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Pt. 1

DEPARTMENT OF HOUSING AND URBAN
DEVELOPMENT—INDEPENDENT AGENCIES
APPROPRIATIONS FOR 1982

GOVERNMENT

Storage

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

NINETY-SEVENTH CONGRESS

FIRST SESSION

SUBCOMMITTEE ON HUD—INDEPENDENT AGENCIES

EDWARD P. BOLAND, Massachusetts, *Chairman*

BOB TRAXLER, Michigan

BILL GREEN, New York

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MARTIN OLAV SABO, Minnesota

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

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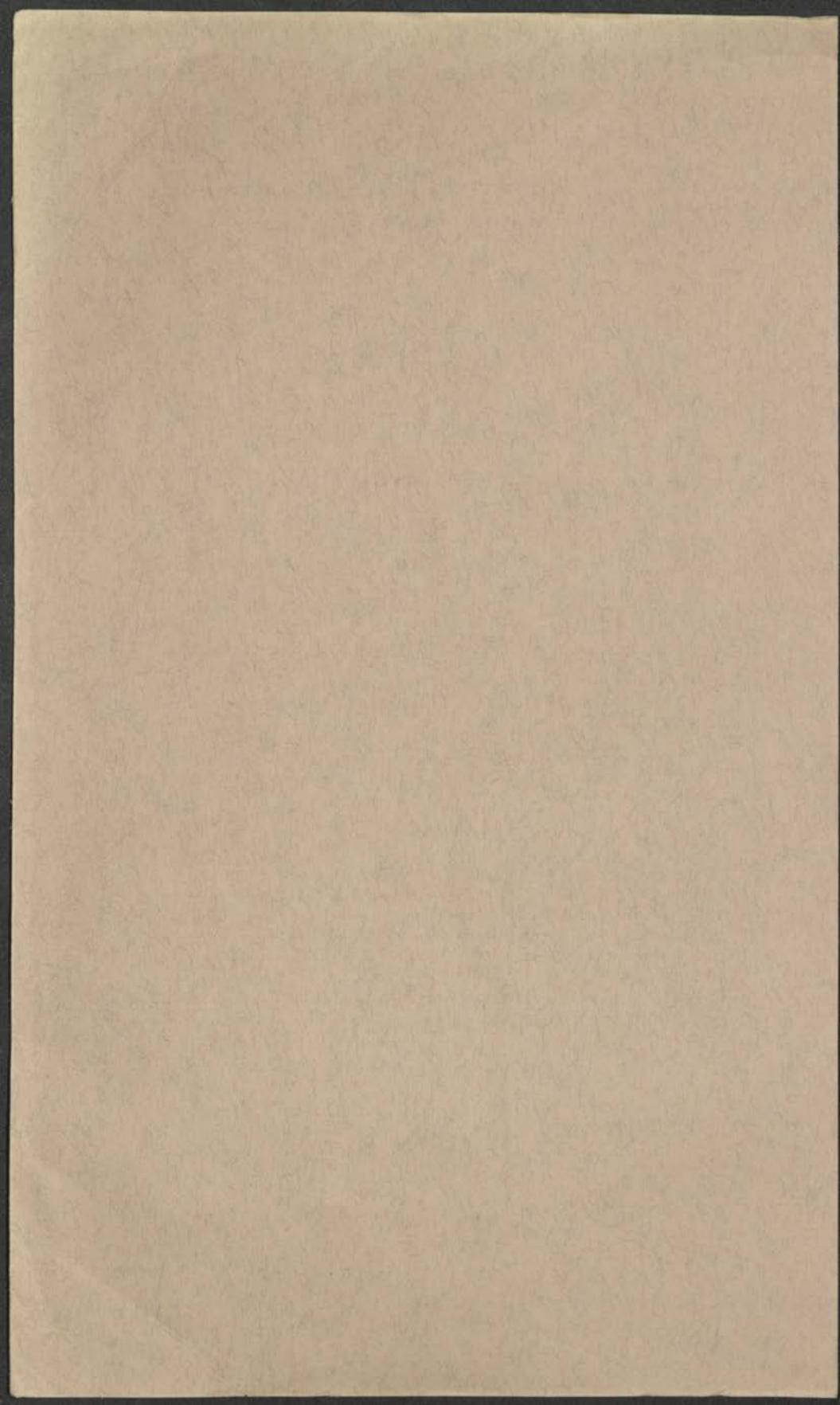
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WASHINGTON : 1981

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT-INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1982

TUESDAY, FEBRUARY 3, 1981.

THE AMERICAN BATTLE MONUMENTS COMMISSION

WITNESSES

ADMIRAL JAMES L. HOLLOWAY III, USN (RET.), COMMISSIONER
COLONEL FREDERICK C. BADGER, CE, DIRECTOR OF ENGINEERING AND MAINTENANCE
COLONEL CLAYTON L. MORAN, FA, DIRECTOR OF PERSONNEL AND ADMINISTRATION
COLONEL WILLIAM E. RYAN, JR., AD, DIRECTOR OF OPERATIONS AND FINANCE

Mr. BOLAND. The Committee will come to order.

We are delighted to have with us this morning the American Battle Monuments Commission.

Before introducing the witnesses for the ABMC, I want to welcome a new member of the Committee, Representative Bill Green from New York. He adds a lot of intellectual ability to this Committee. He was graduated magna cum laude from Harvard, served four years in the New York assembly, and then served seven years as the Regional Administrator of the Department of Housing and Urban Development in New York, from 1970 to 1977. Then in a special election in 1978, he succeeded one of the most unusual, unique and remarkable personalities this Congress has ever seen—Mayor Koch. We are delighted to have you with us, Bill, and we hope you will enjoy serving on this Committee.

Those of us who have served on this Committee for some time are conscious from the work that the American Battle Monuments Commission does that it is a unique Commission. There are 11 members of the Commission, and I don't find their names in the justification. Please supply that for the record.

[The information follows:]

COMMISSION MEMBERS

	State	Appointed
Gen. Mark W. Clark, USA (Ret.), Chairman	SC	10 Dec 69
Gen. Louis H. Wilson, USMC (Ret.), Vice Chairman	MS	27 Nov 78
Hon. Alfred P. Chamie	CA	12 Nov 71
Lt. Gen. Benjamin O. Davis, Jr., USAF (Ret.)	VA	27 Nov 78
Hon. T. Harry Gattton	NC	27 Nov 78
Lt. Gen. James M. Gavin, USA (Ret.)	MA	27 Nov 78
Brigadier General Anna Mae Hays, USA (Ret.)	VA	27 Nov 78

COMMISSION MEMBERS—Continued

	State	Appointed
Adm. James L. Holloway III, USN (Ret.)	MD	27 Nov 78
Hon. Oliver E. Meadows	TX	27 Nov 78
Hon. John M. Pope	GA	27 Nov 78
Hon. J. Glennon Travis	MO	29 Aug 80

Mr. BOLAND. You are a member of the Commission, Admiral, and you have been for the past two years.

The mission of the American Battle Monuments Commission is to maintain and operate 24 permanent American military cemetery memorials, 12 separate monuments in 10 foreign countries, and four memorials in the United States.

I don't know if any of the other members on this committee have seen the cemeteries and memorials in other countries, but I am sure the Commission has brought photographs. They are remarkably maintained and well done.

Bill, have you seen them?

Mr. GREEN. No.

Mr. BOLAND. Well, one day we should take a look at them. Approximately how many people visit them each year?

Colonel BADGER. About 8,000,000.

Mr. BOLAND. The Commission also performs a considerable service for friends and relatives of those who are buried or memorialized in those areas.

NATIONAL MEMORIAL CEMETERY OF THE PACIFIC

Let me ask you about the Punchbowl in Honolulu, Hawaii. Are there burials there?

Colonel BADGER. Yes, sir.

Mr. BOLAND. How many?

Colonel BADGER. About 27,000. It is handled by the Veterans Administration. We administer the memorial.

Mr. BOLAND. How many names are on that memorial? I have seen it.

Colonel BADGER. About 28,800.

Mr. BOLAND. That one is kept in beautiful condition, too. These are memorials of people who have died in our wars since 1917. Those who have served on the Committee are familiar with the tasks of the ABMC and commend you.

All of you have been here before except Admiral Holloway. Welcome. Colonel Badger, Colonel Moran and Colonel Ryan, it is a pleasure to have you here today.

Are you pleased with the treatment you have gotten here? We have generally given you what you requested. With the OMB you are treated differently, but in any event, I think as Admiral Holloway says in his prepared statement, you are perhaps as deserving for the dollar as any Agency in the Government. You prove it in your justifications.

Admiral, go ahead with your statement. Major General Adams is away on official business. Please give him our regards when he returns.

STATEMENT BY ADMIRAL HOLLOWAY

Admiral HOLLOWAY. I would like to append some informal remarks after my statement.

Mr. Chairman, please accept my thanks for allowing me to appear here today together with the regular members of the Commission's staff in support of its 1982 budget request.

My name is James L. Holloway III. I was appointed to the American Battle Monuments Commission two years ago. What I have seen of the Commission's operations both before and during these two years has convinced me that no other Agency of the Government operates more efficiently or does so much with so little to honor our fighting men and our war dead. The shrines built and maintained by the Commission have no equal anywhere as memorials to a nation's dead heroes.

Because of our country's continuing problems with the balance of payments and a desire to reduce the Federal budget and limit American presence overseas, the Commission has been caught up in Government personnel reductions that probably would not have occurred if our memorials had not been on foreign soil. The Congress, I believe, was recognizing this when it enacted Public Law 96-385 last October, establishing a minimum personnel authorization of 398 civilians for the Commission, subject to the appropriation of funds. Such a minimum would enable restoration of five assistant superintendents and nine local national employees, over and above those originally authorized for fiscal 1981. The Congress in December 1980, when it enacted this Commission's fiscal 1981 appropriation, included \$70,000 to restore this year the five assistant superintendents. Because of time elements involved—that is, submission of the Commission's 1982 budget request to OMB in September, passage of a minimum manning level for the Commission subject to the appropriation of funds in October, and funding of five additional assistant superintendents for fiscal 1981 in December—very little time was available to OMB to take these events into consideration when it established the manning levels for the Commission during fiscal year 1981 and 1982. The Commission of course fully realizes that it must comply with the desires of the President and the Congress. I do hope and urge that in future years, the minimum manning established for the Commission in Public Law 96-385 will be fully funded.

PERSONNEL MANNING LEVELS

Mr. Chairman, it occurs to me that in past years, the Commission has operated at a manning level substantially higher than where it is today. In fact, it was just over the last 12 years that these numbers were reduced significantly.

In an understanding of the austerity of the times and the need to reduce expenditures and the need to reduce personnel manning levels, the Commission undertook a very comprehensive and in-depth study of what would be the minimum manning requirements for the Commission, but which would still permit them to do their job properly. That number came out to be 398. Today, the Commission is below that level.

Mr. BOLAND. At what level is it?

Colonel RYAN. Three hundred seventy-nine, sir.

Mr. BOLAND. Go ahead.

Admiral HOLLOWAY. The Commission believes and I am fully convinced that unless these numbers are restored to this minimum as this study indicated, we will see a progressive deterioration in the ability of the Commission to operate and maintain these memorials which is going to cause their appearance to go downhill.

My great concern is that at this time, there is a national commitment to reemphasize patriotism, sacrifice, and dedication. We are determined to restore the prestige of the United States abroad, and we are faced with the real possibility, I think, of these overseas memorials deteriorating to the extent that they represent neither a suitable representation of the United States nor are they a fit memorial to our fallen heroes.

That completes my statement.

Mr. BOLAND. Thank you very much, Admiral.

We will proceed with some of the questions with you after Colonel Badger has given his statement. You indicated that the Commission operated with considerably more positions in years past—what was the highest number of positions with which the Commission operated?

Colonel RYAN. In the last several years, 440.

Mr. BOLAND. As I recall, the reductions were made in concert with the Commission itself.

Colonel RYAN. Yes, sir. However, we did not have a choice in most instances.

Mr. BOLAND. How serious is the deterioration or erosion of these memorials around the world at the present time?

Colonel BADGER. Sir, cosmetically, it is hard to detect. I made a technical inspection three years ago and I wrote up an approximately 50-page report. We are getting building settlement at Henri-Chapelle. There, the pavement is sliding out into the street. We are having walls settle and fracture that need repair. There are many roofs that leak. We are temporarily repairing a roof in Honolulu to prevent damage to the mosaics. The repair goes on and on. We had to divert funds in 1980 to Brookwood because we had a leak in that memorial.

HONOLULU MEMORIAL

Mr. BOLAND. Why don't we give operation of the Punchbowl monument totally to the VA? Why do we split the responsibility of burials, from the operation and maintenance of the monuments by the American Battle Monuments Commission?

Colonel BADGER. We do not think of it as a split responsibility but a partnership. The VA takes care of the monument's day-to-day operations and care; the Commission its repairs and the voluminous correspondence received concerning the structure itself and the missing who are memorialized there. To date the partnership has worked superbly.

Mr. BOLAND. But you are not responsible for the burials at the Punchbowl, are you?

Colonel BADGER. No, sir, those interred in the Punchbowl are a mixture of war dead, veterans and dependents, whereas our ceme-

teries and memorials are designed especially to honor war dead and the achievements of our armed forces in battle.

Colonel RYAN. We receive many letters every year concerning those commemorated by name on the memorials and the battles where they lost their lives. These letters stress the care and beauty of these shrines. We believe that we can best ensure retention of this care and beauty by remaining responsible for them.

Mr. BOLAND. Colonel Badger, proceed with your statement.

GENERAL STATEMENT

Colonel BADGER. We appreciate and thank you for the opportunity to testify today in support of the American Battle Monuments Commission's appropriation request for fiscal 1982. As you all have copies of our prepared statement and it will appear in its entirety in the record, I will summarize it for you to conserve time.

After being an ongoing project for over 25 years, we are very pleased to report that construction of the AEF memorial here in Washington has been completed except for installation of the statue of General Pershing, which will take place later this year. Stone for the Saipan Monument has reached Guam and is awaiting transshipment to Saipan. The monument will be erected in an American memorial park on Saipan this year. Final decisions concerning the precise site and height of the Utah Beach Monument will be made shortly and an order for the stone will be placed. Completion of the monument is scheduled for 1982.

\$10,507,000 are requested in fiscal 1982 to administer, operate, and maintain the shrines of this Commission. Although this is \$922,000 more than fiscal 1981, the request is austere, and will provide little more than minimum maintenance and repair of our facilities. However, the need for austerity is understood in view of the size of the 1981 budget deficit, the rate of inflation, and the desire to balance the 1982 budget.

This concludes my summary. We will be happy to answer any questions you may have concerning our submission.

Thank you.

Mr. BOLAND. Thanks for the summary. Usually we get a statement and the witness says: "I will highlight it," and the highlight takes longer than the statement.

[The prepared statement will be inserted in the record at this time].

BEFORE THE APPROPRIATIONS SUBCOMMITTEE
ON HOUSING AND URBAN DEVELOPMENT
AND INDEPENDENT AGENCIES

Mr. Chairman and Members of the Subcommittee:

We appreciate and thank you for the opportunity to testify today in support of the American Battle Monuments Commission's Appropriation request for fiscal 1982.

Before discussing the request, however, we would like to give you a brief rundown on the status of the Commission's current commemorative projects.

In 1956, Public Law 84-461 charged this Commission with submitting designs and estimates to the Congress for construction of a memorial to the American Expeditionary Forces of World War I and its Commander in Chief, General of the Armies John J. Pershing, and for recommending a site for the memorial. This was done. Ten years later, in 1966, Public Law 89-789 directed this Commission to erect the memorial on the recommended site. Because of the high cost of the Vietnam War and other economic considerations, design funds were not appropriated until 1973 and construction funds not appropriated until 1978. As the project has been an ongoing one for over 25 years, it gives us considerable pleasure to report that construction of the memorial was recently completed, except for installation of the statue of General Pershing, which is scheduled this year. The memorial is located on Pennsylvania Avenue between 14th and 15th Streets. When you have an opportunity to view it, I am certain that you will agree that it is a most attractive and fitting tribute to the sacrifices and superb achievements of the AEF.

The stone for the Saipan Monument has been shipped to Guam and is awaiting transshipment to Saipan. When the monument is completed this year, it will become part of an American Memorial Park at Muchot Point overlooking Tanapag Bay on Saipan under the auspices of the Department of the Interior. The monument will be a simple granite obelisk two feet square and twelve feet in height with an appropriate inscription.

The precise site and height of the Utah Beach Monument is under final consideration and should be decided shortly. When the decision is made, an order for the stone will be placed and preparation of the site will commence. Present schedule is to complete the monument in fiscal 1982.

You will recall that the Commission's fiscal 1980 Appropriation of \$8,200,000 for the operation and care of its facilities was a minimum level request. This request of \$10,507,000 for fiscal 1982 is also austere. Anticipating an average annual inflation rate for 1981 and 1982 of 14% in the countries where the Commission's installations are located, an average we believe conservative, this request and the Commission's 1981 Appropriation are also at minimum level, indicating continued deterioration of our facilities over the next two years. Already

from October 1, 1980 to January 15, 1981, cost of living increases for our local national employees of \$335,000 have been awarded. \$561,000 are earmarked for this purpose in the supplemental for fiscal 1981. These increases are keyed to the rate of inflation in the countries where our installations are located and usually are directed by the foreign governments concerned. Because of the austerity of our fiscal 1982 request, many repairs needed to maintain our facilities at established standards will have to be postponed; however, we anticipate being able to perform all of the cosmetic functions such as cutting the grass, cleaning the headstones and applying fertilizers, insecticides and herbicides and the more critical contractual and in house repairs. Consequently, the general appearance of these shrines shall continue to be pleasing and worthy of the men they honor.

\$922,000 have been requested over and above the Commission's fiscal year 1981 Appropriation of \$9,585,000. A breakdown of this increase is as follows: \$405,000 to ensure minimum manning established by P.L. 96-385, defray full year costs of statutory and wage board pay raises, and defray ingrade increases of U.S. and local national employees; \$134,000 to defray associated costs in personnel benefits; \$38,000 for severance pay and reimbursement of the former ABMC personnel; \$8,000 for travel and transportation of persons; \$50,000 for rent, communications and utilities; \$1,000 for printing and reproduction; \$172,000 for the care, maintenance and repair of facilities; and \$114,000 for construction of a set of quarters and a modest memorial feature at the Corozal American Cemetery in Panama.

Mr. Chairman and members of the Subcommittee, this concludes our prepared statement. We will be very pleased to answer any questions that you may care to ask. Thank you.

Mr. BOLAND. The 1980 actual appropriation was \$8,200,000, and provided for 384 positions. Correct me if any of these statistics are inaccurate.

Your 1981 budget estimate reflected 384 positions. The 1981 current estimate is \$9,585,000, which includes a \$797,000 increase for pay costs, and 398 positions. Your 1982 request is for \$10,507,000 with positions holding at 398. That is an increase of \$922,000 over the 1981 appropriation. These numbers are reflected on page 3 of your justifications.

MEMORIAL TO THE AEF AND GENERAL PERSHING

As you have indicated in your statement, after 25 years, the ABMC has nearly completed the American Expeditionary Forces memorial to General Pershing. It is my understanding that it will be dedicated sometime later this year.

Colonel BADGER. Sometime this summer, yes.

Mr. BOLAND. Let me say as a member of this Committee who is familiar with the struggle to construct the Memorial—and this Committee has wrestled with the John J. Pershing Memorial for some time—I am delighted that time has given the Commission and the Pennsylvania Avenue Development Corporation the opportunity to establish a truly fitting memorial. I got a look at it this morning and I think it is magnificent. If you had gone ahead as planned some years ago, this summer you would not have a memorial of this caliber. If anyone who was with the fighting force of America deserved this memorial, it was John J. Pershing.

Several years ago you put in the record a brief description of his efforts in World War I, and we will include that in the record again this year. It is a magnificent description of the efforts that one man made to pull together the AEF in Europe, and I do not know of any man who could have done it better. It was an incredible, remarkable job.

[The information follows:]

The United States entered World War I on April 6, 1917, with no modern equipment and less than 200,000 men, who were scattered from the Mexican border to China and the Philippines. Despite this inauspicious beginning, the American Expeditionary Force in Europe at the end of the war 19 months later contained more than 2 million men and there were an additional 2 million backing it up in the United States.

General John J. Pershing was given the task of organizing the American Expeditionary Force, molding it into an effective fighting force and leading it in combat. He responded to this challenge brilliantly. Quickly he formed the troops sent to him from the United States into combat and combat support units and started them on an intensive but abbreviated training program. He also organized a theater support and transportation system for which there was no precedent in the U.S. Army to guide him. At no time in history has such a large heterogeneous mass of men been transported overseas to be organized, equipped, and trained into an effective fighting force in such a short period of time. During organization and training of the AEF, General Pershing was besieged even threatened by his allies, the French and British, who vehemently contended that if he did not send his men to their units as replacements, the war would be lost. He refused to let his men be used piecemeal in this manner and in a surprisingly short time organized and trained them into effective combat units. When these U.S. units were committed in the St. Mihiel and Meuse-Argonne sectors, they successfully turned the tide of a war that had been fought to a standstill for more than 4 years. Less than 1 year after American units were committed, Germany was defeated.

It should be remembered that American military participation in the First World War for all practical purposes was a one-man show and Pershing was that man. There was neither a civilian nor military organization in Washington that could or

would instruct him as to how, when, where, or why he should conduct his military operations. Pershing's success was little short of miraculous and the exploits of his troops equally so.

The monument that is being erected between 14th and 15th Streets on Pennsylvania Avenue (probably on one of the most expensive sites in the city), is a fitting memorial to General Pershing and those who served in the AEF. I want to quote General Pershing's reference to the AEF, which is inscribed in one of the marble areas in the monument. It reads: "In their devotion, their valor, and in the loyal fulfillment of their obligations, the officers and men of the American Expeditionary Forces have left a heritage of which those who follow may ever be proud."

In other areas of the monument, I notice you have a map of the Western Front and also a map of the Meuse-Argonne. Any Member who has not seen it should stop by. You will probably well up with feeling when you reflect on what this man accomplished during World War I.

Am I correct, there is also a skating rink? And what is the glass edifice?

Colonel BADGER. The glass is a kiosk in a picnic area adjacent to the monument. We insisted it be screened from the memorial so it would not conflict. The pool next to the picnic grounds will be a skating rink in the winter.

Mr. BOLAND. This project was not easy to develop over the years. You had to satisfy several Commissions before plans were finally accepted by the Pennsylvania Avenue Development Corporation and others.

Colonel BADGER. The National Capital Planning Commission and the Commission of Fine Arts.

Mr. BOLAND. It is a remarkable monument, and one that truly reflects the sacrifices that were made by the AEF and also by General Pershing himself. Congratulations.

Does the American Legion have any involvement with the Pershing statue?

Colonel BADGER. No, sir. At one time they had offered to pay for the statue of General Pershing as the Legion's contribution to the bicentennial, but withdrew the offer when the monument was not completed in time. Fortunately, we had extra moneys that were given to us for design that can be used to pay the sculptor. We are able to do it within our own resources.

Mr. BOLAND. What is the total cost of that memorial?

Colonel BADGER. Because the Pennsylvania Avenue Development Corporation changed the elevation, it paid for the foundation, which was \$100,000. The total cost including design, sculpture, and foundation would be \$500,000.

Mr. BOLAND. What will be the cost of the statue?

Colonel BADGER. Around \$80,000, sir.

Mr. BOLAND. Will it be standing?

Colonel BADGER. Yes, sir, he will be standing, holding in his right hand, field glasses, in his left hand, his hat.

Mr. BOLAND. Do other members have any questions about the monument?

Mrs. BOGGS. No, I just think it is wonderful that it has met all the requirements of being a people-monument. Additionally, when-

ever the inaugural parade turns it will be passing by that monument.

Mr. COUGHLIN. If the American Legion volunteered to help, why didn't you take their help?

Colonel BADGER. They withdrew their offer and cast a freedom bell rather than a statue of General Pershing. They withdrew their support.

Mr. BOLAND. What did they reserve for the monument?

Colonel RYAN. \$125,000.

FREQUENCY OF VANDALISM

Mr. YOUNG. Mr. Chairman, I have one question I would like to ask.

Mr. BOLAND. All right.

Mr. YOUNG. Especially those which are in parts of the world where we have seen anti-American demonstrations take place, have you had any trouble with vandalism or attempts to desecrate the memorial as a symbolic gesture against the United States?

Colonel BADGER. Yes, we had paint sprayed on our monument at Tours, France. Just before dedication of the Vietnam Tablets of the Missing in Honolulu, someone sprayed paint on the walls but did not deface the names of the missing. It was cleaned off in time for the dedication.

Mr. YOUNG. Is this a serious, ongoing problem, or is it just keyed off by certain international events?

Colonel BADGER. It very seldom occurs overseas. Occasionally, graffiti is also sprayed on our East Coast Memorial in New York City.

CURRENCY EXCHANGE RATES

Mr. BOLAND. As we know on this Committee from the hearings last year, the past two years have not been very easy ones for the Commission. The violent and unpredictable swings in foreign currency exchange rates have made management of the Commission's operations especially difficult. Last year, General Adams testified that early in April 1979, he had to direct the curtailment of all obligation of funds except for personnel compensation, fixed costs, and emergency projects.

Was similar action necessary in 1980?

Colonel RYAN. Yes, sir. The supplemental was passed in July 1980, and we were able to fund our major repairs and purchases at that time. For the first three months of fiscal 1981, the dollar has been quite stable, roughly we think we have accrued an additional \$50,000 due to the stability of the dollar. However, we have no idea what will happen between now and the remainder of the year.

Mr. BOLAND. Do you know whether or not the foreign exchange currency rates adversely affected the Commission in 1980 as much as 1979?

Colonel RYAN. They did not.

Mr. BOLAND. Please update the table on foreign currency exchange rates which appears on page 99 of last year's hearings. [The information follows:]

CURRENCY EXCHANGE RATES

	FF	BF(L)	NG(F)	IL	BL	TD
1979 budget request	4.98	36.63	2.49	880	0.580	0.425
1979 pay supplemental	4.36	31.39	2.15	837	.516	.405
1979 pay supplemental update	4.29	29.45	2.02	836	.500	.404
Average rates received October 1978 to September 1979	4.30	29.64	2.02	832	.484	.402
1980 budget request	4.36	31.39	2.15	837	.516	.405
1980 pay supplemental	4.25	29.20	2.00	817	.441	.401
1980 pay supplemental update	4.19	28.76	1.98	821	.466	.401
Average rates received October 1979 to September 1980	4.15	28.58	1.96	833	.442	.397
1981 budget request	4.25	29.20	2.00	817	.441	.401
1981 pay supplemental	4.15	28.72	1.95	825	.420	.390
Average rates received October 1980 to December 1980	4.35	29.55	2.03	895	.418	.404
1982 budget request	4.15	28.72	1.95	825	.420	.390

INITIAL 1982 BUDGET SUBMISSION

Mr. BOLAND. Do you have a minimum, current, and enhanced level for the Commission's 1982 budget submission?

Colonel BADGER. Yes, sir.

Mr. BOLAND. Give us the current and enhanced levels. While you are looking that up, what was the Commission's request for 1982 funding to the Office of Management and Budget?

Colonel BADGER. We requested funds at the minimum, current and enhanced levels.

Mr. BOLAND. What was the amount of the enhanced level?

Colonel RYAN. \$11,925,000.

Colonel BADGER. Our overall request was reduced to \$10,507,000; \$197,000 was requested to fund 15 man-years of casual labor. It was reduced to \$33,000, which will support 3 man-years of labor. Casual labor is used during peak growing periods to assist with the maintenance of lawns, the leveling of graves, and the cleaning of headstones.

Mr. BOLAND. I understand that casual labor is temporary labor.

Colonel BADGER. Yes, sir. For maintenance contracts, we requested \$1,171,000 at the enhanced level. It was reduced to \$536,000, about four percent above our minimum level. This reduction involved 55 projects averaging about \$10,000 apiece. Although a \$10,000 project may be considered a relatively small one, more often than not it represents sorely needed maintenance at our facilities.

Of the \$603,000 requested for procurement of equipment, \$216,000 remains, which is our minimum level. This means that we will be able only to replace the most uneconomically repairable equipment, and that the equipment on hand frequently will be down for repair.

We requested \$885,000 for procurement of supplies at the enhanced level and had to adjust to \$653,000, which is about ten percent above minimum level.

Mr. BOLAND. Is that the total between the minimum and the enhanced level?

Colonel BADGER. Yes. These are the total differences between our enhanced request and what OMB approved.

Mr. BOLAND. Do I understand OMB gave you the minimum?

Colonel BADGER. Slightly above minimum.

Mr. BOLAND. Would you call it the current?

Colonel RYAN. No, sir. Our current level request was \$11,159,000.

Mr. BOLAND. The second page of your prepared statement indicates that \$114,000 of the 1982 requested increase was for construction of a set of quarters and a modest memorial feature at the Corozal American Cemetery in Panama—\$30,000 is for the memorial, and the balance of \$84,000 is for the quarters. Is that correct?

Colonel BADGER. Yes, sir, that is correct.

Mr. BOLAND. I note that the proposed appropriation language does not request availability of funds past September 1982. That prompts me to ask, are you confident that you will be able to obligate the entire \$114,000 by the end of fiscal year 1982?

Colonel BADGER. Yes, sir, we are. We currently have plans for quarters prepared by the Panama Canal Co. that we can adapt.

Mr. BOLAND. Didn't I see some figure here as to \$185,000 to be spent each year?

Colonel BADGER. That was the original estimate.

Mr. BOLAND. The only request you make here is for \$114,000.

Colonel BADGER. We do have other projects. For instance, a perimeter wall, we would like to enclose our cemetery to prevent general vandalism and to set it off from the cemetery that will belong eventually to the Republic of Panama. We feel it should be enclosed in a wall.

Mr. BOLAND. One of the major increases from year to year for the Commission is the cost of living increases for the local national employees. Your statement indicates at the top of page two, that \$561,000 is earmarked for this purpose in the fiscal year 1981 supplemental. In addition, a sizable part of that requested increase in 1982 is due to cost of living escalations.

Does the Commission have any flexibility at all in the payment of cost of living increases?

Colonel RYAN. No, sir.

Mr. BOLAND. Does the Commission negotiate with the unions or local nationals directly in determining the amount of the increases?

Colonel RYAN. The Department of State, that is the Ambassador, does as head of the country team.

COROZAL AMERICAN CEMETERY

Mr. BOLAND. On page one of the detailed budget justifications, the third paragraph describes the Commission's activities at the Corozal American Cemetery in the Republic of Panama. During last year's hearing it estimated that \$180,000 for five years would be required to raise the standards of that cemetery to that of the Commission's other cemeteries.

Is that \$180,000 estimate still accurate?

Colonel RYAN. We have scaled it down; we think we can do it for about \$150,000.

Mr. BOLAND. What is the 1982 request for the Corozal Cemetery?

Colonel BADGER. \$257,561.

Mr. BOLAND. How much do you intend to spend at Corozal in 1981?

Colonel BADGER. \$158,300, sir.

Mr. YOUNG. Does that figure include \$84,000 to construct quarters for the Superintendent?

Colonel BADGER. Yes, sir; that is, the 1982 request does.

Mr. YOUNG. Might I ask where the Superintendent lives now?

Colonel BADGER. We are presently renting quarters that belong to the Panama Canal Commission. Every year, under the treaties, some of those quarters revert to Panamanian control.

Mr. YOUNG. Would these then be U.S.-owned quarters?

Colonel BADGER. Yes, sir.

PERSONNEL AUTHORIZATIONS

Mr. BOLAND. On page three of the justifications, the permanent position column indicates 384 in fiscal year 1980 and 398 in fiscal year 1981. The original 1981 budget estimate reflected 384 positions. Action on the appropriation bill resulted in an increase of \$70,000 specifically for five additional positions. Adding the five positions which were included in the ultimate congressional action, to the 384 original request, yields 389 positions. The difference of nine is addressed in the footnote at the bottom of page three, which indicates those positions are to satisfy minimum personnel manning requirements established by Section 506 of Public Law 96-385. I am going to quote from Section 506 of that Act: "To ensure adequate care and maintenance of the cemeteries, monuments and memorials under the jurisdiction of the Commission, the Commission, subject to the availability of appropriations, shall employ (1) not less than 50 personnel in the competitive service (as defined in Section 2102 of Title 5, United States Code), of whom not less than 43 shall be assigned to duty in foreign countries in which such cemeteries, monuments, and memorials are located, and (2) not less than 348 individuals who are citizens of the countries in which such cemeteries, monuments, and memorials are located, who shall be hired for local employment relating to the care and maintenance of such cemeteries, monuments, and memorials." The important line to our way of thinking in that section is the line "subject to the availability of appropriations." The 1981 Appropriation Act included the funds for only the 384 positions requested plus the five specifically added. Where are you getting the funds to pay for the additional nine positions?

Colonel RYAN. Sir, we feel that by the time authority could be given to us by the Congress to hire these additional personnel, it would be in the latter part of the fiscal year. With only two or three months remaining we think the appreciation of the dollar will be sufficient to fund them.

Mr. BOLAND. You expect the Appropriations Committee to add the additional funds for the 398?

Colonel RYAN. No sir, but we hope it will give us the authority to hire. We feel we will not be able to hire until July.

Mr. BOLAND. You have the authority to hire. As I understand it you have 379 aboard now; is that correct?

Colonel RYAN. Yes sir.

Mr. BOLAND. How many would you hire?

Colonel RYAN. Under current authority, we would not be able to hire the 398. We could hire the five additional superintendents

because funds are in the 1981 appropriation for that purpose, and we have been directed to hire them by the Congress.

Mr. BOLAND. As you know, the President's budget for 1982 lists only 379 positions for both 1981 and 1982. Why is the Commission's budget justification not in support of the President's budget?

Colonel RYAN. When the Congress established a minimum personnel authorization for us, we thought it was telling us to put 398 into our appropriation request and then the Congress through the budget process would decide whether or not to fund them.

Mr. BOLAND. If the Commission only compensated 389 in 1981, rather than 398, would additional resources be available to defray requested supplemental pay costs?

Colonel RYAN. Yes sir, there still would be a requirement for additional funds to defray costs of general schedule, military and wage board pay increases as well as in grade increases.

Mr. BOLAND. On page six, under Administration and U.S. Memorials, \$17,000 is requested for equipment. Detail how the \$17,000 will be used.

Colonel RYAN. Sir, that is for a computer and associated software. Right now, we have an entirely manual accounting system for our operations worldwide. We have one bookkeeper and one accountant here, and we must render all the reports any other Agency of the Federal Government does. For some time, we have been having difficulty keeping up.

SUPPLY REQUIREMENTS

Mr. BOLAND. In the next paragraph, under European Cemeteries and Memorials, \$120,000 is requested for supplies, materials, and spare parts to restore in part, depleted supply levels. Give us some examples of the supplies, materials, and spare parts that are badly needed. Do not detail it all just provide some examples.

Colonel BADGER. We have the horticultural supplies, which only have a shelf life of about a year; these are insecticides, fertilizers, herbicides, replacement plants, things of that nature.

We also need repair and utility supplies. Because we have been unable to get enough contractual money, during the off season, we try to perform many repairs in-house. For the European office, we have some \$60,000 planned for in-house projects.

Mr. BOLAND. Detail the other items for the record.

[The information follows:]

OTHER ITEMS IN SHORT SUPPLY

Europe needs sand, cement and gravel to repair and construct minor concrete structures. Carpentry items such as plywood, lumber and associated hardware are in short supply. There also is a shortage of mower and vehicular repair parts such as drive belts, blades, plugs and other engine parts. Additionally, Europe must replenish its stockage of petroleum, oil and lubricants as well as heating fuel.

PERSONNEL BENEFITS

Mr. BOLAND. Turn to page eight, which details the changes by object classification. Personnel benefits total \$1,960,000 in fiscal year 1982. This amounts to approximately 31 percent of the amount for personnel compensation. This is considerably more than for other Government agencies, but there are special reasons

for this. Due to the Commission's activities overseas, special benefits must be made, I understand, for education allowances, quarters allowances, post allowances, et cetera. Detail for the record and include in future years' justifications, the amounts for the various categories of benefits that make up the total.

[The information follows:]

Detail of Personnel Benefits

FICA.....	7,251
Group life.....	3,123
Education allowance.....	25,650
Quarters allowance.....	60,050
Post allowance.....	82,229
TLA.....	
Retirement.....	
Health.....	270,456
Awards.....	56,987
COLA.....	5,000
Social security.....	80,579
Bonus.....	1,166,109
Family allowance.....	14,741
Meals allowance.....	11,736
WB increases.....	
GS increases.....	216,019
Tropical differential.....	6,199
Lapses (-).....	3,125
	-49,430
Total.....	1,959,824

Mr. BOLAND. How much is planned for incentive awards?

Colonel RYAN. \$1,300 for 1980; \$4,700, 1981; \$5,000, 1982.

Mr. BOLAND. What about fees for consultants and travel expenses?

Colonel RYAN. We do not have consultants as such. Travel and transportation of persons is \$90,000.

Mr. BOLAND. The per diem and mileage rates for the Government were recently increased. In addition, air travel has risen dramatically in the past year. Will the rather modest increase in 1982 actually result in less travel being performed, and if so, how serious a problem is that?

Colonel RYAN. We have less people going on home leave. We think we have adequate funds.

Mr. BOLAND. This does not present a problem for you then.

Colonel RYAN. No sir.

BENEFITS FOR FORMER PERSONNEL

Mr. BOLAND. Turn to page 10 of the annual budgets for the specific cemeteries and offices. I notice that the Rome office is \$245,078 for fiscal year 1981, and the 1982 request is a 78.2 percent increase to a total of \$436,633—an increase of \$191,555. What is that significant increase caused by?

Colonel BADGER. It is due to an increase in benefits for former personnel. Of the \$192,000, \$157,000 are for severance pay. Some of our employees in the Rome office who have been with us since the office opened are retiring.

Mr. BOLAND. With that retirement goes severance pay, and the severance pay is based on one month's salary for each year that

the employee has been employed by the Commission; is that correct?

Colonel RYAN. That is correct. Miss Lo Castro our accountant, the one who handles the accounts for the entire Mediterranean area, is going to receive \$97,760 in severance pay. She has been with us for 35 years.

Mr. BOLAND. Give that figure again.

Colonel RYAN. \$97,760, sir.

Mr. BOLAND. Is that her severance pay?

Colonel RYAN. One month's pay for 35 years. That is her severance pay.

Mr. BOLAND. There is nothing that can be done about that. I understand that is the law there, is it not?

Colonel RYAN. Yes, sir.

Mr. BOLAND. On page 11, in the proposed appropriation language, the only change in the appropriation language is the dollar figure. However, page I-V5, of the appendix to the 1982 budget indicates that two, not one, passenger motor vehicles need to be replaced in 1982. Are your justifications saying you can get along with just one replacement vehicle in 1982?

Colonel RYAN. Yes, sir. That is all that is scheduled to be replaced, because of the reduction to minimum funding.

Mr. BOLAND. As part of former President Carter's budget amendment package in March of 1980, the Commission's 1981 budget request was reduced by \$106,000. In addition, pursuant to Section 412 of Public Law 96-526, the HUD-Independent Agencies 1981 Appropriation Act, the Commission was reduced an additional \$179,000.

Would you please indicate for the record by object class, where those reductions were applied.

[The information follows:]

Application of Mandated Reductions

Object class 25.....	\$109,000
Object class 26.....	88,000
Object class 31.....	88,000
Total.....	285,000

Mr. BOLAND. Mr. Conte.

Mr. CONTE. No questions.

Mr. BOLAND. Mr. Green.

STATUS OF AGREEMENT WITH PANAMA

Mr. GREEN. I may be covering ground with which others are familiar, but I wonder what is the status of the agreement with the Panamanians regarding the Corozal reservation?

