCHER. How much will be available for new loans in fiscal 1980, including the funds available from loan repayments? If you would, you might want to give us the comparable figures for 1978 and 1979.

Dr. FOLEY. Do you have those figures?

Dr. WHITESIDE. In 1978, \$20 million was appropriated for health professions student loans and about \$13 million was available in the revolving funds in the schools. For 1979 we had \$10 million in the health profession student loan fund and about \$14 million in the revolving fund. As you know we are proposing that the \$16.5 million appropriated for 1980 be rescinded. There would however be \$16 million in the revolving fund in the schools in 1980.

Dr. FOLEY. Mr. Chairman, if I might comment in that area. I think there needs to be a point clarified for the record. There is the term I believe in the report from the President, with regard to the loans, that 13,000 students would be terminated. I think that is inaccurate. After further discussion with my staff, I found out what the definition of that term "terminate" is.

As you are aware from your question, the students pay back into that fund to the medical schools after they get into practice. The amount being paid back could pay for a good number of students who receive first-year loans this year, besides others having opportunities to go to the other loan programs that I indicated in my testimony.

The so-called termination affects approximately 13,000 new students who are not getting loans this year but who would get loans next year, the financial aid officer in the schools would have to figure out what pot of funds other than in this particular program would be available for those particular students. But the situation is not one of students currently getting loan payments that would be terminated.

The word "terminate" is an incorrect term. I want to clarify that for the record.

Mr. NATCHER. What is the number and dollar value of loans currently outstanding?

Dr. WHITESIDE. It is about \$380 million in total.

Mr. NATCHER. Can you give us the default rate?

Dr. WHITESIDE. The default rate is very, very low; it has been running around one percent.

Mr. NATCHER. Mr. Conte?

Mr. CONTE. Thank you, Mr. Chairman.

I want to welcome Dr. Foley back to the committee.

Dr. FOLEY. Good to see you.

Mr. CONTE. Good to see you. How is your mother?

Dr. FOLEY. She is watching very carefully this year.

Mr. CONTE. You did not go to that hospital during the one-year interim since last year, have you?

Dr. FOLEY. No, I have not.

Mr. CONTE. I am glad of that. I had some of my nurse friends say they had some 6-inch needles waiting for you.

Mr. PURSELL. I heard they are 12-inch.

CAPITATION GRANTS

Mr. CONTE. Doctor, I am vitally concerned about the rescission request your department is making in the Health Resources Administration. I do not have to tell you the costs of operating a medical school today are high, extremely high, considerably higher than I imagine any other professional graduate school. So is the tuition charged medical students who choose to pursue this rigorous profession high.

In the past the President's budget people moved to eliminate capitation grants to health professional schools and of course Congress objected to that. Is there any new evidence or data to suggest that Congress should change its mind about providing this limited capitation, \$88 million, support to health professions?

Dr. FOLEY. Well, I could expand clearly, Mr. Conte, on the testimony last year, but I am sure you want more than that.

The basic position of the Administration clearly has been to target the funds that you appropriate here in the Congress so that we are able to report back to you that students who received those funds in fact end up serving populations that are in need.

As long as we have a reimbursement system which is relatively open-ended and pays physicians really at such high salary levels, at the same time that the number of applicants to get into medical school are, as I think you know, 2.5 for every slot available, plus the fact a lot of students now go out of the country to become physicians and then come back, with that kind of dynamics in the system, the Administration feels very strongly that most of the students can find financial means to get into medical school; and those that cannot, the targeted programs that we presented to you and to the authorizing committee with regard to financial distress, the National Health Service Corps or the other loan programs such as the HEAL program, as well as programs under the Department of Defense and VA, are sufficient.

We have looked at the rate of inflation over the past five years, while the capitation program has been there, and I think we both recognize the capitation program has been decreasing in dollars even from the Congress standpoint. We see that the medical schools have been able to obtain other resources.

In our discussion this year within the Administration, recognizing the discussion we had last year in this committee and also with the Senate appropriations committee, we noted Congress' understanding that this should be a decreasing program and also that we would not include it in our upcoming proposal to you here in the Congress, and that this would cause some problems for some of the schools.

The Administration's position on that was, given the fact that it is allocating resources to other programs in health areas, particularly the expansion of the neighborhood health centers and expansion of the Mental Health Act, et cetera, the Surgeon General's decision, Secretary's, and basically the President's decision, was to go with a tight budget so that not all parts of the program were expanding and in that regard stuck fairly firm with going with the rescission in this particular area.

So it is not simply the question of the impact on the students but the question of the total budget that the President is concerned with, and that is why I am here today.

DATA ON AMERICANS WITHOUT ACCESS TO DOCTORS

Mr. CONTE. Can you supply this committee with some real hard figures, hard data, about the numbers of Americans that do not have access to doctors and why?

I assume since you are coming up here with a rescission, and last year you were also opposed to this, that you have been conducting some real thorough studies and knew you were going to be asked that question. Can you give us that data?

Dr. FOLEY. We can, Mr. Conte. I would be glad to do so for the record.

[The information follows:]

AMERICANS WHO DO NOT HAVE ACCESS TO PHYSICIANS

There are many different ways of examining and describing Americans' access to physicians and medical care, since access is a relative concept with many dimensions. However, nearly every way in which we and others have examined the issue indicates that relatively few Americans have serious, persistent problems obtaining medical care. For example, the 1975 Health Interview Survey of the National Center for Health Statistics (NCHS) asked several questions on medical care access and found that only six percent of the respondents reported having self-perceived unmet care needs. The major reason given was cost; other important reasons were difficulty obtaining an appointment and difficulty getting to the doctor (travel). Minority and low-income populations had somewhat higher unmet needs, and non-metropolitan residents reported slightly fewer unmet needs than metropolitan residents.

Utilizing a somewhat different survey approach, the Center for Health Administration Studies in 1976 found that almost 12 percent of the population had neither a physician nor a regular source of care. Although a small proportion of the population, this represented an estimated 24 million people who had no continuing or meaningful access to the health care system. The previously mentioned NCHS survey reported similar overall findings, but suggested that in many cases the lack of a regular source of care was due to one not being sought.

In still another approach, that related to the identification of shortage areas for placement of National Health Service Corps personnel and for loan repayment, about 35 million people or 17 percent of the population live in areas which have been designated to date as shortage areas for primary medical care. This proportion is expected to increase as additional shortage areas are identified. These people are members of population groups or residents of geographic areas or users of facilities which have few primary care physicians relative to the size of their service populations. Further, they lack adequate access to alternative care sources in surrounding areas because of excessive distances or travel times, socio-economic or cultural barriers.

The general conclusion to be drawn from these figures is that while not all Americans are fully satisfied with their access to medical care and while many do have access problems the largest proportion of Americans do have adequate access to medical care and physicians.

Dr. FOLEY. As you are aware, we do have defined underserved areas in this country where we do not have sufficient numbers of physicians or nurse practitioners or other health professions for the population. We will provide that to the committee, but for each health professional area we also are seeing, with the results that are coming out of the Graduate Medical Education Advisory Council, that for some types of specialists in the country we have too many in certain areas of the country and in other types of specialty areas we have too few—psychiatrists in State mental hospitals, for example.

Mr. CONTE. I think that capitation grants, if you spread them out in the right places, will support the education of general practitioners that are in shortage today.

Dr. FOLEY. If the law were to allow—if it had allowed us to put some strings attached to it, I would agree with you, but the law has not presently done that.

As you know, it does not result in student support, it is precluded by statute in that area. So a student who wants to go in to serve in these areas is not going to get support out of that particular program. They will obtain support out of the alternate programs that we have suggested and we are basically arguing for them in the appropriations process.

Mr. CONTE. You may have just given us an idea to pursue that through the legislative process to give you that flexibility.

Dr. FOLEY. Well, in our considerations over the past 10 months inside the Administration and the Department, that was an alternative that was looked at. It was rejected because of previous concerns those schools had had around putting strings on capitation. So that the alternate proposal was to go with the more targeted student support program, particularly in expansion of the National Health Service Corps Scholarship program, and the scholarship program which I think you have seen in the 1981 budget request.

DATA ON VETERINARIANS

Mr. CONTE. When you give us that data, I would also appreciate data on veterinarians. I cannot believe there is an oversurplus of veterinarians in this country.

Of all the requests I receive to get into graduate school, veterinarians is number one on the list. They just cannot get in. There are only 17 schools in the country, only two in the Northeast, Penn and Cornell, I guess.

Dr. FOLEY. And Tufts now.

Mr. CONTE. And Tufts now, but it has not really gotten started yet.

I understand there is a tremendous shortage of veterinarians for large animals in this country. So I would like to have you place in the record some hard data on that.

Dr. FOLEY. Be glad to.

[The information follows:]

VETERINARIANS: SUPPLY AND REQUIREMENT

While we believe that the overall situation for veterinarians is essentially in relative good balance, at present, the Bureau of Health Manpower projections indicate that the supply in veterinary medicine will likely exceed requirements by the end of this decade.

The growth in veterinary medical supply over the past ten years has been substantial, as the number of active veterinarians increased by more than one-third, from 26,000 to 35,000. During this coming decade, their numbers will increase even more rapidly with the number of veterinarians expected to rise to nearly 55,000, an increase of 46 percent between 1980 and 1990. This larger increase in supply is due to the sharply increasing number of places within schools of veterinary medicine, including those in the four new schools recently opened.

However, there does appear to be a continuing shortage of larger animal veterinarians. At present, there are 631 areas designated as health manpower shortage areas for large or food animal veterinarians. Of these, more than 90 percent are in rural areas. Thus, while some isolated problems may exist in the present supply and there are many applicants to schools, the training capacity now in place is thought to be more than adequate for meeting future needs.

It is interesting to note, too, that independent of the Bureau's evaluation, a recent study of veterinary manpower in the United States by Arthur D. Little, Inc. essentially confirms our analysis. It states that "currently, supply and demand appear to be in relatively good balance in a market which has generally been responsive to normal competitive market forces."

ADMINISTRATION POSITION ON CAPITATION GRANTS

Mr. EARLY. Thank you, Mr. Chairman.

Dr. FOLEY, it is a pleasure to have you back.

On these rescissions you have replied to the chairman that there has been a clear signal from this Administration that the funding was precarious in capitation. The President signed the continuing resolution less than 60 days ago. We had the money for capitation in there.

Are you saying we did not mean it? You are back here within 60 days telling us you want to rescind what we did in capitation. You say the funding is precarious. Didn't we mean what we did?

Dr. FOLEY. Mr. Early, I am sure that you meant what you have done. I am suggesting that the Administration and the President have been very clear, consistently for the last two years in opposing the funding of this particular program.

Mr. EARLY. Do we not have an administrative branch and a legislative branch that compromise and get to a position that the President puts his signature on. That is how I understand it.