Colonel BADGER. As a reservation to the Panama Canal Treaty, the Senate required that American remains at Mount Hope Cemetery be transferred to the American sector of the Corozal Cemetery on the Pacific side and that the American Battle Monuments Commission would take over administration of the American sector, which we now call the Corozal American Cemetery. And, that an agreement be reached with the Republic of Panama for perpetual use of this cemetery and for authority to fly the American flag

over the cemetery. This agreement has been reached and signed by both countries, but not ratified by the legislative group in Panama. It is an operating agreement.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. CONTE. Will you yield?

Mr. GREEN. Yes.

Mr. CONTE. How many members are on this Commission?

Colonel BADGER. Eleven.

Mr. CONTE. They are all appointed by the President?

Colonel BADGER. Yes.

Mr. CONTE. For what term?

Colonel BADGER. To serve at his pleasure.

Colonel RYAN. Senator Potter was on for 26 years.

Mr. CONTE. Any specific qualifications to get on? Do you have to be military?

Colonel RYAN. No, sir. However, traditionally we have always had at least one representative from each of the military services.

Mr. CONTE. Is there any compensation?

Colonel RYAN. No, sir.

Mr. CONTE. Just travel.

Colonel RYAN. Travel expenses only.

Mr. CONTE. Do they go out and look at these monuments?

Colonel RYAN. We would like for one or two Commissioners to inspect each year. When funds are scarce, we have to curtail travel.

Mr. CONTE. Are there any vacancies now?

Colonel RYAN. No, sir.

Mr. BOLAND. As a matter of fact, there are rarely any vacancies on that Commission.

Colonel RYAN. Very seldom.

Colonel BADGER. Our chairman, General Clark, has served since 1969.

Mr. BOLAND. Will you read the list?

Colonel BADGER. General Mark W. Clark, USA (Ret.); General Louis H. Wilson, USMC (Ret.); Hon. Alfred P. Chamie; Lieutenant General Benjamin O. Davis, Jr., USAF (Ret.); Hon. T. Harry Gattton; Lieutenant General James M. Gavin, USA (Ret.); Brigadier General Anna Mae Hays, USA (Ret.); Admiral James L. Holloway III, USN (Ret.); Hon. Oliver E. Meadows; Hon. John M. Pope; Hon. J. Glennon Travis, our most recent member, from Missouri, appointed 29 August 1980.

Mr. BOLAND. Mrs. Boggs?

Mrs. BOGGS. I wonder, in some of the older areas throughout the world, are monuments suffering from pollution, as many monuments in this country are?

Colonel BADGER. We do have problems, particularly when a cemetery memorial is located near an airfield. We find the fallout from jet fuel is particularly damaging to our marble.

Mrs. BOGGS. What can be done about that?

Colonel BADGER. We clean it frequently, and apply a silicone sealer to minimize damage from the fallout.

Mrs. BOGGS. Thank you. I have no further questions, sir.

Mr. BOLAND. Mr. Coughlin?

Mr. COUGHLIN. No questions.

Mr. BOLAND. Mr. Young?
Mr. YOUNG. No questions.

USE OF FOREIGN NATIONALS

Mr. CONTE. Do you use foreign nationals to maintain the property?

Colonel RYAN. Yes, sir. We have one superintendent at each cemetery. At the large cemeteries, he has an American assistant. All the rest are foreign national personnel.

Mr. CONTE. The superintendent is an American?

Colonel RYAN. Yes, the families want an American to greet them and take care of their honored dead.

Mr. CONTE. And the assistants, too?

Colonel RYAN. Yes sir.

Mr. CONTE. Would it not be more economical to have the superintendent and his assistants be foreign nationals, too?

Colonel RYAN. Right now I do not think so, because the salaries overseas are climbing. In some cases our indigenous employees make more money than assistant superintendents. They do get quarters on the post, but moneywise we are paying more to many of our indigenous employees.

Mr. BOLAND. You indicated earlier that you could add the additional nine positions without additional appropriations because of the windfall of \$50,000 accruing from favorable dollar exchanges.

Colonel RYAN. Yes, sir.

Mr. BOLAND. Now, could you take that \$50,000 and use it for additional pay costs in 1981 so we could reduce the supplemental?

Colonel RYAN. Yes, sir.

Mr. BOLAND. Tell me why you do not want to do that.

Colonel RYAN. Right now it is a \$50,000 saving. Later, it might not be. We would rather reserve the funds for hiring the nine additional local nationals. If we do not have the funds at that time, of course we would not hire them.

Mr. BOLAND. Thank you very much.

Anything more to add, Admiral Holloway?

Admiral HOLLOWAY. I have nothing more to add. I am glad to be here representing the Commission, and I am impressed with the rapport that exists between your Committee and the Commission.

Mr. BOLAND. How long have you been retired?

Admiral HOLLOWAY. Two years.

Mr. BOLAND. You look like you are ready for action again.

Admiral HOLLOWAY. I am.

Mr. BOLAND. Thank you very much, Admiral Holloway and Colonels Badger, Moran and Ryan. We will place the Commission's budget justifications in the record at this time. Thank you very much.

[The justification follows:]

GENERAL STATEMENT

The principal functions of the American Battle Monuments Commission (ABMC) are to commemorate the achievements and sacrifices of the United States Armed Forces where they have served since April 6, 1917 through the erection and maintenance of suitable memorial shrines; to design, construct, administer and maintain permanent American military burial grounds in foreign countries; to control the design and construction on foreign soil of U.S. military monuments and markers by other U.S. citizens and organizations, both public and private; and to encourage U.S. government agencies and private individuals and organizations to maintain adequately the monuments and markers erected by them on foreign soil.

In the performance of these functions, ABMC administers, operates and maintains twenty-four permanent American military cemetery memorials and twelve separate monuments in ten foreign countries and four memorials in the United States. These cemeteries and memorials are the most beautiful and meticulously maintained shrines of their nature in the world. No others combine such fitness of design, beauty of landscaping and memorial features and immaculate care. Interred in the cemeteries are 124,908 U.S. War Dead -- 30,920 of World War I, 93,238 of World War II, and 750 of the Mexican War. Additionally, 4,631 American veterans and others are interred in the Mexico City and Corozal Cemeteries. The World War and Mexico City Cemeteries are closed to future burials except for the remains of U.S. War Dead still found from time to time in the World War I and II battle areas. In addition to burials, the World War I and II cemeteries, together with three memorials on U.S. soil, commemorate by name on Tablets of the Missing the 94,089 U.S. servicemen and women who were Missing-in-Action or lost or buried at sea in their general region during the World Wars, and the Korean and Vietnam Conflicts.

Responsibility for the operation, care and maintenance of the Corozal American Cemetery, Republic of Panama was assumed by the Commission on October 1, 1979 as scheduled. During the past year, the American superintendent and seven local national employees have been busy upgrading the care and maintenance of the cemetery to that of other ABMC facilities. Their efforts included improving grass and plantings; cleaning and aligning headstones; renovating and refurbishing the chapel, office and visitor reception and comfort facilities; and requisitioning 1500 missing or damaged headstones. In addition, electrical transmission lines and maintenance and storage facilities were upgraded by contract. The Commission's goal is to complete upgrading the cemetery to ABMC standards within four years.

Construction of the memorial to the American Expeditionary Forces of World War I and their Commander in Chief in Pershing Park, Washington, DC is complete except for the statue of General Pershing. Approval of a 1/12 scale model of the statue has been given to Mr. James White, the sculptor, who is presently working on a 1/3 scale model. The full scale model should be accepted and installed this year.

Adequate care of these shrines to American Dead requires that a sizable program of repair and scheduled maintenance of facilities and equipment and grounds maintenance be conducted annually. This care includes upkeep of 129,000 graves and headstones; 40 memorial structures and quarters, utilities and maintenance facilities with an estimated replacement value of \$190,000,000; 67 miles of asphalt roads and paths; 908 acres of flowering plants, fine lawns and meadows; shrubs and hedges with a surface area of 3,000,000 square feet; and 11,000 ornamental trees. All of the plantings including the lawns and meadows must be cut or shaped, fed and treated with insecticides and fungicides at regular intervals during the growing season.

In addition to its other activities, the Commission provides information and assistance on request to relatives and friends of the War Dead interred in or commemorated at its facilities. These services include providing or confirming burial and memorialization information; providing letters authorizing non-fee passports for members of the immediate family traveling overseas primarily to visit the cemetery; providing travel and accommodation information; placing floral decorations at a grave or memorial site utilizing funds furnished by the donor; providing donors with a color polaroid photograph of the floral decoration in place; furnishing a color lithograph of the cemetery or memorial where a serviceman or woman is buried or commemorated by name and a photograph of the appropriate headstone or Tablet of the Missing to relatives; and escorting relatives to the memorial or gravesite within the cemetery.

This appropriation request is submitted pursuant to the Act of March 4, 1923, 42 Stat. 1509, as amended (36 U.S.C. 138a).

LEAD OFF TABULAR STATEMENT
SALARIES AND EXPENSES

	Amount (In thousands)	Permanent Positions	Average Employment
1. Fiscal 1980 Appropriation change from 1979	8,200 <u>1/</u> + 775 <u>2/</u>	384 + 9 <u>3/</u>	385 + 4
2. Fiscal 1981 Appropriation change from 1980	9,585 + 1,385 <u>2/</u> <u>4/</u>	398 + 14 <u>5/</u>	398 + 13
3. Fiscal 1982 Appropriation request change from 1981	10,507 <u>6/</u> + 922 <u>6/</u>	398 n/c	398 n/c

Explanatory Notes.

- 1/ Includes \$40,000 in "no year" funds to construct the Utah Beach Monument. Total obligations in fiscal 1980 were \$8,160,000 from the fiscal 1980 Appropriation and \$280,000 in previously appropriated "no year" funds to construct the AEF Monument. The \$40,000 for the Utah Beach Monument are scheduled for obligation in fiscal 1981.
- 2/ Increase offsets in part statutory and wage board pay raises, inflation here and abroad and losses due to dollar exchange rates.
- 3/ Includes OMB approved conversion of 2 mil spaces to GS, and addition of 7 local national spaces to staff the Corozal American Cemetery.
- 4/ Includes an anticipated Pay Supplemental Appropriation of \$797,000 and \$588,000 to offset effects of inflation here and abroad on other ARMC activities.
- 5/ Restoration of 5 GS (assistant superintendents) and 9 local national spaces to satisfy minimum personnel manning established by Sec 506, Public Law 96-385.
- 6/ Includes \$84,000 to construct quarters for the superintendent at the Corozal American Cemetery and \$30,000 to construct a modest memorial there; full year application of fiscal 1981 pay raises; and some funds to offset inflation here and abroad.

TABULAR STATEMENT OF
INCREASES AND DECREASES BY ACTIVITY
(in thousands)

	Administration and U.S. Memorials	European Cemeteries and Memorials	Mediterranean Cemeteries and Memorials	Asian Cemeteries and Memorials	Latin Cemeteries and Memorials	Totals
1. Fiscal 1980 appropriation changes from 1979	404 <u>1/</u> - 3	6,150 + 461	1,123 + 185	330 - 24	193 <u>2/</u> + 156	8,200 <u>1/ 2/</u> + 775
2. Fiscal 1981 appropriation changes from 1980	434 + 30	7,108 + 958	1,456 + 333	382 + 52	205 + 12	9,585 <u>3/</u> + 1,385 <u>3/</u>
3. Fiscal 1982 appropriation changes from 1981	456 + 22 <u>4/</u>	7,713 + 605 <u>5/</u>	1,608 + 152 <u>6/</u>	426 + 44 <u>7/</u>	304 + 99 <u>8/</u>	10,507 + 922

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Explanatory notes:

- 1/ Includes \$40,000 in "no year" funds for construction of the Utah Beach Monument; the \$40,000 is scheduled for obligation in fiscal 1981. Total obligations from the Fiscal 1980 Appropriation were \$8,160,000.
- 2/ Includes \$156,000 for the operation, care and maintenance of the Corozal American Cemetery, responsibility for which was assigned to ABMC by Executive Order 12,115 effective 1 Oct 1979.
- 3/ Includes an anticipated pay supplemental of \$797,000 and \$588,000 to offset some of the effects of inflation here and abroad.

For justification of changes see:

- 4/ Page 6 5/ Page 6 6/ Page 6 7/ Page 7 8/ Page 7

TABULAR STATEMENT OF
INCREASES AND DECREASES BY OBJECT CLASSIFICATION
(in thousands)

	<u>11</u>	<u>12</u>	<u>13</u>	<u>21</u>	<u>22</u>	<u>23</u>	<u>24</u>	<u>25</u>	<u>26</u>	<u>31</u>	<u>Totals</u>
1. Fiscal 1980 Appropriation changes from 1979	5,007	1,675	159	75	47	295	12	309	522	99	8,200
	+ 642	+ 275	+123	+21	-48	+ 48	- 5	-138	- 15	-128	+ 775
2. Fiscal 1981 Appropriation changes from 1980	5,793	1,826	347	82	88	317	17	390	531	194	9,585
	+ 786	+ 151	+188	+ 7	+41	+ 22	+ 5	+ 81	+ 9	+ 95	+1,385
3. Fiscal 1982 Appropriation changes from 1981	6,198 ^{1/2}	1,960 ^{2/3}	385 ^{3/4}	90 ^{4/5}	83	367 ^{5/6}	18	536 ^{6/7}	653 ^{7/8}	217 ^{8/9}	10,507
	+ 405 ^{1/2}	+ 134 ^{2/3}	+ 38 ^{3/4}	+ 8 ^{4/5}	- 5	50 ^{5/6}	+ 1	+146 ^{6/7}	+122 ^{7/8}	+ 23 ^{8/9}	+ 922

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For Justification See:

1/ Page 8 2/ Page 8 3/ Page 8 4/ Page 8 5/ Page 96/ Page 9 7/ Page 9 8/ Page 9

CHANGES BY ACTIVITY

This appropriation request for fiscal 1982 provides \$10,507,000 for the operation and maintenance of permanent American burial grounds and other memorial shrines in twelve countries around the world, \$922,000 more than its fiscal 1981 Appropriation of \$9,585,000. Of the increase, \$539,000 are for Ingrade increases, full year costs of statutory and wage board pay raises and associated personnel benefits; \$38,000 are for benefits of former personnel such as severance pay; \$8,000 are for transportation of personnel, \$50,000 are for increased costs of rent, communications and utilities; \$1,000 are for printing and reproduction of booklets, pamphlets, photographs and lithographs; \$146,000 are for contractual services of which \$114,000 are for new construction at the Corozal American Cemetery; \$122,000 are for the purchase of supplies, materials and spare parts; and \$23,000 are for equipment. A decrease of \$5,000 in transportation of things is anticipated.

1. Administration and U.S. Memorials. \$456,000 are requested to administer Commission activities worldwide and maintain four memorials in the United States during fiscal 1982, \$22,000 more than fiscal 1981. Increases are \$10,000 for personnel salaries and benefits; \$1,000 are for transportation of persons; \$1,000 are for printing and reproduction of booklets, pamphlets and photographs; and \$17,000 for equipment. Offsetting these increases in part is a reduction of \$7,000 in contractual services.

2. European Cemeteries and Memorials. \$7,713,000 are requested for the operation and maintenance of 18 World War I and II permanent American burial grounds and 11 separate monuments in Belgium, England, France, Luxembourg and the Netherlands during fiscal 1982, \$605,000 more than fiscal 1981. Increases are \$410,000 for personnel compensation and benefits; \$5,000 for benefits of former personnel; \$33,000 for rent, communications and utilities; \$36,000 for contractual maintenance and repairs beyond the capability of cemetery employees; \$120,000 for supplies, materials and spare parts to restore in part depleted supply levels; and \$10,000 for equipment. Decreases are \$3,000 in transportation of persons and \$6,000 for transportation of supplies, equipment and spare parts.

3. Mediterranean Cemeteries and Memorials. \$1,608,000 are requested for the operation and care of three permanent American World War II burial grounds in Italy and North Africa and a World War I monument in the British Crown Colony of Gibraltar during fiscal 1982, \$152,000 more than fiscal 1981. Increases are \$102,000 for personnel salaries and associated benefits; \$33,000 for severance pay of former personnel; \$9,000 for travel of personnel and home leave; \$1,000 for the transportation of supplies, materials and equipment; \$11,000 for rent, communications and utilities; \$4,000 for supplies, materials and spare parts; and \$1,000 for equipment. A decrease of \$9,000 is programmed in maintenance and repairs of facilities beyond the capability of cemetery personnel.

4. Asian Cemeteries and Memorials. \$426,000 are requested for the operation and care of the Manila American Cemetery and Memorial during fiscal 1982, \$43,000 more than fiscal 1981. Increases are \$11,000 for personnel salaries and benefits; \$2,000 for travel and transportation of persons; \$1,000 for transportation of supplies, equipment and spare parts; \$5,000 for rent, communications and utilities; \$18,000 for maintenance and repairs beyond the capability of cemetery employees; \$3,000 for supplies, materials and spare parts; and \$3,000 for equipment.
5. Latin American Cemeteries and Memorials. \$304,000 are requested for the operation and care of two cemetery memorials in Mexico and Panama, \$99,000 more than fiscal 1981. Increases are \$6,000 for salaries and associated personnel benefits; \$1,000 for rent communications and utilities; \$109,000 for new construction and contractual maintenance and repairs beyond the capability of cemetery employees, including construction and construction for the superintendent of the Corozal American Cemetery and a small memorial feature there. Decreases are \$1,000 for travel of persons; \$1,000 for the transportation of supplies, equipment and spare parts; \$5,000 for supplies, equipment and spare parts, and \$10,000 in equipment procurement.

CHANGES BY OBJECT CLASSIFICATION

This appropriation request for fiscal 1982 provides \$10,507,000 for the operation and care of ABMC facilities around the world, \$922,000 more than fiscal 1981. A comparison of ABMC's fiscal 1982 appropriation request by object classification against its 1981 appropriation is shown below:

11 Personnel Compensation. \$6,198,000 are requested for compensation of 6 military, 50 GS civilian and 348 local national employees indigenous to the foreign countries in which ABMC installations are located, \$405,000 more than fiscal 1981. The additional funds will be used to ensure minimum manning and defray U.S. and LN ingrade increases and promotions in fiscal 1982 and the full year application of U.S. and LN ingrade and wage board pay raises made in fiscal 1981.

12 Personnel Benefits. \$1,960,000 are requested for personnel benefits and allowances for U.S. and local national employees during fiscal 1982, \$134,000 more than fiscal 1981. These benefits and allowances are provided for either by U.S. federal law or by the laws of or agreements with the foreign countries where ABMC installations are located. They are FICA (U.S. social security); U.S. and LN group life insurance; U.S. education allowances for dependent children; U.S. quarters allowances; U.S. post allowances; U.S. temporary living allowances for new employees overseas; local national social security; U.S. and local national health and hospitalization insurance; incentive awards; bonuses; U.S. and LN retirement; and LN family and meal allowances.

13 Benefits for Former Personnel. \$385,000 are requested for severance pay of 6 long term local national employees in Italy and to reimburse the Department of State for losses in dollar exchange rates for ABMC annuitants in France, \$38,000 more than fiscal 1981. On termination of employment, Italian law requires payment of one month's salary for each year of service with an employing organization, regardless of whether or not the individual concerned is scheduled to receive an annuity from the organization.

21 Travel and Transportation of Persons. \$90,000 are requested for travel and transportation of ABMC personnel and dependents, \$8,000 more than fiscal 1981. Of this amount, \$10,000 are for meetings and inspections by the eleven appointive members of the Commission who are charged with supervision of Commission operations; \$39,000 are for operational travel of field personnel in the supervision, operation, maintenance and repair of facilities; \$7,000 are for inspection of field operations by the Secretary and Washington office staff; \$25,000 are for home leave of U.S. employees and their dependents; \$2,000 are for educational travel of dependents; and \$7,000 are for permanent changes of station of U.S. employees. Increase reflects higher costs of travel.

- 22 Transportation of Things. \$83,000 are requested to ship supplies, materials, spare parts, vehicles and equipment purchased for ABMC use overseas; to transport these items from ports of entry to destinations; and to ship household effects of employees retiring, or receiving permanent changes of station, \$5,000 less than fiscal 1981. Decrease reflects smaller household goods shipments in connection with retirements.
- 23 Rents, Communications and Utilities. \$367,000 are requested for rental of office and garage space, postage, telephone service, water, gas, electricity and administrative support by the Department of State, \$50,000 more than fiscal 1981. Increase is due to constantly increasing costs of energy and State Department administrative support.
- 24 Printing and Reproduction. \$18,000 are requested for printing and reproduction of photographs, lithographs, cemetery booklets, general information pamphlets, the annual report to the President, blueprints and other material, \$1,000 more than fiscal 1981.
- 25 Other Services. \$536,000 are requested for contractual maintenance and repair of facilities and utilities beyond the capability of cemetery employees, \$146,000 more than fiscal 1981. \$114,000 of the increase is for construction of superintendent's quarters and a small memorial feature at the Corral American Cemetery. The \$32,000 remaining reflects higher costs.
- 26 Supplies and Materials. \$653,000 are requested to purchase plantings; horticultural, repair and utilities; custodial and office supplies; petroleum, oils and lubricants; tires and tubes; spare and replacement parts for vehicles and equipment, \$122,000 more than fiscal 1981. The additional funds will enable reestablishment of stock levels and offset higher costs.
- 31 Equipment. \$217,000 are requested to replace uneconomically repairable and wornout vehicles and equipment, and procure needed equipment not presently on hand, \$23,000 more than fiscal 1981. The additional funds reflect higher costs.

ANNUAL BUDGETS

Cemetery/Office	Fiscal 1980	Fiscal 1981	Fiscal 1982
Washington Office	364,191 *	433,979 #	456,386
Paris Office	1,074,028	1,180,389	1,250,708
Aisne-Marne	282,269	316,994	352,626
Ardennes	391,900	473,343	524,058
Brittany	236,072	299,621	333,230
Brookwood	49,612	40,614	44,930
Cambridge	185,623	215,042	227,268
Epinal	218,701	299,944	329,098
Flanders Field	177,392	188,515	213,935
Henri-Chapelle	435,267	484,026	542,493
Lorraine	413,574	487,241	542,178
Luxembourg	246,844	282,455	296,478
Meuse-Argonne	557,192	647,008	707,649
Netherlands	586,532	644,788	658,440
Normandy	428,215	500,900	562,839
Oise-Aisne	223,815	275,627	315,936
Rhone	153,082	190,534	194,076
Somme	153,543	185,414	198,208
St. Mihiel	215,238	236,392	257,953
Sureness	120,843	159,194	161,181
Rome Office	266,074	245,078	436,633
Florence	331,535	526,571	464,293
North Africa	159,686	175,036	193,181
Sicily-Rome	365,903	509,359	513,611
Asian Office/Manila	330,175	382,294	423,604
Latin Office/Corozal	154,111	158,312	257,561
Mexico City	38,583	46,330	46,447
Total	8,160,000 *	9,585,000 #	10,507,000

Does not include \$70,000 of previously appropriated "no year" funds that will be obligated in fiscal 1981.

* Does not include \$280,000 of previously appropriated "no year" funds obligated in fiscal 1980.

PROPOSED APPROPRIATION LANGUAGE CHANGE

Request the following change be made in the Commission's Appropriation language for Fiscal 1982:

Change appropriation for Salaries and Expenses from \$8,967,000 to \$10,507,000.

ABMC INSTALLATIONS

<u>Name and Location</u>	<u>No. of Burials</u>	<u>Missing Memorialized</u>	<u>No. of Acres</u>	<u>No. of Employees</u>	<u>Highest Grade</u>
<u>U. S. Installations</u>					
Washington Office	...	...	...	7GS, 4mil	MG
American Expeditionary Force Monument Pershing Park, Washington, DC	...	...	0.1	...	...
East Coast Memorial, New York City, New York (9)	...	4,596	0.8	...	...
Honolulu Memorial, Honolulu, Hawaii (10)	...	28,777	1.0	...	...
West Coast Memorial, Presidio of San Francisco, California (11)	...	412	1.3	...	...
<u>European Installations</u>					
Paris Office	...	...	...	66S, 27LN, 1mil	GS-15
Aisne-Marne American WWI Cemetery and Memorial, Belleau, Aisne, France	2,288	1,060	282.5	1GS, 12LN	GS-8
Ardennes American WWII Cemetery and Memorial, Neupre, Belgium	5,325	462	90.5	2GS, 16LN	GS-9
Audenarde Monument, Audenarde, Belgium (1)	...	...	0.4	...	...
Bellicourt Monument, St. Quentin, Aisne, France (2)	...	...	1.8	...	...
Brest Monument, Brest, Finistere, France (3)	...	...	1.0	1LN	...
Brittany American WWII Cemetery and Memorial, St. James, Manche, France	4,410	497	27.5	2GS, 10LN	GS-8

<u>Name and Location</u>	<u>No. of Burials</u>	<u>Missing Memorialized</u>	<u>No. of Acres</u>	<u>No. of Employees</u>	<u>Highest Grade</u>
Brookwood American WWI Cemetery and Memorial, Brookwood, England (4)	468	563	4.5	2LN	...
Cambridge American WWII Cemetery and Memorial, Cambridge, England	3,811	5,126	30.5	2GS,12LN	GS-10
Cantigny Monument, Cantigny, Somme, France (2)	...	...	0.4	1LN	...
Chateau-Thierry Monument, Chateau-Thierry, Aisne, France (5)	...	...	28.0	1LN	...
Epinal American WWII Cemetery and Memorial, Epinal, Vosges, France	5,255	424	46.0	2GS,11LN	GS-8
Flanders Field American WWI Cemetery and Memorial, Waregem, Belgium	368	43	6.0	1GS,5LN	GS-8
Henri-Chapelle American WWII Cemetery and Memorial, Henri-Chapelle, Belgium	7,989	450	57.0	2GS,16LN	GS-9
Kimmel Monument, Ypres, Belgium (1)	...	...	0.2	...	...
Lorraine American WWII Cemetery and Memorial, St. Avoird, Moselle, France	10,489	444	114.0	2GS,19LN	GS-10
Luxembourg American WWII Cemetery and Memorial, Luxembourg	5,076	370	50.6	2GS,11LN	GS-9
Meuse-Argonne American WWI Cemetery and Memorial, Romagne-sous-Montfaucon, Meuse, France	14,246	954	130.5	2GS,27LN	GS-11
Montfaucon Monument, Montfaucon, Meuse, France (6)	...	...	9.0	1LN	...
Montsec Monument, Thiaucourt, Meurthe and Moselle, France (7)	...	...	45.0	1LN	...

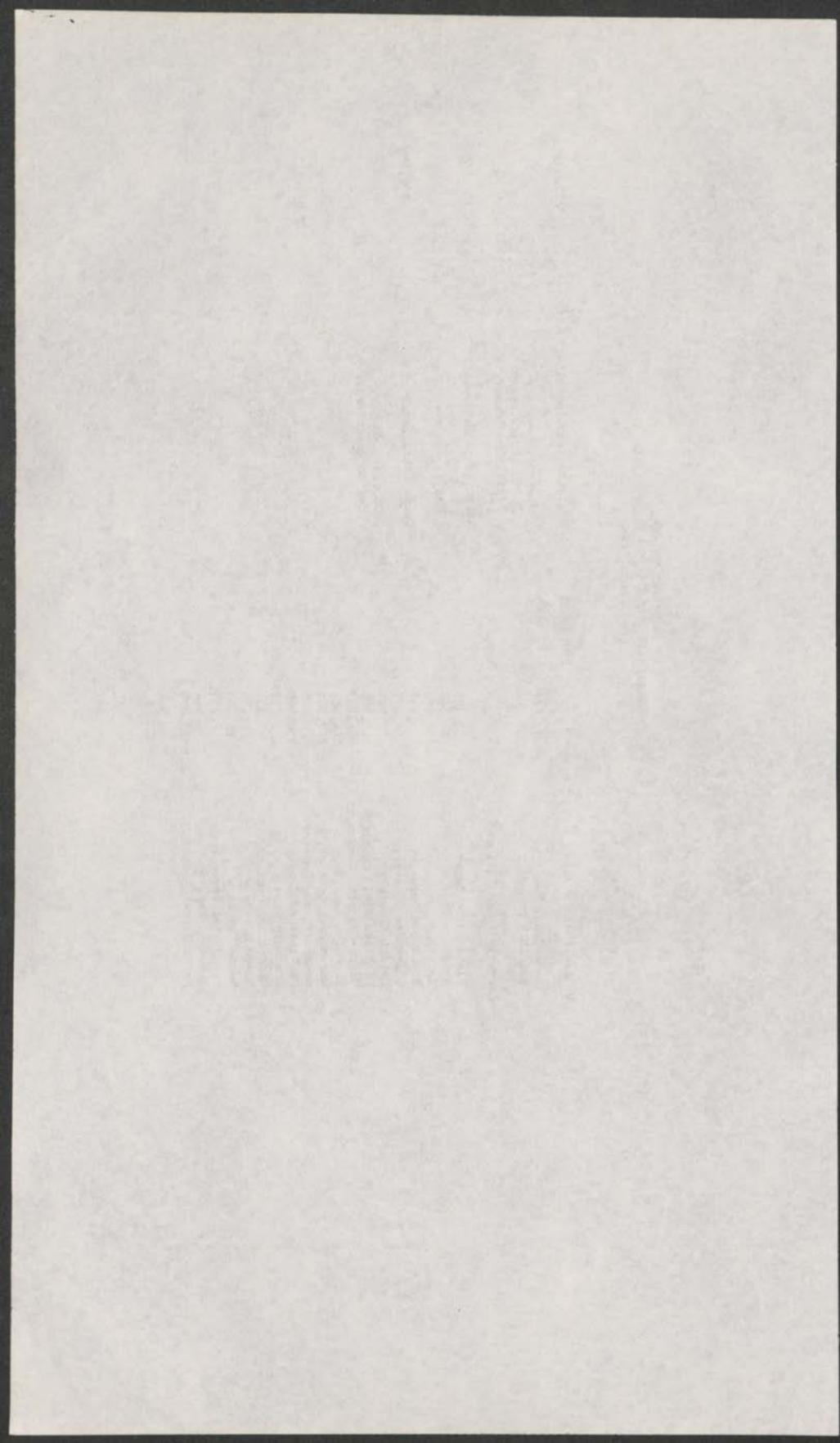
Name and Location	No. of Burials	Missing Memorialized	No. of Acres	No. of Employees	Highest Grade
Netherlands American WWII Cemetery and Memorial, Margraten, Netherlands	8,301	1,722	65.5	2GS, 18LN	GS-10
Normandy American WWII Cemetery and Memorial, St. Laurent, Calvados, France	9,386	1,557	172.3	2GS, 20LN	GS-10
Oise-Aisne American WWI Cemetery and Memorial, Pere-en-Tardenois, Aisne, France	6,012	241	36.5	1GS, 12LN	GS-8
Pointe du Hoc Monument, Cricqueville-en-Bessin, Calvados, France	...	...	31.0	...	...
Rhone American WWII Cemetery and Memorial, Draguignan, Var, France	861	293	12.0	1GS, 7LN	GS-8
Somme American WWI Cemetery and Memorial, Bony, Aisne, France	1,844	333	14.3	1GS, 6LN	GS-8
Sommepy Monument, Sommepey, Marne, France (6)	...	...	15.0	...	...
St. Mihiel American WWI Cemetery and Memorial, Thiaucourt, Meurthe, France	4,153	284	40.3	1GS, 9LN	GS-8
Suresnes American WWI Cemetery and Memorial, Suresnes, Seine, France	1,565(12)	974	7.5	1GS, 5LN	GS-8
Tours Monument, Tours, Indre-et-Loire, France (3)	...	...	0.5	...	...
Mediterranean Installations					
Rome Office	...	...	...	7LN, 1ml	COL
Florence American WWI Cemetery and Memorial, Florence, Italy	4,402	1,409	70.0	2GS, 15LN	GS-9
Gibraltar Monument, Gibraltar (8)	...	...	0.1	...	...

<u>Name and Location</u>	<u>No. of Burials</u>	<u>Missing Memorialized</u>	<u>No. of Acres</u>	<u>No. of Employees</u>	<u>Highest Grade</u>
North Africa American WWII Cemetery and Memorial, Carthage, Tunisia	2,841	3,724	27.0	2GS,12LN	GS-8
Sicily-Rome American WWII Cemetery and Memorial, Nettuno, Italy	7,862	3,094	75.0	2GS,16LN	GS-9
Asian Installation					
Asian Office/Manila American WWII Cemetery and Memorial, Luzon, Philippines	17,206	36,280	152.0	2GS,40LN	GS-12
Latin Installations					
Latin Office/Corozal American Cemetery, Canal Zone, Panama	4,218(14)	...	16.0	1GS,7LN	GS-10
Mexico City National Cemetery, Mexico City, Mexico	1,563(13)	...	1.0	1GS,1LN	GS-7
Total	129,939	94,089	1,664.6	50GS,348LN,6mil	MG

- (1) Satellited on Flanders Field Cemetery
- (2) Satellited on Somme Cemetery
- (3) Satellited on Brittany Cemetery
- (4) Satellited on Cambridge Cemetery
- (5) Satellited on Aisne-Marne Cemetery
- (6) Satellited on Meuse-Argonne Cemetery
- (7) Satellited on St. Mihiel Cemetery
- (8) Satellited on City of Gibraltar
- (9) Satellited on City of New York
- (10) Satellited on National Memorial Cemetery of the Pacific
- (11) Satellited on Presidio of San Francisco
- (12) Includes 24 Unknowns of World War II
- (13) Includes 813 non War Dead
- (14) Includes 986 U.S. veterans and 2,832 others
- (15) Satellited on Normandy Cemetery

VISITORS TO ABMC
CEMETERIES, MONUMENTS AND MEMORIALS
Fiscal 1980

U. S. Installations:	3,060,000	Mediterranean Installations:	277,409
East Coast Memorial	810,000	Florence Cemetery	25,004
Honolulu Memorial	2,250,000	North Africa Cemetery	19,258
		Sicily-Rome Cemetery	233,147
European Installations:	3,883,035	Asian Installations:	704,255
Aisne-Marne Cemetery	51,106	Manila Cemetery	704,255
Ardennes Cemetery	94,147	Latin Installations:	30,152
Brittany Cemetery	128,182	Corozal Cemetery	29,980
Brookwood Cemetery	3,936	Mexico City Cemetery	172
Cambridge Cemetery	119,472		
Epinal Cemetery	71,889	Total	7,954,851
Flanders Field Cemetery	20,488		
Henri-Chapelle Cemetery	401,267		
Lorraine Cemetery	64,487		
Luxembourg Cemetery	217,334		
Meuse-Argonne Cemetery	46,059		
Netherlands Cemetery	638,566		
Normandy Cemetery	1,192,782		
Oise-Aisne Cemetery	14,331		
Rhone Cemetery	15,435		
Somme Cemetery	15,735		
St. Mihiel Cemetery	6,373		
Suresnes Cemetery	4,846		
Point du Hoc Monument	776,600		



TUESDAY, FEBRUARY 3, 1981.

CEMETERIAL EXPENSES, DEPARTMENT OF THE ARMY

WITNESSES

COLONEL ANN B. SMITH, DIRECTOR, CASUALTY AND MEMORIAL AFFAIRS

MAJOR JAMES P. KING, MILITARY ASSISTANT, ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

RAYMOND J. PETTIS, CHIEF, BUDGET AND ACCOUNTING DIVISION, OFFICE OF THE ADJUTANT GENERAL

RAYMOND J. COSTANZO, SUPERINTENDENT, ARLINGTON NATIONAL CEMETERY

PAUL TOWELL, BUDGET ANALYST, CASUALTY AND MEMORIAL AFFAIRS DIRECTORATE

JULIUS L. SMITH, ENGINEER TECHNICIAN, CASUALTY AND MEMORIAL AFFAIRS DIRECTORATE

Mr. BOLAND. The Committee will come to order.

We are delighted to have with us this morning Colonel Ann B. Smith, Director, Casualty and Memorial Affairs, Office of the Adjutant General, Department of the Army.

Colonel Smith has appeared before the Subcommittee for the past two years. Today marks the first appearance for Major James King, who works for the Assistant Secretary of the Army (Civil Works). We welcome Mr. Raymond Pettis, who is Chief of the Budget and Accounting Division in the Office of the Adjutant General. We also welcome Ray Costanzo, who is the Superintendent of Arlington National Cemetery, and Paul Towell and Julius Smith, who both work in the Casualty and Memorial Affairs Directorate. This activity is responsible for Arlington Cemetery and the Soldiers' Home Cemetery, and comes under the Department of the Army.

Has everyone except Major King been here before?

How about Ray Pettis?

Mr. PETTIS. I have been here before.

Mr. BOLAND. Ray Costanzo, Paul Towell, and Julius Smith, you have been here before. You are familiar to the Committee.

Please excuse me. I will have to leave the hearing due to a schedule conflict. Mrs. Boggs has kindly consented to preside.

Mrs. BOGGS [presiding]. Colonel Smith, will you proceed with your statement?

Colonel SMITH. It is a pleasure to be here on behalf of the Secretary of the Army. If it is all right with you, I would like to summarize my comments.

The Arlington National Cemetery is a function of the Assistant Secretary of the Army for Civil Works, and the Adjutant General operates it for the Assistant Secretary.

Arlington is special in that it is an active cemetery, a national shrine, and a tourist attraction.

We have about 14 burials or inurnments a day as an active cemetery. As a shrine, we have around 190,000 people buried there. Because it has the Tomb of the Unknown Soldier, it is very important. As a tourist attraction, it has about 3,000,000 visitors per year. So, it is a multiple job for the Superintendent.

We have this past year opened a Columbarium which has 5,000 niches to hold 10,000 cremated remains. That was opened in April of this year, and we average 70 inurnments a month. It is very popular. Our major construction project ongoing is the renovation of the Amphitheater which you referred to earlier. This was started in November of this year and should take approximately 18 months to finish.

In this year's budget we have requested \$7,386,000: \$5,416,000 for maintenance operations; \$322,000 for administration; and \$1,648,000 for construction. The major items consist of repairs of the roads and Columbarium facility.

We have also this year requested a supplemental amount to cover pay raises. This is one item which is very important to us. If we do not get this, we might have to divert some of our more important work in the cemetery.

That concludes my comments.

[The statement follows:]

GENERAL STATEMENT

Mr. Chairman and Members of the Committee: Good morning. We welcome the opportunity to testify in support of the requested 1982 appropriation for Cemeterial Expenses, Department of the Army. We are appearing on behalf of the Secretary of the Army, who is responsible for Arlington National Cemetery and Soldiers' Home National Cemetery. The funds provided through this appropriation will finance operation and maintenance, construction, and administration at both cemeteries.

Mr. Chairman, with the knowledge that there are new committee members I would, with your permission, like to provide some background information concerning Arlington National Cemetery. The current eligibility for interment in Arlington includes all Medal of Honor recipients, members of the Armed Forces on active duty, retired members of the Armed Forces, veterans who served in major posts in the Federal Government, veterans who have been awarded the Distinguished Service Cross, Distinguished Service Medal, Silver Star, or Purple Heart or their equivalent, and veterans whose service resulted in a disability of 30 percent or more and who were medically discharged before 1 October 1949. Any honorably discharged veteran who is cremated is eligible for inurnment in the Columbarium. The spouses, minor children, and dependent adult children of eligible persons may also be buried or injured at Arlington.

Arlington is a unique memorial to America's war dead from the Revolution to Vietnam, and the final resting place of two Presidents and other important public officials. Over 3 million people visit Arlington each year. The two most frequently visited locations are the Tomb of the Unknown Soldier and President Kennedy's grave. Citizens from across the country also attend more than 400 ceremonies held each year at Arlington on such occasions as Memorial Day, Veterans Day, and other holidays. Included are approximately 50 ceremonies involving foreign or high-level dignitaries such as the President of the United States, Members of Congress, Cabinet officers, visiting foreign heads of State, and military and political leaders.

The Master Plan for the expansion of Arlington National Cemetery from 202 acres to 612 acres was approved by the Congress in 1966. The Master Plan is comprised of 18 construction projects, 5 landscaping projects, and 3 land development projects. To date, 22 of these 26 projects have been begun or completed. Remaining projects include the construction of a Permanent Visitors Center and parking facility; Land Development of the final 40 acres for burial purposes; construction of new warehouse facilities; and replacement of the west boundary wall. The major ongoing construction project is rehabilitation of the Memorial Amphitheatre.

The first 5000-niche increment of a 50,000-niche modular Columbarium was opened for cremated remains in April 1980. During the period April through September 1980, 427 remains were inurned in the Columbarium.

Taken together, the Arlington and Soldier's Home National Cemeteries comprise 628 acres. At Arlington there are about 14 interments/inurnments a day; for fiscal year 1982, 3,575 interments/inurnments are projected. Of this total, 2,975 will be inground burials and 600 will be the placement of cremated remains in niches in the Columbarium.

We are requesting \$7,386,000 for fiscal year 1982. This reflects an increase in estimated obligations of \$1,794,000 from fiscal year 1981. The increase is primarily for major construction projects.

For operation and maintenance of Arlington as an active cemetery and because it is this Nation's foremost memorial to our honored dead we are asking for \$5,416,000 to cover three major areas. First, we ask for the direct hiring of personnel to perform 153 man-years of service; i.e., for interments/inurnments and a portion of cemetery maintenance. Second, we require contracting with an outside firm for security functions and maintenance of cemetery grounds (these functions have been contracted since fiscal year 1978). Third, we request procurement of operating supplies, equipment, vehicles, and utilities.

We are asking \$322,000 for administration of the Army's Cemetery Program. Administrative personnel monitor cemetery activities to assure adherence to the Master Plan for construction at Arlington and to enforce established policies and regulations. Budget development and execution are also a part of the administrative functions.

We request \$1,648,000 to continue the Construction Program at Arlington National Cemetery. This will provide financing for three projects:

General repair of cemetery roads, Phase III;

Design of a new warehouse facility; and

Landscaping of the Columbarium area.

In connection with construction projects, I am pleased to report that the contract for rehabilitation of the Memorial Amphitheatre was recently awarded for considerably less than the original estimate of \$3,000,000. The actual contract price is \$1,817,000 which results in an unobligated balance of \$1,183,000, of which \$250,000 was reprogrammed to cover the cost of urgently required repairs of cemetery roads. The Army Corps of Engineers attributes this favorable bid to real competitiveness among contractors during this period of relatively low activity in the construction industry. With the Committee's approval, the balance of \$933,000 could be applied to our fiscal year 1982 projects, thereby reducing the 1982 construction request by this amount. Another option would be to apply these funds for designing of other programed projects, such as the Permanent Visitors Center and parking facility, an additional 5000-niche Columbarium, or to development of project 90.

Mr. Chairman, this concludes my opening remarks. We will be glad to answer any questions.

AMPHITHEATER REHABILITATION

Mrs. BOGGS. I notice in your statement that the rehabilitation of the Arlington Memorial Amphitheater began in 1980.

What firm won the contract?

Mr. SMITH. William M. Schlosser Company, Inc.

Mrs. BOGGS. Where are they from?

Mr. SMITH. Hyattsville, Maryland.

Mrs. BOGGS. Was there any change in the scope of the work?

Mr. SMITH. Yes. The original design included an elevator going from the lower chapel through the trophy room to the Hall of Heroes. The Commission of Fine Arts suggested that the elevator be located on the arcade so as not to disturb the aesthetic view across the trophy room. Secondly, President Carter dedicated a bronze plaque in honor of the men and women who served in Vietnam that was placed on the west wall. The elevator would have blocked the view of the plaque which would have been of further detriment to those men and women.

Mrs. BOGGS. Does that plan meet all necessary specifications?

Mr. SMITH. Yes.

Mrs. BOGGS. The last page of your statement indicates that the contract price is \$1,817,000. The estimated amount of the work and the amount appropriated in fiscal year 1980 was \$3,000,000. Your statement indicates this resulted in an unobligated balance of \$1,183,000, of which \$250,000 was reprogrammed to cover the cost of urgently required repairs of cemetery roads.

Can you elaborate a little bit for the Committee on why you think the actual contract price was so far below the estimate?

Colonel SMITH. People at the Corps of Engineers have this as one of their projects, and as many as 13 contractors have done this, bid lower than the estimate. They feel it is because of the economy and the requirement for companies to make money. They are willing to take less money to have work. This is a pattern that has been going on this season.

REPROGRAMMING

Mrs. BOGGS. Are you familiar with language in the Senate Appropriations Committee's report concerning reprogramming of funds? If not, I will read it for you. Quoting now from page five of the Senate Report, 96-258, on the 1980 HUD—Independent Agencies appropriation bill: "The Committee directs that the Department of Housing and Urban Development and the Agencies funded through this bill notify the Chairman of the HUD—Independent Agencies Subcommittee prior to reprogramming funds in excess of \$250,000 or 10 percent, whichever is less, between programs or activities."

Did you notify the Senate Committee of this reprogramming action?

Mr. PETTIS. No, we did not. This is not a true reprogramming. We did not go from one budget program to another. However, the \$250,000 is within the authorized reprogramming amount, and it is not more than 10 percent.

UNOBLIGATED BALANCE

Mrs. BOGGS. The budget appendix and the budget justifications indicate that the unobligated balance in this account at the end of fiscal year 1980 was \$286,000, on page two of the justifications.

How do you reconcile that with the statement on page three that there was an unobligated balance of \$1,183,000?

Colonel SMITH. Mr. Pettis.

Mr. PETTIS. At the time the budget was put together, we did not know the price of the contract. The award occurred after September 30. The figures in the budget for the unobligated balance represent the condition of the account as of the 30th of September. The contract was awarded after the end of the fiscal year.

Mrs. BOGGS. This statement also appears on page three of your prepared text: "With the Committee's approval, the balance of \$933,000 could be applied to our fiscal year 1982 projects, thereby reducing the 1982 construction request by this amount."

What is the exact status of both the \$933,000 and the \$250,000 reprogrammed for repair of cemetery roads at this time?

Mr. PETTIS. The \$933,000 will appear as an unobligated balance. We will go back and deobligate the \$933,000. The amount pro-

grammed for roads is out for contract. This is an ongoing contract for road repairs.

Mrs. BOGGS. What was OMB's involvement in the use of the \$1,183,000 not required for the repair of the Amphitheater? Did OMB ever propose using a portion of those funds for supplemental pay costs?

Mr. PETTIS. This was not known by OMB. Again, this occurred after the OMB hearing. So, they were not aware of it at the time of their review.

BUDGET REQUEST TO OMB

Mrs. BOGGS. What were the minimum, current, and enhanced levels of the Cemeterial Expenses—Army budget for 1982?

Colonel SMITH. The minimum was \$5,808,000. The basic, \$7,954,000. The enhanced level, \$8,741,000.

Mrs. BOGGS. What was the construction request to OMB for 1982 by the Office of Memorial and Casualty Affairs?

Mr. SMITH. \$2,098,000 was the original construction budget submitted to OMB.

Mrs. BOGGS. Will you provide the detail for the record and indicate the projects by priority?

Mr. SMITH. Yes.

[The information follows:]

The original construction request to OMB was \$2,098,000 for the following projects:

1. Permanent Visitors Center and Parking Facility (Preliminary design and engineering investigation)	\$ 450
2. Repair of Cemetery Road (construction)	\$1,058
3. New Warehouse Facilities (design)	\$ 270
4. Landscape Columbarium Area (construction)	<u>\$ 320</u>
Total	\$2,098

Master Plan Projects in Priority Order

1. Permanent Visitors Center and Parking Facility

To replace a 12-year-old temporary visitors center and parking area which is inadequate, poorly located, and will require considerable repair if not replaced.

2. Repair of Cemetery Roads

To rebuild and resurface, as necessary, due to wear and tear, age and damage due to exposure to seasonal changes.

3. New Warehouse Facility

To replace deteriorated, inadequate, and servicable facilities thereby improving the working conditions and efficiency of operations.

4. Landscape Columbarium Area

To landscape 14 acres of land that will eventually encompass eight 5,000 niche modules and one 10,000 niche module for cremated remains. This work will enhance the aesthetic effect, and will reduce damage due to soil erosion.

5. Land Development Project 90

To develop the remaining 40 acres of land bringing 24,000 additional gravesites to the cemetery. Work includes construction of roads, paving, curbing, water distribution system, establishment of turf, gravesite monumentation, construction of 1,500 feet of boundary wall and fence; and landscaping.

6. Columbarium - 5,000 Niche Unit

The construction of the north court to complete the first increment of the Columbarium (10,000) niches as planned, and approved by the Commission of Fine Arts and the National Capital Planning Commission

7. Replacement of the West Boundary Wall

The removal of a four-foot high, deteriorating redstone wall constructed in the 1870's; and constructing 1.9 mile of new wall consisting of a three-foot high stone wall topped by a five-foot high iron picket fence.

Colonel SMITH. OMB deleted our highest-level project and raised a lower-level project and funded it.

Our highest level is the visitors center, and OMB approved the design for a warehouse. So, we would still be carrying the design for the visitors center as our first priority.

LANGUAGE CHANGES

Mrs. BOGGS. I notice in the budget justification on page seven that the only language changes you are proposing is the purchase of two passenger motor vehicles for replacement only and a change in the appropriation amount. However, looking on page I-H1 of the Budget Appendix to the President's 1982 Budget, I notice two other changes which I presume you support. One of the changes is rather minor: replacing "of" with "for." The other change would strike the following words "The Cemetery at the Soldiers' and Airmen's Home and" and replace that with "and Soldiers' Home National Cemetery".

Do you support those language changes?

Colonel SMITH. Yes.

Mr. PETTIS. That is more semantics than anything else. It is called the Soldiers' Home National Cemetery. However, it is located adjacent to the Soldiers' and Airmen's Home. The name of the cemetery has never been changed.

Mrs. BOGGS. In the past, the appropriation for Cemeterial Expenses—Army has been made available without fiscal year limitation. Although there may be a good case made for this in connection with the construction money, it does not appear to the Committee that there is any need for the rest of the account to remain available past the end of the fiscal year. This would be consistent with the action that the Committee takes on most other accounts funded in the bill. For example, the American Battle Monuments Commission, which appeared earlier today, receives an annual appropriation with the exception of the amounts provided specifically for construction of memorials.

Would such a change to your appropriation account present you with any problems?

Colonel SMITH. Mr. Pettis.

Mr. PETTIS. Not really. I really cannot give a rebuttal to that. It would not be devastating if we were forced to deal with a single-year appropriation.

Mr. COSTANZO. I operate within a one-year program in any event.

Mr. PETTIS. This has come up before.

Mr. COSTANZO. I operate on a yearly budget.

Mrs. BOGGS. Turn to page two of the detailed budget justifications. Explain the footnote that appears at the bottom of the page, which indicates that \$113,000 of the \$286,000 remaining available and unobligated at the end of fiscal year 1980 was directed by the Office of Management and Budget.

Exactly what does this mean?

Mr. PETTIS. It means after we received the appropriation, we got further instructions from OMB that \$113,000 would not be obligated this year. I suppose it is a form of deferral.

Mrs. BOGGS. Was a formal deferral submitted?

Mr. PETTIS. Mr. Towell.

Mr. TOWELL. Yes. We received a change to our apportionment schedule that reduced available funds by \$113,000.

Mrs. BOGGS. When was this done?

Mr. TOWELL. I do not recall the date.

Mrs. BOGGS. Could we have that supplied for the record?

Mr. TOWELL. Yes.

[The information follows:]

To the Congress of the United States:

In accordance with the Impoundment Control Act of 1974, I herewith report two new deferrals of budget authority totalling \$166.4 million and one revision to a previously transmitted deferral increasing the amount deferred by \$20.6 million. These items affect programs in the Departments of Agriculture, Defense, and Transportation.

The details of the deferrals are contained in the attached reports.

JIMMY CARTER.

THE WHITE HOUSE,
June 18, 1980.

CONTENTS OF SPECIAL MESSAGE

[In thousands of dollars]

Deferral No.	Item	Budget authority
D80-3A.....	Department of Agriculture; Forest Service; expenses, brush disposal.....	52,703
D80-71.....	Department of Defense—Civil Cemeterial Expenses, Army Salaries and expenses.....	113
D80-72.....	Department of Transportation; Urban Mass Transportation Administration; Urban Mass Transportation fund.....	166,245
Total, deferrals.....		219,061

SUMMARY OF SPECIAL MESSAGES FOR FISCAL YEAR 1980

[In thousands of dollars]

	Rescissions	Deferrals
Tenth special message:		
New items.....		166,358
Change to amounts previously submitted.....		20,643
Effect of tenth special message.....		187,001
Previous special messages.....	1,618,061	10,320,108
Total amount proposed in special messages.....	1,618,061	¹ 10,507,109

¹ This amount represents budget authority except for \$21,085 thousand involving the deferral of outlays only (D80-23A, D80-51A, D80-52A, and D80-53A).

OBLIGATIONS

Mrs. BOGGS. I notice on page two that you are estimating total obligations in fiscal year 1982 of \$7,386,000, the same amount as the appropriation request. This would indicate you intend to obligate the entire appropriation, including the \$1,648,000 requested for construction.

How realistic is this?

Mr. PETTIS. We would expect to come within 99 percent. We expect to have the amount for construction fully obligated. The amount in the O&M classification would fluctuate due to hiring needs, et cetera.

Mrs. BOGGS. In the past you have not been able to obligate construction moneys always in the year in which appropriated, but if we took you at your word, we would provide the entire appropriation request to be available only until the end of 1982. You would not want that, would you?

Mr. PETTIS. No. We are forced to depend upon others. We are dependent upon designs being approved, engineers making estimates. Sometimes these things do not go according to our schedule because we cannot control them.

Mr. SMITH. All designs must be approved by the Commission on Fine Arts (CFA) and National Capital Planning Commission (NCPC). If these Commissions do not agree on the design, the two staffs will meet and a compromise is agreed upon. The design and construction schedule must now be revised.

Mrs. BOGGS. That has not been done yet?

Mr. SMITH. No.

Mrs. BOGGS. Turn to page three under "construction" on line C, fiscal year 1981 obligations. There appears an entry of \$15,000.

What exactly does this represent?

Mr. SMITH. The \$15,000 are contingency funds for any small unforeseen construction that may occur. A case in point was the new Columbarium which required deepening eight tree pits an additional six feet to insure adequate drainage.

Mrs. BOGGS. Mr. Green, any questions?

Mr. GREEN. No.

WAREHOUSE DESIGN

Mrs. BOGGS. Turn to the construction justification on page six. In 1982, you are requesting \$270,000 for a new warehouse facility design only. In 1981, you requested of OMB, which was denied, \$126,000 for the design of the new warehouse facility.

Is this the project which OMB designated as a high priority?

Colonel SMITH. If I understand your question, you are asking: Is this the project I mentioned earlier? Yes, it is. We have been carrying this project for several years and when it was submitted, it was approved.

Mrs. BOGGS. Why has the estimated cost of the design of the warehouse facility more than doubled in one year's time?

Mr. SMITH. The design cost for the new warehouse facility increased because preliminary design and final design were combined to be completed in one year instead of two.

Colonel SMITH. In one year, in the long haul, it will probably cost less.

LANDSCAPE COLUMBARIUM AREA

Mrs. BOGGS. You have also requested \$320,000 for landscaping the 14 acre Columbarium area. The entire area will ultimately contain niches for 50,000 cremated remains. However, only a 5,000 niche unit is currently in place.

Why do you need to landscape the entire 14 acres when only one-tenth of the Columbarium is currently operating?

Mr. SMITH. The Commissions want the site to look as though it is completed even though it is not. The architect designed the site so

it could be landscaped until the other niches are put in. By landscaping now, this will save money later on.

Mrs. BOGGS. Turn now to page nine, which contains the object classification. Although the format contained in 1982 is much better than in previous submissions, you still did not completely follow the committee's instructions. I refer you to page 130 of the 1981 hearing volume where Mr. Traxler said, and I quote: "For future justifications, the staff will discuss setting up separate columns for actual, original budget estimate, and current estimate for all schedules. This will assist us in following your justifications from year to year." The schedule on page nine lacks an actual column.

Colonel SMITH. Mr. Towell, can you answer that?

Mr. TOWELL. When we came up before the staff, the impression that we got was that this was all they wanted.

Colonel SMITH. This was discussed with the staff members in this format?

Mr. TOWELL. That is right.

APPROPRIATION DECREASES

Mrs. BOGGS. There have been many changes to the Cemeterial Expenses—Army appropriations in the past year. The \$5,300,000 figure reflected as the total 1981 budget estimate does not reflect the Administration-directed reduction of \$165,000 which occurred in March 1980, nor the reduction mandated by Congress in Section 412 of Public Law 96-526, the HUD-Independent Agencies Appropriation Act.

For the record, please indicate the two reductions, \$165,000 and \$103,000, by object class.

[The information follows:]

Distribution by Object Class the Administration Directed Reduction of \$165,000 and \$103,000 reduction mandated by Section 412, Public Law 96-526.

Object class	Administration reduction	Public Law 96-526 reduction
11.....		\$88,000
12.....		
21.....		
22.....		
23.1.....		
25.....	\$114,000	
26.....	22,000	
31.....		
32.....	29,000	15,000
Total.....	165,000	103,000

Mr. PETTIS. While they are not reflected in the document we gave you, which represents the original, we did implement the reductions for a total of \$268,000.

PERSONNEL BENEFITS

Mrs. BOGGS. Personnel benefits increase from \$283,000 in the current 1981 estimate to \$365,000 in the 1982 request.

Why is this? The personnel benefits are increasing even more than the amount for personnel compensation.

Mr. COSTANZO. There is an \$82,000 increase in 1982 because of back charges by the Department of Labor for on-the-job injuries. Apparently they have gone to a new computer system and are picking up cases which happened 10 years ago and backcharging us for the cumulative accounts. We have already received the billing for \$82,000. That accounts for the \$82,000.

SUPPLEMENTAL FOR PAY INCREASE

Mrs. BOGGS. In previous years it has been somewhat unusual for the Cemeterial Expenses—Army account to request a separate supplemental for pay increases. In 1981, however, there is a request for \$274,000 for supplemental pay increases. It seems to the Committee that the supplemental pay increase may be merely a way of circumventing the congressional reduction and the Administration reduction already applied to the 1981 budget.

How do you respond to that?

Mr. PETTIS. We do not agree with that. First, we have in the past years submitted requests for pay raises. This request is not an attempt to circumvent the reductions. As you can see, the 1981 appropriation is rather low. There would be a number of things that we could not do if we did not receive the supplemental appropriation. The cemetery would suffer considerably in other areas.

Mr. GREEN. Please excuse me, I have to leave.

PERSONNEL SPACES

Mrs. BOGGS. Thank you very much for being here. Mr. Green is a lovely new addition to our Committee.

Let us turn to page 13, the detail of permanent positions. In fiscal year 1982, you reflect an increase of two positions to a new total of 152. Many agencies in the government are not even remaining constant, but rather are losing positions. Yet you manage to gain an increase in 1982.

To what do you attribute this? Why do you need two additional people in 1982? Has your workload changed at all?

Colonel SMITH. The Columbarium opened and for every inurnment or interment at Arlington, we have a representative who accompanies the family. So, we have increased the workload by three to four cases a day, average. That accounts for one of the people. The other position is for a stonemason.

Mr. COSTANZO. We need a stonemason for placing the niche covers on the niches in addition to other masonry work which is required throughout the cemetery. But as indicated, it is primarily because of the additional workload caused by the opening of the new Columbarium.

Mrs. BOGGS. It certainly seems to have met an apparent need, as evidenced by the increased use of the cemetery.

Colonel SMITH. There are people eligible for inurnment who are not eligible for in-ground burial.

Mrs. BOGGS. What are the requirements that are different?

Colonel SMITH. Well, in order to be buried, in-ground burial, you must either have been on active duty or retired or hold the purple

heart, silver star, or higher awards, because of the limitation of ground at Arlington. Any honorably discharged veteran is eligible for inurnment at the Columbarium.

EQUIPMENT

Mrs. BOGGS. Provide for the record a detailed breakout of the \$203,000 requested in equipment in fiscal year 1982.

Mr. COSTANZO. I have that here if you would like to have it now.

Mrs. BOGGS. That would be fine.

[The information follows:]

FISCAL YEAR 1982

Replacement of vehicles and trucks:	
Sedan, 4 door, 5 passenger	\$6,000
Station wagon, 9 passenger	7,000
½-ton pickup truck	6,000
2½-ton dump truck, 4 each at \$15,000	60,000
Replacement of interment equipment:	
Tractor, diesel, 25 h.p. with PTO	12,000
Lowering device, 4 each at \$1,000	4,000
Grass sets, grave decorating, 6 each at \$400	2,400
Trailer, 1 cu. yd., "Redi-dump"	1,200
Chapel tent, 15 by 20, 3 each at \$1,500	4,500
Backhoe, 45 h.p.	25,000
Replacement of maintenance equipment:	
Tractor, 35 h.p. with front end loader	15,000
Road sweeper	35,000
Additional office equipment: Word processing unit	24,900
Total	203,000

CONSTRUCTION PROJECTS

Mrs. BOGGS. The long-range construction of the Arlington National Cemetery is nearly completed. As indicated in the justifications on page six, there has been \$23,895,000 appropriated to date for the construction projects at Arlington. Please provide, and this may be done for the record, the timing and the estimated costs of the remaining construction projects.

[The information follows:]

D-Design
C-Construction

On-going and Remaining Projects in the Master Plan
(\$ in Thousand dollars)

Projects	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
D Permanent Visitors Center and Parking Facility		446								
D Permanent Visitors Center and Parking Facility			468	17,587						
C Permanent Visitors Center and Parking Facility										
*C Repair of Cemetery Roads, Phase III	1,058	1,216	1,326							
C Repair of Cemetery Roads, Phase IV										
C Repair of Cemetery Roads, Phase V										
D New Warehouse Facilities	270	5,084								
C New Warehouse Facilities										
C Landscape Columbarium Area	320									
D Land Development Project 90 (40 acres)		420	13,210							
C Land Development Project 90 (40 acres)										
*D Columbarium - 5,000 Niches		42	1,225				54			2,144
C Columbarium - 5,000 Niches										
D Replacement of West Boundary Wall		84	2,652							
C Replacement of West Boundary Wall										
**D Demolition of Tempo Visitors Center & Parking Lot (15 acres)					60					
C Demolition of Tempo Visitors Center & Parking Lot (15 acres)					262					
**D Development of Sections 55 & 57 (15 acres)						315				
C Development of Sections 55 & 57 (15 acres)							3,045			
	\$ 1,648	\$ 7,292	\$ 18,881	\$ 17,587	\$ 322	\$ 315	\$ 3,099	\$ 2,144		

* On-going/continuous projects

** Upon completion of the Permanent Visitor Center and Parking Facility, the 15 acres site of the Temporary Visitors center and parking lot will be demolished and developed for burial purposes providing an additional 9,000 gravesites.

HIRING FREEZE

Mrs. BOGGS. The Administration has imposed an extensive freeze on personnel hiring. It has also announced an attempt to reduce travel and consulting costs in 1981.

How do these actions affect you?

What savings will accrue due to this action?

Colonel SMITH. The biggest impact will be if the hiring freeze continues and we are not able to hire temporary employees. During other freezes we have been able to hire temporary employees, particularly for the summer work.

Mr. COSTANZO. We would have to almost repeat the remarks from ABMC which you heard from earlier. There would be a noticeable deterioration in the standards of maintenance if we are forced to eliminate our summer hires.

Mr. PETTIS. We do not anticipate any savings because we are applying for an exemption to the freeze.

Colonel SMITH. There are seven spaces vacant right now.

Mr. COSTANZO. We are talking primarily about 11 man-years.

Colonel SMITH. We do very little travel at the cemetery and very little consulting.

Mr. PETTIS. We do not foresee any real savings here. I think we have a pretty good case for the savings. There have to be a minimum number of people for the services performed.

Mrs. BOGGS. The problem we are all facing is that that is true across the board with the Government. But you currently have on board all but seven positions?

Mr. COSTANZO. Yes, all FTP spaces are filled except seven. Recruitment actions for FTP are pending in various stages on these seven.

[CLERK'S NOTE: Subsequent to the hearing the Committee was advised that the seven positions are currently filled with temporary employees.]

Mrs. BOGGS. Anything you would like to add?

Mr. PETTIS. I would like to make one last comment. If we are denied or fail to get the sum requested for pay raises, as indicated earlier, one of the things we would not be able to do is headstone realignment. We have many, many headstones that are leaning and sinking. We did not have a contract in 1980 and we will not have one in 1981. There are other important things such as an irrigation system for a certain part of the cemetery. That will not be done, nor will major repair to one of the walls.

Mrs. BOGGS. Are you saying you would have to use that money for pay supplemental?

Mr. PETTIS. That is right.

Mrs. BOGGS. I do believe very strongly that we have to have pride in our national monuments and particularly, those dedicated to the heroic dead. Arlington is certainly a premier example of that. I hope we would not cut back to such an extent that we would not be able to provide the support for proper maintenance. Anyone who has had even a small garden plot recognizes that you cannot let up in maintenance without losing a great deal of time, money, and many of your plantings.

I feel very strongly that we should continue this feeling of national pride, by keeping up our monuments properly. Thank you

for trying to do this as inexpensively as possible under the circumstances. This Committee must also think about the living, and the problems inflation places upon all of us. I am sure you will keep that in mind as you continue to keep up the cemetery.

Thank you very much.

[The justification follows:]

[The revised justification begins on page 441.]

GENERAL STATEMENT

Responsibility for the operation of Arlington and Soldiers' Home National Cemeteries is vested in the Secretary of the Army.

As of 30 September 1980, Arlington and Soldiers' Home National Cemeteries contain the remains of 193,564 persons and comprise approximately 628 acres. There were 3,172 interments/inurnments in FY 1980; 3,450 interments/inurnments are estimated for FY 1981 and 3,575 interments/inurnments for FY 1982.

In addition to the funds required for normal cemetery operations, Arlington National Cemetery requires funding for land development for gravesites and for constructing new and/or renovating existing buildings, facilities, and roadways.

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LEAD-OFF TABULAR STATEMENT
(\$ in Thousands)

<u>Brought forward to FY 1980:</u>	
Unobligated balance end of FY 1979 -----	\$ 126
Appropriation, FY 1980 -----	8,326
Obligations, FY 1980 -----	8,166
Unobligated balance available end of FY 1979 -----	286*
<u>Funds carried forward to FY 1981:</u>	
Unobligated balance end of FY 1980 -----	\$ 286
Appropriation, FY 1981 -----	5,032
Supplemental appropriation -----	274
Obligations, FY 1981 -----	5,592
<u>Appropriation Request:</u>	
Appropriation Request, FY 1982 -----	\$ 7,386
Increase in estimated obligations, FY 1982 (5,592 to 7,386) -----	1,794
Increase in appropriation request, FY 1982 (5,306 to 7,386) -----	2,080

*Includes OMB directed carry over of \$113.

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RECONCILIATION OF OBLIGATIONS AND APPROPRIATIONS
(\$ in Thousands)

	Operation and Maintenance	Administration	Construction	Totals
A. FY 1980 Obligations	\$4,366	\$270	\$ 3,530	\$8,166
B. FY 1980 Appropriation	5,041	285	3,000	8,326
C. FY 1981 Obligations	5,257	320	15	5,592
D. FY 1981 Appropriation	4,746	286		5,032
E. FY 1981 Suppl. appropriation	255	19		274
F. FY 1982 Obligations	5,416	322	1,648	7,386
G. FY 1982 Appropriation	5,416	322	1,648	7,386
H. FY 1982 Increase or Decrease: Appropriation (Line D & E to F) Obligations (Line C to E)	+ 415 <u>1/</u> + 159	+ 17 <u>2/</u> + 2	+1,648 <u>3/</u> +1,633	+2,080 +1,794

Justification:

1/ See Page 4.

2/ See Page 5.

3/ See Page 6.

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JUSTIFICATION

1/ Operation and Maintenance of Arlington and Soldiers' Home National Cemeteries \$5,416,000.

Appropriation increase \$415,000
Obligation increase \$159,000

To apply 153 manyears to cemeterial operation and maintenance and to procure necessary operating supplies and equipment. To replace equipment and vehicles which are no longer serviceable or economically repairable. Provision is also made for 3,575 interments/inurnments. The program also includes the maintenance of 175,618 occupied gravesites, an increase of 1,560 over FY 1981 within approximately 628 acres. Funds will be utilized for pay and benefits of cemetery personnel to accomplish the following additional functions, care and maintenance of approximately 8000 trees and shrubs; maintenance of 18 miles of roads and walks; maintenance of the Memorial Amphitheatre; The Tomb of the Unknown Soldier, the administration building, the visitor center and the workshop area; the servicing and maintenance of vehicles, trucks and other motorized equipment; for contractual maintenance of lawns, gravesites, and headstones; for contractual security; and for travel, transportation, communications, and utilities.

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JUSTIFICATION (Cont'd)

2/ Administration \$322,000.

Appropriation increase	\$17,000
Obligation increase	\$ 2,000

This program provides funds for the compensation, benefits, and support cost of personnel engaged in management and administration.

Functions include budgeting, planning, and staff supervision of Arlington National Cemetery and Soldiers' Home National Cemetery. This includes all aspects of acreage development; landscaping and construction of facilities; roadways; administering interment eligibility policy established by the Assistant Secretary of the Army (Civil Works) monitoring interments/inurnments and statistics related thereto; answering White House and Congressional correspondence as well as inquiries from the general public regarding the cemetery program; implementing the gravesite reservation survey program (there are approximately 16,000 reserves); supervising all programs within the Arlington National Cemetery Master Plan; and performing technical and administrative inspections.

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JUSTIFICATION (Cont'd)

3/ Construction at Arlington National Cemetery \$1,648,000.

Appropriation Increase	\$1,648,000
Obligation Increase	\$1,633,000

Since FY 1968 the Congress has appropriated a total of \$23,895,000 to support Arlington National Cemetery construction projects. The greater part of these funds were used for projects in connection with the Arlington National Cemetery Master Plan as approved by the Congress. Of the \$23,895,000 appropriated to date, \$23,880,000 has been obligated and \$15,000 are programmed for obligation during FY 1981.

Funds requested will provide for the following: (\$ in 000)

General Repair of Cemetery Roads, Phase III. The \$1,058 requested will provide for repairs to 2,700 feet of Eisenhower Drive and 2,400 feet of McPherson Drive which will involve constructing an extensive sub-drain system; removing and resurfacing the surface course; regrading the subgrade; constructing new curbs, subbases, bases, and bituminous surfaces; and realigning both roads.

New Warehouse Facility (design only). The \$270 will provide for design of this facility to include shops for paint, electrical, plumbing, irrigation, carpentry, and maintenance and storage; the foreman's offices; and fuel tank islands.

Landscapes Columbarium Area. The \$320 will provide for landscaping this 14-acre site to give the area a completed appearance, even though the remaining columbarium units have not been constructed. Landscaping will include numerous species of low-spreading evergreens to be spotted throughout the site and the following species of trees: Red Maple, Grape Myrtle, Green Ash, Saucer Magnolia, Black Pine, London Plane, Norway Spruce, Japanese Cherry, and American Holly, all in heights of 8 to 20 feet.

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LANGUAGE CHANGES

There are two proposed changes in the 1982 appropriation language:

The purchase of two passenger motor vehicles for replacement only.

Increase in the amount to be appropriated from \$5,306,000 to \$7,386,000.

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VEHICLE DATA

Replacement Type	Meets Replacement Criteria		
	Mileage	Age	Other
1 Sedan	X	X	X
1 Station Wagon	X	X	
1 3/4 Ton Pick-up		X	
4 2-1/2 Ton Dump Trucks			X

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OBJECT CLASSIFICATION
(\$ in Thousands)

	Budget Estimate FY 1981	Current Estimate FY 1981	Estimate FY 1982	Increase/ Decrease
11.9 Personnel compensation -----	\$ 2,753	\$ 2,918	\$ 2,994	\$ +76
12.0 Personnel benefits -----	249	283	365	+82
21.0 Travel and transportation of persons -----	4	4	4	
22.0 Transportation of things -----	4	4	4	
23.1 Standard level user charges -----	16	16	16	
23.2 Communications, utilities and other rent -----	130	139	142	+3
25.0 Other services -----	1,622	1,669	1,908	+239
26.0 Supplies and materials -----	350	340	352	+12
31.0 Equipment -----	128	128	203	+75
32.0 Land and structures -----	44	91	1,398	+1,307
Total direct obligations	\$ 5,300 <u>1/</u>	\$ 5,592 <u>2/</u>	\$ 7,386	\$ +1,794

1/ OMB reduced estimate by \$165 and Congress reduced by \$103.

2/ Includes carry over of \$173 plus OMB directed carry over of \$113 and pay raise supplemental of \$274.

OTHER SERVICES, OBJECT CLASS 25
 (\$ in Thousands)

	Budget Estimate FY 1981	Current Estimate FY 1981	Estimate FY 1982
Maintenance of Equipment	\$ 20	\$ 20	\$ 22
Maintenance of Building and Grounds	87	97	73
Security Contract	350	350	375
Ground Maintenance Contract	900	900	925
Headstone setting and realignment	100	137	100
Tree, Shrub Maintenance and office equipment	60	60	38
Support agreement w/MDW	100	100	100
Maintenance of office equipment in headquarters	5	5	5
Design new warehouse facility			270
TOTAL	\$ 1,622	\$ 1,669	\$ 1,908

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PROGRAM AND FINANCING
(\$ in Thousands)

	FY 1980 Actual	FY 1981 Budget Estimate	FY 1981 Current Estimate	FY 1982 Estimate
<u>Program by activities:</u>				
1. Operation and Maintenance -----	\$4,366	\$5,012	\$5,257	\$5,416
2. Administration -----	270	288	320	322
3. Special Construction, Arlington National Cemetery -----	3,530		15	1,648
10.00 Total Obligations -----	8,166	5,300 1/	5,592 2/	7,386
<u>Financing:</u>				
21.40 Unobligated balance available, start of year -----	-126	---	-286	---
24.40 Unobligated balance available, end of year -----	286	---	---	---
39.00 Budget authority -----	8,326	---	5,306	7,386
<hr/>				
40.00 Appropriation -----	8,326	5,300	5,135	7,386
40.00 Reduced pursuant to P.L. 96-526 -----			-103	
44.10 Sup. for Wage-board pay raise -----	---	---	181	---
44.20 Sup. for Civilian pay raise -----	---	---	84	---
44.30 Sup. for Military pay raise -----	---	---	9	---

PROGRAM AND FINANCING (CONT'D)

	FY 1980 Actual	FY 1981 Budget Estimate	FY 1981 Current Estimate	FY 1982 Estimate
71.00				
72.40	\$8,166	\$5,300	\$5,592	\$7,386
74.40	3,028	4,480	4,813	4,005
	4,813	4,580	4,005	4,191
90.00	6,380	5,200	6,130	7,196
91.10	---	---	178	3
91.20	---	---	83	1
91.30	---	---	9	---

Relation of obligation to outlays:

71.00 Obligations incurred, net -----
 72.40 Obligated balance, start of year -----
 74.40 Obligated balance, end of year (-) -----
 90.00 Outlays excluding pay raise sup. -----
 91.10 Outlays, WB Sup -----
 91.20 Outlays, Civ Sup -----
 91.30 Outlays, Mil Sup -----

1/ Reduced \$165 by Office of Management and Budget and \$103 by the Congress.

2/ Includes \$113 Office of Management and Budget directed carry over, \$173 carry over from FY 80 and \$274 pay raise supplemental.

NUMBER OF CIVILIAN PERSONNEL AND MANYEARS AT END OF YEAR

	FY 1980 Actual		FY 1981 Budget Estimate		FY 1981 Current Estimate		FY 1982 Estimate	
	Full-Time in Permanent Positions	Total						
0861 Operation & Maintenance	138	138	139	140	139	140	141	142
0864 Administration	10	10	11	11	11	11	11	11
Total employment	148	148	150	151	150	151	152	153
			<u>Manyears</u>					
BP 0861	134	146	139	151	139	151	141	153
BP 0864	9	9	11	11	11	11	11	11
Total manyears	143	155	150	162	150	162	152	164

1/15/81

14

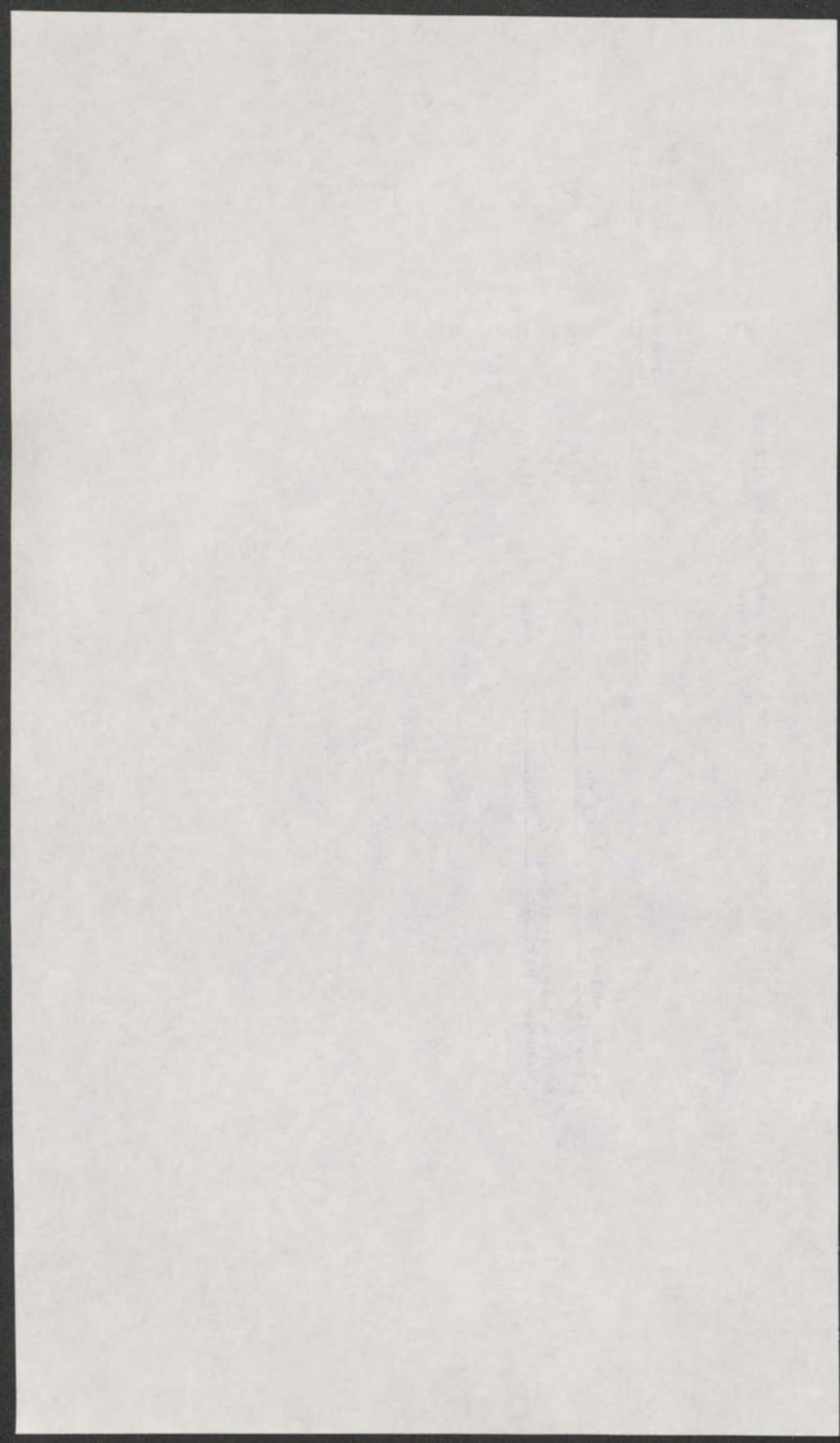
PERSONNEL SUMMARY

	<u>FY 1980 Actual</u>	<u>FY 1981 Budget Estimate</u>	<u>FY 1981 Current Estimate</u>	<u>FY 1982 Estimate</u>
Total number permanent positions -----	148	150	150	152
Total compensable work-years -----	155	162	162	164
Full time equivalent of other positions (M/Y) -----	(12)	(12)	(12)	(12)
Average GS grade -----	6.88	6.85	6.88	6.84
Average GS salary -----	\$17,201	\$16,837	\$18,852	\$18,930
Average salary of ungraded positions -----	\$16,083	\$16,000	\$17,546	\$17,600

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STATUS OF ARLINGTON AND SOLDIERS' HOME NATIONAL CEMETERIES
30 SEPTEMBER 1980

	<u>Gravesites Available</u>	<u>Gravesites Used</u>	<u>Gravesites Reserved</u>	<u>Projected Closing Date</u>
Arlington National Cemetery, Arlington, Virginia -----	50,130	159,786	15,440	2021
Soldiers' Home National Cemetery, Washington, D. C. -----	554	13,407	25	1986



WEDNESDAY, FEBRUARY 4, 1981.