Dr. FOLEY. Mr. Early, I could understand that. I think in most cases we do compromise quite well.

Mr. EARLY. I thought we meant it in all cases.

I thought we had an appropriation bill, and that is what we meant.

Dr. FOLEY. Mr. Early, I tend to agree with you. I think we have had discussion in the previous year. I understand that I thought that was the arrangement.

I was informed by the administration above me, by the President's office, by the Office of Management and Budget, and by the Department that was not the case, that they did not have an understanding that that compromise had been reached, and therefore I am here to testify today.

I would suggest very strongly, since I share that view, I thought that had happened, that if in fact that is not the case, that either Mr. Forbush testify to that or the Office of Management and Budget, but I do not think my understanding was that I was told directly there was no sense that a compromise had been reached, that a rescission would have to go up here, and that is why I am here today.

I am sorry that is occurring, but that is the fact of the matter.

Mr. EARLY. Not nearly as much as I am. We are not on a two-way street here.

Doctor, in the testimony last year Secretary Califano suggested it was the intent of the Administration to reduce the size of the medical schools classes. It is evident what this Administration is trying to do. We are going to have a two-tier system, the very rich and the very poor. We are just putting the middle class right out of business.

By middle class I am talking about people from \$15,000 to \$35,000 income. To suggest they utilize the HEAL program is really not going in the right direction. This past year is the first time that I have had students come in that are not going into the medical profession because they cannot afford it. They look at that HEAL program and see a debt of \$150,000. Working people just cannot suggest to their sons and daughters that they should go that route. I think it is terrible.

ALTERNATE SOURCES OF FUNDS

Doctor, last year, Mr. Natcher asked you what would be the probable impact of the loss of capitation funds on the budgets of the schools which have been receiving this assistance, and you responded that the schools would have to seek alternative funding from other sources such as State government.

Do we find State governments coming forward?

Dr. FOLEY. We did in the past session, Mr. Early, when there was the gradual rescission and cut in the capitation last year that the committee basically passed.

Mr. EARLY. Massachusetts is not coming forward with any substitute funding. I can tell you.

Dr. FOLEY. I am not going to say all 50 States did. But, for example, Indiana did while other States said no. I suspect, to be candid about this, this year those budget committees that have equal pressure as you do here, having had this process happen to them in the past year, will be very reluctant to increase the budget.

Basically, I think they have informed the deans and chairmen of those departments last year that they would have to figure out their budgets without the possibility of federal capitation.

Mr. EARLY. For next year, not this incoming September.

TUITION

The schools in my area, all increased tuitions in the expectation that the capitation was going to be taken back, rescinded. I have an awful lot of reservation on this.

The gentleman on your left suggested that the average tuition for a private medical school is \$5,000. That is very conservative in my opinion. There is not one in Massachusetts in the private sector under \$6,000 with the recent increases they just had.

Dr. FOLEY. No. We have an average here but we would be glad to give it to you school by school. We have those figures too.

Clearly in this community Georgetown right down the road has a \$13,000 tuition for their student body; GW has a high tuition and we know Meharry does as well, but not as high as those schools. So there is a range.

We would be glad to provide that.

Mr. EARLY. Just for my information, give me the lowest we have for a private school.

Dr. WHITESIDE. On the low end of the range is \$2,400 a year.

Mr. EARLY. Which private school is it?

Dr. WHITESIDE. I do not know which school it is.

Mr. EARLY. There is a medical school charging \$2,400 in the private sector? What are they doing, how are they able to do it? None of the Ivy League schools with all their endowments are doing it. Can you tell us why that is happening?

Dr. FOLEY. I will ask my staff to come back to provide to the record the reasons for that, the \$2,400 is extremely low and I think we are probably looking at some type of student support program that is in

that school that we will have to look very carefully and explain to the record.

[The information follows:]

LOW TUITION AT PRIVATE MEDICAL SCHOOLS

Howard University in Washington, D.C. has a tuition of \$2,400 per year for its medical students. Howard University receives direct appropriations from the federal government which helps to maintain the school's low tuition rate. Although Howard University receives direct federal payments, it is not considered a public institution but maintains its status as a private school. The next three lowest tuitions for private medical schools are Baylor Medical College in Texas with \$3,975, Vanderbilt Medical School in Tennessee with \$4,400, and Meharry Medical College in Tennessee with \$5,000.

Mr. EARLY. We should recruit the president of that medical school.

Dr. FOLEY. I would agree.

Mr. EARLY. I want to speak about the loan program, Dr. Foley. I really think we are going down the wrong road.

First of all, Secretary Harris appeared the other day and said capitation has worked, it did fill the mandate for general practitioners. Once again Administration wants to remove a program that works. I cannot follow that.

The GAO report which I know you are familiar with, cites 11 medical schools which were visited, 9 deans replied, that if we removed or curtailed capitation, we would have to seek alternative sources, of funding. Two deans suggested that you have to increase the tuition, and two deans said we would have to get additional funds from State legislatures.

Georgetown charges \$13,500 tuition. Anyone in this room that thinks that a middle-class family can send their child there, is wrong. This is against all the democratic principles I am aware of. The professionals want to restrict the number of doctors. I think it is selfish.

Mr. PATTEN. Are you an M.D.?

Dr. FOLEY. No.

Mr. PATTEN. He is not a medical doctor.

Mr. EARLY. He is a doctor. It appears I am being critical of you; I am not. I just think the whole direction in health manpower is wrong.

STUDENTS FROM MIDDLE-CLASS FAMILIES

Dr. FOLEY. Let me just respond.

Let's take Georgetown for a moment. I agree the students in the middle class have pressure on them that is significant as any other population. A good portion of those students at Georgetown that do come out of the middle-income background accept National Health Service Corps scholarships and end up serving populations in this country that currently do not have reimbursement sufficiently enough to attract physicians into those locales.

Mr. EARLY. Let me interrupt for one second.

I agree with you. They do do that now, but that is with capitation and a little lower tuition. I am suggesting if we go down this road they would not be able to do it in four years. What we do today does not really surface until 1982, or 1983. That is what is wrong with government. We legislate to the results of today. It does not happen that way in the real world.

You just commented that it has happened because it has been available to them. What we are proposing now I suggest is not going to be available to them.

Dr. FOLEY. But you are talking about a source of funds for most health professions schools that is only 6 to 8 percent of their total budget.

Mr. EARLY. Okay. Where do we break the camel's back?

Capitation two years ago was \$1,387 per student. With the little bit we have in now it is only \$790. But it is \$790 that is really reducing tuition.

I just suggest it is the right way to go because the institutions need it according to that GAO report.

Dr. FOLEY. As you said and as you are aware, I have looked at the GAO report as well as the report from the deans themselves. I am uncomfortable in the following and I think you may share this: If in fact we accepted your argument, your position that this would impact on students themselves, I would feel more comfortable. But in fact the GAO report and our own reports there is no linkage of capitation itself to student support. In fact, it is precluded by statute on the authorization legislation.

What in fact happens is that the deans and the chairman have in many cases for good purposes expanded the quality of education, the types of teachers, the salaries for their faculty, and that has not directly impacted on the students fiscal situation.

Mr. EARLY. But the GAO report says that it increased the supply of doctors in the areas that the government wanted them increased. We influenced the physician choice of specialties, and we financed the high cost of health education in the sciences. In one dental school \$13,500, is the tuition for Tufts Medical School. Who can send their youngster there?

We have the health professional student loan program which has a zero default rate so we dropped it. Now we are coming in with the HEAL program.

Secretary Califano was not very impressed with that program. If the youngster wants to go to Tufts Dental School and his parents can afford \$5,000 per year for him and he has to pay \$8,000, then after the four years, borrowing \$8,000 each year, \$32,000 total, he has to pay back \$148,000.

I suggest to you, Doctor, as I did last year, that the middle classes, the policeman and fireman's child who goes out there and does everything he is supposed to do, in elementary, high school and college, and wants to be a doctor, we are not going to give him a chance.

If this committee approves the rescission, I will be disappointed. I do not think it is democratic, I do not think it is anything that is progressive. And I appreciate your testifying on what you have to.

Thank you, Mr. Chairman.

Mr. NATCHER. Mr. Michel?

PHASEDOWN OF CAPITATION GRANT PROGRAM

Mr. MICHEL. Doctor, my problem with this rescission is whether we gradually phase this capitation down as the committee has been doing, or whether we precipitately cut it off like the Administration is pro-

posing. Why are you opposed to a phasedown, a gradual phasedown? It is not dramatic enough?

Dr. FOLEY. It certainly is dramatic, at least in this room Mr. Michel.

It was I think really a question about the resources that were being asked for other programs, not only in terms of supplementals such as in the Mental Health Act, but also other parts of the proposed 1981 budget; and the President's staff, in attempting to keep within realistic budget limitations, has gone with both increases and cuts and in this case went for a cut for the reasons we gave last year in the program.

CAPITATION AS PERCENTAGE OF SCHOOL BUDGETS

Mr. MICHEL. Did the Administration give any consideration to the havoc this rescission would pose for the medical school budgets?

Dr. FOLEY. It did in the following way, that we have looked at the percentage of capitation that goes into the budget for the health professions schools. As I indicated, it is six to eight percent in most of the schools.

Mr. MICHEL. Six——

Dr. FOLEY. Six to eight percent of the total budget. We looked at the approach that happened last year as the cuts occurred here, first in the first rescission and the cut in capitation for the next year's budget. In some States we did see the chairman and deans go back to their State budget committees and in other States, as Mr. Early indicated, that did not happen. And there were some increases; for example, in Indiana, the dean had to obtain funds from the State legislature.

We are also aware in discussion with some of the deans they have prepared two alternate budgets in the last couple of years, one with the assumption and one without the assumption that they would get capitation. Our sense is we have not seen the kind of disruption we were all concerned about, not only last year but the year before.

In fact, due to the inflationary increase that has gone on in terms of medical education, the budget officers have had to obtain other resources anyway because either capitation remained stable or was decreasing. So our sense is that we are not going to see an impact with regard to the total package of the education the students are receiving or the quality of the education.

No one has yet come back to me in my own staff or in the field and has said that in either case the level of the students competing for entry into medical school will be decreased or that the quality of that education will be decreased.

Mr. MICHEL. You mentioned a six to eight percent factor, as an average.

Dr. FOLEY. The average is about eight percent.

Mr. MICHEL. But there is a great disparity between the case cited by Mr. Early, for example, Georgetown, or the University of Illinois, a State institution, right?

Dr. FOLEY. In some of the private universities it could be a greater proportion compared to State universities such as Illinois or UCLA, in California.

Mr. MICHEL. Yes.

STUDENT LOANS

Now regarding student loans, your rescission would cut the number receiving loans in half, leaving only the revolving fund right?