GENERAL SERVICES ADMINISTRATION
CONSUMER INFORMATION CENTER

WITNESSES

DAVID F. PETERSON, DIRECTOR

TERESA N. NASIF, DEPUTY DIRECTOR

WILLIAM B. EARLY, JR., DIRECTOR, OFFICE OF BUDGET, GSA

Mr. SABO. Welcome. We are very happy to have you back with us. Is there any statement you would like to make?

Mr. PETERSON. Yes; I have a short statement, if you have time.

Mr. SABO. Certainly.

GENERAL STATEMENT

Mr. PETERSON. Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear here today to discuss the Consumer Information Center's fiscal year 1982 budget request.

Every year, the Federal government spends billions of dollars in research, regulation, and the purchase of products and services. As a result, Federal agencies acquire a vast amount of data that is potentially valuable to consumers. For a fraction of these costs, this technical information can be translated into consumer publications and made available to the public.

Since its inception, the Center has performed two major missions: to encourage Federal agencies to develop and release this helpful information for consumers, and to increase public awareness of and access to this information. The written justification describes the program activities designed to accomplish these missions. I would like to highlight here some Center accomplishments and our plans for fiscal year 1982:

One. During fiscal year 1980, consumers ordered a record number of 25,600,000 publications from our distribution center in Pueblo, Colorado. This represents a significant growth from the 2,000,000 ordered during 1972, the first full year of operation.

Two. During 1980, the Center was involved in the development of 75 new or revised Federal consumer publications in areas such as health, nutrition, automobiles, money management, and energy conservation.

Three. The Center has worked closely with many of the multi-million-circulation magazines and periodicals to obtain their assistance in promoting Federal consumer publications. Two outstanding examples include the February 1980 *Family Circle* article and the August 1980 *Good Housekeeping* article publicizing the availability of selected free publications listed in the Consumer Information Catalog. As a result of these two promotions, consumers requested nearly 5,000,000 publications from the Center.

Four. We are currently conducting our sixth annual public service campaign. Designed to introduce more consumers to the Catalog, the campaign includes the production of public service messages for the print and the broadcast media. We are hopeful that the current campaign will be as successful as the one conducted during fiscal year 1980. The success of the 1980 campaign is demonstrated by the following:

A. Sixteen out of the top 20 magazines and periodicals having a circulation of more than 2,000,000 use the Center's print ads. This includes *TV Guide*, the largest circulation magazine in the United States, which donated more space for Center public service campaign advertisements than for the advertisements of any other Government public service campaign.

B. Media monitoring reports indicate that during 1980 the television networks donated free air time to the Center valued at more than \$3,600,000. This makes the Center one of the top recipients for network public service time. It should be noted that this figure would be significantly larger if it included the hundreds of local television stations throughout the country which broadcast Center announcements on a regular basis.

However, the final measure of the campaign's success is the number of persons who requested the Catalog. In fiscal year 1980, more than 660,000 consumers ordered Catalogs, primarily as a result of the public service campaign. This is in contrast to the 28,000 persons who requested Catalogs during a similar period before the first campaign in 1975.

SURVEYS

As part of our continuing effort to improve our program, the Center sends various questionnaires to the media, and to consumers with publications they have requested. These questionnaires ask for an assessment of the publications we distribute and of the services we provide, and are filled out on a completely voluntary basis. We estimate that in fiscal year 1982, the total amount of time it would take all respondents to fill out these questionnaires would be 455 hours.

PLANS FOR FISCAL YEAR 1982

Established more than 10 years ago, the Center is dedicated to improving the quality and increasing the availability of Federal consumer information. During this period, there has been a tremendous growth in the public's use of Center services. However, funding increases for the Center have fallen far short of the rate of inflation in recent years.

During the past six years, annual appropriation increases have averaged approximately six percent, although the average rate of inflation has been much higher. The Center's efforts to maintain the same level of services are now stretched to the maximum degree, with the result that the requested 1982 funding level is essential to avoid a serious weakening of these services. The requested increase of \$156,000 provides for no new positions or programs. It will, however, enable us to maintain the level of activities carried out in the current year. It will provide the minimum

amount of funds required simply to offset cost increases anticipated in contracts for printing and in other program areas.

Mr. Chairman, I strongly believe that Center programs provide an important service to the public, and I hope you agree that this request for funding is worthy of favorable consideration. I would be pleased to answer any questions you or other members may have.

CURRENT METHOD OF FUNDING

Mr. SABO. Thank you, Mr. Peterson.

Last year, there was some discussion of problems with the current method of funding free consumer publications.

Is CIC experiencing any problems now?

Mr. PETERSON. Not particularly. As far as the moneys that were requested of the agencies under the formula constituted early in 1978, we have received everything for fiscal year 1980, save for three agencies. In the case of two of them, it is basically a paperwork problem, and we have been assured by those agencies that once they get their paperwork straightened out, the money will be forthcoming.

In the case of the third, the Commerce Department, there is a controversy as to how the bill for one segment, namely the National Bureau of Standards, was calculated. That is still up in the air. But basically, the funds requested will be forthcoming.

Mr. SABO. Last year there was some problem with the Department of Agriculture. Does that still exist?

Mr. PETERSON. To the best of our knowledge it does not. In the previous fiscal year, through miscommunications or misunderstanding, to the best that we can reconstruct it, a limit or cap was congressionally mandated on the amount of money that the Agriculture Department could give specifically for publication distribution.

Obviously, that had to be lived with. So we were forced to stop distribution of free Agriculture publications from the 1st of April through the end of fiscal year 1980. As a result, we could not fill some 4,000,000 requests for Agriculture publications.

PROGRAM PRIORITY

Mr. SABO. The Budget Appendix shows the reimbursable program increasing from \$4,653,000 in 1980 to \$6,170,000 in 1981 to \$7,245,000 in 1982. The two year increase of \$2,592,000 between 1980 and 1982 is over 55 percent, or approximately the size of the entire budget for the Office of Consumer Affairs. There is really no central control point on the cost of distributing free publications. The cost is in the budgets of nearly two dozen agencies, and is not even shown in the CIC budget justification.

Would the consumer be better served if the cost of the free publication program were limited and additional resources were put into other activities like the Office of Consumer Affairs or the Consumer Product Safety Commission?

Mr. PETERSON. That is a very difficult question for me to answer and would not be coming from a totally objective standpoint. Yes, there have been significant increases in the amounts of publica-

tions that agencies want us to distribute and more importantly, a greater demand by the public for these publications.

The formula worked out by OMB early in 1978, which all the agencies are working under, did have in my estimation one very good and strong point which the previous system of requesting direct appropriations did not. That is that the agencies no longer got a free ride. Before, they could just give us all the publications and somebody else's budget would take care of the distribution costs. Today when Agencies give us publications, they know they not only have to pay for their development, but also for their distribution costs. This, I think, is a healthy situation. Whether there can be a better formula, I am not sure. A lot of people have looked at it, including myself. While it is not a perfect system, I am not sure what is a better system.

DISTRIBUTION COST OF FREE PUBLICATIONS

Mr. SABO. For the record, please provide a table showing the distribution cost of free publications by agency for 1980, 1981, and 1982. Also, provide for the record a table indicating the unit cost of distributing free publications in 1980, 1981, and 1982.

Mr. PETERSON. I would be delighted to provide this information. [The information follows:]

AGENCIES' DISTRIBUTION COSTS

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Agriculture	\$ 750,000	\$ 1,493,000	\$ 2,202,000
Civil Aeronautics Board	74,000	31,000	58,000
Commerce	289,000	198,000	72,000
Community Services Administration	--	18,000	--
Consumer Product Safety Commission	23,000	37,000	14,000
Department of Education	--	--	196,000
Energy	407,000	420,000	297,000
Environmental Protection Agency	107,000	12,000	--
Federal Deposit Insurance Corporation	9,000	--	--
Federal Reserve Board	--	6,000	72,000
Federal Trade Commission	153,000	136,000	43,000
General Services Administration	198,000	130,000	116,000
Health and Human Services	1,936,550	2,536,000	2,695,000
Housing and Urban Development	192,000	234,000	312,000
Interior	23,000	130,000	225,000
Justice	--	6,000	7,000
Labor	232,000	167,000	261,000
Securities and Exchange Commission	40,000	49,000	51,000
Small Business Administration	79,000	37,000	--
Transportation	441,000	493,000	587,000
Treasury	--	6,000	15,000
Veterans Administration	40,000	31,000	22,000
TOTALS	\$ 4,993,550	\$ 6,170,000	\$ 7,245,000
	- 33,000*		
	<u>\$ 4,960,550</u>		

*Adjustment by Office of Finance

*Free Publication Unit Cost**

1980 (actual)—20.9¢
 1981 (estimated)—20¢
 1982 (estimated)—21¢

* Actual unit cost is derived by dividing the total monies reimbursed to GPO during the fiscal year by the total number of free agency publications distributed.

ADVERTISING CONTRACT

Mr. SABO. Section 418 of the 1981 HUD—Independent Agencies Appropriation Act reduced advertising or public relations activities by 10 percent.

How have you defined “advertising or public relations activities”?

Mr. PETERSON. We defined that as specifically the public service advertising contract that we let each year. As such, we reduced by 10 percent or \$21,000, the amount that was to be allocated for that contract.

Mr. SABO. The impact in dollars was \$21,000?

Mr. PETERSON. Yes, sir.

Mr. SABO. What was done with the funds cut from your advertising or public relations activities in 1981?

Mr. PETERSON. That was reprogrammed. It did not go into a specific area. It was used to offset some of the cuts that this Committee generally directed us to take.

Mr. SABO. Are you requesting restoration of those funds in 1982?

Mr. PETERSON. We are asking for \$200,000, \$15,000 less than we did last year. We had to make some cutbacks in the scope of the public service campaign that we expected to have, and we are living with those cutbacks.

POSTAGE SAVINGS

Mr. SABO. On page eight is mention of savings of \$473,000 and \$500,000 in postage costs.

Explain these savings to the Subcommittee.

Mr. PETERSON. Yes, this relates to the Pueblo budget, the funds we get from other agencies.

We were dissatisfied with the type of sampling the Postal Service was using in calculating the postage fee for all the publications. We urged GPO to take a look at this since they basically have the management responsibility but, frankly, we were not happy with the speed with which they were looking at it. To move the project along, we put together a joint CIC-Postal Service-GPO working group. The group spent two weeks in Pueblo going over the sampling methods. The Postal Service finally agreed that we were being unfairly charged, that the other agencies were being unfairly charged, and we got a reimbursement of \$473,000.

In the process of that project, we also realized that if the outgoing mail was charged at a different rate, there would again be significant savings. Following up on that, we opened a dialog with the Postal Service and got new rates established. As a result we should realize savings of a half million dollars every year.

I might say the two gentlemen on my staff who did the lion's share of that work received a Presidential Letter of Commendation and also a cash gift.

POSTAL RATES

Mr. SABO. Is the impact of the change in your postal rate such that we have to make it up with a different Federal subsidy?

Mr. PETERSON. Mr. Chairman, I am not an expert on rates. There was no subsidy involved since we were paying one rate to cover all costs. The new rate is the third-class rate. We had been charged the fourth-class rate in the past. That is the extent of my knowledge.

Mr. EARLY. The Government does not get a discounted rate when it negotiates mailing fees with the Postal Service. Congress only considers a subsidy for the Postal Service if it's had a shortfall for the entire year. There is no direct relationship between the two actions.

MISCELLANEOUS INCREASES

Mr. SABO. On page 11, CIC is requesting a \$15,000 increase in other miscellaneous areas.

What types of expenses are you referring to in the justifications?

Mr. PETERSON. I do not have that off the top of my head. We will supply it for the record.

Mr. SABO. Fine. We will appreciate it.

INCREASE IN AVERAGE GRADES

Mr. SABO. On page 13, the average GS grade increases from 10.88 in 1980 to 11.26 in 1981 to 11.42 in 1982. What causes the average grade to increase by over one-half a grade?

Mr. PETERSON. No specific thing. What we have been trying to do, and it is not totally reflected here, is to fill vacancies at the lowest possible grade level and allow people to move up the career ladder.

Our grade average this year is not particularly higher than the grade level we had before 1980.

Mr. EARLY. The journeyman level is a grade 12 and because this is a small office minor changes of just one employee going from a grade 9 to a grade 11, and one from a grade 11 to a grade 12 will increase the average grade level.

PART-TIME EMPLOYMENT

Mr. SABO. Last year's budget showed \$12,000 in 1980 and \$22,000 in 1981 for other than permanent positions. This year's budget shows you spent \$35,000 in 1980 and plan to spend \$33,000 in 1981 and 1982 for other than permanent positions.

Why the increased emphasis in other than permanent positions? Which activities did the increased funds come from?

Mr. PETERSON. Basically it represents trying to get very talented, bright people in graduate school and college who have the time to give part of their day to us. We put them on project work, answering consumer mail, of which we get some 20,000 inquiries each year which cannot be answered at Pueblo.

Mr. SABO. You need graduate students to answer consumer mail?

Mr. PETERSON. Yes, sir. Many are getting their masters degree in consumer-related subjects. In some cases, they even get credit. We

also use a graduate student for the coordination of the annual public service campaign.

CONSUMER INQUIRIES

Mr. SABO. To what degree are you answering specific consumer questions rather than general questions?

Mr. PETERSON. Where possible, we do refer it to the respective agency. As a matter of fact, the great bulk of mail is referred to the agency which clearly has the authority. Problems which the Federal government has no authority over, we refer to trade associations, or State or local consumer offices. Some questions frankly are not referable to anybody. These are the ones that we try to do some research on, in order to be responsive. It would be the height of arrogance to ignore the mail coming in. In many cases, these are people who do not know where to turn.

We certainly have one of the most visible addresses in the consumer area, but as I say, if we ignored inquiries it would help perpetuate the attitude most Americans have toward the insolence of Federal bureaucrats.

SALARIES AND EMPLOYMENT

Mr. SABO. What salaries do you pay?

Mr. PETERSON. GS-4, 5, 7. I think a graduate student can get a 7.

Mr. EARLY. They are getting an annual compensation of about \$10,000 a year for actual hours worked.

Mr. SABO. The Consumer Information Center is requesting a \$44,000 supplemental appropriation for increased pay costs. Is that the total amount required or is CIC absorbing part of the increased costs?

Mr. PETERSON. We are absorbing \$4,000.

Mr. SABO. The Consumer Information Center is authorized 19 permanent positions and three other-than-permanent positions. Is that correct?

Mr. PETERSON. Yes, sir.

Mr. SABO. How many are actually filled?

Mr. PETERSON. There are four people working part-time in other than permanent positions. As far as the full-time positions, all are filled.

Mr. SABO. So, the hiring limitation has not affected you?

Mr. PETERSON. It has not affected us so far. We have had very low turnover this year and we were able to fill the two positions that became vacant in 1980.

Mr. SABO. The Administration has announced a hiring freeze and reductions in travel and consultant expenses.

How much would be saved in each category in 1981? For the hiring freeze, assume it is in effect all year.

Mr. PETERSON. As far as travel, this would mean a cut of approximately \$2,100. As far as contracts, it would not mean anything, because we do not have any contracts of the type outlined in the executive order.

Mr. SABO. What about the hiring freeze?

Mr. PETERSON. We are fully filled right now. If somebody leaves, that is where the problem would come up.

Mr. SABO. I imagine you are encouraging your people to stay.

Mr. EARLY. We are affected a little bit. There are less offers which would cause the people to leave. So, the mobility is reduced significantly.

Mr. SABO. What about promotions?

Mr. PETERSON. I do not expect there will be many promotions this year, other than career ladder progressions.

CONSUMER MATERIALS IN OTHER LANGUAGES

Mr. SABO. I noticed in your justifications that you prepare materials for Spanish-speaking Americans. Have you done anything with the Asian refugees in terms of providing consumer information for them in their native language?

Mr. PETERSON. No, sir, we have not. It is a resource problem. We have to establish our priorities. We have been basically working over the past couple of years with a budget which involved just keeping up with inflation. There are no moneys for either new slots or programs.

Mr. SABO. Do you or does the originating Agency translate consumer information into Spanish?

Mr. PETERSON. It's the individual agencies that develop and distribute Spanish publications. We publish and distribute a listing of the ones we consider to be the best. We do not take an active role with the Agencies in producing the material. We just look over the materials in existence and compile the listing. We give the address of the originating Department for those who want to acquire the material.

Mr. SABO. Are you aware of any Agencies who may be looking at the option for our Asian refugees?

Ms. NASIF. I believe the Department of Health and Human Services has produced some materials in Vietnamese.

Mr. SABO. Mr. Green.

QUALITY CONTROL

Mr. GREEN. In the end, what you do depends not only on the quantity, but their quality.

You indicated in screening Spanish publications you do try to evaluate the potential benefit to consumers. What quality control do you maintain on the rest of your list?

Mr. PETERSON. We have very close scrutiny. We have a review board of some of the senior staff people who meet every quarter to compile the Consumer Information Catalog. They review the listings of the publications we already stock in Pueblo as well as any new publications being proposed for listing. We are pretty selective and have from time to time created problems with agencies that feel very strongly about the worthiness of a publication that we've turned down.

CONSUMER SURVEYS

Mr. GREEN. Do you use your consumer surveys in evaluating the usefulness of the publications you provide?

Mr. PETERSON. Absolutely. We get many comments from the questionnaires that we send out to our audiences as to whether they thought the publications were worthwhile.

In our most recent questionnaire, which went to 1,500 people, over 95 percent of the people responding said the free material was actually up to what they expected. They were pleased with it. As far as the charged publications, 91 percent felt it was worth the price they paid.

CONGRESSIONAL DISTRIBUTION

Mr. GREEN. On page seven, you mentioned distribution to Members of Congress, and on page 12, at a cost of \$42,000.

Are the catalogs automatically sent to every Member of Congress, and if so, how many per Member and what percentage of your total circulation is that?

Mr. PETERSON. No more than \$1,000 of the \$42,000 is used for catalogs going to Congress. There is a small charge of getting them into Washington from the printing plant and in turn bringing them over to the folding room. Over 95 percent of that amount involves the cost of shipping the catalogs from the printing plant out to Pueblo, Colorado.

In answer to the rest of your question, between 40 and 45 percent of the catalogs are distributed to Members of Congress. We give each Member an opportunity to get an allocation of up to 40,000 catalogs. Many Members accept it at that; many Members trade around with other offices in order to mail to their entire district.

The overall percentage of catalogs that we distribute to congressional offices has gone down because we have found other areas with a higher return rate.

Mr. GREEN. Have you done any follow up on actual usage?

Mr. PETERSON. Yes; we know the rate of response for every major distribution outlet that we have.

Mr. SABO. Has the response through the congressional offices been toward the bottom?

Mr. PETERSON. Yes. In the direct mail industry, unsolicited mailings traditionally get the lowest level of response. So, we get between two and three percent, which is a respectable rate for unsolicited mail. However, we get a much better response rate where consumers have to take some action to get the catalog.

FREE PUBLICATIONS

Mr. GREEN. Are there any agencies which, at the present time, limit the number of free publications?

Mr. PETERSON. Yes, sir, mainly because of the cost factor. There are a number of Agencies that have, and I would not be surprised to see that increased. This is counteracted to a certain extent by the fact that the price of GPO sales publications has skyrocketed. So, a number of agencies are in a bind. The price in a sales publication might be so high that the public will not respond to it. On the other hand, agencies may not be able to afford the distribution costs if they offer it free to the public.

Mr. SABO. Thank you.

Mr. Coughlin.

STEP INCREASES

Mr. COUGHLIN. You indicated your step increases. Have you ever denied anyone a step increase?

Mr. PETERSON. No, sir, I have not.

Mr. COUGHLIN. So each employee every year automatically gets a step increase and a cost of living increase?

Mr. PETERSON. That is the way it has worked out. We have been very fortunate in the quality of people we have. It is well above the average level of the Federal bureaucracy. There have only been a couple of occasions where it has crossed my mind to deny a step increase and it has tended to be in the clerical area.

Mr. EARLY. The step increase does not come annually. It is a progressive step; the longer in the grade, the less frequent. Also, the step increase would not affect the grade average; only promotions or new hires would.

Mr. COUGHLIN. Thank you, Mr. Chairman.

MISCELLANEOUS INCREASES

Mr. PETERSON. This relates to the question of where the \$15,000 came from. There are two offsetting expenses to this. The increases were \$7,000 for public opinion surveys; \$4,000 for transportation; \$1,000 for Spanish translation; \$9,000 for miscellaneous increases.

There was also a \$5,000 decrease for distribution of Spanish publications, and a \$1,000 decrease in press clippings.

Mr. SABO. Thank you. We will insert the Justification in the record at this point.

[The justification follows:]

[The revised justification begins on page 446.]F8712

CONSUMER INFORMATION CENTER

1981	Appropriation	\$1,409,000
	Two Percent Reduction (P.L. 96-526)	-28,000
	Pay Increase Supplemental	+44,000
1981	Adjusted Total	\$1,425,000
	Change	+156,000
1982	Estimate	\$1,581,000

GENERAL STATEMENT

The Consumer Information Center is responsible for encouraging the development of relevant and meaningful consumer information from the major Federal departments and agencies as a by-product of the Government's research, program, and procurement activities. In addition, the Center promotes greater public awareness of existing Federal publications through distribution of the quarterly Consumer Information Catalog and through various media services.

APPROPRIATION LANGUAGE

For necessary expenses of the Consumer Information Center, including services authorized by 5 U.S.C. 3109, [~~\$1,409,000~~] \$1,581,000.

JUSTIFICATIONCenter Functions

The Center was established within the General Services Administration (GSA) by Executive Order on October 26, 1970, and assigned two primary missions: (1) To encourage Federal departments and agencies to develop and release practical, relevant consumer information and (2) to increase public awareness of and access to this information.

In pursuit of these missions, the Center carries out the following activities:

1. Establishes and maintains close liaison with Federal departments and agencies. Keeps abreast of existing and planned programs that could generate valuable consumer information.
2. Reviews Federal publications for their potential consumer interest.

CONSUMER INFORMATION CENTER

3. Undertakes surveys, both contractually and in-house, to gauge consumers' current information interests, to assess the usefulness of existing consumer publications, and to measure the effectiveness of the Center's programs.
4. Recommends priorities to agencies in developing and disseminating consumer information. Criteria for the priorities include the impact on family budgets, health and safety considerations, and the degree of consumer interest.
5. Coordinates the writing of new consumer publications and prevents duplication by encouraging collaborative efforts among Federal agencies.
6. Provides manuscript review and editorial assistance to Federal agencies in the development of consumer publications.
7. Publishes the quarterly Consumer Information Catalog and distributes copies through Congressional offices, Federal facilities, educators, and non-profit organizations, and in response to individual requests.
8. Prepares an annual list of Spanish consumer publications and distributes quantities upon request to libraries, Hispanic leaders, educators, and organizations as a resource tool for assisting the Spanish-speaking community.
9. Publicizes the availability of Federal consumer pamphlets through information releases to the print and broadcast media.
10. Works with the print media to develop special features highlighting Federal consumer publications.
11. Helps broadcasters and writers develop consumer stories by putting them in contact with the appropriate Federal expert on a particular consumer topic.
12. Conducts an annual public service campaign through the television, radio, and print media to promote Federal consumer information.
13. Monitors the activities of the Government Printing Office (GPO) distribution facility in Pueblo, Colorado (the centralized distribution point for Federal consumer publications) to insure a timely response to consumer requests for publications listed in the Catalog and to maintain adequate stocks of free publications.
14. Works with non-Federal consumer offices and organizations to exchange information on current consumer interests and needs and to obtain their assistance in promoting the use of Federal consumer information.

Current ActivitiesCONSUMER INFORMATION CENTERDevelopment of Consumer Information

The Center's primary function is to work with Federal agencies to develop timely, practical consumer information. This activity accounts for more than 50% of total staff time. Center liaison representatives maintain close working relationships with program and information staff members in more than thirty Federal agencies. Through these ongoing contacts, Center agency liaison staff members identify current and planned programs that have the potential for generating relevant and helpful consumer information. They suggest topics for new publications and recommend revising existing publications. In addition, the Center provides agencies with manuscript review and editorial assistance in the preparation of new or revised consumer publications.

The following examples illustrate the liaison activity:

1. Consumers are now taking an increasingly active role in the maintenance of their own health. During fiscal year 1980, the Center has worked to provide consumers with information on specific health topics, including: Successful Jogging, Talking to Your Doctor About Diagnosis, Facing Surgery: Why Not Get a Second Opinion, and two publications from the NIH Medicine for the Layman series: Heart Attacks and Treating Cancer.
2. Parents are tremendously concerned about the development of their children. The Center has met this interest by helping in the production of the Best of Children's Books and by making widely available Children and TV, a parent's guide to critical TV viewing. The Center was also instrumental in the revision of the Department of Education's guide to Studying and Teaching Opportunities Abroad and assisted in the promotion of an expanded parenting guide, Footsteps. Manuscript review was provided for Talking to Children about Death and Families in Stress, which discusses dealing with child abuse.
3. Escalating housing costs have stimulated interest in the shelter area. In response, the Center has provided manuscript review, offered revision assistance, and suggested format changes to assure widest use of purchase, rental and energy-related information. Move In with a Graduated Payment Mortgage, a revision of Wise Rental Practices, and Is Solar Water Heating Right for You? are among the HUD publications released in fiscal year 1980. In addition, after reviewing the comprehensive HUD Neighborhood Self-Help Sampler, a lengthy guide to community improvement projects, the Center suggested the development of a less expensive flyer describing the resource. By ordering this free publication through the Catalog, consumer and neighborhood groups can verify that the Sampler will meet their needs and HUD can maximize appropriate use of the more extensive publication.
4. The Center conducts an ongoing review of articles for the FDA Consumer to identify subjects with broad consumer impact. The Center then encourages FDA to make free reprints of these articles available through the Catalog. More than

CONSUMER INFORMATION CENTER

a dozen publications generated by this effort cover popular topics such as valium, sunbathing and skin cancer, genetic counseling, hearing aids, glaucoma, and caffeine and pregnancy.

5. To help consumers cope with the increasingly tight employment outlook, the Center encouraged the Department of Labor to initiate a publication explaining apprenticeship programs. The Center commented extensively on this publication and is acting as the sole distributor of two other free publications from Labor that describe small business/self-employment programs: Raising the Money and Running Your Own Business.

6. In order to assist consumers in acquiring information from Federal Government files, the Center coordinated the development of a publication explaining the Freedom of Information and Privacy Acts. Developed in response to consumer inquiries, the publication gives basic, clear information on how to obtain information and protect personal privacy.

7. To foster communication with consumer education and information officers throughout Government and the private sector, the Center continues to coordinate the activities of the interagency group, "Consumer Education and Information Liaison". The organization lists many Federal program offices on its membership roll as well as educators and local and voluntary consumer leaders concerned with setting professional standards for consumer materials. Its primary purpose is to bring together Federal consumer communications and program specialists to share solutions to common problems.

8. The Center has continued a close working relationship with the President's Special Assistant for Consumer Affairs and the U.S. Office of Consumer Affairs by providing manuscript review and continuing to serve as the primary distribution source for single copies of three vitally important consumer publications. The National Consumer Buying Alert is a monthly listing of good buys in food, energy conservation suggestions, and aids for comparison shopping. The Consumer Resource Handbook is a comprehensive consumer complaint guide that also lists state, county, and local consumer offices, as well as private consumer organizations. People Power is a practical guide to organizing consumer groups and using local resources to cope with food, energy, housing, and health needs made more severe by inflation.

9. The Center worked closely with the Department of Interior to revise and widely promote two publications on subjects where there has been widespread consumer fraud. The U.S. Government Oil and Gas Lottery: Important New Facts and Can I Really Get Free or Cheap Public Land? were revised to help consumers protect themselves from the two deceptive practices most frequently reported to the Department of Interior.

The preceding publications are representative of information resulting from the Center's ongoing agency liaison program. It is anticipated that the Center will encourage and assist in the development of an estimated 70 publications that will become available during fiscal year 1981.

In summary, the agency liaison program is the basis for all Center activities. Every activity to be discussed under subsequent headings revolves around this important function and is dependent upon its success.

CONSUMER INFORMATION CENTERDetermining the Interests of Consumers

To assist agencies concentrate their resources on the most helpful publications, the Center makes every effort to determine the current and specific interests and needs of consumers. These efforts are oriented around three main consumer survey techniques:

1. Audience Survey. Once each quarter, questionnaires are enclosed with 1,500 randomly selected outgoing orders. They are designed to elicit advice and suggestions for new publications and to determine those that would appeal to a broad segment of the population. The questionnaires also ask about the Center's service, e.g., if the consumer was satisfied with the publications, how long it took to receive the order, and what the Center can do to improve the service. This method enables the Center to assess consumers' current information needs and their reaction to and satisfaction with the service.

2. Publication Evaluation Survey. Designed to assist agencies in improving individual publications, these questionnaires are especially tailored to agency needs and are enclosed with 1,500 randomly selected orders for a booklet. Consumer comments on design, graphics, usefulness, and other aspects, are collated by the Center and presented to the appropriate agency with recommendations for revision.

3. Sales Sample. Every three months, a random sample of 1,000 publication requests is analyzed to ascertain the relative popularity of the items listed in the Catalog. Results of these surveys are used to determine which publications will be listed in the next quarterly Catalog. These surveys also reflect trends in consumer interest in broad subject areas.

4. Topic Testing. National consumer surveys of a representative sample of the population are conducted twice a year to measure the degree of consumer interest in proposed new consumer publications. The sample insures the absence of audience biases that might be reflected in the first three survey techniques. Survey results are reported by age, sex, geographical location, income, and education of the respondents. A summary of results showing the demographics of Catalog users allows a comparison with information obtained in the Audience Survey. Topic testing is a valuable tool for agencies to use in determining publication priorities so they can use their limited resources most effectively. Using these results, the Center has convinced agencies to develop publications to meet specific consumer interests. Conversely, the Center has used negative survey results to dissuade development of publications on topics of little public interest.

Consumers also directly tell the Center their current interests and needs. Approximately 20,000 consumers contact the Center each year, asking assistance in solving consumer problems, making purchases, using products, or budgeting their money. When an existing publication answers the question, it is mailed to the consumer. Other inquiries are directed to the appropriate Federal agency for response. The subjects regularly forwarded for more information give an extra insight into consumers' current concerns and issues and may indicate the need for new consumer publications.

CONSUMER INFORMATION CENTER

In addition, Center staff members talk frequently with consumer leaders across the country to identify and track more localized consumer complaint trends. Many independent consumer organizations, as well as state, county, and city consumer offices, handle consumer problems and rank them according to the number of complaints received. This information assists the Center in obtaining a clear picture of consumers' current problem areas where additional information might be helpful. For example, because many problems currently handled by local consumer agencies could be settled in small claims courts, the Center worked actively with the Department of Justice to develop The Consumer's Guide to Small Claims Courts. This publication covers small claims courts on a state-by-state basis, thus eliminating the need for many individual duplicative state and county publications.

Dissemination of Consumer Information

The quarterly Consumer Information Catalog is the primary tool for increasing public awareness of Federal consumer information. It is a 16-page descriptive listing of more than 200 selected Federal publications of consumer interest. Approximately 90% of the publications are free or cost less than two dollars and all are available through the Center-monitored distribution facility in Pueblo, Colorado.

During fiscal year 1981, approximately 21 million Catalogs will be distributed through a variety of channels and in response to individual requests generated by the media. The distribution channels include Members of Congress; elementary through graduate school educators; libraries; local and national consumer organizations; non-profit organizations with active consumer programs such as credit unions, professional associations and labor unions; and Federal facilities with heavy visitor traffic. For example, as an outgrowth of the Center's agency liaison efforts with the Internal Revenue Service, three regional IRS distribution centers will be sending a half-page flyer describing the Catalog with all supplementary forms and publications requested by taxpayers. These flyers will reach a broad cross-section of consumers when they are directly concerned with careful money management. If successful, this regional test will be expanded into a nationwide promotion effort.

The Center promotes Federal consumer information to the Spanish-speaking by publishing an annual listing of approximately 100 of the best Federal publications in Spanish. The Spanish list is distributed to individuals and organizations that work directly with the Hispanic community. These community leaders and groups help the Center provide consumer information to a segment of the population that normally does not turn to the Government for written information.

During fiscal year 1980, consumers requested a record-breaking 25.6 million publications. This represents a dramatic increase over the two million ordered in fiscal year 1972, the Center's first full year of operation. In another significant area of measurement, distribution of GPO sales documents through the Center returned more than 1.7 million dollars to the U.S. Treasury, an amount greater than the direct appropriation request for the Center.

CONSUMER INFORMATION CENTERFunding the Distribution of Free Publications

The participating agencies pay proportionate shares of the costs of distributing free publications through the Center. (Costs for distributing sales publications are funded by the Government Printing Office.) Each agency's share is based on its percentage of total free publications distributed during the most recent four quarters for which statistics are available. All affected agencies were informed in May 1980 of their costs for fiscal year 1982. The projected costs cover warehousing of free publications, inventory management, order processing, the costs for mailing bulk quantities of the Catalog, and postage.

The Center works closely with the Government Printing Office to keep the costs to agencies as low as possible. During fiscal year 1980, a joint project, initiated at the Center's urging, resulted in a net savings of \$473,000 in postage costs. In addition a new postage rate was authorized for Center mailings that should produce an annual savings of \$500,000.

Media Program

The Center's media program delivers consumer information and education to millions of consumers who rely primarily on television, radio, or magazines and newspapers for information. Through its major activities, the media program gives facts about topics ranging from buying a car to fixing up a house, gives consumer warnings about potentially hazardous products, solicits consumer comments on upcoming Government rules, and lets the American public know where to get Federal consumer publications available through the Consumer Information Center. All of the space and time contributed by the various media to the Center's information is provided free as a public service. The Center achieves a significant multiplier effect by using nominal production costs to obtain literally millions of dollars worth of free time and space for Federal consumer information.

The media program has four basic activities:

1. New for Consumers-- is a twice weekly consumer information release that is sent to over 7,000 English and Spanish magazine and newspaper writers and editors, as well as consumer leaders, educators, and community groups. Each of the New for Consumers releases is given free space by hundreds of newspapers across the country and can result in 10,000 to 20,000 consumer orders for a particular publication.

In addition to this ongoing program, the Center works to promote special feature articles and mentions in newspapers and magazines resulting in thousands of additional requests for information. For example, in August, 1980, Good House-keeping magazine featured an article entitled: 25 Great Government Books (All Free).

CONSUMER INFORMATION CENTER

The article drew requests for more than 600,000 publications. Parade magazine, with a circulation of well over 20 million, often highlights individual publications in its "Intelligence Report" section. For example, in 1980, Parade mentioned eight pamphlets, including: Federal Information Centers, Consumer's Resource Handbook, Job Service, and Alcohol and Birth Defects. More than 214,000 consumers responded to the articles in Parade.

In January 1980, the Center worked with Family Circle magazine to produce the most successful information piece published in the history of the Center. The article, entitled 50 Great Freebies From Uncle Sam, generated a record number of requests for more than 4.2 million publications.

In 1980, the Consumer Information Center worked closely with the U.S. Office of Consumer Affairs on three information programs: the Dear Consumer column from the President's Special Assistant for Consumer Affairs distributed weekly to media on our New for Consumers list; the National Consumer Buying Alert distributed monthly to the same list; and the promotion of National Consumer Education Week during the week of October 5, 1980.

2. Federal Consumer Focus radio and television scripts--are sent monthly to more than 5,500 English and Spanish broadcasters who have requested the service. The 24 scripts each month are written in varying lengths and give key information from publications listed in the Catalog. They also feature consumer news items from Federal agencies. Consumers who depend on radio and television for information are thereby able to keep abreast of important consumer issues and warnings. Although it is difficult to measure listener response to Federal Consumer Focus scripts, a recent survey of broadcasters conducted in December 1980 showed that the radio scripts aired nationwide more than 400 hours a week, and the television scripts were used more than 20 hours a week.

3. Media Hotline -- Although not toll-free, this service gives broadcasters and writers throughout the country a contact in the Federal bureaucracy for stories on consumer topics. The Center's media staff aids callers in locating appropriate agency experts or public affairs specialists from various Government offices.

4. Public Service Campaign -- Each year the Center conducts a campaign to introduce more consumers to the Catalog. Public service messages are produced for newspapers and magazines and radio and television stations and are distributed to all daily and weekly newspapers; major magazines; commercial, educational, and cable television stations; radio stations; and the television and radio networks.

During 1980, many consumer magazines have donated free space to the print ads on a national or regional basis. During fiscal year 1980, TV Guide, which reaches 20 million households, used a full-page Center public service ad on a national and semi-national basis, with an estimated value of more than \$120,000. This was the largest donation that TV Guide made to a Government public service campaign. Also, local editions of the magazine donated space to the Center throughout the year worth many additional thousands of dollars. Other magazines which have used the ad include:

CONSUMER INFORMATION CENTER

American Education, Atlantic, Better Homes and Gardens, Business Week, Cosmopolitan, Esquire, Fortune, Harper's, House and Garden, House Beautiful, Ladies' Home Journal, McCall's, Money, Newsweek, New York, The New Yorker, Playboy, Psychology Today, Reader's Digest, Redbook, Saturday Review, Scientific American, Seventeen, Sports Illustrated, Sunset, Time, U.S. News and World Report, Working Woman, and Woman's Day.

All three television networks broadcast the Center's public service announcements on a daily basis during daytime, nighttime, and even prime-time slots. As an example of this support, in 1980, CBS-TV donated over \$1,650,000 of air time to the Center's public service announcements. Altogether during 1980, the three television networks donated air time to the Center which was valued at nearly \$4,000,000. Although affiliated stations are not required to broadcast the network announcements, the total is indicative of the media program's cost-effectiveness.

In addition to network broadcasts, hundreds of local television stations and thousands of local radio stations give free air time to the Center.

For example, in November 1980, which was an especially competitive time because of the United Way Campaign, political programming, and pre-holiday advertisements, the Center received air time with an estimated value of more than \$260,000 in the top 75 television markets across the nation. This does not include the more than 460 commercial stations in smaller markets, the 267 educational stations, nor the more than 2900 cable stations. The success of the campaign is dependent upon network and local airing of the public service announcements. But the final measure of success is the number of consumers who write for the Catalog. In fiscal year 1980, more than 660,000 consumers ordered Catalogs primarily as a result of the public service campaign. This is quite a contrast to a similar period before the first campaign in 1975, when only 28,000 consumers ordered Catalogs.

The 1980 public service campaign was also honored with several awards. The Center received the Golden Reel Award for its 60-second television spot; two Addy Awards for the overall campaign and the 60-second television spot; and the Thoth Award for its 60-second television spot. The "Locomotive" television spot also received mention in Advertising Age's "100-Best" competition.

Plans for Fiscal Year 1982

Established more than ten years ago, the Center is dedicated to improving the quality and increasing the availability of Federal consumer information. The specific programs discussed here include measurements of the Center's success, such as: Consumer survey results, the depth and variety of information, the growth of free media coverage, and a thirteen-fold increase in the number of requested publications over the years. This indicates growing consumer confidence in the Center's ability to coordinate and distribute Federal consumer information to the public.

But, although millions of people have come to rely on the Center for consumer information, its level of funding has failed to keep pace with inflation. During the past six years, annual appropriation increases have averaged approximately six percent, although the average rate of inflation has been much higher. During

CONSUMER INFORMATION CENTER

this period, program refinements have for the most part offset the decline in the purchasing power of funds appropriated to the Center. However, the requested funding level for fiscal year 1982 is essential to avoid a serious weakening of program activities directed at consumers.

The requested level will enable the Center to continue to effectively share Federal consumer information with the public. Every year, the Federal Government spends billions of dollars in research, regulation, and the purchase of products and services. As a result, Federal agencies acquire a vast amount of data that is potentially valuable to consumers. For an extremely small fraction of these costs, this technical information can be translated into consumer publications and made available to the public. Since this information is gathered at taxpayers' expense, the Government has an obligation to share it with taxpayers in a form they can use to improve their quality of life. This is the major thrust of the Center's programs.

Over the past several years, there has been pronounced public sentiment for fewer Federal programs. At the same time, positive consumer reaction to the Center's programs has grown. Results from quarterly audience surveys show that well over 90 percent of respondents express satisfaction with the services provided by the Center; and they indicate a desire for more Federal publications in the future.

It should be noted that no funds are requested for new programs or additional personnel in fiscal year 1982. The requested increase of \$156,000 will enable the Center to continue programs at the current level. Specifically, the total increase is comprised of the following:

1. \$59,000 to cover a projected increase of nearly 14 percent in printing costs, primarily for the Catalog. This is approximately the same percentage increase as in each of the last two years for the Catalog contract.
2. \$28,000 for employee salaries and benefits. This amount is required to provide for employee progressions in career ladders, for step increases, and for increased costs of employee benefits.
3. \$24,000 to cover the increased costs of the public service campaign. This is an increase of approximately 14 percent to continue the scope of the campaign at the current level. It is considerably less than the 20 percent inflation rate faced by the advertising industry as a whole.
4. \$18,000 for updating the Center's computerized mailing lists. The update, which is necessary every other year, is a cost-savings activity designed to eliminate unnecessary mailings.
5. \$7,000 for increases in the costs of rent, utilities, and supplies.
6. \$5,000 for increases in travel costs. No change is planned in the scope of travel compared to fiscal year 1981.
7. \$15,000 for increases in other miscellaneous areas

CONSUMER INFORMATION CENTEREXPLANATION OF DISTRIBUTION BY OBJECTS

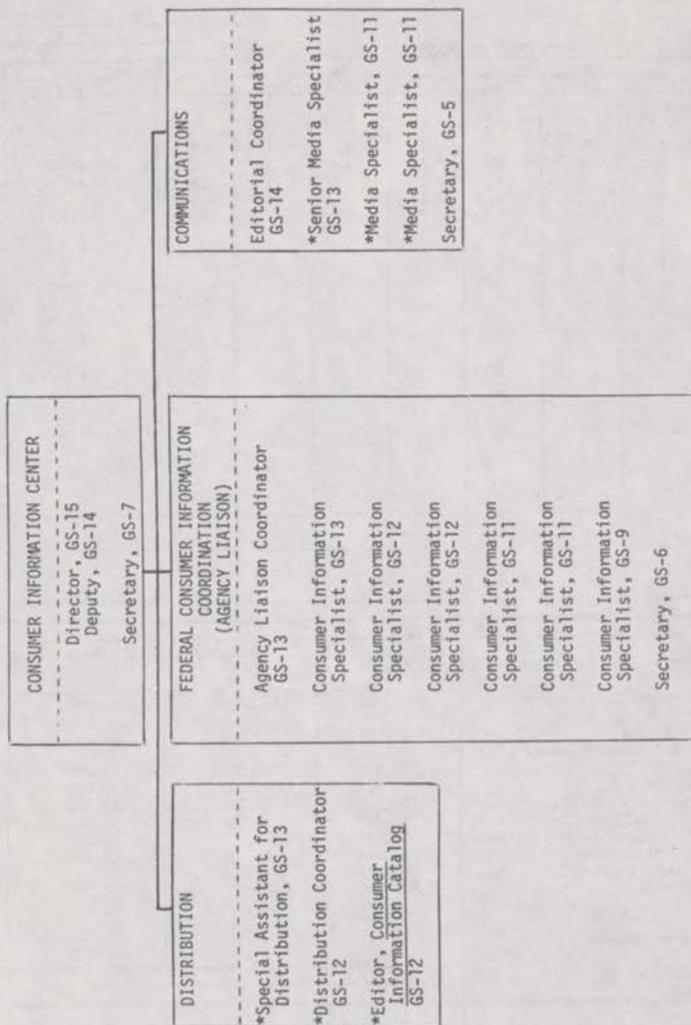
- 11 Personnel Compensation and Staffing - \$596,000. For 19 full-time permanent and 3 temporary or part-time positions, all in the Central Office.
- 12 Personnel Benefits - \$54,000. Includes \$40,000 for retirement contributions; \$9,000 for health benefits; and \$5,000 for group insurance.
- 21 Travel and Transportation of Persons - \$26,000. For travel by Center staff members.
- 22 Transportation of Things - \$42,000. For transporting Catalogs from the printing company to Washington, DC, the Colorado distribution center, and Congressional offices.
- 23 Rent, Communications, and Utilities - \$93,000. \$45,000 for postage; \$32,000 for the Federal Building Fund; and \$16,000 for telephone and equipment user charges.
- 24 Printing and Reproduction - \$487,000. \$453,000 for printing English Catalogs and Spanish listings; \$24,000 for printing script material for radio and television stations; and \$10,000 for miscellaneous printing.
- 25 Other Services - \$277,000. \$200,000 for preparation and distribution of public service materials for radio, television, and print media; \$18,000 for national consumer surveys; \$8,000 for Spanish translating services; \$18,000 for mailing lists update; \$11,000 for media monitoring reports; and \$22,000 for miscellaneous expenses.
- 26 Supplies and Materials - \$6,000. For normal administrative supplies and materials.

POSITIONS BY GRADE AND AVERAGE EMPLOYMENT

Grade	Actual, 1980			Program, 1981			Request, 1982		
	C.O.	Field	Total	C.O.	Field	Total	C.O.	Field	Total
GM/									
GS-15	1	-	1	1	-	1	1	-	1
14	2	-	2	2	-	2	2	-	2
13	4	-	4	4	-	4	4	-	4
12	3	-	3	4	-	4	5	-	5
11	3	-	3	4	-	4	4	-	4
9	1	-	1	1	-	1	-	-	-
7	2	-	2	1	-	1	1	-	1
6	1	-	1	1	-	1	1	-	1
5	1	-	1	1	-	1	1	-	1
4	1	-	1	-	-	-	-	-	-
Permanent Positions	19	-	19	19	-	19	19	-	19
Avg. Empl: Permanent	18	-	18	19	-	19	19	-	19
Other	2.5	-	2.5	3	-	3	3	-	3
TOTAL	20.5	-	20.5	22	-	22	22	-	22

CLASSIFICATION BY OBJECTS

	Actual, 1980		Program, 1981		Request, 1982	
Personnel compensation: Central office	\$506,155		\$570,000		\$596,000	
Field	-		-		-	
11 Total personnel compensation	\$506,155		\$570,000		\$596,000	
Other Objects						
12 Personnel benefits	47,824		52,000		54,000	
13 Benefits for former personnel	-		-		-	
21 Travel	17,521		20,000		25,000	
Travel (motor pool)	461		1,000		1,000	
22 Transportation of things	38,175		38,000		42,000	
25 Rents and utility services	6,382		7,000		8,000	
Payment to Federal Buildings Fund	31,452		32,000		32,000	
Communication services	47,768		48,000		53,000	
24 Printing and reproduction	398,179		428,000		487,000	
25 Other services	203,900		224,000		277,000	
26 Supplies and materials	4,807		5,000		6,000	
31 Equipment						
32 Lands and structures						
Total Other Objects	\$ 796,469		\$ 855,000		\$ 985,000	
Total Obligations	\$1,302,624		\$1,425,000		\$1,581,000	
Position Data						
Average salary, GS positions	\$ 26,443		\$ 30,000		\$ 31,368	
Average grade, GS positions	10.88		11.26		11.42	



*Also has agency liaison responsibility
FY 1981 Staffing

WEDNESDAY, FEBRUARY 4, 1981.

NATIONAL INSTITUTE OF BUILDING SCIENCES

WITNESSES

WILLIAM F. FLOYD, VICE CHAIRMAN OF THE BOARD OF DIRECTORS
DAVID S. MILLER, IMMEDIATE PAST CHAIRMAN OF THE BOARD
GENE C. BREWER, PRESIDENT OF THE INSTITUTE
ROBERT M. DILLON, EXECUTIVE ASSISTANT TO THE PRESIDENT

Mr. SABO. Welcome. I think all of you have appeared before the Subcommittee previously. The National Institute of Building Sciences is requesting \$500,000 in Fiscal Year 1982. This is \$113,000 below the amount appropriated in fiscal year 1981. This amount, together with an estimated \$5,287,000 from other sources will provide for a total program of \$5,787,000 in fiscal year 1982. After fiscal year 1982, the Institute is intended to be self-sustaining.

We will be pleased to hear any comments you might have, Mr. Floyd.

Mr. FLOYD. Thank you, sir. My name is William F. Floyd, Vice Chairman of the Board of Directors of the National Institute of Building Sciences. With me today are David S. Miller, immediate Past Chairman of the Board, and Gene C. Brewer, President of the Institute. Our current Chairman, Joseph H. Newman, is out of the country and thus cannot be with us today.

Before I begin our presentation, I would like to present each of you with a copy of our fiscal year 1980 Report to the President of the United States. I realize that a copy of this report has been transmitted to the Congress by the President in accordance with the provisions of the Institute's authorizing legislation, but, in the interest of time, I would like to refer to portions of that Report.

GENERAL STATEMENT

We appreciate this opportunity to appear before the Subcommittee and present the justification for the Institute's fiscal year 1982 budget request. This request is for \$500,000—the amount we were authorized to request by President Carter's Office of Management and Budget. This is a 20 percent decrease from last year's request, and an 18 percent decrease from the actual fiscal year 1981 appropriation after the Institute sustained a two percent cut by OMB.

This will be our last authorized request. Public Law 93-383 authorized appropriations totalling \$10,000,000, and subsequent reauthorizations established the period during which appropriations could be requested as fiscal years 1978 through 1982. After fiscal year 1982, the Institute is intended to be fully self-sustaining.

As you have seen in our written submission, if this budget request is granted, the Institute will have received appropriations totalling \$3,613,000 over the five-year period, or slightly less than

37 percent of the \$10,000,000 authorized. As it became more and more apparent that the lion's share of the authorized capital funds would not be made available and would in fact decline year-to-year, the Institute had to put in abeyance much of the program and many of the services it planned to put in place by the beginning of fiscal year 1983. Unfortunately, much of what has had to be put in abeyance would have been the most helpful in enabling the Institute to become self-sustaining without undue reliance upon service grant and contract activities.

Nevertheless, we have made good progress on our mission tasks and now are in a position to undertake several major and timely initiatives. Our report to the President and the Congress, and our written submission, deals in considerable detail with our accomplishments and with plans for the 1982 fiscal year. Therefore, in the interest of time, I would like to focus on just two of these initiatives. They are: (1) to expand our horizons to deal with land development and environmental regulatory issues as they relate to housing and building, and (2) to pursue our January 15, 1981 publicly announced recommendation that there be a one-year moratorium on all new Federal regulatory initiatives that will further constrain housing and building, and that during the period of that moratorium there be a high-intensity effort to single out for selective elimination or modification those regulations and regulatory processes that are unnecessarily adding to costs.

In regard to the first of these initiatives, the Institute's authorizing legislation provides that: "The Institute shall seek to assure that its actions are coordinated with related requirements which are imposed in connection with community and environmental development generally."

When the Institute was authorized in 1974, it was the intent—following the recommendations of the Douglas Commission—to create a companion institute to deal with these housing and building-related regulatory matters. This did not happen and increasingly NIBS is being asked to move far enough into this area to assure that attention is being given to the totality of housing and building technology regulatory matters. There is little question that land development and environmental regulations have great impact on the cost and value of housing, buildings, and the communities of which they are the major physical elements. Indeed, it is difficult to deal effectively with housing and building technology regulation without considering land development and environmental regulation.

In its appeal of the OMB determination to allow a budget request of only \$500,000 for fiscal year 1982, the Institute accepted the determination insofar as its existing scope is concerned, but did request an increase of \$125,000 to enable it to develop this broader scope. This request was denied. Nevertheless, the Institute feels it must respond to its now very broad constituency, which includes much if not all of the expertise and representation needed to do the job and do it well. The importance to the Nation of doing everything possible to facilitate a more productive housing and building industry simply is too great not to do so. It will, however, be necessary to move more slowly than the dimensions of the problem call for and to draw upon voluntary efforts and the limit-

ed non-appropriated funds available to the Institute. This, then, is notification of our intention to do all we can to use the successful model for problem solving that the Institute has created to address these other related housing and building regulatory issues. We feel that the provision in our authorizing legislation that I have cited is adequate, and we sincerely hope that the Congress will support us in this effort.

Regarding the second of these major initiatives, we attached a rather detailed statement of our recommendations and plans to our written submission. As I noted earlier, the Institute feels that it is now positioned to make a significant contribution to improving the housing and building regulatory environment. Last year we testified as follows: "The legislation creating NIBS—Section 809 of Public Law 93-383—has proven itself to be a schematic from which an entirely new pattern of public-private institutional relationships can be effected to cope with the immensely complex sociotechnical issues and regulations in the areas of housing and building."

We went on to say: "What is being seen is the common, public benefit that can accrue from cooperation rather than confrontation—from developing a consensus on the issues and on the best approaches to their resolution, with involvement of all the interests, free of the constraints of legalistic or self-serving institutional bonds. It is becoming accepted that the Institute provides the mechanism for recognizing problems before they become crises and for evolving workable solutions, rather than continuing with the practice of largely reacting to one another's initiatives.

By bringing together all the parties of interest in this manner, it is now also being seen that corrective action as well as new initiatives can be taken without resort to burdensome rules or regulations in most cases, and, if rules and regulations are needed, with widespread support for the thrust of mutually agreed-upon constructive change. These mechanisms save time and money, minimize the need for regulations, and reduce emotionally-based decisions."

We received the encouragement of your Subcommittee in this endeavor, and as our written submission demonstrates, we have pursued this course energetically. At the same time, using the funds Congress has provided, the Institute has steadily built its base of regulatory documentation and analytical techniques.

Last year, we also pointed out our need for greater cooperation of the Federal executive agencies—and we asked your help. We told you of a bulletin being developed by OMB to go to all Federal departments, agencies, and establishments, that would call attention to the provisions of the Institute's authorizing legislation which encourages their support and cooperation. I regret to report that that bulletin was never issued, even though strongly supported by a sampling of agencies to which a draft was sent by OMB for comment.

The growing wave of Federal regulatory activity impacting the housing and building community—and that of State and local governments as well—is threatening to swamp the boat. It is because it is virtually impossible to effect improvements in the process when brush fires are breaking out on all sides, that we have recommended a moratorium.

In our Report to the President—and I call your attention to pages two and three—our Chairman and President stated: "It is the view of the Institute that if the housing and building consumer and user is to receive more value for dollars expended, there must be an alternative to the historical adversarial approach to problem solving among the many diverse public and private elements of the building community that all too frequently results in mandatory solutions."

In that same letter, we presented an outline of the services the Institute felt positioned to perform and the recommendations we set forth in our public announcement on January 15 are consistent with that outline. We visualize a high-intensity effort over the next 90 days, utilizing the full resources of the Institute, to identify key areas where immediate action can be taken either to eliminate or modify regulations and regulatory processes needlessly constraining the housing and building community. This same effort will then be continued throughout the remainder of the year, with periodic release of additional recommendations. Concurrently, the Institute plans to develop and put forth proposals for significant improvements in the housing and building regulatory processes, stimulate a debate on the proposals, and then make positive recommendations for constructive change that will be supported by a broad and responsible consensus. Again, however, we ask your help in achieving the support and cooperation of the Federal agencies in this effort.

We also request your approval of our modest budget request for fiscal year 1982. And, finally, even though we are not slated to come before you again for an appropriation, we ask for the privilege of coming before you next year to formally report on our progress, to make our recommendations, and to seek your advice.

I would like to close by saying on behalf of the Board of Directors of the Institute, that we have felt privileged to have been entrusted with bringing life, form, and substance to this new creature of the Congress, the National Institute of Building Sciences. We trust that you feel we have thus far met your expectations. With your continuing interest, support, and challenge, we are confident of success. Thank you.

[The written statement follows:]

GENERAL STATEMENT

Introduction

The National Institute of Building Sciences is now in its fourth year of the Congressionally planned five years of initial capital funding through appropriations. At the conclusion of this fourth year (FY 1981), the Institute will have received \$3,113,000 of the authorized \$10,000,000 for the full five-year period. With this last budget request of \$500,000, as authorized by the Office of Management and Budget, the total will be \$3,613,000, or less than 37% of the authorization.

Significant change in the structure of the Institute has taken place over the past year, and this, together with the foundation of knowledge and experience that has been acquired, has positioned the Institute to take a major stride toward accomplishment of its long-range mission as set forth by the Congress. The thrust of this major new effort was announced at a press conference on January 15th of this year, and is cited under Program Planning in the Budget Justification.

Mission

The basic mission of the National Institute of Building Sciences is to foster the development of a housing and building regulatory system throughout the nation that is progressively more rational and supportive of housing and building goals, and to create the means for more rapid assimilation of beneficial technologies within the housing and building community.

Pursuant to Section 809 of Public Law 93-383, the Institute was initiated by the Government to become the authoritative national source of findings and advice to both the public and private sectors of the economy with respect to the use of building science and technology in achieving nationally acceptable

standards and other technical provisions for use in Federal, State, and local housing and building regulations.

Specifically, Public Law 93-383 states that the Institute is to exercise its functions and responsibilities in four general areas relating to building regulations, as follows:

- (a) Development, promulgation, and maintenance of nationally recognized performance criteria, standards, and other technical provisions for maintenance of life, safety, health, and public welfare suitable for adoption by building regulating jurisdictions and agencies, including test methods and other evaluative techniques relating to building systems, subsystems, components, products, and materials with due regard for consumer problems;
- (b) Evaluation and prequalification of existing and new building technology in accordance with (a) above;
- (c) Conduct of needed investigations in direct support of (a) and (b), above; and
- (d) Assembly, storage, and dissemination of technical data and other information directly related to (a), (b), and (c), above.

In the exercise of these functions and responsibilities, NIBS was to:

- Establish a Consultative Council, membership in which shall be available to representatives of all appropriate private trade, professional, and labor organizations, private and public standards, code and testing bodies, public regulatory agencies, and consumer groups, so as to insure a direct line of communication between such groups and the Institute and a vehicle for representative hearings on matters before the Institute.

- Give particular attention to the development of methods of encouraging all sectors of the economy to cooperate with the Institute and to accept and use its technical findings, and to accept and use the nationally recognized performance criteria, standards, and other technical provisions developed for use in Federal, State, and local building codes and other regulations which result from the program of the Institute.
- Seek to assure that its actions are coordinated with related requirements which are imposed in connection with community and environmental development generally.
- Establish and carry on a specific and continuing program of cooperation with the States and their political subdivisions designed to encourage their acceptance of its technical findings and of nationally recognized performance criteria, standards, and other technical provisions for building regulations brought about by the Institute, including:
 - efforts to encourage changes in existing State and local law to utilize or embody such findings and regulatory provision; and
 - assistance to States in the development of inservice training programs for building officials and in the establishment of fully staffed and qualified State technical agencies to advise local officials on questions of technical interpretation.

General Organization

There are essentially three elements of the Institute: its Board of Directors, its Consultative Council, and its staff.

During the past year the Board has continued the trend reported last year of transferring more of the responsibility for the conduct of the Institute's technical programs to the Consultative Council. It has become increasingly apparent that much of the authoritativeness of the Institute will derive from the broad-based representativeness and expertise of the Council membership. It is equally apparent that in order to have all sectors of the economy cooperate with the Institute, and to accept and use its findings and recommendations, it will be necessary to involve that broad-based membership in the decision-making process. Both authoritativeness and effectiveness, therefore, are the product of bringing the expertise and points of view of the full building community to bear on the tasks addressed by the Institute.

In creating the Institute and prescribing its basic form and composition, the Congress created a unique instrument that is now coming to maturity. In recognition of this maturity, the Board of Directors has given the Consultative Council primary responsibility for fact-finding, for problem investigation, and for the development of recommended solutions. In every case, the Board requires both expertise and balance in Council bodies entrusted with these tasks, and reserves to itself the right of approval of all findings, conclusions, and recommendations issuing from the Institute.

To cope with its new responsibilities, the Consultative Council has simplified its structure and instituted rigorous procedures to ensure competence, balance, and objectivity. This in turn has enabled the Board to simplify its structure by divesting itself of technical program operating responsibilities and devoting its primary effort to policy, planning, oversight, and review and approval. This structure is shown in Fig. 1.

NIBS ORGANIZATION

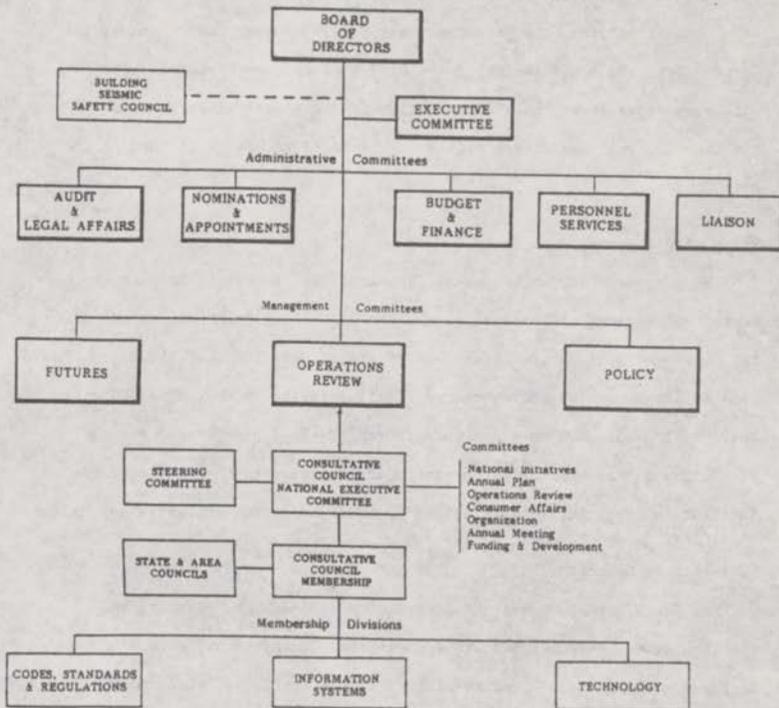


Fig. 1

The core (administrative) staff of the Institute is essentially the same as reported last year: the President and Chief Executive Officer, the Executive Assistant to the President, the Vice President for Consultative Council Affairs, the Vice President for Technology and Programs, the Comptroller, and the Director of the Office of Program Planning. The two vice presidents serve the administrative and technical support needs of the Council, yet remain responsible to the Board of Directors through the President.

Board of Directors

The current Board of Directors, appointed by the President with the advice and consent of the Senate, numbers 21. The appointment powers of the President will expire at the end of fiscal year 1981, if the Board has adopted its own rules and procedures for succession by that time. The Board will adopt such rules and procedures (By-laws provisions) during FY 1981, and they will call for continued adherence to the letter of the Institute's authorizing legislation, including representativeness and balance.

Consultative Council

The Consultative Council is governed by a 36-member, balanced and representative, National Executive Committee, nominated and elected by the full membership of the Council--all under Organizational Rules and Procedures approved by the Board of Directors.

The membership of the Council, which includes both organizations and individuals, reached 800 during 1980; however, due to the serious recession that befell the housing and building industry, growth was not as great as had been projected. Nevertheless, the membership continued to broaden, and a special program to involve greater numbers of consumer representatives has

contributed significantly to this trend. The types of individuals and organizations now participating, represent:

- The academic community
- Design professionals--architects, engineers and planners
- Builders, contractors and subcontractors
- Federal, State and local government
- Building materials, products, and systems manufacturers and distributors
- Building owner/users
- Consumers and environmentalists
- Research, testing, and certification bodies
- Buildings trades
- Trade press
- Finance, real estate, and insurance interests
- Codes and standards bodies
- Utilities--gas, electric, communications, etc.

Another significant development was the chartering of the first State-wide Consultative Council. This brings to the State and local levels the same type of attention the National Executive Committee of the Council brings to the national level. This first chapter was created in the State of West Virginia. A second chapter application has been received from a group seeking to represent interests in the State of Ohio. Several others are in various stages of organization, including Southern California, Houston, Connecticut, and Kansas City.

Staff

The core staff has remained relatively stable at eighteen. The total staff of the Institute, as of January 1, 1981, numbers thirty eight. The difference represents the project staff of the Institute--i.e., those retained for the execution of specific funded programs and projects.

Income/Expenditures

Because the Institute is a non-governmental, non-profit corporation, and because appropriated funds are but one source of Institute income--and intended only to provide initial capital funding--a matrix has been established

and used over the past four years to display the proposed manner in which appropriated funds will be spent in relation to all other funds coming to the Institute (see Fig. 2).

The sources of funds are (1) Appropriation; (2) Fee Income and General Support; and (3) Service Grants and Contracts. Item 1 is self-explanatory. Item 2 is composed of general support grants from Federal agencies (currently only the Department of Energy provides such a grant), Consultative Council membership fees, income from the sale of publications, and grants or contracts from public and private bodies in direct support of Institute mission programs and projects. Item 3 is composed of cooperative agreements, grants, and contracts that support services the Institute provides to public and private bodies upon request. These three sources of funds are shown at the top of the matrix.

Planned income/expenditure categories are put under two major headings: (1) Administration and (2) Operations. Under Administration are essentially overhead functions--i.e., General Administration, Planning and Development, and Information Services. Under Operations are the mission functions of the Institute that derive from the Institute's authorizing legislation; specifically, the Consultative Council and Technology and Programs, the latter of which is subdivided into Regulatory, New Technology, and Data Collection and Dissemination.

The Institute overhead rate, which is established by independent audit but also fixed by agency determinations, generally is 59% on direct expenses and 10% on subcontracts. Because of the high proportion of subcontracting, which is in response to the intent of Congress, this averages no more than 35%; therefore, a 35% rate is used on appropriated funds, Consultative Council fees, and other activities where performance of the work is primarily an in-house function.

PLANNED INCOME/EXPENDITURES

	FY78 (FY-2)			FY79 (FY-1)			FY80			FY81 (FY)			FY82 (FY)			FY83 (self-maintaining)				
	Appropriated Funds	General Support	Service Grants and Contracts	Appropriated Funds	General Support	Service Grants and Contracts	Appropriated Funds	General Support	Service Grants and Contracts	Appropriated Funds	General Support	Service Grants and Contracts	Appropriated Funds	General Support	Service Grants and Contracts	Appropriated Funds	General Support	Service Grants and Contracts		
A. ADMINISTRATION																				
1. General	413	96	118	625	115	114	306	535	170	439	774	102	178	599	879	102	186	654	942	
2. Planning and Development	113	0	0	113	200	0	0	200	19	12	76	105	16	19	166	201	5	58	135	198
3. Information Services	61	4	0	65	52	4	0	56	10	132	38	180	41	63	68	152	21	47	63	133
B. OPERATIONS																				
1. Consultative Council	140	0	0	140	214	56	0	270	277	86	56	419	109	100	17	246	100	125	50	275
2. Technology & Programs																				
(a) Ombuds, Standards and Regulations	90	0	652	742	135	26	1119	1249	166	60	2,191	2617	186	144	3512	1852	185	164	3655	4003
(b) Technology	90	0	0	90	8	0	0	8	83	0	5	88	102	48	17	187	50	82	0	132
(c) Information Systems	113	0	6	119	26	0	0	26	30	15	0	45	47	22	0	69	36	61	27	104
Subtotals	1000	98	776	1874	750	200	1425	2344	750	475	3003	4228	613	554	4419	5566	500	703	4584	7287
TOTALS		1,876,000		2,364,000		4,228,000		5,586,000		5,787,000		4,711,000		0	755	3934	4731			

Fig. 2

Income/expense figures under Fee Income and General Support and Service Grants and Contracts, must, of course, be based on estimates. It is not possible to predict such income with any surety--particularly that which comes as a result of requests made to the Institute. A change in any "Operations" income/expense figure in the matrix will change all other figures because of the impact that change would have on overhead.

Appropriated funds represented only 17% of all funds in FY 1980.

Although this reporting system may appear complex, it is an effective way of dealing with the difficult task of controlling a budget that varies considerably throughout any given year, when there is no reserve. The Institute was not given its appropriations "to be available until expended" as provided for in the original authorizing legislation; therefore, it has not been possible to establish such a reserve and will not be unless Congress were to act to appropriate the remaining amount under the authorization in this manner. By receiving quarterly allotments of each appropriation from the Treasury, the Institute must use its appropriation during the fiscal year for which appropriated, and suffer the attendant difficulties in managing cash flow.

There are three types of income not shown in Fig. 2: (1) Endowments; (2) contract fees; and (3) membership reserves. Endowments are beginning to flow to the Institute and it has been possible to obtain fees on some contracts; however, these funds and the interest earned on them, currently are relatively small and thus are kept out of the operating budget and will be until the earned interest reaches a significant level and can be devoted to operations. At present, these are the only sources of reserve funds that can be drawn upon in the event of unforeseen events or a cash flow crisis.

The membership fee reserves are simply that portion of membership fees paid-in during rather than at the beginning of the fiscal year, that must be held over for services to be performed during the ensuing fiscal year.

Other Operations

As noted in last year's statement, the Institute created a Building Seismic Safety Council to work toward implementation of the goals of the Earthquake Hazards Reduction Act of 1977 (Public Law 95-124). The Council operates under a Charter and Organizational Rules and Procedures granted by the Board of Directors, and funds received through membership fees, grants, and contracts, are shown in Fig. 2 as a part of "Operations."

The Council is functioning effectively and was cited in Public Law 96-472, Title I, Section 101.

Conclusion

The Budget Justification which follows, is for the requested \$500,000 appropriation for FY 1982. The whole of the Institute's planned program for FY 1982 is presented, together with a brief reporting on current status and accomplishments. This is done to better illustrate the total program and how it will be supported, and how the appropriated funds will be used in the context of that total program.

BUDGET JUSTIFICATION

Fig. 2 shows actual income/expenses for FY 1978-1980, estimated income/expenses for FY 1981, and projected income/expenses for FY 1982 and for FY 1983 when the Institute will be self-sustaining.

Income/expenses in FY 1978 were \$1,874,747, \$1,000,000 of which was appropriated. In FY 1979, the total was \$2,398,847, of which \$750,000 was appropriated. In FY 1980, the unaudited total was \$4,330,550, of which \$750,000 was appropriated. At this time last year, the FY 1980 total was projected to be \$4,500,000; therefore, it appears that the Institute will fall short of this projection by \$169,450, or only 3.9%, due principally to contract delays beyond its control.

FY 1981 income/expenses were projected at \$5,220,000 with \$625,000 of this amount being appropriated. The Institute sustained a 2% budget cut by the Carter Administration OMB, therefore, unless changed, will receive only \$613,000 in FY 1981. Current projections, because of the more than normal number of uncertainties in this budget year, could be significantly higher or lower. The effect of an increase or decrease in the total income/expenses projected last year on the use of appropriated funds, would be either a larger or smaller portion of these funds being devoted to operations, or, conversely, to administration.

As the size and diversity of the individual program and projects--and the total program--become larger, the potential for wider deviations from projections are inevitable. Nevertheless, to date the Institute's projections of total income/expenditures have been quite closely borne out by actual experience, although not necessarily in any given budget category.

For FY 1982, income/expenses have been projected at \$5,787,000, with \$500,000 or 8.7% of this total being appropriated funds.

During FY 1980, and thus far in FY 1981, most of the growth in Institute activities as measured by income, has again been in the service grant and contract area. As the Consultative Council has become larger, better organized, and much more active, use of the services of the Institute, particularly by Federal agencies, also has grown. It is apparent, however, that because of the failure to obtain the full \$10 million in authorized funds, the Institute simply has been unable to develop the initially planned income-producing services or to attract the level of private endowments that such activity would have engendered. Nevertheless, the Institute has been able to pursue its mission activities and to position itself to make significantly greater contributions to achievement of its mission goals in FY 1981 and FY 1982.

The FY 1982 budget request will be detailed using the matrix headings of Fig. 2.

Appropriated Funds

1. Administration

General Administration, Program Planning, and Information Services are categorized as administrative functions, and, as noted earlier, 35% or \$130,000 of the appropriated funds will be devoted to these functions.

- a. General. Included are the principal overhead expenses of the Institute; that is, those expenses related to overall management of the affairs of the Institute. These are the expenses of the Board of Directors and Executive Office or core staff. Budgeted for this item is \$102,000, or 10.8% of the total \$942,000. These expenses are shown within categories 11.8, 12.1, 21.0, 23.2, 24.0, 25.0 26.0, and 31.0 of Fig. 6.

- b. Program Planning. During FY 1980, an Office of Program Planning was established, headed by a Director (last year it was reported that the Office of the Vice President-Planning and Development had been discontinued).

The framework for planning which has evolved, relies upon the Consultative Council for a major part of the input to determining future programs and projects. This planning process is shown in Fig. 3.

The Five-Year Program Plan of the Institute is being recycled during FY 1981 and will be maintained as the basic technical program operating guide. However, this Office also maintains cognizance of legislative and administrative as well as private sector initiatives that can affect the mission of the Institute, and those of the housing and building community in general. This Office processes requests for assistance that come to the Institute, and initiates planning for both long- and short-term programs and projects. Finally, it identifies critical technical and policy related issues that require the Institute's attention.

Significant new initiatives include: (1) Planning for a program to deal with the important, allied field of land development and environmental regulations; and (2) a near-term, high intensity effort to identify and recommend solutions to federal regulatory problems that are constraining housing and building, and to develop a new approach to building community problem solving that will offer the potential for avoiding further constraints on housing and building

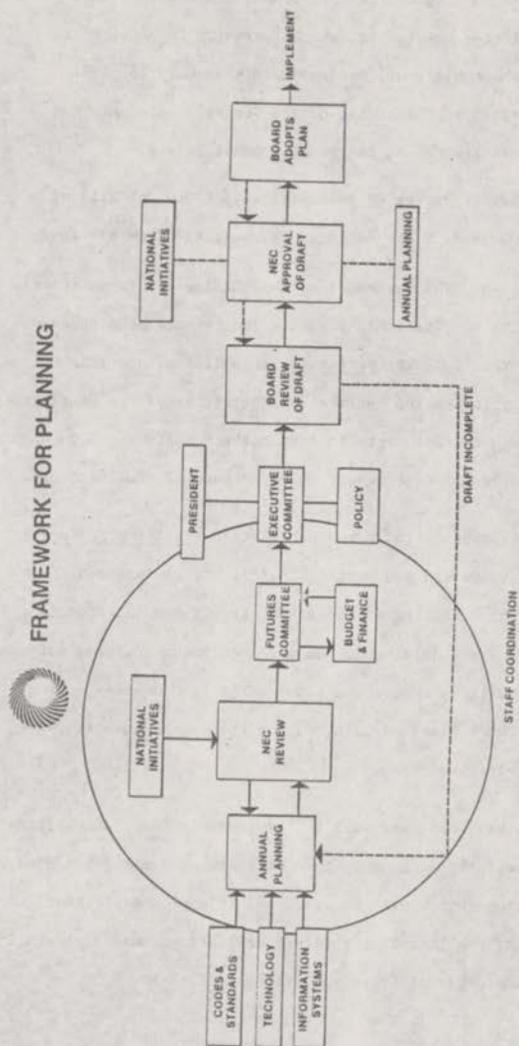


Fig. 3

production while achieving desired performance objectives. The essence of this latter initiative, which currently is of such great importance, was the subject of the Institute's January 15, 1981 news conference cited at the outset of the General Statement, and is explained in greater detail in the attachment hereto.

The budget for the activities of this Office is \$5000, or 2.5% of the total \$198,000 that is projected to be available from all sources.

- c. Information Services. The functions of this Office are to maintain communications with the Institute's public and private constituency. A monthly newsletter, Building Sciences, is published, and this Office also manages the printing and publication activities of the Institute--i.e., reports and other documents including the annual report to the President and Congress, which result from the work of the Institute.

It was reported last year that a new publication--Building Science Directory--would be well along during FY 1981. It is intended that this Directory, which will be an important part of the Institute's effort to provide a reliable source of information on building science and technology, will continue to be expanded in its coverage during FY 1982; currently, it is undergoing market testing because it is intended to be self-supporting.

This Office also has been, and will be, responsible for the Institute's CHEC Program--i.e., the program of the Institute's Committee on Home Energy Conservation--which will be discussed in more detail later, for maintenance of the Institute's reference library, and for assisting in the information needs of State and area Councils.

\$23,000 has been budgeted for this Office, which will constitute 17.3% of the total that is projected to be available from all sources.

2. Operations

Because the basic administrative costs of the Institute, including those of the offices of the vice presidents, is covered under "Administration," funds devoted to "Operations," whether in- or out-of-house, are entirely direct in the sense that they support mission activities. \$370,000 or 65% of the requested appropriation will be devoted to "Operations."

- a. Consultative Council. As noted in the General Statement, membership of the Council reached 800 during FY 1980. This included some 333 organizations, which represent a growth of nearly 41% in this category. Representation of the many facets of the public and private sectors of the housing and building community has continued to broaden. Increases in consumer and environmental participation have been realized because of special efforts made to encourage such participation, including defraying the expenses of representatives to attend the annual meeting of the Council and a special consumer conference to acquaint consumer interests groups with the mission and programs of the Institute and to get their input to Institute operations.

As noted earlier herein, the Council has taken steps to simplify its structure and has assumed the principal responsibility for the technical programs of the Institute. The three divisions that have resulted, parallel the three principal functions and responsibilities set forth for the Institute in its authorizing legislation--i.e.,

Codes, Standards and Regulations
Technology
Information Systems

These divisions, under the guidance of the National Executive Committee, now have three primary functions: (1) development of strategies for achieving more effective and efficient national systems in their respective areas, and for making input to the Institute's Five-Year Program Plan to this end; (2) carrying-out, subject to Board of Directors approval, the technical programs and projects of the Institute assigned to it and (3) holding hearings on and addressing topical issues in a timely manner for the purpose of making recommendations to the Board.

The planning process has been treated, and the technical programs and projects will be described under "Technology and Programs." During FY 1980, the Consultative Council conducted a national hearing (conference) on the subject of metrication. This hearing was requested by the U.S. Metric Board, the American National Metric Council, and the National Bureau of Standards, and was designed to give both proponents and opponents the opportunity to express themselves on the issue of metric conversion in the building community. At the request of the participants, the Institute will now endeavor to develop a national consensus on this important issue.

The Insulation Task Force of the Council, which has been so effective in the resolution of critical regulatory problems in this area and which has begun development of a public-private cooperative national program to address industrial and mechanical systems insulation has been redesignated as the Thermal Insulation Committee and placed under the Technology Division.