Dr. FOLEY. It would leave the revolving fund.

Mr. MICHEL. Would this have the effect of denying loans then to students receiving such loans and relying on a continuation of such loans to finish their education?

Dr. FOLEY. I was mentioning to the chairman I think that the budget narrative here is not as exact as it should be. I asked my staff the same question. It would appear that 13,000 being talked about as "terminated" are those who do not have loans at this point in time but would be seeking such next school year.

The truth and accuracy of the matter is we do not know exactly the dollar-for-dollar trade that comes back to the revolving fund that the school's financial officer might free up for those students who got loans last year, plus the new students he would expect to provide loans for in September of 1980. So while it is not an exact dollar-for-dollar trade coming back into the revolving fund to pay for those students that got loans beginning September 1979, we do not think the impact is going to result in the termination of 13,000 loans for students currently receiving them.

Mr. MICHEL. How many students currently receiving these loans will still be in school next fall?

Dr. FOLEY. Of the total pool—is that what you asked?

Mr. MICHEL. Yes.

Dr. WHITESIDE. We would figure $\frac{3}{4}$ of them would still be in school. If you distribute it across the four classes, one class would graduate, so about $\frac{3}{4}$ would continue in school.

Mr. MICHEL. Is there sufficient room in both the HEAL and direct loan program to provide loans for all those nearly 14,000 students who would not receive health professional loans if your recession were adopted?

Dr. FOLEY. We estimate that there is. Of course, the HEAL program will clearly carry a higher interest rate compared to the revolving student loan program, which is 7 percent, the HEAL program would be 12.

Mr. MICHEL. Right.

PROPOSED REVISIONS IN STUDENT LOAN PROGRAM

Now, the Administration is proposing that the direct loan program be restructured to focus more on the low-income families. So presumably a number of middle-income students currently receiving health professions loans would not be eligible for that program, is that right?

Dr. FOLEY. Are you referring to proposed legislation?

Mr. MICHEL. Well, are they not—

Dr. FOLEY. We have not submitted—you are providing me with some new information. I have been involved in the drafting of legislation. It is a new concept to me.

Mr. MICHEL. Is there not some proposed legislation for the direct loan program?

Dr. FOLEY. Under the Department of Education?

Mr. MICHEL. Yes.

Dr. FOLEY. Yes, there is.

I am sorry to say that I have not been informed yet on how that is going to be arranged and the time and manner the HEAL program, is supposed to come back under the administration of HRA. I have not been made privy to that.

I will be glad to ask the Department and submit it for the record.
[The information follows:]

TRANSFER OF THE HEALTH EDUCATION ASSISTANCE LOAN (HEAL) PROGRAM

At the time the hearing record was printed, the details of the transfer of the HEAL program to the Health Resources Administration had not been finalized.

HEAL PROGRAM

Mr. MICHEL. Last year the Administration admitted that the HEAL program was a lousy program; maybe that is not the term, but there was a clear implication it was less than admirable.

Dr. FOLEY. Very troublesome.

Mr. MICHEL. Yes, and that it needed restructuring.

Has any restructuring been undertaken?

Dr. FOLEY. We are considering in our proposal and discussion with the OMB a different approach in relationship to the HEAL program. We are aware that there are proposals up here in the Congress to address that as well. We think there are some problems with it. We are reassessing basically our whole student assistance loan type of activities.

Mr. MICHEL. How many students do we have currently receiving HEAL loans?

Dr. FOLEY. We estimate in 1981, there will be approximately 6,000 students. Currently this year 5,000 students will receive HEAL loans.

Mr. MICHEL. And why do you predict that increase between 1980 and 1981?

Dr. FOLEY. Let me correct that.

Our estimate for 1980 is 5,000 students. The actual for 1979 was 1,152.

Mr. MICHEL. That is—

Dr. FOLEY. Quite different.

Mr. MICHEL. Yes. So you are projecting 5,000 for 1980 and 6,000 for 1981?

Dr. FOLEY. That is correct.

Mr. MICHEL. And the current interest rate for these loans is what?

Dr. FOLEY. I believe it is now at 12 percent.

Mr. MICHEL. Do you show a projection for next year, what it might be?

Mr. FORBUSH. Current statutory ceiling is 12 percent.

Dr. FOLEY. So a student would have to borrow elsewhere.

Mr. MICHEL. The statutory figure is a ceiling?

Mr. FORBUSH. Right. In this new bill, one of the things we are considering is taking off that ceiling and relating it to some Treasury bill rate or something of that sort.

Mr. MICHEL. Okay.

That is all, Mr. Chairman.

Mr. NATCHER. Mr. Patten.

RESCISSIONS AND ECONOMIZING

Mr. PATTEN. Would you tell me where in my book is what you are talking about? What page?

Mr. FORBUSH. Under the yellow tab, rescissions.

Mr. PATTEN. All right, I will find it.

You know, Doctor, you are no doubt an educated, intelligent man. I have no doubt you will be a good administrator. I have to take seriously your coming here. I do not take it lightly at all.

I would love to get up before the full Appropriations Committee, and let's say they had a big pair of scissors, and then go back to my people who are struggling to go to the factories every day, and they are paying the bill, I could make a big hit if I could go back and say, we cut 10 million, billion, what the hell, we do not talk millions any more. It is billions. I think that is number one. 85 percent of my people are up against a bind. I do not have to repeat that so the reference here to a cut, I would really love to make a showing, I would be a hero. I would look good back home.

But this morning I was not ready for this. This is like throwing a pail of water in my face, because I wanted to be a doctor, but I went to the copper works, made 50 cents an hour; there was no chance for me to become a doctor when I got out of high school, no way.

I saw in these last few years, friends of mine told me they paid thousands of dollars to get into a Mexican school and they have to agree now to put in two years of social service or they will not give them their degrees.

I had to sweat with fellows that went back to Italy—he said the old man had a bank account and they could get a little money in Italy; they went back to Italy to go to school, tried to go to Switzerland. We steered fellows to go to an English school in Hong Kong. Did you ever do that? We worked that angle. The fellows wanted to go to medical school, could not get admitted, no room for them. That has been my background.

In my hospital at this minute, I do not have an American-born citizen. I say this in a complimentary way—I am not derogatory. Thank God they are there. Every intern of mine is out of the Philippines or elsewhere, in my Perth Amboy hospital, which I think is a great hospital, beautiful. I was up there Sunday. We had dedication of an addition. Every intern, every doctor there, is from the Far East I think, every one. We cannot get a fellow like you to come and be an intern in our hospital for a reason. Research, one thing or another; we do not attract them. It has been bad.

So you are asking to cut back on doctors: that really is a shock. I am going to try to listen and give it some thought and talk it over with others. But based on my background, we cannot get a doctor in my town. They all take off on Wednesday. I could die, you cannot get a doctor. They go to the racetrack. They go fishing. They get independent.

They are greta guys, I know them all, I love them. Some of them kill themselves, they work so hard, that is the truth. Money is not the important thing. They are dedicated.

I see surgeons in my hospital at 7 a.m. He does not care about money or a Cadillac, he is dedicated, he lives his profession, 24 hours a day. His wife and family are ignored. He is dedicated. You would love them. They are rendering a service. But the picture has changed.

In our area we have just been short of doctors. The rest of my crowd all fled Hitler. The State wants to say they could not practice in the State unless they were United States citizens and they had to live in New Jersey 5 years. We did everything under the sun to keep them out. They are the backbone of service to my people.

Dr. Fredericks fled Hitler, Dr. Baum fled Hitler. His people were burned at Auschwitz. But this was a period of hate. Yet they are the backbone of the people who serve my area. I would say $\frac{2}{3}$ fled Austria, Germany, Poland. We threw every obstacle in their way, e.g. about living in the State 5 years.

So where a fellow wants to cut, I would like to rescind about \$10 billion, but I have a confrontation here this morning because I am not in agreement with your reasons. I do not know where else it applies.

STATE REQUIREMENTS FOR SERVICE

Dr. FOLEY. You have performed excellent advocacy for your constituents and made sure that physicians could basically practice in New Jersey. We are not recommending a cut in the number of physicians. We are recommending a cut in a program—and we have been looking at the training of physicians on a State-by-State basis, those States that are contributing a great deal of money to the training of physicians in their State medical schools. In the New York situation, eight of those schools are paid heavily by the State of New York by means of their capitation, State capitation.

We are looking at those States putting in service requirements—they are doing that legislature-by-legislature, saying that if the taxpayer is putting up this kind of money for the training of the highest-paid professional group in the country, a group that will have a tremendous net return on their education within two or three years after they graduate, that there ought to be some kind of service payback for that kind of obligation. I think New Jersey can look at that carefully.

Mr. PATTEN. That is what Mexico does, they will not give them two years unless they put in two years.

Dr. FOLEY. We will not have a net loss of physicians in this country. We are seeing the same level of applications to the number of slots that we have in the medical schools, 2.5 applications for every 1 slot; applications are not going down, they are increasing.

The difficulty is not a question of having an adequate supply; we will have that. The question is whether those students who are trained in our State and private medical schools supported by State dollars will end up practicing in your State or New York City or in Chicago or Detroit. Each State is basically contributing to the education of those students, and we are asking the States in a cooperative way to look at that fairly carefully.

I can report to you that 37 of the 50 States in fact have moved to some kind of service requirement for those students who receive financial support through either the State or a private medical system that gets State funds.

CONSTRUCTION AND CAPITATION

Mr. PATTEN. Doctor, I want to tell you this. In the 200 years of history of New Jersey we never built a medical school. In the twenties or forties, New Jersey never had a medical school.

When I came down here I couldn't wait to pass these bills to help them build a steel and concrete school. When I got \$16 million to build a school at Rutgers I was happy. Now I see a medical school, a dental college, a pharmacy school, and I am proud of it. Everybody tells me it is a good investment.

Dr. FOLEY. I would agree. I think you have built the capacity in New Jersey as other Congressmen have and we are now producing physicians and pharmacists and we will go on producing them.

The question of the linkage to capitation is not going to impact on that basic construction and implementation of health professions education through Rutgers or through Tufts or any of the schools that you and your colleagues have appropriately built in this country.

It is just a question now of why use this particular capitation mechanism to pay for support to the educational establishment?

Mr. PATTEN. Mr. Chairman, you know what I am saying. Now, of all the areas that I would like to see rescissions in, you kind of hit me hard. This is the first confrontation I had on something which I felt was so good for the people.

I tell you my own situation in my hospital, you get on a telephone, 67 interns, two-thirds of my doctors fled Hitler. If it wasn't for the foreign doctors, we would have no service. It is funny. Joe Early is not shallow on this subject. Joe knows what he is talking about. I can't absorb it, as much as the respect I happen to have for you, and I certainly would like to know what others think, the director of my medical school or some of the other doctors in Newark.