Specifically, during FY 1982, the Consultative Council will:

- (1) Continue its membership development program to the end that increasingly the Institute will have the depth and breadth of building community representation in its deliberations needed to assure that its findings, conclusions, and recommendations can truly be said to be authoritative.

(It should be pointed out, however, that the serious recession experienced by the housing and building industry has constrained, and can be expected to continue to constrain, the growth of membership over the near term. Most building community organizations are small and are seriously affected by cyclical declines in production; therefore, because these small organizations are vital to the success of any program to improve housing and building in its many dimensions, the Institute will need to devote resources to achieving the desired expansion.)

- (2) Achieve smooth functioning of its three membership divisions in carrying-out their planning and operations responsibilities.
- (3) Provide continuing assistance to State and area groups that wish to form counterpart councils (chapters) and become a two-way link with the Institute and address State and local issues where the vast majority of building regulatory decisions are made and implemented.
- (4) Provide membership services, including Building Sciences, information and data, and the Annual Meeting.

- (5) Conduct hearings on critical issues before the Institute.

For these purposes, \$100,000 of the appropriated funds has been budgeted. This represents 36% of the total anticipated Council budget from all sources.

- b. Technology and Programs. As noted earlier, much of the responsibility for the execution of the mission programs of the Institute have been transferred to the Consultative Council. This means that the Council National Executive Committee assigns programs and projects to the appropriate Council division. The division in turn puts out a call for volunteers within the membership of the Council to serve on a project committee. From these volunteers, the Division Management Board selects a steering committee that is balanced in its representation and has the needed expertise. The Steering Committee then maintains contact with the full Committee for input and review, appoints subcommittees as needed to provide depth of expertise, and otherwise guides the project. It is important to note that the division is charged with going outside the membership of the Council for steering committee and subcommittee members when balance and expertise cannot otherwise be achieved.

The Institute provides the professional staff, and that staff manages all contract work that is needed to carry-out the given task(s).

The products of the Council are subject to oversight by the Board of Directors, and its products must be reviewed and approved by the Board as products of the Institute.

The following projects are in progress, utilizing appropriated funds:

- (1) Follow-on work to fully document Federal regulations impacting the housing and building community and assess the relative importance of those impacts (see Figs. 4 and 5 for a table of these regulatory intersects).
- (2) Follow-on work to identify and assess Federal regulatory overlaps, duplications, conflicts, gaps, etc. Similarly, relationships between Federal regulations and State and local regulations will be explored in three different localities.
- (3) Development and preliminary testing of a reliable and acceptable method for the conduct of cost/benefit analyses of regulations in relation to risk exposure.
- (4) Analysis of an EPA study of the impact of environmental regulations on housing.
- (5) Documentation and assessment of materials and products certification and acceptance systems and practices.
- (6) Investigation of an effective means for technology prequalification for compliance with performance standards.
- (7) Initial work to establish a glossary of building science and technology terms to facilitate communications, and a system for classifying standards by end use.
- (8) Partial support, with other public and private organizations, of a building technology information workshop.

REGULATIONS AFFECTING THE BUILDING PROCESS

CODES OF FEDERAL REGULATIONS	BUILDING PROCESS								Other																					
	Market acquisition/production		Market expansion		Market reduction		Maintenance		Land development		Building Design		Construction		Site and Division		Other		Generally Applicable											
	1	2	3	4	5	6	7	8	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5							
6. Economic Stability																														
7. Agriculture																														
10. Energy																														
12. Bank/Banking																														
13. Business Credit																														
14. Agriculture																														
15. Commerce																														
16. Commercial Practices																														
17. Commodities/Curities																														
18. Power and Water																														
19. Customs																														
20. Employee Benefits																														
21. Food and Drugs																														
22. Foreign Relations																														
24. Housing																														
26. Indians																														
28. Internal Revenue																														
29. Judicial Administration																														
29. Labor																														
31. Treasury																														
33. Navigation																														
34. Quarantine/Mar																														
36. P.A.S., etc.																														
37. Patents, etc.																														
38. Precision																														
40. Environment																														
42. Public Health																														
42. Interior																														
45. Welfare																														
48. Transportation																														
50. Welfare																														
50. Welfare																														
Total	14	11	14	1	10	12	11	5	16	12	11	9	8	13	6	7	14	11	10	12	10	8	9	9	11	8	4	1	10	3

Fig. 5

In FY 1982, it is anticipated that the Institute's cost/benefit analysis method will have been pretested and can be published and its application monitored. During FY 1982, a program will be put in place to continuously monitor new initiatives in the area of Federal regulations impacting the cost and value of housing and building. Further, work will be underway: to document the performance objectives of selected housing and building regulations; to provide guidance in achieving consistency among regulations, based on performance levels; to recommend an improved materials and products prequalification and acceptance system; and to initiate improvements in building science and technology communications within the building community.

For these tasks, \$270,000 of the appropriated funds has been budgeted; \$184,000 in the Codes, Standards, and Regulations area, \$50,000 in Technology, and \$36,000 in Information Systems. The \$270,000 represents 6.4% of the total anticipated Technology and Programs budget from all sources.

Fee Income and General Support

1. Administration

The same functions as noted under Appropriated Funds are performed with the proportionate share of income from these sources. However, general support grants--as noted earlier, only the Department of Energy among the Federal agencies has provided such support to date--will be devoted exclusively to administration at this time. Other funds shown in Fig. 2 for administrative expenses will be derived from an overhead of 35% on

operations, and from the sale of publications under Information Services. It is also anticipated that some funding will be generated by the Office of Program Planning for program development.

A total of \$291,000 is anticipated for these sources.

2. Operations

- a. Consultative Council. A total of \$169,000 is anticipated in fee income from dues and other membership activities of the Council in FY 1982, which will provide \$125,000 for Operations and \$44,000 for administration. As noted earlier, however, this sum may be realizable only if there is a recovery from the current recession in the building industry by the 1982 fiscal year.

It is anticipated that the Annual Meeting and specialty conferences will generate funding on a cost-recovery basis--e.g., consensus development work in connection with the issue of metric conversion, and workshops and conferences in conjunction with various results of the Institute's technical studies.

- b. Technology and Programs. Funding that is sought and obtained for support of the basic mission activities of the Institute are classified under Fee Income and General Support. Included are funds that will be obtained through fees and grants (or contracts) for general support of the Building Seismic Safety Council and the mission studies outlined under appropriated funds above. For example, additional public and private support was obtained for support of the Technology Information Workshop during FY 1981--i.e., over and above those appropriated funds used by the Institute. During FY 1980, substantial funds were raised from the public and private sectors to support the Institute's CHEC

(Home Energy Conservation) program which won a Presidential energy efficiency award in FY 1980, and similar efforts are expected in FY 1981 and FY 1982.

Funds anticipated to be raised for these purposes are projected at \$387,000, \$287,000 of which will be for operations and \$100,000 or 35% for administration.

Service Grants and Contracts

Service grant and contract activity has become an increasingly large proportion of the total budget of the Institute. Most of this work is in response to requests from Federal agencies for advisory services, research and technical studies, and technical management services, a number of which stem from Congressional actions. Grants from the private sector also are accepted but only where the service is in the broad public interest--i.e., the Institute will not accept funds from the private sector for proprietary services.

1. Administration

As noted earlier, the Institute assesses a 35% overhead on in-house services and negotiates overhead rates with Federal agencies to seek to maintain this same approximate percentage when justified by an audited rate. As a general rule the overhead is 59% on in-house work and 10% on subcontracts. Consistent with the authorizing legislation that encourages the Institute to utilize the services of existing organizations to the maximum extent possible, the Institute currently contracts for as high as 80% on some projects, thus the actual rate more likely can be on the order of 20-22%.

\$852,000 is projected as overhead from these sources for FY 1982.

2. Operations

- a. Consultative Council. Only \$68,000 is projected for grant and contract activity directly related to the Council, \$50,000 of which will be for direct operations. It is not possible to predict the specific activity that will generate this income; however, it is likely to be for activities associated with the divisions, such as conferences, workshops, and symposia similar to the metrification project.
- b. Technology and Programs. As noted earlier, although the Consultative Council now has responsibility for the conduct of these activities, the Institute treats them as a service function in the context of its technology activities.

Currently, the Institute is providing a major research management function for the Department of Energy in conjunction with the Building Energy Performance Standards. Much of this work is in response to Congressional legislation and may well be largely completed during FY 1981. Nevertheless, whether the standards, once developed, are made mandatory or voluntary by the Congress, it is likely that some work will continue in monitoring implementation of the standards or their equivalent at the State level.

The Institute is performing three activities for the Department of Housing and Urban Development: (1) Mobile Home Construction Safety Standards; (2) Rehabilitation Guidelines; and (3) the conduct of the first of what is hoped will become a new annual series of housing technology conferences.

Considerable work has been completed in this category during FY 1980 and 1981--e.g., portions of the BEPS program for DOE; a study of the

proposed HUD Residential Energy Efficiency Standards; a study of problems associated with the administration of building regulations at the State and local levels.

It is anticipated that the Institute will continue to be asked to provide advice and assistance on technical matters. For example, as a consequence of its newly launched program to analyze Federal regulations for selective elimination or modification, it can be expected that considerable analytical work will be requested. As already noted, the Institute, in response to requests from a number of sources, intends to make its services available to address land development and environmental regulations impacting housing and building. Further, because the Institute is developing an energy conservation strategy for dealing with the huge existing housing and building inventory, implementation tasks can be expected.

As a consequence of the Institute's other basic mission studies--e.g., in the areas of prequalification, certification, cost/benefit analyses, and regulatory analysis--follow-on requests are a reasonable expectation. Furthermore, it is anticipated that the Building Seismic Safety Council will be supported by the Federal Emergency Management Agency to manage the conduct of trial designs under the Earthquake Hazard Reduction Program cited earlier herein, that could extend well into FY 1982.

\$3,655,000 has been projected for operations in the regulatory area and \$27,000 in the information system area, for a total of \$3,582,000. At an approximate 22% overhead rate, this would contribute \$810,000 to administrative expenses.

Public Service

The Institute, as part of its overall public responsibility, has assisted in a wide variety of unfunded activities--e.g.:

- Further assistance to the General Accounting Office on various of its technical studies.
- Assistance to the Federal Trade Commission with its study of legal aspects of building code administration.
- Evaluation of the Building Energy Performance Standards and testimony before Congress on that program.
- The previously noted assistance to the U.S. Metric Board, American National Metric Council, and National Bureau of Standards on metric conversion in the building community.
- Commentary to the Department of Commerce on Federal Interaction with Voluntary Standards Bodies.

Summation

The Congress has asked the Institute to become financially self-sustaining by FY 1983; therefore, this appropriation request is the last that will be made by the Institute. This task has been difficult because OMB determined that the Institute could not request the full \$10 million authorized by the Congress for the 5-year period FY 1978 through FY 1982. Indeed, OMB set a schedule in the third year that called for a declining appropriation for the Institute beginning at \$750,000 and dropping through \$625,000 to the presently requested \$500,000. The consequence of this action has been the need to drastically alter, and to continue to alter, the plans for developing the Institute and making it self-sufficient at a sound operating level.

Although the Institute has not been able to offer the services as planned and is heavily dependent upon service grant and contract requests, it has been able to provide a significant vehicle for addressing the ever more pressing need to examine and evaluate regulations and regulatory processes in the housing and building community.

Fig. 6 summarizes the data shown in Fig. 2 by "Sources of Income and Expenditures." In the case of expenditures, the Federal object classes are used except for "Program Implementation and Contract/Grant Performance." This latter object class has been introduced to indicate those funds that are devoted to other than core activities.

Fig. 7 shows actual and estimated expenditures by Federal object classes, of the requested appropriated funds only. The large "Other Services" item is due to the fact that there is no other object class under which "contracted-out" mission activities can be shown.

Finally, the salary of the President has not been increased since it was lowered in FY 1979, and the salaries of the vice presidents have not been increased over those that were set at the time of their hiring in FY 1978.

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FY 82

PROJECTED OPERATING BUDGET
(dollars in thousands)

	<u>FY 80</u> <u>Actual</u>	<u>FY 81</u> <u>Est.</u>	<u>FY 82</u> <u>Est.</u>
A. SOURCES OF INCOME			
1. Appropriated Capital Funds	750	613	500
2. Fee Income and General Support	375	554	703
3. Service Grant/Contract	<u>3206</u>	<u>4419</u>	<u>4584</u>
	4,331	5,586	5,787
B. EXPENDITURES			
11.8 Personnel Compensation: Special Personnel services payments	595	595	650
12.1 Personnel Benefits: Civilian	212	212	227
21.0 Travel and transportation of persons	231	181	180
23.2 Communications, utilities, and other rent	268	162	204
24.0 Printing and reproduction	180	80	80
25.0 Other services	562	370	300
26.0 Supplies and materials	51	59	60
31.0 Equipment	80	35	40
---- Program Implementation & Grant/Contract Performance	<u>2087</u>	<u>3892</u>	<u>4046</u>
99.0 Total obligation	4,266	5,586	5,787

Fig. 6

NATIONAL INSTITUTE OF BUILDING SCIENCES
 FY 82 BUDGET OBJECT CLASSIFICATIONS

OBJECT CLASSIFICATION (in thousands of dollars)		1978	1979	1980	1981	1982
Identification code 20-1806-0-1-376		Actual	Actual	Actual	Est.	Est.
11.8	Personnel compensation: special Personal services payments	225	235	194	155	100
12.1	Personnel benefits: Civilian ..	56	58	52	42	35
21.0	Travel and transportation of persons	91	65	72	60	28
23.2	Communications, utilities, and other rent	94	69	76	63	30
24.0	Printing and reproduction	35	43	47	39	10
25.0	Other services	437	250	276	229	287
26.0	Supplies and materials	16	17	19	15	5
31.0	Equipment	<u>46</u>	<u>13</u>	<u>14</u>	<u>10</u>	<u>5</u>
99.0	Total Obligations	1,000	750	750	613	500

Fig. 7

National Institute of
BUILDING SCIENCES

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January 15, 1981

BUILDING REGULATION

Time for a New Direction

The ability to provide quality housing at prices that Americans can afford is being challenged as never before; so also is the ability to provide quality buildings to sustain the nation's business, institutional and recreational needs without inflationary costs to the user and consumer. It is apparent that there must be dramatic change in the regulatory environment within which the building community functions if these challenges are to be met.

The National Institute of Building Sciences--in response to its Congressional charge--has explored this regulatory environment and has found a multiplicity of regulators and regulations which are growing virtually out of control. In recent years, a whole new array of regulatory agencies has sprung into existence--EPA, OSHA, CPSC, DOE, the Architectural and Transportation Barriers Compliance Board (ATBCB), and more--to say nothing of a like proliferation at the State and local levels of government. With insufficient attention to cost/benefit relationships or consensus of the governed, creativity, productivity and growth are being stifled.

The Institute has concluded that the pendulum toward regulatory solutions has swung too far, and that immediate action is called for to reverse this trend, especially in housing matters. Moreover, long range action is needed to set the nation upon a new course for determining what should be regulated and how needed regulation is to be accomplished. These actions are believed to be absolutely vital to restoring the health of the housing and building community so that it can get on with the job of satisfying the nation's housing and building needs.

To accomplish these two objectives, the Institute recommends:

- o A one-year moratorium on all new Federal regulatory initiatives that will further constrain the housing and building community:
- o Examination of the full range of government regulations and regulatory processes impacting building during this moratorium--with broad input from the public and private sectors of the building community, including consumers--so as to:

- clearly identify overlaps and inconsistencies, cost/benefit imbalances, and other factors which needlessly impair the efficiency of building and lend themselves to practical and selective elimination or modification; and
- develop specific recommendations for immediate actions to be taken, and a strategy for achieving their implementation.
- o Concurrently,--also with broad input from the building community--action to bring forth a comprehensive set of proposals for follow-on improvements in the housing and building regulatory process that can be subjected to full and open public debate and result in the consensus needed to set that process in motion.

There is ample reason to conclude that such action is necessary; for example:

- o When several different Federal agencies seek to regulate or set requirements in the same area--particularly when State and local governments are active in the same area--the result can only be confusion and lost efficiency. Current actions by a number of Federal agencies to set standards for housing and building accessibility for the handicapped, are a case in point.
- o Where regulations conflict because a number of agencies have addressed different aspects of the same issue without coordinating with one another, compliance can be impossible. For example, in the case of panic hardware, where one agency seeks to provide for security, another for exit in emergencies, and yet another for operability by the handicapped, the result can be that neither manufacturers nor designers can comply with all three.
- o Where regulations address ill-defined or unsubstantiated needs at an undetermined cost, both the individual and society can be the loser. Such can well be the case when after a natural or man-made disaster--for example, a major fire, flood, hurricane, or earthquake--there is a rush to increase protection without a clear vision of the benefits that will accrue and at what costs.
- o Where regulatory processes impose lengthy time delays in project development, those delays are translated into costs that can either stop the development or that must be passed through to the consumer. This is well illustrated by cases where a myriad of approvals and permits must be obtained from the same and different agencies at different times, adding unacceptable financial burdens.

- o Where the prospect of government intervention thwarts innovation and impedes development of new technology because past experience indicates that the innovator or developer can be subjected to unknown and virtually unlimited down-stream penalty for performance failures, as is the case when new performance requirements are imposed long after the product goes to market, productivity gains are lost and the whole of society can be the loser.
- o Where regulatory agencies fail to clearly establish the need for regulation before taking action, costly and needless adversarial proceedings are forced upon those to be regulated--costs which ultimately must be passed through to the consumer.

The National Institute of Building Sciences, working through its broad based membership arm--its Congressionally authorized Consultative Council, which has procedures in place to provide for full and open participation of all parties of interest--has already started bringing the public and private sectors of the building community together to begin the examination process. Specifically, the Institute has begun:

- o A comprehensive documentation of Federal regulations that impact the building and land development processes;
- o Identification of significant areas of duplication, overlap, conflict, and gaps in Federal, State and local buildings and development regulations, together with the development of a strategy for overcoming these problems; and
- o Development of a standardized method for analyzing risks, and the cost and benefits of existing and proposed regulations intended to address those risks.

A moratorium to provide a breathing spell--so long as there is recognition that situations requiring emergency action may occur--will give everyone, the regulator and the regulated alike, time to assess the current situation and recommend positive actions.

The ultimate objective is to devise a mechanism for bringing all talents and points of view within the building community to bear in fashioning a better process for fulfilling market needs:

- o by allowing free market forces to make the needed corrections where they can,
- o by relying upon the voluntary standards-setting and compliance system when market forces are insufficient, and
- o by turning to regulation, cooperatively developed and widely supported, when such is the most effective way to get the job done. The traditional approach to regulation--special interest against special interest, and government against industry--is not working.

The Institute believes it is time for a new direction and, working through its Consultative Council and State and area councils, will pursue its realization utilizing all of its resources.

FEDERAL AGENCY USE OF NIBS SERVICES

Mr. SABO. Last year, NIBS asked the Committee to include report language urging other Federal agencies engaged in programs involving technical requirements for buildings to use the Institute's services whenever possible. That language was included in the Committee's report. Has the language been helpful in your dealings with other Federal agencies?

Mr. FLOYD. It has been helpful and we have made some progress in that area, but not to the extent we would like to see nor that we really need.

Mr. SABO. You are asking for the same type of help again. What kind of assistance do you have in mind?

Mr. BREWER. One of the things we had in mind and referred to in our opening statement, is the OMB bulletin.

Mr. SABO. Do you know why that was not published?

Mr. BREWER. No; it was drafted and redrafted by the folks at OMB. They thought it was an appropriate procedure. It was tried out on four agencies to see how it would fly and those four agencies reported favorably on it. We do not know what happened after that, but the interest seemed to wane. It is possible that by fall, there was concern that they would be setting up something they might not be able to preside over.

After the election, it was left sitting on the table. I feel the underlying philosophic reason for the bulletin is important. In order for NIBS to maintain its credibility and integrity, we think it important to have joint funding from both the public and private sectors. This was the basis for the idea that originated at OMB, that this would be an appropriate way to stimulate the public sector support. It gained some support within OMB but eventually was dropped.

Mr. SABO. I assume you would like us to adopt the same report language. Anything else?

Mr. MILLER. I might add that in the last two years the atmosphere in the case of the Federal agencies has changed from one of "What is this organization; and what might it do?" to one of open cooperation.

As an example, I served as a member of the task force on housing costs established by HUD about two, to two and one-half years ago. This forty-member task force, which cut across all segments of the industry and included eight or ten key HUD officials, not only took note of the National Institute of Building Sciences—took note of what it is—but made several recommendations within the task force report in areas where NIBS could be responsive and helpful. That was one example where this kind of cooperative attitude became very positive and remained positive.

I think your support within this Committee would fall on very fertile ground, more so than last year.

Mr. FLOYD. We answer the question, yes; we would like the same report submitted. We find that as soon as agencies and others know about us, our intents and our modus operandi, we get a very favorable response and our efforts and need are to get more people familiar with what we are doing and what we are about.

STATE HOME BUILDER ASSOCIATIONS

Mr. SABO. I am supposed to visit with some folks from the Home Building Association in my home state after the hearing. Would they be aware of you? They probably will be telling me that we should spend less.

Mr. FLOYD. We hope they will be aware. Unfortunately, at this time some of the home builders themselves may not know about us and what we are about. This is something we certainly hope to correct.

Mr. BREWER. I can enlarge on that. We work very closely with the National Association of Home Builders, which is one of our interfaces with that part of the building community. In turn, as you know, there are many state building associations. Our relationship with them is growing. Mainly, however, we work with the NAHB staff here in Washington.

REHABILITATION GUIDELINES: AN EXAMPLE

As an example of how we work with the Federal agencies, may I hand you copies of the rehabilitation guidelines produced for HUD by the Institute. In line with Mr. Miller's point concerning recognition, the agencies understand that the Institute provides input from all segments of the building community, consumers, environmentalists, as well as contractors, and other parties.

In this instance, we drew together 15 organizations to help identify the issues that needed to be dealt with in order to create an effective atmosphere for rehabilitation within cities. We produced these documents as guidelines, not as a building code or law, to permit local agencies and building officials to arrive at reasonable trade-offs without meeting the full requirements imposed on new construction. If codes for new construction are applied to a rehab project, the project may not be economically viable. So, this is an effort to reach a middle ground.

Rehabilitation primarily takes place in the cities, and these guidelines are the beginning of an educational program, a way of bringing to the cities the benefit of expert advice from the building community. The guidelines will provide all those involved with the information they need for an effective housing rehabilitation program. That is but one example of how the Institute brings together expertise and provides advice.

STATE AND LOCAL REGULATIONS

Mr. SABO. Aren't more of the regulations State and local?

Mr. MILLER. By sheer numbers, no question.

Mr. SABO. What about in terms of importance? Won't that also be the case?

Mr. MILLER. Yes, because these sheer numbers are the result of some ten to 12,000 local building regulatory jurisdictions, many of which either have a separate code or an adopted model code that has been modified.

The reason for our recommendation of a moratorium and a study of regulatory actions at the Federal level was simply because often Federal level initiatives filter down to the States and the local

communities. Besides that, rather than tackling the whole problem, it seemed more logical to start at the Federal level.

I call your attention to the material that is in your packet. To illustrate a point, on this side of the matrix are the steps in the typical construction process, and on the other side, are the elements of the U.S. Code presently in place. The black dots indicate where Federal regulations impinge on these steps in the construction process.

This is where we are starting. We feel that the results of cost-benefit analyses of the Federal-level regulatory impacts, will begin to flow down into the State and local regulatory areas. So it is a starting point, not a total resolution of the problem itself.

Mr. FLOYD. I am a builder in Atlanta. We find that implementation of Federal regulations affects us on the local level where they generally are interpreted and implemented. It appears that most of the Federal initiatives filter down to the local level. So, the way Federal initiatives are interpreted and implemented does affect us, delays us, and increases our costs of building.

Mr. BREWER. The feature of how the Institute proposes to get to the problems at the State and local levels, is the creation of State and local councils operating under Institute procedures. This is encouraged in the Institute's enabling legislation. The premise is that only local people can deal effectively with local problems. One such council has been established in the State of West Virginia, and the State of Ohio has been granted a charter and is in the process of going ahead. I am told that one of the Ohio council's first orders of business will be to examine all state and local regulations that impact building. That will be a most important phase of our work, to get local people to analyze their own local problems. As you know, anybody coming in from out of state is likely to encounter resistance. We are working on developing other State and local councils. For example, southern California is in the process of organizing and other States and regions as well. We are going about this slowly because it is a learning process. We do not want to move too fast, but this is one of the ways State and local people will have the opportunity to work together under the Institute umbrella.

THE INSTITUTE'S FUNDING AUTHORIZATION

Mr. SABO. Direct Federal funding for NIBS will end after fiscal year 1982. Beginning in fiscal year 1983 the Institute will be self-sustaining. In your statement (page one) you mention that, including the 1982 request, NIBS will have received appropriations totaling \$3,613,000 over a five-year period. That is slightly less than 37 percent of the \$10,000,000 authorized.

To your knowledge, was the \$10,000,000 authorization figure based on any definite operating plan?

Mr. FLOYD. Yes, sir. When we first became organized, we had a number of things which we had planned to do, some having a large impact on the industry. One of these was creating a data base. This is a tremendous task, and one that we have had to shelve due to the lack of funds or the lack of appropriation until we can develop the necessary resources. This would involve documenting all the codes from all jurisdictions across the country to create a data base

one could call upon and use. Anyone planning to build any place in the country would be able to pull out the needed information on pertinent regulations. That is one area we have not be able to develop. We have a plan, but have not been able to implement it.

Mr. SABO. Do you have plans to ask the Banking Committee for additional authorization?

Mr. BREWER. That has been discussed. If we were asked, we might say that it would be appropriate—that we were not as prepared to use the full appropriation as we are today. We are much better prepared to use the funds appropriately and efficiently now that we are organized and ready to move.

Mr. SABO. The new Administration will be submitting revised estimates for fiscal year 1982 in a month or two. Does the National Institute of Building Sciences have any reason to believe that its 1982 budget request will be reduced?

Mr. FLOYD. At this time we do not have any knowledge of a planned reduction.

Mr. BREWER. We have had a number of discussions with the incoming Administration and with people in the Congress. It is my sense of the matter that the incoming folks will look upon the Institute as a vehicle to be used to help solve some of the problems that are facing the building community. I think the case can be made that the Institute's process of pulling people together to achieve consensus is probably a more effective way of getting solutions to problems than the adversarial approach. That is the sense I have of the matter. Nobody has told me this. My view is we have been effective and we will get more effective. We have been immensely pleased with the professional attitude public representatives take when they sit down with those from the private sector. There is a vast difference. As a matter of fact, it generally takes two meetings before the players get down to work because they are assessing each other and not exactly trusting each other at the outset.

Mr. SABO. What would happen if you were reduced by \$50,000, or if your appropriation were eliminated?

Mr. FLOYD. If we were reduced by 10 percent, we obviously would have to cut something out that we had planned on doing. If our appropriation was totally eliminated, we would need to run a bare-bones operation until we could supplement our income with other funds.

Mr. BREWER. We have been working very diligently for some time to overcome that possibility. We are working hard with the private sector to develop support through endowments and membership dues, and by performing work under contract. We are working to create information for the private sector, but it is a slow process. We are well established now. We have credibility and a certain amount of visibility. Now whether we can achieve one hundred percent self-sufficiency is still a question, but we are working on it.

Mr. MILLER. One of the things that does not appear when you look at a half million dollars and cannot really appear, is the dollar matching of the expenditure Congress makes on behalf of NIBS, by the growing amount of voluntary, broad constituent input that it brought to the table by NIBS. The dollar invested today in

NIBS through congressional appropriation goes further than it did three years, four years, or even two years ago because of the broad industry involvement that we can bring to the table at virtually no cost. It is not a direct cost outlay, therefore, it does not appear as a dollar investment.

BUILDING ENERGY PERFORMANCE STANDARDS

Mr. SABO. During last year's hearings, Mr. Newman indicated that the Building Energy Performance Standards (BEPS) might require major surgery. Subsequently, comments submitted by NIBS on DOE's proposed Building Energy Performance Standards recommended deferring issuance of the standards, developing revised standards, and requiring that the standards be on a voluntary basis pending reassessment.

That is accurate, is it not?

Mr. FLOYD. Yes.

Mr. SABO. The 1981 HUD-Independent Agencies Appropriations Act contains a provision that HUD may not implement final energy conservation performance standards. The Department and the 1980 housing bill have caused a one-year delay in the standards.

What is going to happen to BEPS, and what is your involvement with BEPS?

Mr. BREWER. The comments we made April 30, which were quite critical of the Notice of Proposed Rulemaking have been heeded by the Department of Energy. This resulted in a new direction to correct the problems that were alluded to. That work is about 85- to 90-percent finished.

We have been asked by the Administration and the Congress for our recommendations, and we have made them. They are very simple: complete the research expeditiously, drop the sanctions, (which was our original recommendation), publish the technical information as guidelines for voluntary use by the States and local jurisdictions.

Mr. SABO. Excuse me. When you say "voluntary," do you mean for the States or all builders?

Mr. BREWER. For the States. The States can adopt the guidelines as a standard if they choose. We just do not think BEPS should be mandated by law. It should be a voluntary process.

We also would provide for alternate paths for making existing regulations equivalent to the BEPS performance criteria. That is our proposal.

There is a demonstration program written into the Brown amendment that also needs to be looked at. It also may be desirable to review the legislation itself to be sure there are no troublesome factors remaining. The Federal establishment must adopt BEPS; this also may be unnecessary. BEPS can be a valuable research document, but it should not be looked at as a law, because the dynamics are such that by next year we will have new knowledge that should be used to update and improve this performance-based design tool.

We recommend that BEPS be looked upon as an ongoing research effort to bring new technology to the picture. It has already stimulated new technology.

Mr. FLOYD. I might also comment that the voluntary process itself is providing valuable data. Speaking again as a builder, most of our new buildings today either meet or exceed the published BEPS performance levels. I am talking about multifamily construction. Everything we are doing now is so far superior to that which was done a few years ago, mainly dictated by the lenders and marketplace. I would venture to say that the voluntary process as far as new building is concerned, would be the avenue to follow, because most of us are doing it anyway.

Mr. BREWER. I want to make the comment that this research work in which the engineers, the architects, the homebuilders and others have participated, has stimulated much technical activity. It is one thing to have a market pressure. It is quite another to know what to do about it.

In our BEPS work, we have about 150 experts from the building community dealing with different issues involved. It is this input that shapes the final product. The importance is that those who have to make the standards work are the authors of the product.

CONSULTATIVE COUNCIL

Mr. SABO. Last year there were about 600 members of the Consultative Council. You anticipated the membership would reach 1,200 to 1,600 in fiscal year 1981. On page six of the justification you mention that Council membership reached 800 during 1980. What is the membership estimated by the end of fiscal year 1981? How about fiscal year 1982?

Mr. BREWER. The numbers today are running toward 900. We lost some people due to the exigencies of the housing market.

We have an outreach program and we are working hard on it. I do not know what the numbers are going to be, but we fully expect to exceed a thousand in the next six months.

Mr. SABO. How important is it to increase the number of members on the Consultative Council?

Mr. FLOYD. The more people who know about us and know what we are doing, the better received our work is and the more appreciation people have for what we are trying to do. That is very important.

Lastly, in any of these matters that we embark upon, we find what we are seeking is a consensus of the building community, and if the Council is large in number, we have greater resources to call upon to get a true opinion from the various facets of the building community. So, the membership of the Council is extremely important to the viability of NIBS.

STATE AND LOCAL CHAPTERS

Mr. SABO. You speak of your State and local charters. Is it more important to expand your national membership?

Mr. BREWER. They go in parallel; every member of a State council is automatically a member of the national.

Mr. SABO. What is your emphasis at this point?

Mr. BREWER. Probably the national. We are going slow on the State and area councils, to be sure we are doing things right. But there is a certain amount of excitement there too. Success stories

you know breed interest and more success, so we expect State and local work to move along, too.

Mr. FLOYD. As the national council increases, the State and local councils will increase. They go hand in hand. I think you will see that as we develop further.

NIBS STAFF

Mr. SABO. Last year NIBS had a core staff of 14 on board to handle day-to-day activities. The indication was that the staff would likely increase to 16. This year's justification (page seven) states the core staff totals 18.

Are all 18 positions currently filled?

Mr. BREWER. Yes. Last year we had one office that was not operative. Sixteen had been our target from the beginning, but in addition to staffing our program planning office we have added to our membership staff.

Mr. SABO. Your goal was always 16 rather than 18?

Mr. BREWER. Yes.

Mr. SABO. Will NIBS be able to support a core staff of 18 in fiscal year 1982 and subsequent years?

Mr. BREWER. We will in 1982, based upon the suggested activity. If we do not have that much activity, we will have to cut back. It takes about \$1,200,000 in round numbers to maintain the core staff and operations.

MEASURES OF SUCCESS

Mr. SABO. Really, your success relates to how you are perceived by people in the industry, by State and local industries, and by labor. How do we measure if that is happening?

Mr. BREWER. Interest in our process. I wanted to make a point about participation. By law we must have balanced membership on all committees so all points of view are heard. If we do not have those points of view, we reach out and invite those people to serve. Those people get involved, participate, and finally realize they do make a difference. So our outreach program works right down to the program level. That is important.

Mr. MILLER. A good case in point might be the establishment of one of the Committees of the Consultative Council. When the word went out, there were 130 indications of voluntary interest in participating in that Committee. These purely voluntary contributions came from all walks of life, from those already involved in the process.

The broader the base, the more qualified volunteers we can get to make up the committees to get at technical problems.

Mr. FLOYD. As our work product grows and as our track record increases, you will find even more participation.

Recently, we attended a meeting at the NAHB convention between the NAHB people and ourselves. It was amazing to see how enthusiastic they were over the rehab guidelines. They wanted us to mail a notice to all 40,000 NAHB members so they would know they were available and could determine whether they had application for the guidelines. That is the kind of interest that will enable us to grow.

Mr. MILLER. Back to your point, Mr. Sabo, the parallel between the State consultative councils and the national effort.

I am from Ohio and went down to Columbus to participate in the initial meeting of about 20 people that took place in November or October. What has happened since then? The first thing was that the eight or ten who were not members said they wanted to be involved. Since then, structuring of the State-wide council has moved ahead and there is now an effort to go to perhaps a thousand members—local builders, code inspectors, industry people, architects, engineers—a cross section of the Ohio building community. That is the corollary and parallel between the State consultative council and the national.

Mr. BREWER. Of interest is the fact that it was the State building official in Ohio who had the genesis of the state-wide idea.

Mr. SABO. Mr. Green.

BUILDING FIRES

Mr. GREEN. Because of the number of recent fires in hotels and other buildings, attention has been focused on fire codes. To what extent have you gotten into fire safety issues or do you plan to get into them?

Mr. BREWER. We have not gotten involved in that yet, but we are providing advice to FEMA through our Building Seismic Safety Council on upgrading building regulations with respect to earthquake protection, a very critical matter, also.

We are planning to have similar response mechanisms on fires, floods, and other natural hazards so that when something happens, we can pull a group together to respond. FEMA is the oversight organization on natural hazards.

That is important because right today there is an emotional reaction to the building fires that have occurred. This is understandable, but from what I have heard so far, we are not focusing on the right issue, which is smoke.

Another problem in the Las Vegas fire, was that the building was not new, but more importantly many building code provisions had been violated.

Mr. MILLER. There also is the issue of confrontation when the problem occurs. You can see the confrontation that occurs between the various parties at issue in the papers. This in itself may or may not solve the problem, but it is a difficult way to go about it.

Mr. GREEN. Apparently there was a discussion on whether the emphasis should be on Federal regulation versus State and local regulation. I think you took the position that it would be easier to start at the Federal level, although State and local levels might have more of a handle on costs. It strikes me that the real question is one of interface. At the Federal level, you deal with the question of people escaping from burning buildings by requiring a relatively short maximum distance from an apartment door to a stairwell while State code allows greater distance but requires more fire-resistant material. Obviously, these regulations are in conflict.

To what extent have you been looking at these interfaces and dealing with these issues?

Mr. BREWER. You have put your finger on our function. We are a referee. We have two cases where four agencies are writing regu-

lations on handicapped accessibility, and they are in conflict. There are three agencies that have written contradictory provisions for panic hardware entries, and it is impossible to satisfy all three.

The Institute's role is to achieve a reasonable tradeoff, taking into account the economics involved. That is one of the contributions the Institute probably is best equipped to make to the agencies, each of which has a single purpose, but with nobody looking to the public interest. That is one of the roles we are prepared to undertake.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. SABO. I notice you had at your annual meeting a very distinguished Member, Mrs. Boggs, who spoke to you.

Mrs. BOGGS. Sorry I was not here earlier, Mr. Chairman, but I had one of those conflicts that I wish we had a congressional referee to figure out. We had another hearing on the lower Mississippi flood problem.

NIBS RECOMMENDED REGULATORY MORATORIUM

I was interested in the NIBS recommendation announced January 15 that a moratorium be placed on all Federal regulations which could in any way impact on the construction industry. The idea is to permit thorough review of all of the implications and ramifications of such regulations at this time when the housing and construction industries are having so much difficulty. I understand that NIBS is already involved in studying these regulations. I wonder if you might give us a progress report.

Mr. BREWER. I must say that Mr. Miller is the first to have this thought. Several forces came together at the same time. With Mr. Miller's urging, we took a look at how the Institute could serve the public interest by examining and undoing some of the regulations that have grown like Topsy and have created such a difficult economic and social problem in housing and building.

We visited with the incoming Administration to get a feel as to the direction it might be going. We also visited the congressional committees concerned with housing and building and found a strong feeling of support for our plan to take a look retrospectively at what has been happening the last ten or 12 years. The Board acted favorably on the program and this resulted in the January 15, 1981 press release and announcement.

Since then, we have started the wheels moving. We are holding briefings tomorrow and the next day with representatives from the private sector to bring everybody up to speed. A year-long program has been proposed and put in motion. We intend to look at the overlaps, inconsistencies, delays, et cetera. We intend to focus on housing at this initial stage. The recommendations that flow from this process will be given to the Congress and the Administration.

The first thing we did, Mrs. Boggs, was to review and analyze all the reports we have seen for the past five years. I think we had some twenty documents to analyze. Out of that came some interesting findings. There was a degree of commonality throughout. There were 37 recommendations pertaining to land development which add to up-front costs. Eighteen recommendations related to design, six to labor, and nine to fees, permits, and processing. So, we are bringing to bear very expert people from all sectors of the building

community to develop positive recommendations for action. We fully expect that within a 90-day period, we will come up with specific recommendations. There is a lot of work to be done, but we are going at it full bore.

Mr. FLOYD. If I might add, as a builder I find that not only is the cost per unit or house increasing, but so many of the regulations involve time. It is not unusual in a large project to be delayed 4 years from the time you start, especially in a high-rise building. That time spent translates into costs that have to be dealt with. So in addition to the cost per unit, we are looking at the time impact the regulations have on a project.

Mrs. BOGGS. Which increases the cost tremendously.

NIBS APPROPRIATIONS VS AUTHORIZATION

Since you were originally authorized \$10,000,000 over a five-year period ending with fiscal year 1982, and since by that time you will probably only have actually received \$3,600,000, I wonder what effect these lower appropriations have had on your program. I assume you have had to hold some efforts in abeyance. What kinds of programs have you not been able to undertake for this reason? What would these efforts have cost?

Mr. FLOYD. We have delayed some programs and some have not been started. The best example is that our enabling legislation requires the Institute to create a data base. There are some 10,000 building regulatory entities within the United States. For example, there are 95 building regulatory interpretations in the St. Louis metropolitan area.

We have had to delay the data gathering and data bank processes in their entirety because of the lack of funding. This would be a monumental and very costly effort. There are other areas in which we have had to delay or have not been able to pursue as intense an effort as needed because of the funding.

At the beginning, as Gene Brewer said earlier, we probably were not ready to receive the full funding. We now feel we have the mechanism in place and can operate with the full funding if it is available.

Mr. BREWER. You might recall the matrix in our written statement. This deals with the Federal regulatory process as it impacts the construction process. This is representative of but one of our three principal charges from the Congress. One did have to do with the regulatory process; the others were the introduction of technology and the data base. We really have not been able until this year to start on any of these in a comprehensive way. In fact, the new direction paper speaks to this, and the fact that we have underway right now, a year-long work looking at the interaction of Federal, State, and local regulations and regulatory processes. We knew what to do two years ago, but we did not have the funds to do it. We are just getting started this year in a substantive way. Mr. Floyd mentioned the data base which we had to drop. However, we do have two projects underway, one on the regulatory process, with about six committees working, and our Technology Division is looking at inhibitors to technology development and introduction into the building process. These are basic issues we did not get to work on because of the lack of funding. The funding problem is still

there; that may be our lot in life, I do not know. But the workload is also here. We have the means to get it done; we simply lack the wherewithal.

Mrs. BOGGS. Would the moneys that would have been spent on these programs have amounted to the \$10,000,000 you were originally supposed to receive?

Mr. BREWER. Probably not fully in this time frame. The data base could have been created and in use because that would be highly technical and computerized. But the other work takes longer. Continuity in research programs is very important and we are concerned that we have been unable to sustain the pace originally planned.

A STATE COUNCIL FOR LOUISIANA

Mrs. BOGGS. There has been some interest in Louisiana in establishment of a State consultative council. Can you speak to that?

Mr. BREWER. We have had discussions with building community leaders in Louisiana and there is definite interest, but there is nothing specific to report at this time. Virginia has a charter; Ohio has a charter. Mr. Miller has been one of the founders of the Ohio council. That group intends to address Ohio's problems. Let me give you a measure of the difficulty there. About a year or so ago, the State of Ohio adopted one of the model building codes, which was a complete code. It was immediately modified with 185 pages of amendments. Those amendments are then passed along to the cities and counties. However, the Ohio council will address this issue and this will be good because they will be dealing with their own problems.

ENERGY CONSERVATION

Mrs. BOGGS. In these days of discussions on the means of conserving energy and so on, I wonder the kind of response you have had to your special efforts to include consumer groups through your consultative group?

Mr. BREWER. It has been very good. We have been in touch with those people. In fact, some have asked to come and discuss how to accelerate the consumer involvement program. We have to make certain the input to our deliberations is balanced. If we do not get volunteers we reach out to get the needed participation. We did this for our conference in Chicago on metric conversion. Mr. Miller chaired the conference, and we had input from the White House Office of Consumer Affairs. So we are mindful of the need to involve consumers.

Mrs. BOGGS. I must commend you and I was delighted to note in your recommendations you took note of the concern we expressed as to adequate considerations for certain geographic areas where cooling and dehumidification as opposed to heating are primary energy users.

Your statement (page 27) indicates that you are providing a major research management function for the Department of Energy in connection with these regulations. You say the work will be largely completed during this fiscal year. Can you elaborate on

NIBS' current role in research and attempting to foster some consensus?

Mr. BREWER. You recall our critique last year, when Mr. Newman said the BEPS program needed some surgery. We set forth a series of recommendations that would cure those problems. The reason we were confident is that the recommendations came from those who were interested and could identify the issues. Thereupon DOE adopted most of our recommendations for a course of action to bring the research to completion. We have undertaken a number of the needed tasks directly; those that we were best suited to handle. The National Laboratories and other organizations, some under contract to the Institute, are performing other of the needed tasks.

It will take another five to six months to complete all the research and put a package together. We have recommended to the new Administration, that this program not be mandated, but rather to look upon the end product as a research document to provide technical guidelines and tools for educational purposes, so local people understand how to deal with performance criteria. We are interested in the encouragement of innovation and technology. That is what this document is best suited for; it will set the stage for solving the problem. We think it is important to finish this program; finish it expeditiously, and get it out for people to use.

Mr. FLOYD. One thing we found, too, was that some of the initial data did not take into consideration the different regions of the country. I know of one area in Ohio where the result would have been that all that could be built was total electric. Those are some of the reasons we made the recommendations that we did, and the reason that Mr. Newman mentioned the major surgery. The concerns he expressed have proven to have been a just cause.

Mrs. BOGGS. Mr. Green and Mr. Sabo come from happier climes.

What happened in both public and private buildings and including nursing homes for the aged and so on and smaller homes with VA mortgages and so on, energy had become so inefficient and expensive that some of the old-time aids in dehumidification were dispensed of. We moved citizens to these nicely climatized boxes; the cost of energy now is so prohibitive and the lack of cooling and dehumidification for the elderly and those with respiratory diseases become a disaster.

So, we are grateful NIBS is looking into the regional differences.

REHABILITATION GUIDELINES

Can you elaborate on the work you are doing for HUD as to guidelines?

Mr. BREWER. We had been asked some time ago by HUD, as you remember, to handle this. The first task was to identify the issues, what needed to be done. Fifteen concerns were identified. Eight are finished, and there is a ninth in process on structural elements. The first eight guidelines have been and are being distributed, so builders and contractors now have them available for use as guidelines.

We are planning a series of workshops across the country with local code people so they will know how to interpret the guidelines, so that the existing housing stock can be brought up to an accept-

able level of performance without going to the extreme cost of tearing a building down and rebuilding.

Mrs. BOGGS. Is it also helpful perhaps in preservation efforts?

Mr. BREWER. Yes; there is some of that, although our thrust was not directed at preservation per se. Preservation people have been part of our group.

Mrs. BOGGS. Thank you very much.

Thank you for your indulgence, Mr. Chairman.

Mr. SABO. Thank you, Mr. Floyd, Mr. Brewer. This is the last time you will be appearing before the Committee, but we will be watching your progress with interest.

THURSDAY, FEBRUARY 5, 1981.

FEDERAL HOME LOAN BANK BOARD

WITNESSES

JOHH H. DALTON, CHAIRMAN OF THE BOARD
 ANDREW A. DI PRETE, BOARD MEMBER
 RITA I. FAIR, EXECUTIVE ASSISTANT TO THE CHAIRMAN
 L. DAVID TAYLOR, DIRECTOR, OFFICE OF EXAMINATIONS AND SUPERVISION
 MARSHALL KAPLAN, ACTING DIRECTOR, OFFICE OF POLICY AND ECONOMIC RESEARCH
 RICHARD H. GRANT, DIRECTOR, OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION
 RICHARD L. PETROCCI, DIRECTOR, ADMINISTRATION OFFICE
 DAVID A. VAUGHAN, JR., BUDGET OFFICER

Mr. BOLAND. The Committee will come to order.

We are delighted to have the Federal Home Loan Bank Board here today. Mr. Dalton, this is your first time before us. I remember last year you were named but not confirmed.

Mr. DALTON. Yes, sir.

Mr. BOLAND. Mr. DiPrete has been here before.

Mr. DiPRETE. Yes.

Mr. BOLAND. Rita Fair, Executive Assistant to the Chairman. Ira Tannenbaum—where is Ira?

Mr. DALTON. Ira is not here. Miss Becky Laird is here in his place.

Mr. BOLAND. How long has he been acting?

Mr. DALTON. About three weeks, in fact.

Mr. BOLAND. Will he stay?

Mr. DALTON. I hope so.

Mr. BOLAND. Dave Taylor, you are looking for a few more people. After reading that statement, you need them.

Marshall Kaplan, Acting Director, Office of Policy and Economic Research.

Mr. KAPLAN. That's me.

Mr. BOLAND. Mr. Grant, you are here; as well as the Director of the Administration Office, Richard Petrocci, and David Vaughan, the Budget Officer. I am glad to have you here.

[The biographical sketch of Chairman Dalton follows:]

JOHN H. DALTON, CHAIRMAN, FEDERAL HOME LOAN BANK BOARD

BIOGRAPHICAL NOTES

John H. Dalton was designated by President Carter to the Chairman of the Federal Home Loan Bank Board effective December 16, 1980, succeeding Jay Janis. Mr. Dalton was first nominated by President Carter to be a Member of the Bank Board on January 28, 1980, to fill a term which expires on June 30, 1982. Mr.

Dalton was confirmed by the Senate on February 19, 1980, and was sworn in on February 29, 1980, by Senator Lloyd Bentsen (D.-Texas).

Before coming to the Bank Board, Mr. Dalton served as National Treasurer of the Carter/Mondale Presidential Campaign from March 1979 to December 1979 and President of the Government National Mortgage Association of the U.S. Department of Housing and Urban Development from April 1977 to March 1979.

Prior to his appointment to the Government National Mortgage Association, Mr. Dalton was with the investment banking firm of Goldman, Sachs and Company in Dallas, Texas. His service with the firm began in 1971 after receiving a Master of Business Administration degree from the Wharton School of Finance and Commerce of the University of Pennsylvania.

He attended Louisiana State University for one year and then entered the U.S. Naval Academy. He graduated with distinction from Annapolis in 1964, having served as Deputy Brigade Commander, the Academy's number two ranking position. During that year he was a finalist in the Rhodes Scholarship competition. He graduated from two U.S. Naval nuclear schools.

His Navy service from 1964 to 1969 was in nuclear submarines where he held various managerial post in engineering, operations and supply. He received several commendations and awards for superior performance of duty.

In civilian activities, he was the Texas deputy campaign director and business and professional coordinator for the Carter/Mondale 1976 campaign. He was a founding member and vice president of the Dallas Democratic Forum, and was on the executive committee of Dallas '40. He is a vestryman and Lay Reader in the Episcopal Church. He is also on the Board of Directors for the Texas State Society and the Texas Breakfast Club.

Mr. Dalton was born in New Orleans, Louisiana, December 13, 1941. He is married to the former Margaret Ogilvie of Shreveport, Louisiana. The Daltons and their two sons live in Alexandria, Virginia.

Mr. BOLAND. As I read your statement, I think Jay Janis deserves credit for getting out of the place. The thread that runs through your entire statement, is that if inflation is not controlled, there will be an awful lot of S&Ls out of business at the end of the year. That is your biggest problem, no doubt about it. You do have problems—that is why we are here today.

As the members of this Committee know, there are no direct appropriations for the Federal Home Loan Bank Board. The administrative costs and associated fees are paid by the member banks and associations. You would like to get out from under the oversight of this Committee, but you will never be able to do it—not while I am sitting here, and probably not while anybody else is sitting here.

Everyone agrees, as you have indicated in your statement, that 1980 was not a very easy one for the thrift industry. Housing starts and profits were both depressed. In addition, there were several important regulatory and legislative events in 1980 that I am sure you will address in your statement.

Have we simplified the title of the Depository Institutions Deregulation and Monetary Control Act? What is the shortened version of that long title?

Mr. DALTON. It is often referred to as the Monetary Control Act.

Mr. BOLAND. I would like to get a shorter word than that long title.

Mr. DiPRETE. Is that the one called the Deregulation Act?

Mr. DALTON. Right.

Mr. BOLAND. What is the difference between that and the Financial Simplification Act of 1980? Are they the same?

Mr. DALTON. Yes.

Mr. BOLAND. The typical mortgage market has survived under Government-insured loans such as VA and FHA. Now you are coming up with SAMS—shared appreciation mortgages, adjustable

mortgages and readjustable-rate mortgages—I never heard of them before the last year or two, and nobody ever heard of them before that time. We have heard about the variable mortgage, but these are all rather new. I don't know if a person buying a house today would be better off under these or not. I would look very carefully if I were buying a house under any of these.

Mr. DALTON. Clearly there is a need for new mortgage instruments. We have deregulated the liability side of the balance sheet of S&Ls, which has escalated the cost of funds for S&Ls but the long-term fixed-rate mortgage still dominates the asset side of the balance sheet, which has had a serious impact on S&L viability.

So there is a need for more asset flexibility or more mortgage instruments, but I think you make a good point, that we should proceed deliberately and with caution.

Mr. BOLAND. Which you are doing as indicated in your statement and I am delighted.

You have a statement: don't give us the long one, because Larry Coughlin said he would leave if you went through 23 pages.

We appreciate the problems the Bank Board has. Let me repeat, if there is any way the Subcommittee can assist in making the task a little easier let us know. We will be happy to assist you.

Why don't you go ahead?

GENERAL STATEMENT

Mr. DALTON. Mr. Chairman, members of the Subcommittee, I am pleased to be here today to testify concerning the Federal Home Loan Bank Board's fiscal year 1982 budget.

I am pleased to have my colleague Andrew DiPrete appearing with me today.

To save time, my oral remarks will be only an abbreviated version of my written statement. Although I will discuss one very significant budget issue, I will deal primarily with the state of the economy as it affects the S&L industry, the Agency's regulatory (and deregulatory) actions, and the activities of the Federal Savings and Loan Insurance Corporation. This is in keeping with our desire to assist the Subcommittee in its policy oversight function.

At the outset, however, I wish to note that our 1982 request of \$60,890,000 is only 3.9 percent greater than our 1981 estimate of \$58,595,000—an increase of less than one-third the 1980 inflation rate. This modest growth results primarily from anticipated general price rises, over which we have little control, and is consistent with the need to minimize Federal expenditures.

INDUSTRY AND HOUSING STRENGTH

Looking at the economy, the roller coaster behavior of interest rates in 1980 created a very difficult operating environment for S&Ls. This was reflected in a number of ways. First, savings flows remained depressed, with net savings totaling only \$41,000,000,000. Second, total mortgage loans by S&Ls plunged 28 percent, to \$71,000,000,000. Third, substantial bottom-line impact was felt, with net income declining steeply to .17 percent in the first half, computed as a percentage of average assets. High interest rates

also had a dramatically negative impact on housing starts in 1980, with total starts amounting only to 1,290,000 units.

To the extent it could, the Bank Board tried to soften this blow. Our efforts included strong advances support through the FHLBanks, which increased their credit to member institutions by \$7,100,000,000 in 1980. We also developed a special Targeted Advance Program, under which members in need could obtain a subsidy of up to 250 basis points, and liberalized the FHLBank dividend policy.

Looking at the future, the key to the performance of the S&L industry is the behavior of interest rates. Given the continued high cost of funds for S&Ls, most of which will be locked in for at least six months, only a substantial interest rate decline over the rest of the year would save the S&L industry from poor profitability. The precondition for a meaningful decline in interest rates, of course, is a reduction in inflation. The Federal Reserve Board's efforts have been taken to counter inflation and the Board will continue to work closely with the Federal Reserve Board in this effort.

Assuming that mortgage credit is available later during 1981 at an interest level of 12 to 13 percent, however, rather than the current average rate of 15 percent, the strong pent-up demand for housing could lead to some recovery in housing starts in 1981 over 1980, perhaps 1,400,000 to 1,500,000 starts. This would still represent subnormal production—particularly considering the extraordinary demand for housing that will characterize the present decade.

REGULATORY ACTIONS LESS RESTRICTIVE

The adverse effect of the economy on the S&L industry during 1980 lent a special urgency to the Bank Board's regulatory efforts. These efforts demanded an enormous amount of effort from our staff, and were devoted primarily to: (1) implementing the many statutory changes mandated by the Depository Institutions Deregulation and Monetary Control Act of 1980, Public Law 96-221; and (2) seeing that the Bank Board's regulations, old and new, conform with the imperatives of regulatory simplification and, where possible, deregulation.

Our Public Law 96-221 regulations are listed with considerable specificity in our written statement. Some of the highlights include authorizing Federal associations to: (1) have trust departments; (2) invest in consumer loans, commercial paper, and corporate debt securities; (3) make real estate loans on an expanded basis; (4) offer NOW accounts; and (5) issue credit cards.

On the whole, these new regulations are statements of statutory authority, rather than being detailed and restrictive. Our intent has been to leave business decisions to management rather than to the Bank Board. Specific deregulatory initiatives the Bank Board has taken include granting associations greater authority and flexibility in the branching, liquidity, and outside borrowing areas. In addition, the Bank Board has delegated authority to the FHLBanks to approve 26 different types of applications, ranging from certain types of mergers to deregistrations of savings and loan holding companies.

RENEGOTIABLE RATE MORTGAGES AUTHORIZED

By any standard, one of the Bank Board's most significant regulatory actions of 1980 was its extension to Federal S&Ls of authority to issue renegotiable rate mortgages. RRM's are designed to help S&Ls escape the classic trap of borrowing short and lending long. It is generally conceded that the major hope for the continued viability of S&Ls rests with mortgage instruments that permit interest rates to be adjusted to allow portfolio yields to move in tandem with the cost of funds. It is essential that S&Ls have the ability to employ mortgage instruments that have yields that correlate in a meaningful way with fluctuations in market interest rates. Although the Bank Board has RRM regulations in place, it currently is exploring ways to modify them in order that the asset side of associations may respond more realistically to the demands of the liability side.

This is particularly important because almost the entire inflow of funds into S&Ls is already at market rates, despite the fact that the formal rate decontrol process under Public Law 96-221 was stipulated as lasting 6 years. Of savings and time deposits outstanding, about 55 percent consist of variable rate and jumbo certificates tied to market rates; moreover, this percentage is continuing to rise. Yet the vast bulk of mortgages in S&L portfolios continue to be of the long-term, fixed-rate variety; and, regardless of the Bank Board's actions in approving new and more flexible instruments, it will be years before S&Ls will have the bulk of their assets in new mortgages. So, for a considerable period, S&L portfolio yields will change little in contrast to the volatile behavior of the cost of funds.

FSLIC OUTLAYS

Another subject I would like to discuss is the FSLIC. Because of the conditions affecting S&Ls, the FSLIC experienced the heaviest problem case workload in its history during fiscal 1980, with nine cases being concluded in the 12-month span. Gross outlays exceeded \$1,000,000,000. While this sum is substantial, I must emphasize that it represents a gross figure. We know from past experience that the total net cost to FSLIC will be only a fraction of gross outlay, because the FSLIC attempts to dispose of the assets it acquires at the most favorable time in the interest-rate cycle.

We are proud of the way in which the FSLIC's staff handled the enormous responsibility presented by these cases. Each case involved unique problems which had to be resolved under conditions of considerable pressure, and in a manner consistent with the most cost-effective use of the FSLIC insurance fund. In each of the nine cases, the Bank Board determined that the cost of the default prevention action would be less than the cost of liquidation.

Because of the impact of high interest rates, we anticipate a significant increase in the number of problem institutions which will require FSLIC involvement in 1981. Our best estimate is that gross cash outlays in 1981 will be about \$1,200,000,000.

To add some perspective, I would like to note that despite the large cash outlays in 1980, the FSLIC insurance fund actually grew by \$500,000,000. Even assuming the large outlays in 1981 I men-

tioned, the fund should increase by another \$590,000,000 to a total of \$6,700,000,000 as of September 30, 1981.

NEED FOR ADDITIONAL EXAMINER POSITIONS

The final matter I wish to discuss is our request to hire 15 additional field examiners. This modest increase represents a substantial paring down of our original request for 61 examiners and eight additional supervisory slots. I cannot stress enough the fact that we need more examiners if we are to be able to continue discharging our responsibilities to the public and the savings and loan industry in a responsible manner. The plain fact is that Public Law 96-221, with its new grants of investment and other authority, has considerably enhanced those responsibilities, as have other trends in the industry, such as an increase in the number of mutual savings bank conversion applications and a growth in problem associations. Currently, we calculate that expanded examining responsibilities stemming from Public Law 96-221 will add, by conservative estimate, one additional day per examination.

As a final point, I wish to note the fact that during fiscal year 1980 average staff days per examination declined for the first time since before fiscal year 1975. We would like to regard this accommodation of existing resources and expanding responsibility as a positive sign of improving productivity. In view of the industry's financial position during this year and our efforts to focus examination staff increasingly on problem associations, however, this result indicates as well a real "stretching" of our examination force and a potential real loss in quality and depth in our examination efforts. This potential is particularly significant given the extra day of examination time we are positing as a byproduct of Public Law 96-221. While we recognize the need to pare Federal expenditures, we believe that the unique significance of a stable financial system for the health of our economy, and the direct correlation between the availability of examiner resources and the maintenance of that stability, argues strongly in favor of permitting the Bank Board the very modest increase we are requesting in the size of our examining staff.

The Bank Board is blessed with an outstanding staff. We will be pleased to answer any questions you have.

[The full statement follows:]

STATEMENT OF
JOHN DALTON, CHAIRMAN
OF THE
FEDERAL HOME LOAN BANK BOARD
ON THE 1982 BUDGET
BEFORE THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON HUD-INDEPENDENT AGENCIES
UNITED STATES HOUSE OF REPRESENTATIVES
February 5, 1981

Mr. Chairman, Members of the Subcommittee, I am pleased to appear before you today to testify on behalf of the Federal Home Loan Bank Board concerning our agency's fiscal year 1982 budget. Consistent with the need to minimize Federal expenditures, our 1982 request of \$60,890,000 is only 3.9 percent greater than our 1981 estimate of \$58,595,000 (an increase of less than 1/3 the inflation rate for 1980). This \$2,295,000 increase flows primarily from anticipated general price increases over which we have little control. Although I will touch on several budgetary matters in my formal statement, I will deal primarily with the state of the economy as it affects the S&L industry, the agency's regulatory (and deregulatory) activities, and with the activities of the Federal Savings and Loan Insurance Corporation. This is in keeping with our desire to assist the Committee in its policy oversight function.

Economic and Financial Developments

As you are all aware, the behavior of the nation's economy in 1980 was extremely erratic, with high inflation remaining the overriding problem. Early in the year, the widely anticipated recession arrived, generating a precipitous 9.9 percent annualized decline in real gross national product in the second quarter. The 1980 recession proved extremely short-lived, however, with real GNP growing in the third quarter at an annualized rate of 2.4 percent. Durable goods orders and industrial production continued to advance in the final months of the year, and real GNP rose at a 5 percent rate in the fourth quarter.

Unprecedented fluctuation in interest rates also characterized 1980. Historically high rates for both short and long-term securities were recorded in late March and early April. These highs were

the culmination of a prolonged increase in interest rates in response to an escalation in inflation and to actions taken by the Federal Reserve. Reacting to the short-lived recession, the second quarter saw a dramatic fall in interest levels, with short-term rates plunging 8 to 10 percentage points, and long-term rates falling 3 to 4 percentage points. After reaching troughs in late summer, interest rates began a climb which lasted for the remainder of the year, with many rates reaching new peaks in mid-December.

In part, this behavior reflected the general factors that in recent years have led to greater volatility in rates: (1) structural changes in the financial markets; (2) greater emphasis on monetary policy as a means of implementing a counter-cyclical stabilization policy; and (3) higher and more variable rates of inflation. The extraordinary volatility in interest rates displayed over the course of 1980, however, is largely attributable to changes in the operating strategy of the Federal Reserve. In 1980, the Federal Reserve focused its attention on the behavior of bank reserves and, hence, on the growth of the money supply, placing less emphasis on controlling the Federal funds rate and other interest rates. The Federal Reserve's actions, of course, have been taken to counter inflation -- the nation's major economic problem and the number one enemy of the thrift industry. The Bank Board has worked closely with the Federal Reserve in this area and will continue to do so.

The roller coaster nature of interest rates during 1980 created a very difficult operating environment for savings and loan associations. Deposit flows remained depressed, particularly in relationship to demands for housing credit. The net increase in savings for PSLIC-insured institutions in 1980 totalled \$41 billion, only 5.5 percent greater than the inadequate savings flow of \$38.9

- 3 -

billion recorded in 1979. Of this sum, interest credited to savings accounted for \$30.3 billion. Net new savings receipts thus amounted to only \$10.7 billion. As you know, S&Ls faced intense competition for savings from money market funds and from Treasury securities issued at market rates. Savers have become highly sophisticated and simply will not accept interest rates that are not competitive and do not compensate for the high rate of inflation.

Moreover, total mortgage loans made by S&Ls in 1980 fell to \$71 billion, 28 percent below the 1979 figure. This sharp decline was inevitable in light of 1980's high mortgage interest rates and their negative impact on the flow of mortgage credit in early and late 1980. Over the course of the year, the number of mortgage loans closed declined sharply more than seasonally in the first half, increased during in the late summer and early fall as interest rates sharply decreased, and thereafter declined again in response to the renewed upward movement in rates.

Finally, 1980 witnessed a substantial decline in S&L earnings. Net income of associations, computed as a percentage of average assets (ROA), declined steeply in the first half of 1980 to .17 percent. This figure was nearly 75 percent below the .65 percent ROA recorded in the last half of 1979, and was well below the previous post-World War II low of .38 percent set during the first half of 1967. It was in stark contrast to the .83 percent ROA for the second half of 1978. Unfortunately, while firm numbers are not yet available, it appears that earnings for FSLIC-insured institutions during the second half of 1980 will be rather similar to the depressed first half figures. Moreover, it must be emphasized that there were a large number of S&Ls having ROA even less than the low industry average, with many incurring operating losses. The primary causes of the sharp downturn on profitability

include the high levels of interest rates paid by associations for savings and borrowings during most of the year, as well as the reduction in loan fees and commitment income resulting from reduced lending activity. There was also the continued large volume of old low-yielding loans, carrying fixed interest rates, still on S&L books. Development of methods for S&Ls to sell these low-yield mortgages is currently a high Bank Board priority. Under normal circumstances, it will be many years before these "underwater" instruments are rolled over into mortgages carrying viable interest rates.

In addition to causing a severe impact on the savings and loan industry, the high interest rates that prevailed during most of 1980 -- with mortgage loan commitment interest rates ending the year at about 15 percent -- had a dramatically negative impact on housing starts. Housing starts totalled only 1.29 million units in 1980, off sharply from the 1.75 million units recorded in 1979. One-to-four family units accounted for 958,000 starts, while starts of four or more unit structures totalled 331,000 units.

To the extent it could, the Bank Board tried to ameliorate the difficult economic circumstances confronting S&Ls and housing in 1980. Substantial support continued to be offered by our district Federal Home Loan Banks, which increased their advances to members and institutions in 1980 by \$7.1 billion. Advances outstanding totalled \$49 billion at year-end 1980. An innovative feature of the FHLBanks' 1980 efforts was the Targeted Advances Program developed by the FHLBank presidents and the Bank Board's staff. Under this program, member institutions most in need of assistance were granted a subsidy on their advances of up to 250 basis points. Up to \$100 million was made available to subsidize advances under the program. Ultimately, TAP advances of \$121 million were made to member institutions, including 12 minority

associations, providing important support for their earnings. Another source of FHLBank assistance to members during 1980 was a new dividend policy under which the Bank Board authorized the FHLBanks to pay maximum dividends on a quarterly basis, instead of only at year end, beginning with the second quarter of 1980. Under the new policy, dividends were allowed to be paid out of undivided profits, and the cost of funds to members as an upper limit in the dividend rate was eliminated, as was the dividend limitation based on the ratio of average advances to undivided profits. A final Bank Board initiative to assist the S&L industry during 1980 was our authorization of a \$50 million dividend payment by the Federal Home Loan Mortgage Corporation to the holders of its stock, the FHLBanks. The FHLBanks have used the funds for the TAP program and to help finance increased dividends to their members.

Turning to prospects for the future, and for 1981 specifically, the key to the performance of the S&L industry is the behavior of interest rates. Given the continued high cost of funds for S&Ls, much of which will be locked in for at least 6 months, only a substantial interest rate decline over the rest of the year would save the S&L industry from poor profitability. Even if there were simply a moderate improvement in interest rates, however, we would expect increased savings flows into institutions. Including interest credited, the net 1981 savings gain for S&Ls could amount to approximately \$52 billion.

Assuming that mortgage credit is available at an interest level of 12 to 13 percent later during 1981, rather than the current average rate of 15 percent, the strong pent-up demand for housing could lead to some recovery in housing starts in 1981 over 1980.

Still, current high levels of mortgage interest rates appear to make inevitable a sharp down-turn in housing starts in the early months of this year, with housing starts averaging perhaps 1.15 million units during the current quarter. But, if interest rates decline, we foresee 1981 housing starts as totalling between 1.4 and 1.5 million units. I wish to emphasize that, although these figures would represent some improvement over 1980, they would still represent a very subnormal level of housing production activity -- particularly in light of the fact that demographic pressures are expected to generate an extraordinary demand for housing during the present decade. Moreover, this improvement depends upon our willingness to assume a decline in interest rates, which some experts believe will be held at high levels because of inflationary pressures.

In terms of the S&L industry itself, we believe that foreseeable economic conditions will make it difficult for some years to come to arrest its declining ratio of capital base to assets.

Regulatory Activity

~~The adverse effect of the economy on the S&L industry during~~ 1980 lent a special urgency to the Bank Board's regulatory efforts. These efforts, which have demanded an enormous amount of effort from our staff, have been devoted primarily to: (1) implementing the multitude of statutory changes mandated by the Depository Institutions Deregulation and Monetary Control Act of 1980, Public Law 96-221; and (2) seeing that the Bank Board's regulations, old and new, conform with the imperatives of regulatory simplification and, where possible, deregulation.

At this time, the Bank Board has issued final regulations effectuating all the major statutory provisions enacted by Public Law 96-221. These include regulations authorizing Federal associations to: (1) have trust departments; (2) invest in consumer loans, commercial paper and corporate debt securities; (3) make real estate loans on an expanded basis without regard to former dollar amount, percentage-of-assets, and geographic limits; (4) issue mutual capital certificates; (5) offer NOW accounts to their customers; (6) issue credit cards based on an unsecured line of credit; and (7) invest up to 3 percent of their assets in their subsidiary service corporations, as opposed to the former 1 percent ceiling.

Under authority of Public Law 96-221, the Bank Board also has issued regulations: (1) permitting FHLBank members to make investments in qualifying mutual funds that can count towards satisfaction of the statutory liquidity requirement; (2) providing for the new \$100,000 insurance of accounts level for FSLIC-insured institutions; (3) authorizing Federal mutual savings banks to utilize their "leeway" power to invest up to 5 percent of their assets in commercial, corporate or business loans, and to maintain corporate demand deposits in connection therewith; (4) extending authority to State-chartered stock associations to obtain Federal stock charters; (5) interpreting the Federal preemption of State usury laws, not merely for S&Ls, but for all Federally-related lenders, and specifying the consumer protection provisions that must apply to mobile home loans if the latter are to be covered by the usury override; and (6) authorizing the FHLBanks to settle and process NOW account drafts.

In developing regulations implementing Public Law 96-221, and in its other regulatory activities, the Bank Board has acted in accordance with Title VIII of that legislation, the Financial Regulation Simplification Act of 1980, which basically requires the Federal financial agencies to issue simple, clearly written regulations that do not impose unnecessary costs and paperwork burdens on the economy, on financial institutions or on consumers. The Bank Board's regulations deliberately have tended to be broad statements of statutory authority rather than being particularized, detailed and restrictive in nature. The intent has been to leave business decisions and the possibilities for innovation to local S&L management rather than substituting the Bank Board's judgment. This particularly has been the case with respect to the regulations on consumer lending, real estate lending, credit card authority and mobile home lending. In addition to leaving more discretion to management and yielding a more comprehensible regulation, this approach, in the case of the real estate lending regulations, eliminated the need for Federal associations to maintain detailed records in order to permit monitoring of compliance with dollar amount, percentage-of-assets, and geographic limitations.

Other Bank Board regulatory actions that should reduce regulatory complexity, paperwork burdens, and costs, or eliminate restrictions on the ability of S&L management to exercise business judgment, include revisions of our branching, outside borrowing, and liquidity regulations. Concerning branching, the Bank Board has eliminated two major regulatory requirements under which an association had to demonstrate "need" and "probability of success" for a proposed branch office, leaving only a satisfactory

Community Reinvestment Act record, lack of undue injury to other thrift institutions and safety and soundness as the basic branching criteria.

Similarly, as indicated, the Bank Board has amended its borrowing regulations to provide associations with greater authority and flexibility to borrow from sources outside the FHLBank system, while continuing to assure that borrowing activity does not adversely affect the safety and soundness of FSLIC-insured institutions. Under the amended regulations, the Bank Board now permits associations to borrow in an amount equal to 50 percent of their total assets, and not just savings, as previously required. This change will allow institutions to manage their liabilities in accordance with changing market conditions without unnecessary regulatory interference.

The Bank Board also has acted to enhance association flexibility by reducing the liquidity requirement from 5.5 percent to 5 percent. The reduction will provide FHLBank members with greater ability to manage their investment portfolios in ways tailored to their individual needs.

In another significant simplification step, the Bank Board also delegated authority to the FHLBanks to process and approve 26 different types of applications. This step will ensure applicant institutions of expedited handling of their requests by eliminating unnecessary and duplicative review, while at the same time permitting a more efficient use of the Bank Board's headquarters staff, and of the Bank Board members' time. The categories of applications affected range from certain types of mergers to unproteted FHLBank membership applications to deregistration of savings and loan holding companies.

The efforts of the Bank Board to maximize regulatory simplification and deregulation are continuing during 1981. In particular, we will use the requirements of the new Regulatory Flexibility Act to assess the impact of regulations on small businesses, and to achieve tiering in our regulations wherever appropriate and statutorily permissible. Likewise, to achieve prompt compliance with the Paperwork Reduction Act, which goes into effect on April 1, 1981, we are developing plans to inventory, evaluate and prune our collection of information requirements. We will make every effort to help OMB meet the mandatory paperwork reduction goals imposed by that Act.

By any standard, one of the Bank Board's most significant regulatory actions of 1980 was its extension to Federal S&Ls of authority to issue renegotiable rate mortgages. RRM's are designed to help S&L's escape the classic trap of borrowing short and lending long by providing them with a mortgage instrument that will increase its yield to the institution in response to the same general market forces that require the institution to pay more money to depositors.

It is generally conceded that the major hope for the continued viability of S&Ls rests with mortgage instruments that permit interest rates to be adjusted to allow portfolio yields to move in tandem with the cost of funds. It is essential that S&Ls have the ability to employ mortgage instruments that have yields that correlate in a meaningful way with fluctuations in market interest rates. Although the Bank Board has RRM regulations in place, it currently is exploring ways to modify them in order that the asset side of associations may respond realistically to the demands of the liability side.

In the proposal stage are two additional alternative rate mortgages -- the shared appreciation mortgage (SAM) and the graduated payment adjustable mortgage (GPAM). Both proposals, which still are undergoing staff analysis, are intended to make mortgage financing available to borrowers unable to find affordable credit in a high interest rate environment -- thus helping to close the financing gap associated with the standard fixed-payment mortgage. The SAM would operate by giving the borrower a below-market, fixed rate of interest on the loan, in exchange for which the lender would get interest equal to a share of the appreciation on the security property. Because it would allow a lower fixed rate of interest and monthly payment than more traditional instruments, we expect the SAM could be attractive to those individuals, such as first-time homebuyers and moderate income borrowers, ordinarily priced out of the market. Also, SAMs could be useful to elderly homeowners refinancing existing homes or "buying down" to smaller homes as a means of avoiding large monthly payments. We expect that borrowers with significant accumulated equity or with above-average incomes would be less likely to be interested in a SAM.

The GPAM essentially would combine the basic features of the RRM and the graduated payment mortgage (GPM). GPMs are instruments that provide for lower scheduled payments at the beginning of the loan term than would be provided by a comparable standard mortgage, with payments gradually rising to a level sufficient to amortize the remaining principal balance. A GPM permits an individual who has an expectation of an increase in income, but who currently cannot afford to carry a conventional mortgage, to obtain home financing. The GPAM thus should be attractive both to borrowers and lenders, making mortgage finance available to a wider spectrum

of potential homeowners while providing S&Ls with increased investment flexibility. Under our proposal, the GPAM initially would have lower monthly payments than either a conventional fixed-rate mortgage or an RRM. The monthly payment amount would increase gradually during a period of up to ten years. The proposed regulation would also permit changes in the loan interest rate every 3, 4, or 5 years, depending on the movement of the national index currently used by the RRM regulation. However, there would be a 15 percent limit during the graduation period on the amount by which the monthly payment could increase from any one year to the next. Except for the graduated payment feature, the GPAM would operate similarly to the RRM.

As I have indicated, the Bank Board's regulatory activity during 1980 was directly linked to the effects of the economic environment on the S&L industry. We believed it was extremely important to have the regulatory authorizations for the new asset and liability powers provided by Public Law 96-221 in place at the earliest possible date. Likewise, we felt it was essential to have flexible rate and other new mortgage instruments developed on a prompt basis as a means to ease the impact of volatile economic conditions on the safety and soundness of S&Ls and their ability to survive as mortgage lenders.

The speed with which we have acted, however, will not be matched by an equally prompt appearance of positive results for the industry. It will be a considerable time before the new empowerments for S&Ls have a significant, beneficial impact on the industry's collective balance sheet. For instance, new asset powers of S&Ls will be constrained, and in some cases may be negated, by the tax laws governing the bad debt deduction available to S&Ls. These laws reduce sharply the value of this important deduction to an association which has qualifying assets, primarily housing credit, that amount to less than 82 percent of total assets, and thus could act as a disincentive to associations to use their new consumer lending authority.

The delay in impact will be felt with special keenness in the flexible mortgage area. Almost the entire inflow of funds into S&Ls is already at market rates, despite the fact that the formal rate decontrol process under Public Law 96-221 was stipulated as lasting six years. Of savings and time deposits outstanding, about 55 percent consist of variable rate and jumbo certificates tied to market rates; moreover, this percentage is continuing to rise. Yet, the vast bulk of mortgages in S&L portfolios continue to be of the long term, fixed-rate variety; and, regardless of the Bank Board's actions in approving new and more flexible instruments, it will be years before S&Ls will have the bulk of their assets in new mortgages. So, for a considerable period, S&L portfolio yields will change little in contrast to the volatile behavior of the cost of funds. In any event, it must be noted that the Bank Board's regulatory structure for flexible rate mortgages would still leave portfolio yields more sluggish than the cost of funds.

The ability of S&Ls to earn a reasonable return on assets and to maintain a sound capital position, therefore, is bottomed inevitably on a reduction in interest rates, the unavoidable precondition for which, of course, is a meaningful reduction in the rate of inflation. Unfortunately, even the most sanguine forecasters foresee at best gradual decline in inflation. This strongly suggests, as I have indicated, a persistence of high interest rates and a continuation of the poor earnings and declining capital position plaguing the S&L industry for several years ahead until the palliative impact of new powers and mortgage instruments finally begins to be felt.

Federal Savings and Loan Insurance Corporation Activity

Another aspect of the Bank Board's operations I would like to discuss is the FSLIC. Because of the conditions affecting S&Ls, the FSLIC has been unusually active in past months. In fact, during fiscal 1980, the FSLIC experienced the heaviest problem case workload in its history, with 9 cases being concluded in the 12-month span. Gross outlays to prevent the liquidation of insured institutions exceeded \$1 billion, the majority of which was spent to purchase GNMA securities and mortgage loans. While this outlay was substantial, I must emphasize that it represents a gross figure. If past experience is any guide, actual costs to the FSLIC, after the assets acquired are disposed of at a propitious point in the interest rate cycle, should only be a fraction of gross outlays.

We are proud of the way in which the FSLIC's staff handled the enormous responsibility presented by these cases. As is typical, each case involved unique problems which had to be resolved under conditions of considerable pressure, and in a manner consistent with the most cost effective use of the FSLIC insurance fund. In each of the 9 cases, the Bank Board determined that the cost of the default prevention action would be less than the cost of liquidation.

The single most important factor leading to FSLIC cash outlays was commitments by S&Ls to purchase GNMA securities. Excessive commitments to purchase loans or securities expose S&Ls to high risks during periods of volatile interest rates. In recognition of this, the Bank Board has required S&Ls to limit such commitments to levels that can reasonably be funded. As a result of this regulatory constraint, we foresee a diminished likelihood of FSLIC outlays being generated by the inability of S&Ls to fund commitments to purchase.

Because of the high interest rates that have resulted, and will continue to result, in decreased earnings of FSLIC-insured institutions,

we anticipate a significant increase in the number of problem institutions which will require FSLIC involvement in 1981. Of course, the emergence of some types of problem cases is largely unpredictable. We do expect the average outlay per case to decrease relative to 1980, however, and we are thus hopeful that meeting our insurance obligations will generate only slightly higher overall outlays. Our best estimate is that gross cash outlays in 1981 will be about \$1.2 billion.