Of all the areas I would like to cut—I would have no trouble cutting a hundred million in a lot of areas—with glee, but here you are hurting me.

Mr. NATCHER. Mr. O'Brien.

Mr. O'BRIEN. If I were a school and I were faced with the rescission of the funds appropriated three months ago by the Congress and the President, I would think you could use an argument of estoppel between the parties, when one party is good faith and reliance on reputations made by another—it is sort of an affirmative defense; you are held to that commitment.

I don't know that is a question and I am not sure I should be levelling it at you but I think you are offering this program, and I think that is a disservice to a medical school.

SCHOOLS OF PUBLIC HEALTH

With regard to the 21 Public Health schools, would you suggest that they get consideration and one of the substantial factors is that the people getting out of there have to make a commitment to public service?

Dr. FOLEY. Yes, Mr. O'Brien. As we have talked about in previous years, we have zero based budgeting and under that system I argued very hard and forcefully against a cut in capitation in this fiscal year and this committee last year made that same decision, as you recall.

This was one area that was separated out from other capitation programs because the students in fact do end up in great numbers in public service and providing public health services to the population.

In the first round of zero based budgeting that argument was listened to, at least at the Public Health Service level; then in the second round, that was thrown out.

As the chairman was informed and as I was informed in another hearing at 1:30 yesterday, a lightning bolt of illumination hit the Office of Management and Budget, and they have agreed with us and you that that item should be basic and restored; and that should not be cut for the very logic that we gave to the committee this past year and is clearly in our proposal this year.

Mr. O'BRIEN. Do you suppose an applicant to Loyola Medical School in Chicago who was aware of this would be willing to have the school make a representation to the government that he would give a couple of years of public service if they were allowed to go to that school and enjoy financial support?

Dr. FOLEY. A student in Public Health or even one from the other health professions schools.

Mr. O'BRIEN. Perhaps I don't understand but in the Public Health school you give a commitment.

Dr. FOLEY. Basically the type of work itself is a commitment. There are types of programs in schools of Public Health where a student does say up front he is going to work in a State in public health activities such as sanitation or the immunization of populations. By and large, it is the very training they are obtaining that determines that they will basically serve in the public sector, either in the governmental process of providing public health services to populations or in the university system teaching.

Almost 85 percent of that total graduating class goes into those particular fields. About 15 percent may go into industrial and occupational health and safety in the private sector.

STUDENT LOANS

Mr. O'BRIEN. One other point I would like to make relative to that student loans rescission of \$16.5 million, I conclude it is expected that the Health Education Assistance programs will pick up those and isn't it unrealistic to think that is going to be much help when that would be administered by the Department of Education?

I understand the total budget for education loans will be \$300 million less. It seems to me that is an easy way of avoiding saying there is going to be ferocious competition.

Dr. FOLEY. In view of the Congress' decision about the Department of Education, we expect that the HEAL program will come back to the Health and Human Services Department explicitly under HRA. We have been told that approximately \$48 million will be there for insured loans for 6,000 students as I mentioned to Mr. Michel earlier.

The mechanics of that transition are still being worked out and I am not privy at this point to when it is finally going to be achieved. The staff positions were transferred over to the Department of Education as well. So they will have to be transferred back so we will be able to make the loans to the students.

Mr. O'BRIEN. Thank you, Doctor. Thank you, Mr. Chairman.

Mr. NATCHER. Mr. Pursell.

DISRUPTIVE EFFECT ON SCHOOL BUDGET

Mr. PURSELL. Dr. Foley, from a planning standpoint, many of the committee members have noted that this rescission request is in the middle of the contractual negotiations of most universities and schools involved in the capitation program.

Current approval of your rescission request would cause havoc, destruction and would be so disruptive that, in my opinion, it would result in the same kind of unfortunate cycle that many schools went through last year. When the decision is made in midyear there is no possibility for universities to backtrack and look for other funding sources. Perhaps out in the Far West things are somewhat different, but in Michigan and some of our eastern schools these budgets are already in place, the legislative budgets are in place, loan monies have been committed and our budget is in place.

LEGISLATIVE PROPOSAL

Yesterday Secretary Harris claimed that you are developing a new manpower program. Could you outline what the timetable is so we can get some consistency in planning, since we have, as Congressman Early points out, an agreement to phase down this program 20 percent each year until we have a new proposal which I understand is not yet fully formulated at this time.

Dr. FOLEY. Mr. Pursell, before I do, could I clarify one of the points with regard to the cut in capitation? As Dr. Whiteside outlined the grant cycle, the cuts we are talking about would occur at the August-September granting of capitation for the next academic year or September of '80-81.

So that legislatures that have just gone into session—

Mr. PURSELL. This rescission affects this year's fiscal budget, does it not, it affects this Federal budget but the impact on the schools themselves isn't felt until the September 1980-81 budget cycle?

That is my point. How can we do that without seeing the new plan and having some congressional compromise with the administration?

Dr. FOLEY. Let me briefly go into the general overview of what has been agreed on in the Administration so far although the specifics have not yet been finally determined.

Mr. PURSELL. When do you plan to have that proposal for us?

Dr. FOLEY. I have been informed that the White House and the Domestic Council will probably have a decision in a month to month and a half.

Mr. PURSELL. What date are you talking about now.

Dr. FOLEY. March. The proposal just left the Department this past week to the Office of Management and Budget and will take some consideration.

Mr. PURSELL. I think you ought to check the committee record; yesterday, Secretary Harris said February.

Mr. FORBUSH. That is right, Mr. Pursell.

Mr. PURSELL. I had heard rumors that it would be in March but she testified yesterday on the record that the proposal would be before the authorization committee this month, February.

Mr. FORBUSH. We are doing our best to accelerate the review. I don't see why it would take a month for the Domestic Council to review it.

Dr. FOLEY. We have hearings before the authorization committee on February 17, I believe.

Mr. FORBUSH. That sounds right.

Dr. FOLEY. So approximately the middle of the month. As you can recognize we would like to have that bill up here so we can be talking about a specific bill. I believe that the Senate is planning to schedule the hearings in the first week in March on Health Professions Education.

The general parameters that are clear already, from the budget the President has submitted to you for FY '81, are certainly a continuation and expansion for training of primary care and family medicine physicians, approximately a \$17 million increase in that particular area and an increase in National Health Services Corps scholarships programs, and an increase in Nurse Practitioners, a continuation of financial distress funding for medical schools that run into difficulty, a continuation of the financial aid scholarship for the first year and then also the disadvantaged assistance program for the recruitment and retention of minorities. Other aspects are still being worked out with the OMB.

Mr. PURSELL. You have put us in a block of attempting to make a decision on rescission without having viewed your plan and thus, from a timing standpoint, I must be extremely critical of the incompetent job of long-range planning.

We have been talking about this proposal for the last two years yet, here we are back to square one on the same problem we had in testimony before this committee over a year ago. We still haven't seen a proposal. It makes it absolutely impossible for the schools to set financial plans and commitments that affect both the schools and faculties.

SCHOOLS OF PUBLIC HEALTH

The University of Michigan School of Public Health has about 100 faculty members involved—contracts already signed—and about 700 students.

Dr. FOLEY. In the School of Public Health.

Mr. PURSELL. Yes.

Dr. FOLEY. We are exempting the Schools of Public Health from the capitation cut. We are including Schools of Public Health in our request for financial support next year.

Clearly we will not include capitation in this year's legislative proposal to the authorization committee. We are not going to come back to you after asking you to cut capitation and submit a capitation proposal for the other schools for fiscal year 1981. That is clearly not in our proposal.

Mr. PURSELL. Some of us who spent many hours trying to help nursing and similar programs over the years feel very unhappy to see OMB make this power play. They work in their nice ivory towers and are not accountable to the public. They do not even testify before our committee.

With all due respect to Dr. Foley and others who are endeavoring to develop a new plan even though the time is late, I must repeat it is

unfortunate that some Administration people are exempt from public scrutiny and cross-examination on a very important matter that not merely affects this committee but the people of the United States as well.

Thank you.

Mr. NATCHER. I do yield to Mr. Early.

EFFECTS OF RESCISSION ON ENROLLMENT

Mr. EARLY. In answer to Mr. Michel and Mr. Patten you said it wouldn't be a disruption of enrollment. There is no way that is going to happen because there are thousands of people trying to get in.

My comment is that it is going to be a disruption of integrity, a disruption of medical schools being available to all Americans. It is going to be a disruption of principle. It is going to be a disruption of responsibility.

In my medical school in Massachusetts, 1100 apply. The selection committee screens them. If we do away with that loan program, then that middle-class that might be from 50 to 150 accepted, don't go. That is where the disruption is. It is going to be a tremendous disruption as far as making medical school available to all people.

The rich are going to get in. Enrollments will stay at 100 but it will be either the very, very poor who get Federal aid or the very, very rich. That is not going in the right direction.

Do you suspect there will be any disruption?

Dr. FOLEY. I would sense from what we have looked at that students in the middle group that you are referring to will have to more greatly rely on loans from the banks, other loan programs, other service programs.

We will in fact see a split in which the very wealthy and the very poor have access to medical schools and the middle-class will have to rely much more on private financing than they have in the past.

Mr. EARLY. The interest is 12 percent compounded semi-annually.

Dr. FOLEY. I am sorry, but I did not hear you.

Mr. EARLY. It is 12 percent compounded semiannually.

Dr. FOLEY. Yes.

Mr. EARLY. Your testimony was if someone borrowed \$8,000 a year for four years he would pay back \$148,000 over the 10 year program.

Dr. FOLEY. Yes.

Mr. EARLY. It is only available to 50 percent of the class according to the information we had last year.

Dr. FOLEY. Yes, 50 percent of the MOD students.

Mr. EARLY. Last year we had an exchange there was a rule that you couldn't take advantage of one of the loan programs?

Dr. FOLEY. Yes. I think we had this question about whether a student would be excluded from support due to his previous involvement in other programs providing financial support. We did make the recommendation that he not be excluded. We would have to check on whether our recommendation has been effected. I would be glad to. The response I got back was that the exclusion had been changed, but I will check.

[The information follows:]

STUDENT LOAN PROHIBITION

The Health Education Assistance Loan program prohibits concurrent receipt of funds under that program and the Guaranteed Student Loan Program. This is a statutory prohibition which appears in the HEAL legislative authority.

Mr. EARLY. Thank you, Mr. Chairman.

[The following questions were submitted to be answered for the record:]

STUDENT LOANS

Mr. Roybal: Has the HEAL (Health Education Assistance Loan) program gotten off the ground in all parts of the country? I know that in Southern California none of the medical schools were ready to participate in this program last year. Are things different this year?

Dr. Foley: Nationally, of the 321 schools which could participate in the HEAL program, 269 are participating. Of the 321 schools, 22 are in California. Twenty of those California schools are participating in the HEAL program. Of the twenty schools, fourteen are in Southern California. Out of the top five borrowing schools in the HEAL program, two are in California, one of which is in Southern California.

Mr. Roybal: What is the percentage rate that loans are made at under the HEAL program?

Dr. Foley: The maximum annual interest rate is 12%. Virtually all lenders are charging 12%.

Mr. Natcher: Is not the Loan Forgiveness program a much more cost-effective way to attract health professionals into underserved areas?

Dr. Foley: The Loan Repayment (Loan Forgiveness) program is more cost effective and this is one reason why the Administration has requested \$11.7 million in 1981 to continue this program for those individuals who agree to serve in the National Health Service Corps or the Indian Health Service.

Mr. Roybal: Which groups of students, I see from your statistics about 400, will be the ones affected by rescission of Health Professions Student Loans?

Dr. Foley: A rescission of \$16.5 million would affect an estimated 13,750 students from medicine, osteopathy, dentistry, optometry, pharmacy, podiatry and veterinary medicine by making it necessary for these students to seek alternate means of support. There is a revolving fund at the schools made up from collections on loans issued in earlier years. This fund is expected to have approximately \$16.0 million in 1980 and support 13,333 students. We expect the student aid officers to give preference to those students who are currently on loans, therefore ameliorating the impact of this rescission.

Mr. Natcher: Are there any other terms or conditions of the Health Professions Student Loan program affecting the repayment period?

Dr. Foley: Repayment of principal may be deferred up to three years for service as a member of a uniformed service on sustained full-time active duty in the Army, Navy, Air Force, Marine Corps, Coast Guard, National Oceanic and Atmospheric

Administration Corps, the Public Health Service, or as a volunteer under the Peace Corps Act.

If the borrower is pursuing advanced professional training, including internships and residencies, repayment of principal may be deferred until the advanced professional training is completed. Interest does not accrue during periods of deferment.

ELIGIBILITY FOR STUDENT LOANS

Mr. Natcher: Who is eligible to receive loans from the Health Professions Student Loan Fund?

Dr. Foley: Under the terms and conditions of the Health Professions Student Loan program, eligibility for loans extends to any citizen or national of the United States or anyone having such immigration status and personal plans that would justify the conclusion that the person intends to become a permanent resident of the United States, and who is enrolled, or accepted for enrollment as a full-time student in a course leading to a degree in medicine, osteopathy, dentistry, optometry, pharmacy, podiatry, or veterinary medicine, and who needs the loan to be able to pursue the course of study. Medical and osteopathy students must demonstrate exceptional financial need.

Mr. Natcher: What is the maximum amount of a Health Professions Student Loan for one year?

Dr. Foley: The maximum amount that may be borrowed each school year is the cost of tuition plus \$2,500.

Mr. Natcher: What is the interest rate on a Health Professions Student Loan?

Dr. Foley: The interest rate is now set at 7 percent per year.

Mr. Natcher: What is the length of time for repayment of a Health Professions Student Loan?

Dr. Foley: Loans are repayable to the school over a ten year period which begins one year after the student completes the degree program or otherwise ceases to pursue the prescribed full-time course of study. Interest begins to accrue at the time the loan becomes repayable.

Mr. Natcher: What are the terms and conditions of the Health Education Assistance Loan program?

Dr. Foley: The Health Education Assistance Loan (HEAL) program provides federally insured loans to graduate students in eligible schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, and pharmacy. Funds are provided by non-federal sources, including commercial lenders, educational institutions, State agencies, etc. Student loan amounts for veterinary medicine, optometry and podiatry students are at a maximum of \$10,000 a year or an aggregate of \$50,000.

Pharmacy students may borrow \$7,500 a year or a maximum aggregate of \$37,500 insurable loans. The program provides that in the case of loans to students in schools of medicine, osteopathy, and dentistry, the Secretary may increase the loan to \$15,000 per year and \$60,000 in the aggregate if she determines that the cost of education at the schools requires such increase over the normal maximum HEAL loan of \$10,000 a year or of \$50,000 aggregate. The maximum allowable interest rate is 12% and an insurance premium of up to 2% will be charged to student borrowers.

Repayment may be deferred for specific periods for full time study, service in the Armed Forces, Peace Corps, or other specific programs. Once repayment commences there is a maximum 15-year repayment period. Under certain circumstances, the Secretary may enter into an agreement with a HEAL borrower to repay a portion of the HEAL loans in return for service in a health manpower shortage area.

Mr. Natcher: How many Health Education Assistance Loans have been made? What is their dollar value?

Dr Foley: As of January 31, 1980, a total of 1,659 HEAL loans had been made totalling \$13,011,451.

COST OF SUPPORTING CORPS PHYSICIAN

Mr. Natcher: What is the total cost of supporting a physician in the National Health Service Corps after graduation from medical school?

Dr. Foley: A National Health Service Corps scholarship physician will cost the Federal Government an average of \$50,000 a year while serving in a health manpower shortage area in repayment of a scholarship obligation. This average is based on the 1980 cost for NHSC physicians salaries and benefits. The average cost also includes other assignee and site support costs such as travel, recruitment, placement, site development and start-up, and site operational assistance. The average cost does not include the cost of the scholarship award nor regional and central program management costs.

Mr. Natcher: How long is a Scholarship recipient obligated to serve in the Corps after graduation?

Dr. Foley: A Scholarship recipient is obligated to serve one year for every year of support, with a minimum obligation requirement of two years. The maximum number of years would be four years.

Mr. Natcher: The authorizing legislation for the programs we have been talking about expires at the end of the current fiscal year. What recommendations has the Administration made to Congress with respect to extending or revising the health professions education programs?

Dr. Foley: The Administration is currently reviewing the extension of the Health Professions Education and Nurse Training

legislation. Although no proposal has yet been submitted to the Congress, a proposal soon will be forthcoming.

Mr. Natcher: Why shouldn't we wait for the authorizing committees to review the authorizing legislation, rather than simply terminating these ongoing programs, as the rescission proposal suggests?

Dr. Foley: The authorizing committees are determining the funding levels for 1981 and beyond. With the economic pressures of today the Administration wants to reduce federal spending wherever it can while directing resources into higher priority programs.

RESCISSION

Mr. Natcher: Finally, do you have any idea why, out of a total 1980 budget of \$654 billion, the Administration has selected these two programs amounting to \$81 million and \$16.5 million for rescission?

Dr. Foley: Each program must be evaluated in its own merit and since there are other programs that could provide support to health professions students it was felt that these particular programs should be selected for rescission.

Mr. Natcher: Your justification indicates that health professions students can obtain support through the Health Education Loan program and the National Direct Loan program. Are you aware that the Administration proposes to eliminate the National Direct Loan program?

Dr. Foley: Although the Administration proposes to eliminate the National Direct Loan program. There is over \$400 million in its revolving funds for the 1981-1982 academic year. In addition, the Health Professions Student Loan program estimates a loan volume of \$48 million during fiscal year 1981.

SCHOOLS OF PUBLIC HEALTH

Mr. Pursell. The following is a quote from a letter I recently received from the School of Public Health in my State. Please give me your reaction to the points they have raised.

"The capitation grant in support of Schools of Public Health is only the current form of institutional support for these schools dating back more than 20 years. Originally, the schools received formula grant support recognizing their primary importance in creating health workers for the public sector. Over 90 percent of the graduates of Schools of Public Health, including ours, go into public sector employment at the local, state, and federal levels. Furthermore, graduates of these institutions do not receive the high levels of income enjoyed by fee-for service practitioners. Among the problems addressed by these graduates are the high costs of health care, the control of toxic environmental hazards to health, the development of improved vaccines for prevention of infectious diseases, the development and testing of intervention programs in the chronic disease field, the development and implementation of population planning programs, and the special health problems of mothers and children. Rescission of any of this capitation award would currently be disastrous to the University of Michigan School of Public Health. New hiring at the School of Public Health is presently frozen. The capitation grant provides basic support for operations of the School. Any loss of these funds would create severe dislocation and hardship. Since roughly 30 percent of our graduates go into federal service (a figure that is duplicated nationwide) it seems only fair that federal government should pay its share of this expense. In fact, our capitation award stands at less than half this percentage. Any reduction would be, under the circumstances, unconscionable."

Dr. Foley. In proposing the 1980 Rescission for the Health Resources Administration's programs, the Administration inadvertently included capitation for the Schools of Public Health under the broader Health Profession Capitation rescission proposal. Last year when the Administration requested a rescission for the Health Professions Capitation program, it did not include public health programs; therefore, the withdrawal of Public Health programs from the capitation rescission request is consistent with previous policy.

One of the Department's key health initiatives is health promotion. The Public Health program provides support in this key area by training public health personnel in the fields of environment and occupation health; health administration, health planning, health policy analysis and planning; and dietetics and nutrition. In support of this goal, the administration has prepared and sent forward an amendment to the 1980 rescission budget restoring the \$6,450,000 for capitation to the schools of Public Health in fiscal year 1980.

JUSTIFICATION OF THE BUDGET ESTIMATES

DEPARTMENT OF HEALTH AND HUMAN SERVICES

HEALTH RESOURCES ADMINISTRATION

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Appropriation Estimate

: Health Resources

Of the funds provided for "Health resources" for fiscal year 1980 in Public Law 96-123, Making Further Continuing Appropriations for the Fiscal Year 1980, \$97,768,000 are rescinded.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Health Resources

Amounts Available for Obligation ^{1/}

Appropriation.....	\$688,202,000
Real transfer from:	
"Payments of Sales Insufficiencies and Interest Losses" for October 1979 pay raise costs.....	1,951,000
Comparative transfers to:	
"Office of the Secretary, Departmental Management" for the development of a new grant and accounting system.....	-20,741
"Office of the Secretary, Departmental Management", one position for equal employment opportunity investigations..	-35,125
"Office of the Assistant Secretary for Health", nine positions for the Chief Dental Officer's staff.....	-250,000
"Health Services Administration", four positions related to students and faculty of the Uniformed Services University of the Health Sciences.....	<u>-117,000</u>
Subtotal, budget authority.....	689,730,134
Unobligated balance, start of year.....	3,764,526
Unobligated balance, end of year.....	<u>-203,820</u>
Subtotal.....	693,290,840
Less proposed rescission.....	<u>-97,768,000</u>
Total obligations.....	595,522,840

^{1/} Excludes \$3,520,000 and 29 positions for reimbursement activities carried out by this account. Excludes a proposed supplemental of \$2,400,000 for Health Professions financial distress.

Budget Authority by Activity

Page Ref.	1980					
	Presently Available		Revised Estimate		Proposed Rescission	
	Pos. *	Amount	Pos. *	Amount	Pos. *	Amount
	Health pro- fessions educa- tion:					
	Health pro- fessions:					
	(1) Institu- tional assist- ance:					
	Capitation....	--- \$87,718,000	---	\$6,450,000	---	-\$81,268,000
	(2) Student assistance:					
	Loans.....	--- 16,500,000	---		---	-16,500,000
	Items not affected by rescission....1194 585,512,134 1194 585,512,134 --- ---					
	(obligations)....	(589,072,840)	(589,072,840)			(---
	Total budget					
	authority.....1194	689,730,134	1194	591,962,134	---	-97,768,000
	(obligations)..	(693,290,840)	(595,522,840)			(-97,768,000)

* Positions shown in this schedule do not include the 29 reimbursable positions.

Budget Authority by Object			
	1980		Increase or Decrease
	Presently Available	Revised Estimate	
Total number of permanent positions.	1,194	1,194	---
Full-time equivalent of all other positions.....	126	126	---
Total compensable work-years.....	1,294	1,294	---
Personnel compensation:			
Permanent positions.....	\$28,297,000	\$28,297,000	---
Positions other than permanent....	1,611,000	1,611,000	---
Other personnel compensation.....	371,000	371,000	---
Military personnel.....	2,486,000	2,486,000	---
Subtotal, personnel compensation	32,765,000	32,765,000	---
Personnel benefits:			
civilian.....	2,643,134	2,643,134	---
Military.....	724,000	724,000	---
Travel & transportation of persons..	1,284,000	1,284,000	---
Transportation of things.....	46,000	46,000	---
Rent, communications & utilities....	1,610,000	1,610,000	---
Standard level user charges.....	2,186,000	2,186,000	---
Printing and reproduction.....	1,162,000	1,162,000	---
Other services.....	3,176,000	3,176,000	---
Project contracts.....	31,900,000	31,900,000	---
Supplies and materials.....	511,000	511,000	---
Equipment.....	570,000	570,000	---
Investment and loans.....	30,000,000	13,500,000	-16,500,000
Grants, subsidies & contributions... (obligations).....	581,153,000 (584,713,706)	499,885,000 (503,445,706)	-81,268,000 (-31,268,000)
Total budget authority by object.. (obligations).....	689,730,134 (693,290,840)	591,962,134 (595,522,840)	-97,768,000 (-97,768,000)

Health Professions Capitation

(Title VII Section 770 of the PHS Act)

	1980 Presently Available	1980 Revised Estimate	Proposed Rescission
Health Professions Capitation.....	\$87,718,000	\$6,450,000	-\$81,268,000

Purpose and method of operations

Health Professions Capitation grants provide Federal financial support to health professions schools to assist them in meeting the costs of their educational programs in return for efforts to meet National Health Manpower needs including the maintenance or expansion of their training capacity; increased emphasis on training for the delivery of primary care; and training in medically underserved areas. These grants serve as a vehicle for maintaining or increasing enrollments and for altering specialty and geographic distribution patterns. These financial incentive grants are awarded according to a formula established in the legislation; medical schools are required to meet specified percentages of filled first-year residency positions in direct or affiliated residency training programs in primary care. Participating schools are also required to maintain the level of non-federal expenditures that existed in the preceding year.

Rationale for the Budget Request

The capitation program has been successful in meeting its original objective - the expansion of health professional enrollment. Since 1963, the first-year enrollment in medical and osteopathic schools has grown from 9,200 to 17,500. Because of increased educational capacity developed during these years, the number of physicians has increased by 110,400 since 1970. Currently (1979), we have 433,600 physicians as compared to 323,200 in 1970. The current physician to population ratio is 192 per 100,000 people and is expected to increase to 242 per 100,000 by 1990. At current educational capacity, indicators point to a possible oversupply of physicians by 1990.

Consequently, we are now at the point at which we need to remove incentives for unwarranted growth in the aggregate supply of health professionals.

In recognition of the successful enrollment expansion and the subsequent rise in graduates, Federal concern has shifted from the problems of achieving aggregate numerical adequacy of manpower nationally to the

problems of improving geographic and specialty distribution, increasing the efficiency of the delivery of services, and stabilizing the costs of the services provided. The current capitation program for MOD/VOPP schools does not impact directly on these problems. Also, evidence suggests that the support of targeted education programs represents a more effective mechanism to reach such objectives and the Department continues to support those activities that most efficiently and effectively influence graduate training such as Primary Care and Family Medicine.

Therefore, a rescission request of \$81,268,000 is proposed for the Capitation program for fiscal year 1980.

HEALTH PROFESSIONS CAPITATION

Discipline	Amount of Awards	Average Amt.Per Student	No. of Schls	Participating Enrollmnt	Authorized Amount	
					Per Student	Authorization
FY 1980						
Rev.(est.)	\$6,450,000	\$926	21	6,958	1/	\$241,254,000
(MOD).....					(2,100)	(196,470,000)
Medicine...					2,100	139,400,000
Osteopathy					2,100	10,160,000
Dentistry...					2,100	46,910,000
(VOFP).....					(969)	(33,724,000)
Veterinary						
Medicine					1,450	10,705,000
Optometry..					765	3,366,000
Podiatry...					965	2,285,000
Pharmacy...					695	17,368,000
(Public Health)..	(6,450,000)	(926)	(21)	(6,958)	(1,400)	(11,060,000)
FY 1980 Currently						
Available	\$87,718,000	\$637	321	137,548	1/	\$241,254,000
(MOD).....	(69,748,000)	(784)	(189)	(88,861)	(2,100)	(196,470,000)
Medicine...	49,679,000	784	122	63,292	2,100	139,400,000
Osteopathy	3,872,000	784	14	4,933	2,100	10,160,000
Dentistry..	16,197,000	784	53	20,636	2,100	46,910,000
(VOFP).....	(11,520,000)	(276)	(111)	(41,729)	(969)	(33,724,000)
Veterinary						
Medicine	3,600,000	466	25	7,725	1,450	10,705,000
Optometry..	1,058,000	246	13	4,305	765	3,366,000
Podiatry...	812,000	310	5	2,617	965	2,285,000
Pharmacy...	6,050,000	223	68	27,082	695	17,368,000
(Public Health)..	(6,450,000)	(926)	(21)	(6,958)	(1,400)	(11,060,000)

1/ Does not include authorization increases for bonus students, graduates, physician assistants and dental therapists, where appropriate.

Health Professions Student Loans
(Title VII Section 742 of the PHS Act)

	1980 Presently Available	1980 Revised Estimate	Proposed Rescission
Health Professions Student Loans.....	\$16,500,000	--	-\$16,500,000

Purpose and method of operations

The health professions loan program authorized long-term, seven percent interest loans of up to \$2,500 per year, plus tuition, to health professions students (MOD/VOPP). These loan funds are given to schools who in turn make awards to students with limited financial resources and who otherwise would not have been able to afford a health professions career. Students of medicine and osteopathy are eligible only if they demonstrate exceptional financial need.

Rationale for the Budget Request

Since 1965, this program has assisted approximately 332,000 students. The Health Education Assistance Loan program (HEAL) administered by HRA and the National Direct Student Loan program administered by the Department of Education, will be a replacement source of financial support for these students in fiscal year 1981; therefore no new funds are requested for this direct loan program.

Loan funds will continue to be available from the revolving funds previously established in the schools. Additional sources of student assistance include the NHSC Scholarship program (which received a \$10,000,000 increase in 1980) and the Health Education Assistance Loan program which is expected to insure 3,848 additional loans in 1980 over the 1979 volume.

	<u>1980 Estimate</u>	<u>1980 Rev. Estimate</u>
<u>Student Loans</u>		
Program Amount.....	\$16,500,000	--
Number of Schools Participating.	304	--
Number of Students Assisted....	13,750	--
<u>Revolving Funds</u>		
Amount available in the schools	\$16,000,000	\$16,000,000
Number of students assisted....	13,333	13,333

The following statements were submitted by Members of Congress and interested organizations.



STATEMENT OF THE
ASSOCIATION OF AMERICAN MEDICAL COLLEGES
ON THE PRESIDENT'S PROPOSED FY 1980 RESCISSION*

The Association of American Medical Colleges would like to make a matter of record its strong opposition to the President's proposed rescission of FY 1980 Capitation and Health Profession Student Loan (HPSL) funds, now before the Subcommittee on Labor-HEW of the House Appropriations Committee. As the representative of this nation's 126 medical schools, the Association feels compelled to convey to the members of the Subcommittee the importance of these funds to the operation of these schools and to the education of their students.

In discharging its responsibility to give thoughtful consideration to the President's rescission message, the Congress in general and the Subcommittee in particular will indubitably be acutely aware of the history of the appropriations the President has asked be rescinded. Just about a year ago, President Carter sent a message to the Congress requesting, among other things, that all of the FY 1979 funds for Capitation and Health Professions Student Loans be rescinded. After a series of hearings and floor debates, and conferences, the Congress responded in late March of 1979 by reducing the FY 1979 capitation appropriation by 20% and the HPSL appropriation

* Submitted to the Labor-HEW Subcommittee of the House Appropriations Committee by John A. D. Cooper, M.D., President of the Association of American Medical Colleges, February 15, 1980.

not at all. At the same time that rescission of FY 1979 funds was under discussion and debate, the FY 1980 appropriations process was underway. At that time, the Appropriations Committees in both the House and Senate and subsequently the full Congress appropriated funds for both the Capitation program and the Health Professions Student Loan program, in spite of the President's FY 1980 budget request recommending no funding for these two programs. The FY 1980 budget was signed by the President less than three months ago.

While generally supportive of the President's efforts to reduce health care costs and control inflation, the Association is convinced that the circumstances surrounding the Congressional decisions made in October, 1979, have not changed sufficiently to warrant reconsideration of these issues for the third time in less than one year.

The impact of a rescission of FY 1980 funds on the medical schools of this country should not be overlooked. Based on faith and trust in Congressional commitments, most medical schools have already signed contracts with their faculties, fixed the number of students to be admitted in the fall, announced next year's tuition levels, made student financial aid commitments and reached many almost irrevocable program and curriculum decisions. These commitments were based on the confident expectation that funds appropriated just three months ago would, in fact, be available. Unanticipated reversal of a Federal commitment at this late date will cause enormous turmoil in the schools. Possible mechanisms for coping with the reduction include many undesirable alternatives: litigation between school and faculty; further tuition increases; expanded enrollment to increase income; and, diversion of faculty to increased service rather than academic functions.

The Health Professions Educational Assistance Act of 1976, (P.L. 94-484) the authorizing legislation for the Capitation and Health Professions Student Loan program, is scheduled to expire at the end of FY 1980. One bill (S.2144) to renew these authorities (in somewhat different form) has already been introduced and the policy issues are already being debated in both the public and private sector. The Association would urge that in view of the clear expression of its will on the appropriation of funds for FY 1980, the Congress confine further debate on the merits of these programs to the authorizing committees that consider the renewal legislation.

The Association's comments on the importance of these funds to the medical schools in this statement are brief because the germane arguments have been adequately articulated previously. The AAMC urges the Congress to recognize that the medical schools have fulfilled their commitments under the law and to reaffirm its promise for institutional and student assistance by not approving the President's rescission request.

THE ASSOCIATION OF AMERICAN VETERINARY MEDICAL COLLEGES

SUITE 828 - 1522 "K" STREET, N.W. - WASHINGTON, D.C. 20005

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STATEMENT OF
THE ASSOCIATION OF AMERICAN VETERINARY MEDICAL COLLEGES
BEFORE THE
SUBCOMMITTEE ON LABOR-HEW
HOUSE APPROPRIATIONS COMMITTEE
REGARDING THE PRESIDENT'S REQUEST FOR RESCISSION OF
APPROPRIATIONS FOR THE HEALTH RESOURCES ADMINISTRATION
FOR FISCAL YEAR 1980
FEBRUARY 7, 1980

The Association of American Veterinary Medical Colleges (AAVMC) is a non-profit organization whose members include all 24 schools and colleges of veterinary medicine in the United States. Three of the schools are parts of private institutions, and the remainder are in state universities. Schools are located in 23 states.

The AAVMC vigorously opposes the President's request for rescission of funds for capitation grants and Health Professions Student Loan (HPSL) program funds for fiscal year 1980. We urge you to reject this unfair and short-sighted recommendation in its entirety.

The Administration's suggestion that the fiscal year 1980 appropriation for capitation grants should be eliminated at this late date is unconscionable. Less than three months ago, Congress passed and the President signed an appropriations measure that settled on a level of funding. This level was

agreed to after months of deliberation by Congress. This level represents a reduction of 20% from the fiscal year 1979 appropriation, and a reduction of 40% from the fiscal 1978 level, for the schools of veterinary medicine, optometry, pharmacy, and podiatry (VOPP).

We were led to believe that there was an acquiescence by the Congress and the Administration in a plan to phase out capitation grants over a period of years. We objected strongly to this plan and still believe that capitation grants play an essential role in pursuing federal health manpower goals. However, any plan, even an ill-conceived one, is superior to the chaotic lack of stability evidenced by the President's rescission request.

This rescission request proposes the elimination of a program that has clearly been extremely successful. During the 1970's, federal assistance encouraged the opening of six new schools of veterinary medicine, a one-third increase. The federal institutional support has encouraged an increase in student enrollments of nearly 60% between 1969 and 1979.

We reject the notion that the capitation grant system has outlived its usefulness. No one can yet predict what effect abolishing capitation grants will have on the opening of new veterinary schools or the enrollments at veterinary schools. However, it is safe to assume that a number of schools will no longer increase enrollments, and some may reduce enrollments. Without capitation grants, there will clearly be some reduction in the opportunities for students to study veterinary medicine. And there is still a very strong interest in the profession; the schools receive more than four qualified applications for each slot, despite the rapid increases in enrollment.

The impact of withdrawing federal institutional support will probably affect the residents of states without schools most severely. States such as

Kentucky, New Jersey, and Wisconsin will find it increasingly difficult to persuade state-supported universities in other states to undertake the exceedingly expensive education of their students in veterinary medicine. Federal institutional support now encourages the states with veterinary schools to expand the enrollment of students from other states; without such federal encouragement, it will be extremely tempting for these states to limit enrollments to their taxpayers' children, who are students more likely to stay in the state to practice veterinary medicine.

Those students who do make it into veterinary school will also suffer from a rescission of capitation grants. The most obvious effect is the inevitable increase in tuition that some schools will be forced to make. A reduction in capitation at this time is more likely to have this impact than a reduction made with more warning. This is because many of the schools' other sources of funds are already "locked up." State budgets for academic year 1980-81 were completed months ago. Nongovernmental sources of funding have already made most, if not all, of their commitments for the coming year.

The other effect on students is less tangible but no less important. As Health Resources Administrator Henry Foley testified before the subcommittee on January 31, 1980, the health professions schools use the capitation funds to improve the quality of education of their students. In veterinary schools, the grants have been well spent on improving equipment, libraries, and other teaching resources. Without these funds, we will deprive students of important medical knowledge to some degree. In an era when the costs of health professionals are taking an alarmingly-high portion of the Gross National Product, it is extremely short-sighted to take any actions which

would impair the accuracy or efficiency of the professionals of tomorrow. We believe that a relatively small investment in improving a health professional's productivity will pay benefits in the form of reduced costs for years to come.

The request to rescind the appropriation of new funds for the Health Professions Student Loan (HPSL) fund is equally short-sighted. The costs of attending a school of veterinary medicine are comparable to those of attending a medical school. A recent survey conducted by the Student American Veterinary Medical Association found that the average cost of attending the required four years at a school of veterinary medicine ranged between a little over \$14,000 and over \$41,000. This survey was conducted before the opening of the Tufts University School of Veterinary Medicine last fall, which charges a tuition of \$15,000 per year (unless the student is subsidized by the state of his residence).

The students in schools and colleges of veterinary medicine do not come from economic backgrounds that can support educational costs of \$10,000, or even \$20,000, per year. The student survey found that over 70% of the veterinary students have or will have educational loans to repay when they graduate. Of these students with loans, the national average was nearly \$12,000 per student, but one school averaged over \$28,000 per student.

In another financial aid survey, it was found that the assistance provided by the HPSL program is extremely important. In a survey of 16 of the veterinary schools, 14 reported that they participate in the HPSL program and that on average, HPSL loans supplied 35% of the students' financial needs (i.e., 35% of the total scholarships and loans received by the students).

Any reduction in HPSL funds must be replaced, and there is little alternative other than the unconscionable Health Education Assistance Loan (HEAL) program. The HEAL loan is extremely burdensome for a veterinary student, because he has nothing near the income potential of his colleagues in human medicine. Starting salaries for 1979 graduates mostly ranged in the \$16,000 to \$19,000 area, with some as low as \$12,000 and as high as \$30,000, for private practice, industry, and government jobs. Students entering internships and residencies received salaries as low as \$8,000 per year, with most falling in the \$11,000 to \$14,000 range.

Obviously, recent graduates do not have incomes sufficient to repay substantial educational debts. And the long-term income potential is not very great, either. In a 1977 survey of its membership, the American Veterinary Medical Association found that average income was \$30,175 for private practitioners. But, significantly, the true "general practitioner," i.e., one with a mixed practice of treating large and small animals, had an average income of only \$26,458. Substantially higher averages were reported by practitioners specializing in companion animals, both pets and horses.

The HPSL program helps students substantially in keeping their educational debts at a manageable level. The larger the debts to repay, the greater the pressure on the student to specialize in the most lucrative field of practice. If more students become dependent on HEAL loans to complete their education, more of them will be forced to engage in companion animal medicine. Although companion animals play a very important role in maintaining both the physical and mental health of their owners (a role that is only beginning to be understood), we believe that the public welfare would be better served at this time by policies that encourage graduates of veterinary

schools to seek employment and experience without income being an overwhelming factor in the decision-making.

In summary, the schools of veterinary medicine and their students rely heavily on the limited federal financial assistance offered by the capitation grant program. Likewise, the HPSL program is essential in making the cost of veterinary education affordable for hundreds of students. Both the schools and the students have already made plans in reliance upon the levels of federal support contained in the fiscal year 1980 appropriations measure already passed by Congress and signed by the President. It would be extremely unfair to these students and schools and needlessly short-sighted and counter-productive federal policy to rescind these appropriations.

We strongly urge you to reject this rescission request outright. Thank you.

TESTIMONY
of
Representative John J. Cavanaugh

As this Committee is aware, less than a year ago the Congress approved a budget rescission in the area of health manpower programs for the very first time. For the second year in a row, this Committee has been presented a budget rescission request by the President in the area of Health Manpower programs. This request comes to you in less than three months after the President signed the appropriation legislation (PL 96-123). In the deliberations of a year ago, Congress communicated to the medical schools of America that Capitation funding would gradually phase out while other programs would be developed to meet the national health goals.

At that time I made my position well known. I feel that I must reiterate that position now in the hope of avoiding further reduction in previously appropriated funds for ongoing programs which will hinder the health educators of this nation from delivering quality education to future medical personnel and thus not be able to meet the needs and goals set by Congress.

The goals of Congress in providing Capitation grants were to a) increase enrollment b) maintain maximum federal effort and c) make plans for conducting programs responsive to national needs. This need prompted 92-157, Comprehensive Health Manpower Act of 1971. Capitation funds provide first dollar institutional support. With these funds the schools have increased enrollment, have maintained maximum federal effort and have conducted programs responsive to national need. Capitation is a program which works.

As of January, the Administration wishes to rescind \$97,768,000 for two Health Manpower programs, Health Profession Student loan program and

the Capitation program to schools of the health profession other than the schools of public health. The Administration reasons that the loan program doesn't require any service payback and that Capitation has not proven to be an "effective way of influencing speciality or geographic maldistribution."

Federal Capitation support makes up a minor part of the total revenues of schools of medicine, dentistry and veterinary medicine. When the program was initiated in 1972, schools of medicine recieved \$2,500 for each 1st, 2nd, and 3rd year student and \$4000 or more for each 4th year student. This amounted to about 20% of the National average cost of medical education. Currently, the schools receive approximately \$750 per student or 6-8% of the national average cost of medical education. A study by the General Accounting Office showed that in 1973-1974 Capitation grants were equivalent to 3.2% of the schools total revenue. For the school year 1975-1976 Capitation grants represented 2.2% of the total revenues of schools of medicine. The \$750 currently received is 30% of the original \$2,500 first awarded by Capitation gants. However, with inflation, the \$750 represents a significant decrease in actual buying power.

A large percentage of Capitation funds are used to cover personnel cost. Some examples from the 11 schools GAO studied are:

- 1) Salaries for 22 faculty members in five basic science and three clinical departments,
- 2) Partial salaries, equivalent to 25-35 full time faculty, for 110 members in 23 departments,

- 3) Partial salaries for faculty and staff in four basic science departments; 10 clinical departments, including the Department of Community and Family Medicine; and 7 administrative offices,
- 4) Salaries equivalent to 14 full time faculty members in basic science departments. (emphasis added)

Capitation funds are also used for curriculum improvement programs, innovative teaching programs and to assist in support for establishing new departments to promote training primary care physicians. According to the GAO report these funds are used for the following programs:

- designing interdisciplinary medical education programs to increase physicians' sensitivity with courses in human awareness, human sexuality, death and dying, and neural science;
- developing a new core curriculum course emphasizing the "team concept" of medical and nursing students as an introduction to medical ethics, cost containment, and medical sociology;
- developing learning resource centers, including multidisciplinary laboratories with cubicles for individual study and various audiovisual systems;
- developing family medicine model unit and satellite concepts;
- expanding preventive and community medicine departments;
- upgrading an ambulatory care program;
- developing indirect support for family practice program, emergency medicine program, and area health education centers; and
- purchasing additional library textbooks and materials needed because of substantial enrollment increases.

Since the program began significant results have been achieved, but the shortage of health manpower has not been eliminated. In Nebraska there are 1.36 physicians per 1000 population, while the national

average is 1.62 per 1,000. There is also an acute shortage in rural areas of Nebraska, where 37% of the population is served by 13% of the states' doctors. In Illinois in 1978, there were 3,570 RN positions unfilled with 74% of the Illinois hospitals reporting unfilled RN vacancies. The data indicates that there is no over-supply of health professionals.

The schools and the students who rely on these funds have already established their plans, programs, tuition levels, and budget for the Fall 1980 term. Admissions have been and are currently being made to Medical, Dental and Veterinary schools and teaching contracts have been signed based on the 1980 budget which was approved by this House and signed by the President this last November. We have not reduced the enrollment expansion requirement to be eligible for these funds. We have not increased the availability of loans to meet expected tuition increases. We have passed no program to meet the maldistribution of health professionals by specialty and geographical location. But the Administration asks these institutions and these students, with little or no time to adjust to seek other sources of funding or reduce enrollment, breach employment contracts, reduce program levels and reduce program expansion.

The Administration claims that rescission of the grants at this time will allow the state legislatures to make the appropriate budgeting changes. According to the GAO report, when Deans of 11 medical schools were asked if replacement of Capitation funding was feasible, the response was pessimistic. The Report gave the following examples to support the Dean's pessimism:

- Reduction by \$680,000 in the State general fund appropriation to the medical schools for the 1977-79 biennium.
- Refusal of the State Legislature to provide any increased level of continued funding for NIH grant programs which had expired.
- Proposed reduction in medical school funding from the University so that the University may reduce an \$8 million deficit.
- The State government's present financial condition.

The \$680,000 reduction made by one State Legislature is equal to or above the Capitation funds presently received by each of Nebraska's medical schools.

Officials from both public and private schools have expressed concern that a loss in Capitation funds would lower the quality of medical education and at the same time change socio-economic characteristics of the student body. The consequences of Capitation cutbacks are:

- 1) Program cutbacks
- 2) Faculty reduction
- 3) Reduced enrollment
- 4) Increased tuitions

The consequences of a rescission in Capitation funds to the MOD/VOPP schools nationally is impossible to predict. Some school may cut enrollments, some programs, others will reduce faculty and some may be forced to drastically raise tuition. What will be the long range repercussions of this rescission are also hard to predict. However, I can present a brief outline of the immediate repercussions of the two medical schools in Nebraska; one public and one private.

Creighton University School of Medicine receives \$482,700, and the University of Nebraska Medical School receives \$578,400 in Capitation funds.

The Chancellor of the University of Nebraska Medical Center pointed out to me that a rescission of Capitation funds would mean a loss of \$482,700 to the medical school, \$209,000 to the dental school and \$42,000 to the School of Pharmacy. The total lost, including all programs will be \$727,000. The Medical Center has already suffered a loss of \$500,000 due to current Capitation fund reductions. Due to the rising cost and a 1980 \$500,000 reduction in Capitation, the Medical Center is already requesting a 15% increase in their budget from the State Legislature. If the State only appropriates a 10% increase the Center will suffer a deficit of 1.3 million. If the State grants a 7% increase the Center will suffer a \$2.3 million deficit. That \$1.3 million is equal to the entire state appropriation to the Schools of Pharmacy. The \$2.3 million is equal to the State's total appropriation to the School of Dentistry or the School of Nursing. Add to this figure an additional decrease of \$700,000 in Capitation funding, the Nebraska Medical Center will find itself in a severe financial crisis. Capitation funds have helped the University of Nebraska Medical Center to increase facilities and services, while maintaining reasonable tuitions. However, due to the current reduction of Capitation funds in 1980, to maintain the Center at its present program level will still require an increase in tuition of 25% for medical and dental students and a 20% increase for pharmacy students. Again, if this years Capitation funds are rescinded, the Medical Center may be forced to further drastically increase tuition charges.

Due to the 8 month notice it is unlikely that the Medical Center

will be able to adjust it's faculty. Faculty contracts are prohibited from being voided because they are not negotiable at this time. Increases in enrollment to cover the deficit is impossible because of the lack of facilities. Finally, the State will probably not be able to appropriate additional necessary funds.

Thus, the University of Nebraska Medical Center cooperated with the Federal government by expanding its facilities, programs and enrollment in order to aid Congress in reaching our national health goals. The expense of this cooperation however, does not cease to exist. The Medical Center is having difficulty now maintaining the cost of this expansion. Without the help of federal funds, the Medical Center will find itself in a distressing financial situation.

The long range implication is that the Center and its various units will be reluctant to cooperate with new federal programs for fear that down the road Congress will again withdraw the needed funds, thus leaving the Center with large deficits. Congress, without the cooperation of the medical schools, will be greatly hindered if not prevented in reaching national health goals.

At Creighton University, a private institution, the outlook is even bleaker. The medical school receives \$440,000 in Capitation funds. The total allotment, not including Nursing, is \$823,000. With the help of Capitation funds, Creighton has increased enrollment and with the help of construction grants have increased facilities. The cost of maintaining these increases persist. Without current Capitation funding, the school will find itself in severe financial distress and tuitions will have to be

significantly increased. However, with the added reduction in available loans, the middle income student's options do not bode well for the current academic year. To cover the lost funds, Creighton could possibly reduce the staff of the medical school by 11. However, this would cause a severe loss to the quality of education to the students and a decrease in services. Tuition at Creighton now covers about 60% of the cost of medical school. Capitation helps assist in the remaining 40%. Fees from clinic services only helps cover the cost of the services provided. If the cost of services were greatly increased, in all likelihood the population served would decrease. Creighton uses Capitation funds to develop Family Practice and Primary Care Programs. The cost of these programs would have to be severely reduced if not eliminated.

Unlike several private institutions, Creighton cannot turn to a State Legislature for assistance. There is no great benefactor or endowment to assist in financing operating costs. The Nebraska State Legislature would be unable to help adequately both schools even if the State miraculously chooses to help Creighton.

In regard to long term consequences, Creighton also expresses severe reservation about becoming involved in future federal programs without reasurance of federal funding.

The impact of a rescission to the health professional schools in Nebraska amounts to: higher tuitions, decreased availability of loan money, less services at a higher cost to the poor, and a standstill or total reduction of programs in Family Practice or Primary Care areas. A further impact would be unhealthy attitudes of accepting new federal programs and forcing schools into distressed position, thus forcing schools to apply for distress funding. The long term

consequences would be a loss of middle-income students, loss of services and a longer period of time to reach the National Health goals.

Capitation funds can be used by the schools to start rural programs. This presently is not a requirement nor is it offered by the Administration. Thus, these rural programs would generate an ongoing interest in rural health. The Administration proposed that the Service Commitment could be used for rural needs. But without an ongoing support program, physicians are likely to serve their years of service and retreat to a place and type of practice which they find more consistent with their education.

In conclusion, though federal Capitation funds are minimal to the total percentage of funds needed to operate a Medical Center, they are crucial flexible funds to the schools which they can use to initiate rural programs, family practice and General Practitioner programs. At a time when the needs of Health Manpower Shortage areas are receiving their long overdue attention, the Administration suggests a cut in Capitation and student loan funds which are used by some schools of medicine to train their students in Family and General Practice clinics. Several pieces of legislation have been and will be introduced. Until Congress or the Administration conceive an alternative funding plan, Congress is obligated to fulfill the financial commitment pledge to the school of medicine for the current year. Gradual phasing out of Capitation accompanied by a gradual phasing in of an alternative program makes for a smoother transition to reaching the National Health goals than the Administration's current approach.

1980 Capitation and Health Profession
Student Loan Funds Rescission

I would like to voice my concern about President Carter's proposed rescission of the fiscal year 1980 Capitation and Health Profession Student Loan (HPSL) funds.

The rescission of over \$97 million dollars this year for these two health manpower programs would be particularly damaging to the schools of health professions and their students because of the timing of the proposed funding cuts. As a practical matter, the institutions have long ago planned budgets for next fall, and based their plans on monies allocated to them in the appropriations passed in October of 1979. Retraction of anticipated funds is both an inappropriate way to cut expenses and a blow to the schools who have made commitments to faculty and students for the coming school year.

For example, in my own State the Medical College of Georgia in Augusta made commitments to 16 faculty members which it has planned to fund through capitation funding. The school would be extremely hard pressed to come up with the \$538,000 from other sources at this late date.

The School of Medicine at Emory University in Atlanta would suffer a severe curtailment in research activities,

supplies, and technical support if capitation funding is retracted. Emory has converted capitation funds to clinical programs over the past three years in response to NIH encouragement of research and training of M.D. investigators. This effort to promote research would be greatly diminished if funding is lost.

The School of Medicine at Morehouse College in Atlanta, the only black school of medicine in Georgia, had planned to use its capitation funds to recruit two additional faculty members necessary for its class expansion. The loss of this funding would greatly inhibit its effort to increase class enrollment from 24 to 32 students.

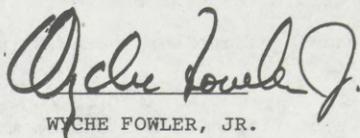
In addition to these problems, many students who are dependent on Health Profession Student Loans will not be able to afford the high cost of medical education this fall if these loans are terminated. Those who will be most severely hurt by loss of funds are needy and minority students, who without financial assistance may find it impossible to attend school.

The rationale given for the rescission is that these two health manpower programs have already achieved their goal of supplying the nation with an adequate supply of health professionals. This is a premise that should be studied closely before cutting funds. Even if this argument is accepted, the proposed rescission is an inappropriate and untimely way to change policy. My judgment is that the more

appropriate place to address the issue is the reauthorizing legislation for PL 94-484 (the Health Professionals Education Assistance Act of 1976) which expires at the end of the current year.

In summary, the proposed rescission is imprudent and ill-advised because it would withdraw anticipated funding, approved by Congress, from both Health Profession Schools and students attending them. Instead, let us reexamine policy in the discussions on the reauthorization of the Health Manpower legislation during this session of Congress.

February 7, 1980

A handwritten signature in dark ink, reading "Wyche Fowler, Jr." in a cursive style. The signature is written over a horizontal line.

WYCHE FOWLER, JR.

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