I must stress that it is difficult to predict the level of FSLIC expenditures for problem cases, primarily because FSLIC outlays are now closely related to interest rate movements. The fact that even the best interest rate forecasts in recent years have been subject to substantial error points out the tentativeness of our estimates.

As a final matter, however, to add some perspective, I would like to note that despite the large cash outlays in 1980, the FSLIC insurance fund actually grew by \$500 million. Even assuming the large outlays in 1981 I mentioned, the fund should increase by another \$590 million, to a total of \$6.7 billion as of September 30, 1981.

Budget Issues

At this point, I would like to focus on several items related to our fiscal year 1982 budget justification: the request for additional personnel; our cooperation with State regulators; our equal employment record; and our administrative and nonadministrative expenses subject to limitation.

Additional Personnel

With respect to staffing, we are asking you to allow us to hire 15 additional field examiners. Consistent with our strong interest in fiscal responsibility, this modest increase represents a substantial paring down of our original request for 61 examiners and 8 additional supervisory slots. I can not stress enough the

fact that we need more examiners if we are to be able to continue discharging our responsibilities to the public and the savings and loan industry in a responsible manner. The plain fact is that Public Law 96-221, with its new grants of investment and other authority, has considerably enhanced those responsibilities, as has the generally adverse condition of the economy.

The impact of the new legislation will be felt quickly at the field examiner level. Since the new asset and liability powers provided by Congress will enable S&Ls, on the whole, to engage in activities in which they have no prior experience, there will be an increased need for close examiner surveillance of association operations. This need, which cannot be satisfied without additional personnel, will be particularly acute during the start-up period, and will be exacerbated by the expected persistence of high inflation and by the transition to a free market place for savings interest. Apart from the need to give close scrutiny to the new, unfamiliar activities, their sheer scope also will create extra staffing demands. Currently, we calculate that expanded examining responsibilities resulting from the new powers conferred by Public Law 96-221 will add, by conservative estimate, one additional day per examination.

In addition to developments directly generated by Public Law 96-221, other trends in the industry, such as (1) an increase in the number of conversion applications and (2) a growth in problem associations, have generated a need for additional staff. For instance, more field examiners clearly will be needed to deal with the projected influx of mutual savings banks seeking Federal charters. Attracted by more liberal Federal regulations in such areas as branching, a number of mutual savings banks already are seeking Federal charters. In the short term, our examiners must conduct eligibility examinations

of these institutions as applications are received. To date, 20 institutions with assets over \$26 billion have been either examined or will be examined shortly. To maintain even a bare minimum examination schedule with respect to existing associations in New York, we are providing that district with 20 examiners each month from other districts nationally, further straining examination capacity in those districts. As a result, we are also incurring very significant travel and per diem costs, in a year in which the budget for these items is already under pressure because of the increase in allowable per diem rates, with no corresponding increase in budget, and the recent White House directive to cut all travel by 15 percent. In the long term, these institutions, once approved for conversion, will become permanent additions to our current requirements for regular periodic supervisory examinations.

The poor state of the economy has caused "problem cases" to grow from 79 in December of 1979 to 121 in January of 1981. The trends that have led to this lamentable state of affairs, as I have already noted, are likely to persist. Their effect on workload is substantial. Examinations of associations "at risk" requires two to four times as much effort as those of financially sound institutions. Receivership and conservatorship cases, such as we experienced in 1980 and will doubtlessly experience in 1981, also tie up a substantial portion of the examiner force for a long period.

Please bear in mind that this increased pressure on staff is coming despite energetic and successful efforts to manage our examination operations more efficiently. Our handling of problem cases provides a good example of these efforts. A major accomplishment in this area was implementation of an examination scheduling system which varies the frequency of examinations for particular associations depending on their relative financial strength. Consequently,

examiners are now examining the weakest associations in some cases twice as frequently as in previous years; from an average of 13 months between examinations for all associations, examiners are now beginning examinations of associations with poor ratings at 6 and 7 month intervals. Additionally, the Bank Board has incorporated new uses of the computer in the detection of potential problem situations. At both the field and headquarters level, the Office of Examinations and Supervision has instituted a policy of monthly reviews of computer-generated financial data on associations with poor ratings. Other significant management initiatives included development of statistics comparing district office performance, as well as the design and initiation of an expanded computer-based examination tracking and workload reporting system. Moreover, OES also established a results-oriented management control system establishing detailed goals and performance measures for senior staff. Efforts to enhance our efficiency will, of course, continue, particularly with respect to greater use of computer technology, and augmentation of the already substantial field office role in the examination process. We are certain that these efforts will be very helpful in assisting us to identify, interpret and resolve emerging problems in a quick, effective manner. By no means, however, can they replace the examination staff that will be required on-site and in-person to handle the volume and complexity of problems expected in the next several years.

Finally, I wish to note the fact that during FY 1980 average staff days per examination declined for the first time since before FY 1975. We would like to regard this accommodation of existing resources and expanding responsibility as a positive sign of improving productivity. In view of the industry's financial

position during this year and our efforts to focus examination staff increasingly on problem associations, however, this result indicates as well a real "stretching" of our examination force and a potential real loss in quality and depth in our examination efforts during this time. This potential is particularly significant given the extra day of examination time we are positing as a by-product of Public Law 96-221. While we recognize the need to pare Federal expenditures, we believe that the unique significance of a stable financial system for the health of our economy, and the direct correlation between the availability of examiner resources and the maintenance of that stability, argues strongly in favor of permitting the Bank Board the very modest increase we are requesting in the size of our examining staff.

Cooperation with State Regulators

An additional area of interest to the Subcommittee in previous years has been our cooperation with State regulators. During the past fiscal year, we expanded considerably our efforts to train State examiners and to build closer cooperation between Bank Board and State examination programs. In terms of training, we essentially doubled the number of State examiners trained -- from 300 State examiners in FY 1979 to 600 last year. As in FY 1979, State examiners attended not only our New Examiner Training School, but courses in appraisal and civil rights examinations, as well. Moreover, we expanded training for State examiners last year to include, among other subject, Regulation Z, forward commitments and computer auditing.

Basic coordination for this State training effort was provided by a Joint Committee on Examinations which met 6 times in FY 1980 and included Bank Board headquarters and field representatives and

representatives from 6 States. We also held a two-day workshop to share Federal and State views on the background and likely impact on examinations of Public Law 96-221. This workshop was attended by 41 State and 18 Federal representatives.

Furthermore, as a major result of Bank Board initiatives during 1980, we reached agreements with five new States regarding establishment of joint Federal-State examination programs. At the end of FY 1980, there were only 3 States -- of those which conduct examinations with which we had not established some form of cooperative examination program, largely and this was the result of these States' volition.

In looking ahead, our plans are to continue to expand our training and joint examination programs, although the Presidential order cutting back agency travel will have an impact on our ability to fund travel expenses of State examiners. We are looking forward in particular, this year to distributing to States a 40-hour course on examination of S&L EDP facilities (which we developed internally), including 9 hours of special videotape material. We will also be looking for ways to expand those joint Bank Board/State examination programs already in place.

Equal Employment Efforts

Another area of perennial Congressional concern is that of equal employment opportunity. Overall activity since May 1, 1980 (the period following last budget hearings), in hiring and promoting minorities and females has shown steady progress toward meeting the Bank Board's affirmative action goals. Of a total of 78 hires at grade levels GS-11 through SES, 11 employees were minorities, and 20 were females. Five of those females were minorities. Considering that this hiring was done during our limited hiring period, the results are very encouraging.

We have placed special emphasis on improving our record in savings and loan examining, our most populous occupational field, and the efforts are beginning to have an impact on hiring patterns. For example, the San Francisco district has begun an innovative program of selecting clerical employees who exhibit high levels of interest and potential for success and enrolling them in an intensive upward mobility training program designed to provide the basic skills needed for the jobs. Of the initial group, two black females, one black male, and one white female have been promoted into savings and loan examiner career positions which have promotional opportunities to the GS-12 level.

In another attempt to increase our hiring of minority and female examiners in this area, the Bank Board requested and received delegated authority from OPM to recruit and examine applicants for GS-4 savings and loan examiner trainee positions. Of the 27 selections made under this program to date, 8 trainees are minorities, including three minority females, and 6 are white females. As a result of this success, we are now in the process of establishing a similar examining program for examiners at the normal entry levels of grades GS-5 and 7.

We were also more successful in increasing new hires at the GS-5 and 7 levels through regular channels such as PACE and interagency transfers. More aggressive recruiting produced 18 minorities and females (6 minority males, 2 minority females, and 10 white females) out of a total of 45 hires during the period.

We also have had some breakthroughs at the supervisory/management levels this year. A minority male was selected for an Assistant District Director position at the GS-14 level, and a minority male and white female were selected for Field Manager positions at the GS-13 level. The latter placement represents

our first promotion of a woman into this first line supervisory position. The specialized requirements of savings and loan examiner positions make it very difficult to hire candidates at the higher levels; however, our efforts for increasing hires at the entry level positions will provide a substantial pool of candidates for filling supervisory and management positions in the future.

There remains a gap in the average grade levels between white males and both females and minorities, but actions taken this year are already producing results and should show significant changes as the new employees gain the necessary experience and training for higher level positions.

Administrative and Nonadministrative Expense Limitations

Finally, I would like to touch on the Bank Board's administrative and non-administrative expenses subject to limitation. As I stated that the beginning of my statement, the Bank Board is asking for authority to spend \$60,890,000 in fiscal year 1982. This is only 3.9 percent above the \$58,595,000 revised estimate for fiscal year 1981. The increase essentially stems from anticipated general price increases over which we have little control, including the pay and benefit adjustments required by the October pay raise, increased travel costs (primarily examiner travel), and supplies, materials and services required to carry on our operations at about the same level as that planned for fiscal year 1981. The current 1981 estimate against which the 3.9 percent increase is measured includes our supplemental requests to cover the costs of the October 1980 pay increase (\$3,530,000) and the increased travel costs (\$930,000 for examiner travel) associated with the increases in per diem and mileage allowances authorized by Public Law 96-346.

The Bank Board believes that the spending requests contained in the budget justification, which was previously submitted to you, are reasonable and necessary if we are to carry out our statutory duties to ensure the safety and soundness of the thrift industry and to assist it in its job of financing the nation's housing needs. As I have explained, 1981 promises to be a difficult year for the thrift industry and housing given the economic fallout from 1980 and the continuation of difficult economic conditions during the current year. And, these problems will directly translate into an enhanced regulatory and supervisory responsibility for the Bank Board. We intend to fulfill that responsibility to the maximum, using all our resources and ability to cushion the effect of adverse economic conditions on thrifts and housing -- and to do so at the minimum feasible cost.

This concludes my statement. My staff and I would be pleased to respond to any questions the Subcommittee may have.

NOTE: In accordance with 12 U.S.C. §250, this statement has been reviewed only by the members of the Federal Home Loan Bank Board. The views expressed herein represent those of that agency, but do not necessarily reflect the views of the President.

HOUSING STARTS

Mr. BOLAND. Thank you very much for the well done highlighted statement. I don't think anybody could disagree with your assertions pertaining to the impact Public Law 96-221 has had upon the workload in this area—you hope to meet that problem by the 15 additional field examiners. As I understand it, they all will work in the field?

Mr. DALTON. Yes, sir, that is correct.

Mr. BOLAND. Since the responsibilities imposed upon you under that public law add, by the Bank Board's own conservative estimate, one additional day for examination, then I think it incumbent that we recognize the problem and act accordingly. Often-times Congress passes laws imposing burdens on regulatory agencies and fails to implement those laws with a staff to make sure they are carried out properly. Of course, we recognize in view of the problems the S&Ls have had in 1980, and will possibly have in 1981, that examinations become a very significant operation of the Board and its staff.

You have indicated in your statement that housing starts would run around 1,400,000 in 1981. Housing starts totaled 2,000,000 in 1978, 1,740,000 in 1979, and then due in part to a late surge of activity, 1980 starts reached 1,300,000, which was higher than expected. The decrease from 1978 to 1980 represents 35 percent. Your best estimate is 1,400,000 at this point in time?

Mr. DALTON. Yes, sir. We estimate 1.4 to 1.5 million units. That assumes a decline in interest rates over the balance of the year. I think if interest rates stay at current levels, we will not meet 1.4 million starts.

Mr. BOLAND. Last year the former chairman of the Bank Board stated that 22,000,000 starts may be needed in the 1980's to satisfy the housing demand. If the housing supply does not increase greatly in the next five to ten years, aren't we going to have a very severe situation with respect to overcrowding and price escalation?

Mr. DALTON. Mr. Chairman, that is one of the major problems that face the Bank Board and the Congress, the demand for housing in the decade of the 1980s. The 22 million starts that former Chairman Janis referred to last year are a reflection of the demographics of the baby boom coming of age, and having a significant impact on the housing needs of the 1980s. The first-time home buyer particularly is going to be under severe pressure.

You are right, if we do not address that problem from the standpoint of emphasis on housing—and I think that is one of the reasons that we have suggested new mortgage instruments to make mortgage money available and to address the needs of the first-time homebuyer with creative financing techniques—unless we do those things I think there will be a shortfall and a real problem for the housing industry.

SAVINGS AND LOAN INDUSTRY PROFITABILITY

Mr. BOLAND. Of course, there is no way in the world you can address that problem unless the mortgage rates come down. High interest rates determine the number of starts that might be possi-

ble. Everyone is familiar with that, and hopefully rates will decline.

Your statement indicated the amount of mortgage loans made by member savings and loan associations dropped from \$103,000,000,000 in 1979 to \$71,000,000,000 in 1980. What has this done to industry profitability?

Mr. DALTON. Industry profitability for 1980, Mr. Chairman, we think will be—our forecast has just come out—about .17 percent rate of return on assets. In my statement, I indicated that was the level for the first half of 1980. It turns out that this is approximately the same for the second half. So it would be 0.17 percent ROA for the whole year.

Mr. BOLAND. How does that compare with profitability a few years back?

Mr. DALTON. In 1978 it averaged .82 percent, as I recall. Is that right, Mr. Kaplan?

Mr. KAPLAN. Yes.

Mr. DALTON. That was the best year in the history of the S&L industry in terms of overall dollars, not in ROA. So in 1978 through 1980, we have had a significant decline in profitability for the thrift industry.

COST OF SAVINGS

Mr. BOLAND. Another issue you have indicated having a negative impact on industry profitability is the cost of money, which is averaging nearly nine percent, according to the December issue of the Federal Home Loan Bank Board Journal.

Is it true that more than 50 percent of S&L deposits are currently in certificates bearing interest tied to market rates?

Mr. DALTON. Yes, sir, it is true, Mr. Chairman. Our most recent figures show that, in fact, 55 percent of savings deposits of the various types are market-related. Data as of January 20, show that 37 percent are in money market certificates, 10.4 percent are in the 2-½-year savings certificates, and approximately eight percent are in what is called jumbo certificates, for an overall figure of 55 percent of deposits in market-oriented savings-type certificates.

Mr. BOLAND. That is an increase of about 20 percent vis-a-vis the figures given the Committee last year. Is that correct?

Mr. DALTON. I think that is about right.

Mr. KAPLAN. Yes.

Mr. BOLAND. How much of that increase is caused by the new 30 month variable ceiling certificate for which no minimum deposit is required?

Mr. DALTON. We had only recently authorized that certificate a year ago, and only one percent of savings were then in that certificate. So, 9.4 percent represents the additional rate oriented certificates due to the 30-month certificate.

Mr. BOLAND. Give us the current amount invested in money market certificates and in 30 month VCCs.

Mr. DALTON. At January 31, 1981 money market certificates amounted to \$189,300,000,000. The 30-month certificates totalled \$52,800,000,000.

IMPACT ON SAVINGS AND LOAN INDUSTRY OF PUBLIC LAW 96-221

Mr. BOLAND. You indicate the impact that Public Law 96-221 has had upon the S&Ls. Would you describe the effect on the savings and loan industry of the following provisions in the Act: the phase-out in the next six years and ultimate elimination of the limitations on the maximum rates of interest and dividends which may be paid on accounts by depository institutions. You indicated in your statement that in six years these rate differentials will be eliminated?

Mr. DALTON. Yes. Congress passed this six-year phase-out. That has, in fact, been accelerated by the actions of the Depository Institution Deregulation Committee.

There is a narrow band in which the money market certificate differential exists, but it is only a narrow band. There has been a partial further removal of the differential on the money market certificate.

Mr. BOLAND. How is the NOW account provision progressing, which allows all Federally chartered savings and loan institutions to permit negotiable order of withdrawal accounts?

Mr. DALTON. The NOW accounts, Mr. Chairman, became eligible for use on December 31 of last year, and it has been widely used throughout the thrift industry. I think all large—just about all large S&Ls—are offering NOW accounts; a high percent of medium-size S&Ls and a lot of the small S&Ls are offering NOW accounts. The specific numbers to show the early interest: in the first 10 days of January, \$2,200,000,000 were deposited in NOW accounts across the country, another \$400,000,000 in the second 10 days. That very large amount for the first 10 days shows, in fact, there had been advertising prior to that time, and there were a lot of accounts that were anticipating going into NOW accounts when they became legal.

Mr. BOLAND. What about liberalizing the limitations on loans that S&Ls make, and permitting new activity, like education loans, consumer loans, and others?

Mr. DALTON. We authorized a number of new types of lending activity in the last year. I think the industry is in the process of beginning to use those new types of loans, such as consumer lending, but I would not consider it to have been used to a wide extent to this point.

Mr. BOLAND. What about permitting these institutions to issue credit cards?

Mr. DALTON. The same answer would apply, Mr. Chairman. It has not been widely used at this point.

Mr. COUGHLIN. Mr. Chairman, in this area may I ask to what extent do these new provisions allow S&Ls to expand the monetary supply?

Mr. DALTON. Let me refer that to my economist, Mr. Kaplan.

Mr. KAPLAN. What is relevant here is the way in which the Federal Reserve defines the money supply. There are a number of well-known definitions, as you know. What is most relevant I think are total transaction accounts, which include the NOW accounts. So to the extent we have had a net increase of \$2,600,000,000 in NOW accounts, that of course has created a corresponding increase in the money supply. However, a large percent of that has come

from commercial banks. The net impact on the total money supply has probably been negligible. It has been primarily a shift.

Mr. COUGHLIN. How about issuing credit cards by S&Ls?

Mr. KAPLAN. It would not affect any of the definitions of the money supply that the Federal Reserve has except insofar as it was reflected in—but no, it would not be reflected in consumer credit figures, so it would not affect the money supply as defined by the Federal Reserve.

Mr. COUGHLIN. You estimate there is about a \$2,600,000,000 increase.

Mr. KAPLAN. During the first 20 days of January. To the extent a large percent came from large commercial banks it was a shifting of the money supply between the two institutions. There was no evidence that the S&Ls themselves are having a significant impact on the money supply.

Mr. COUGHLIN. Shifting from commercial banks to S&Ls?

Mr. KAPLAN. That is right.

INFLATIONARY IMPACT OF NEW MORTGAGE INSTRUMENTS

Mr. COUGHLIN. May I ask one other question: to what extent will various renegotiable-rate mortgages, with which you are working, will build in inflation as well as various variable-rate certificates?

Mr. KAPLAN. This question has been raised before. The Bank Board was a little reluctant at one time to authorize new mortgages because it was felt it was building in an inflationary expectation. But the reality is that we now have had a high rate of inflation for over 10 years. It has impacted S&Ls enormously on the cost-of-funds side to the point where S&Ls may not be able to make any profitability at all with the long-term, fixed-rate mortgage. So we are talking here about the survival of the industry or preventing a large contraction in the number of S&Ls. The fact is that inflation has been with us for a large number of years, despite the fact that we have tried to fight it through tight money and other means. At some point you have to be realistic about the situation. If we had had inflation for one or two years I could understand why we should proceed cautiously, but there has been no success in the battle against inflation. The fact is, unless thrifts get these additional mortgage powers they simply will not be able to operate profitably, and the impact on the housing market will be adverse.

Mr. COUGHLIN. I am sympathetic, but my question is, to what extent do you look upon your mission as protecting the institutions, and to what extent in preventing inflation?

Mr. DALTON. My own perspective of the Bank Board is to make mortgage credit available. I think the Bank Board has the responsibility to be creative and look at ways to make mortgage credit available in the current environment we have and in the environment we have had since going back to the late 1960s. Unless we address that problem—the tremendous demand for housing that we will see in this decade—mortgage money will not be available. So, I think we have to have flexible mortgage instruments to deal with the situation. Clearly inflation calls for us having to address this problem. If we can in fact cure inflation and have a single-digit rate of inflation, these types of instruments would be less critical.

But I do not think we can put our head in the sand, hope that happens, and not plan for the real world we have, and may be having, in the foreseeable future.

Mr. COUGHLIN. In a sense, we are reacting to the symptoms and not treating the cause?

Mr. DALTON. I think the fact is that the changes that have taken place in our financial structure in the last several years to create the market-type savings rate certificate the chairman asked about earlier show the need for a flexible mortgage instrument, more flexible than we have today.

Mr. COUGHLIN. Have you any estimate or projections as to how many points on the inflationary scale these might create?

Mr. DALTON. I cannot answer your question specifically.

Mr. Kaplan.

Mr. KAPLAN. Well, the Consumer Price Index is constructed in such a way that it tends to exaggerate the impact of mortgage rates on inflation. It gives a weight of about 7.5 percent to mortgage rates, and it assumes somehow that every individual refinances his house every month at the new higher interest rate, which is very unrealistic.

I would say that probably a more realistic weighting would be something like two or three percentage points.

We hope interest rates can go down as well as up. Our rates do reflect economic conditions—because of the weaker economy that may be emerging there could be a decline in interest rates; the adjustable rate instruments would then begin to reflect the declines in interest rates once they came down.

So, in that sense, these instruments do not necessarily build in inflation into the mortgage inflation rate. They do allow the rates on the adjustable mortgages to go down if and when the interest rates go down; they are meant to be symmetrical.

SIMPLIFICATION OF REGULATIONS

Mr. BOLAND. Title VIII of the Depository Institutions Deregulation and Monetary Control Act is called the Financial Regulation Simplification Act of 1980. It requires that the Federal financial regulatory agencies periodically review existing rules to ensure need, clarity of expression, and lack of duplication.

Has the Board been doing that?

Mr. DALTON. Yes, we have, Mr. Chairman. That is one of the major goals of the Bank Board, to simplify its regulations and eliminate unnecessary regulations and make those we do feel a need to impose as cost-effective as possible.

NEW MORTGAGE INSTRUMENT ACTIVITY

Mr. BOLAND. On September 30, 1980, the Bank Board proposed regulations for the creation of the Shared Appreciation Mortgage (SAM). Basically, a shared appreciation mortgage is a mortgage loan in which the borrower agrees to share the property's appreciation with the lender in return for an interest rate below that on a standard mortgage. What is the status of the Bank Board's regulatory activity concerning the SAM?

Mr. DALTON. For Federally chartered savings and loans, we have only proposed these regulations.

Mr. BOLAND. So, you have not had any activity in that. Is that also true in the graduated mortgages?

Mr. DALTON. Yes.

Mr. BOLAND. How about the renegotiable rate mortgage?

Mr. DALTON. That was authorized in the spring of 1980.

Mr. BOLAND. How is it going?

Mr. DALTON. It is going very well. I think in the first 60 days of its existence, we found some 25 percent of associations we surveyed, were offering that mortgage. Some associations are offering it exclusively. In terms of specific figures of what has been done for the year, I am sure we could supply that information for the record, if you like.

[The information follows:]

The only firm data on RRM and similar mortgages available at this time are dollar balances held by insured associations as of June 30 (similar information is being collected by the Bank Board for December 31, but will not be available until the end of March). These data show 240 of the 4,065 FSLIC-insured associations held \$884 million in RRM or similar mortgages. Most of these, however, were held by state-chartered associations and made in accordance with state law regulations. Only 117 of the 2,012 Federally chartered associations reported RRM's with balances of \$194 million. Federal associations had been first authorized to issue RRM's only in April, however. About 55 percent of associations are currently estimated to be offering some type of adjustable rate mortgage, including VRM's as well as RRM's. Recent discussions with S&L industry leaders indicate substantial increased use of the RRM in the future.

INTERSTATE BRANCHING

Mr. BOLAND. What about the status of the McFadden study which has been undertaken to determine if changes are needed concerning interstate branching authorities?

Mr. DALTON. Mr. Chairman, we solicited comments on the McFadden study once it was released and sent to the Congress. That comment period is still open. The Bank Board wants to have the input from the Congress, from government officials, from the public, and the industry on that study as it affects the thrift industry. We are not going to do anything precipitous on that until we have had an opportunity to address the impact and have the opportunity to assess the comments from those sectors.

Mr. BOLAND. When does the period close in which comments may be offered?

Mr. DALTON. The current comment period goes through February 13. The Board will make a determination within the next week if indeed we want to extend that comment period. The comments we sought on the McFadden Act had to do with the S&L branching in the Washington metropolitan area.

Mr. BOLAND. Mr. Traxler.

TRAINING OF STATE EXAMINERS

Mr. TRAXLER. Mr. Chairman, I have a couple of questions in connection with the Board and the state examiners. Turn to page E-10 of the justifications where you have the detailed travel budget. The 1981 justifications included the following comment: "Each of the 1980 and 1981 budgets include \$250,000 to pay trans-

portation and subsistence expenses of state examiners to continue the training program approved by the Congress." There is no similar statement in the 1982 justifications. What was actually spent in 1980 on state examiner training travel?

Mr. DALTON. Mr. Traxler, we think this is a very important program and we are certainly committed to it. In fact, in 1980, we doubled the number of state examiners that were trained compared to 1979. We established a good program this year. There is a possibility with the President's travel limitation that it will affect our ability to pay for travel for state examiners to participate in training. We have appealed to the OMB concerning field travel and positions. We may have to negotiate with the states to see if they will offset. It is our intention to maintain the program at \$400,000.

Mr. David Taylor is Director of our office supervision, he might want to add something to that.

Mr. TAYLOR. To go back to 1980 (although I do not know the division between travel and training resources), we were very close to funding the full \$400,000 in 1980. I am happy to say, compared to 1979 as Chairman Dalton indicated, we doubled our training of state examiners with those same resources. So I am pleased with that program. We will provide detailed numbers for the record.

[The information follows:]

During fiscal year 1980, a total of \$382,193 was expended on the state examiner training program of which \$192,110 was expended for training costs and \$190,082 was expended for necessary travel and transportation related to such training.

Mr. TRAXLER. What is your current plan for expenditures in this area for 1981?

Mr. TAYLOR. The current planned expenditure in total is \$400,000.

Mr. TRAXLER. Do you expect that will be expended?

Mr. TAYLOR. At this point, yes, sir. As of the end of the first quarter, we are well on target with that.

Mr. TRAXLER. What have you submitted for the 1982 budget?

Mr. TAYLOR. The 1982 budget would include \$400,000. It is not detailed out but it is part of our estimate and part of the commitment that we have made in this area.

Mr. TRAXLER. Please note from last year's hearings on page 361, that there was a conversation that we had at that point in connection with this program. We said at that time that if you were planning any reductions in this program, we would expect this Committee to be notified.

Mr. TAYLOR. Yes, sir.

Mr. TRAXLER. I hope this will not be necessary, but in the event that there is reduction in travel in this area you may run into difficulties with the Budget and Impoundment Control Act. I would also ask you to refer to the the reprogramming language in the Senate report accompanying your 1981 bill. I ask that you review those documents, so you would feel more comfortable and we would too.

Mr. TAYLOR. We feel it is important.

Mr. BOLAND. Mr. Green.

Incidentally, as you all recognize, Congressman Green is a new member of this Committee. He comes from the State of New York and has had considerable experience with some of the housing

problems. He was Regional Administrator of HUD in New York, from 1970 to 1977. We are delighted to have him on this committee, and I yield to Mr. Green.

TARGETED ADVANCES PROGRAM

Mr. GREEN. Thank you, Mr. Chairman.

In your testimony on page four you refer to the Targeted Advances Program. How many member institutions were assisted with the \$121,000,000? What percent is that of total member institutions?

Mr. VAUGHAN. We will submit that for the record.

[The information follows:]

TAP advances of \$121 million were made to 34 thrift institutions from the inception of the program in April 1980 through the end of the program on December 31, 1980. The 34 institutions receiving TAP advances represented .8% of the total of 4,248 Federal Home Loan Bank members as of December 31, 1980.

EXAMINATION OF MUTUAL SAVINGS BANKS

Mr. GREEN. As a New Yorker, I noted, on page 17 of your testimony, that you are providing the New York District with 20 additional examiners drawn from other districts to maintain a bare minimum examination schedule.

Why have you had to detail people from across the country?

Mr. DALTON. Many mutual savings banks are becoming Federally chartered. That is one reason. Mr. Taylor.

Mr. TAYLOR. The reason is the mutual savings banks. This is a temporary workload on our part in terms of the eligibility examinations that we need to make at this point. We are making those temporary adjustments at this point and part of the 15 additional examiners that we are looking for will help even out that over time, as those institution become insured.

Mr. GREEN. Is this workload what turns up in special justification?

Mr. TAYLOR. It is on page E-3, under eligibility. You see an increase from ten to 29. Last year, five of those 10, next year, the preponderant proportion will be—

Mr. GREEN. What is the increase on the next line?

Mr. TAYLOR. That is a result of a new program we have put together recently. We believe it is essential that we examine problem institutions more frequently, that we do that on a six or nine-month basis, rather than a typical 13 or 14-month basis. That increase reflects that policy, which we feel contributes to our ability to manage our caseload.

APPARENT INCREASE IN COST OF CUSTODIAL SERVICE

Mr. GREEN. On page D-2 of the justification, over a two-year period from the 1980 to the 1982 estimate, there is a rise in the custodial service which is considerably higher than the rate of inflation. Will you supply the reason for this now or for the record.

Mr. DALTON. What page, Mr. Green?

Mr. GREEN. D-2. I would be perfectly happy to have that supplied for the record.

Mr. DALTON. Mr. Petrocci.

Mr. PETROCCI. Basically, the building contracting firm has indicated their union contract was up for negotiation. We can supply that for the record.

[The information follows:]

Our actual custodial services expenses for 1980 were \$324,000 rather than the \$227,000 figure as shown. The difference of about \$97,000 was inadvertently misclassified and the errors were not discovered until after the books were closed and the justification prepared. A detailed review of building operating costs is now underway and action will be taken to assure that future actual costs parallel budget estimates, thus forestalling a repetition of this error.

LIQUIDITY OF SAVINGS AND LOAN INDUSTRY

Mr. GREEN. Given the basically pessimistic comments you have made on the economy and S&L earnings, are you concerned about the industry's liquidity and capital adequacy over the next several years? If so, what impact will this have on you and future budget requests?

Mr. DALTON. We are not concerned about liquidity over the near term. I think we are well positioned to handle whatever problems may face the industry this year. In terms of the net worth of the industry—it is some \$32,000,000,000—it is strong. In the worst case scenario we could envision, we would only have a \$5,000,000,000 reduction in net worth this year. I do not think we face an immediate problem with liquidity at this point. But unless we improve profitability there will be an erosion in net worth over a period of time. That is one of the reasons we need these new mortgage instruments with greater flexibility to aid the asset side of the balance sheets of S&L's.

Mr. GREEN. Earlier, you stressed your role as a provider of credit. Recently, there have been others who have suggested that that priority is now misplaced. In fact, there is concern that there is growing speculation in residential housing—people are putting more of their resources into housing and buying more expensive housing than they otherwise would buy because housing seems to withstand inflation better than other forms of personal investment. It has been suggested that housing should not have that priority because it is diverting resources into a consumption and speculation type item. I would appreciate your comments on that.

Mr. DALTON. Mr. Green, I think housing has been a good investment. Indeed, those of us who have been able to put equity in a home have found that it has appreciated due to inflation. But I think when you confront the facts of the demographics of just how much housing we will need for shelter purposes alone, just to put roofs over peoples' heads in the next decade, that clearly we cannot afford to shift emphasis away from housing in the future. I think housing must remain a priority with the Congress. I am hopeful and optimistic, that it will.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. BOLAND. Mrs. Boggs.

Mrs. BOGGS. Thank you, Mr. Chairman, I am very pleased and honored to welcome an illustrious native son of New Orleans to this committee.

Mr. DALTON. Thank you, ma'am.

Mr. BOLAND. That is why he became Chairman.

EMPLOYMENT AND PROMOTION OF WOMEN AT THE BOARD

Mrs. BOGGS. I appreciated your testimony today and your performance as chairman has certainly equalled my high expectations. I appreciated both your oral and written testimony.

As a former member of the Banking Committee and its Financial Institutions Subcommittee, I am fully appreciative of the complexity you have had to deal with in this present climate.

Last year I was very pleased with the Board's response to my questions as to your promotion of women. I was pleased to note your treatment of the subject, particularly with regard to hiring, training, upward mobility and breakthroughs in the supervisory and management area.

I would appreciate your providing a comparison from last year to this year. Supply it for the record if you will.

Mr. DALTON. It is certainly a commitment of the Bank Board to promote and to hire qualified women. To give you some present information, we are making headway. Currently 36 of the 253 GS-13's and above in our senior level are women. Rita Fair, the Chief Administrative Officer, in effect, of the Bank Board is here with me. Doris McGee, our Director of Personnel is here as well, and Becky Laird, representing the Office of the General Counsel is here. We have made a real commitment there. I think there is room for improvement, but we recognize the need for having competent women in higher positions at the Bank Board.

Mr. DiPRETE. I am Andy DiPrete, a Board member. I too, wish to emphasize and underscore my agreement with the chairman on that point. I have a very hard-driving wife on the issue.

Mrs. BOGGS. She should get together with Mary Boland.
[The information follows.]

Employment and Promotion for Women

A concentrated effort to improve opportunities for women at the Bank Board resulted in significant progress during fiscal year 1980. Activities were designed to enhance opportunities for clerical employees to move into career fields offering better promotional opportunities as well as to move more women into supervisory, managerial, and senior professional positions.

Notable achievements include:

- o Selection of 4 women for upward mobility positions with target grade levels of GS-9 at the Washington Office and conversion of 4 women from upward mobility programs into savings and loan examiner positions in the District Offices.
- o Development of a new examining instrument, under delegated authority from the Office of Personnel Management, for savings and loan examiners at the GS-4 level. Nine women and 5 minority males are among the 27 employees hired to date.
- o Twenty women were selected for positions at GS-11 and above during the year out of a total of 78. These resulted from recruiting from external sources as well as internal merit promotion selections.
- o A GS-15 female manager was selected as one of the 3 participants in the Board's Executive Development Program and 7 women are included in the group of 23 employees enrolled in the Management Development Program at levels GS-13 through 15.
- o Thirty-six women now occupy management and senior professional positions at levels GS-13 through the Senior Executive Service. Managers included in this group are: Executive Assistant to the Chairman (Chief Administrative Officer), 2 Office Directors, a Senior Associate General Counsel, 6 Division Directors, and for the first time, a Field Manager in a District Office.

The actions cited above show that the increased recruiting activities undertaken in the past 2-3 years are beginning to provide a pool of well-qualified women candidates for supervisory and management positions. The Bank Board is committed to eliminating the underrepresentation of women and minorities in all of its career fields.

INTERFACE OF BANK BOARD WITH FEDERAL RESERVE BOARD

Mr. COUGHLIN. How do you interface with the Federal Reserve Board?

Mr. DALTON. In a number of ways. The Chairman of the Federal Reserve Board serves as the chairman of the DIDC. I am one of the members of that committee. I also interface with the Federal Reserve through our exam counsel, the specific title—

Mr. TAYLOR. Federal Financial Institutions Examination Council.

Mr. DALTON. In addition to those formal meetings, I have had a number of meetings with the Chairman to discuss the significance of their policy relative to its effect on the thrift industry.

Mr. COUGHLIN. Since you are both in the business of expanding or contracting the business of the monetary supply, do they have any jurisdiction over what you do at all?

Mr. DALTON. We are two independent agencies from the standpoint of their activities and our activities. We do participate on the DIDC with the Fed, and the Fed does have power over reserve requirements imposed on S&L's for monetary control, but there is no official way in which what we do affects the Federal Reserve or vice versa.

Mr. COUGHLIN. Thank you, Mr. Chairman.

Mr. BOLAND. Mr. Sabo.

TAX WITHHOLDING BY SAVINGS INSTITUTIONS

Mr. SABO. My observation of 1980 was that the S&L industry was the most effective lobbyist in terms of a couple of issues. I am always interested in seeing afterwards if all that activity was based on fact or whimsy. It was related basically to two issues: one was withholding of interest by savings institutions; the other related to what was called the small saver's tax deduction.

Regarding the first issue, I was impressed by the figures on pages two and three of your statement that in 1980 there was a net increase of \$40,000,000,000 in savings, of which 75 percent was retained interest earnings. It would seem to me that a grassroots movement against withholding, was a fairly correct position in terms of its impact.

Mr. DALTON. I think the interest that the industry expressed concerning that issue was a proper one. Had the law been passed that they were opposed to, it would have had a detrimental effect on earnings.

Mr. SABO. What was the total amount of interest earned?

Mr. DALTON. Mr. Kaplan, do you have that figure? I do not know.

Mr. KAPLAN. You mean the \$30,300,000,000 of interest credited in savings?

Mr. SABO. No, what was the total interest in your institutions? How much was withdrawn?

Mr. KAPLAN. I would have to supply that for the record.

Mr. SABO. I would like to see that.

[The information follows:]

There is no basis for ascertaining the dollar amount of interest withdrawn from savings accounts since once interest is credited to an account it loses its identity and becomes a part of the savings balance. Interest credited to accounts at FSLIC-insured associations totaled \$30.3 billion last year, only a small fraction of the \$413.5 billion of gross withdrawals from accounts.

SMALL SAVERS TAX DEDUCTION

Mr. SABO. Regarding the second issue, I was never convinced that the facts bore out what we did. As I recall, the change in tax law which goes into effect this year costs the Federal Treasury about \$2,000,000,000, which means our deficit is that much higher and we have to borrow that money to accommodate a change in the tax law.

What percent of your savings are held in accounts in which the total earnings are less than \$200?

Mr. DALTON. I would be glad to submit that for the record. However, we have to address the fact that the savings rate in this country is lower than any industrialized country in the world. If we are to have capital for housing, we have to have incentives for savings.

Mr. SABO. One of our problems is that we find problems sometimes and proceed with solutions which are very costly and may not do much to solve the problem. I would be interested in knowing the percent of your savings which are held in accounts with total earnings under \$200. I think it is fair to say if someone is earning more than \$200 in earned interest, the limitation of taxes on the first \$200 (for a married couple), is a nice tax cut but did not motivate them to save more.

Mr. DALTON. Your point is a good one in that that particular number is not necessarily the proper number in terms of what exemption should be. But I do think we should encourage savings and that may be the best avenue to do it.

Mr. SABO. If you have figures I would like to see those.

[The information follows:]

On the basis of a small survey of account balances by size of account conducted last year, we estimate slightly more than 90 percent of savings balances at associations are in accounts earning \$200 or more interest annually.

CAPITAL FOR HOUSING VERSUS SHELTER

I would like your comments in a little detail on the question Mr. Green raised, which is an important one as it relates to what is happening to capital for housing. It strikes me, two things are happening. It may well be true we are putting too much capital into housing and too little into shelter. These two uses of capital could be opposites. Putting more capital into housing does not necessarily mean we are putting more into basic shelter. I think we have a real problem in not enough capital for shelter, while we use up huge amounts of capital for housing.

I would be curious to know what is happening to your new mortgage issues over a period of time.

Mr. DALTON. The average has been going up. For specifics, Mr. Kaplan—or we may provide this for the record.

The point I was intending to make, sir, is when you look at the demographics of the next five years of the 11,000,000 new housing units that will be needed, it is estimated 8,000,000 of those will be for the first-time home buyer. That is not for speculative investment, that is for shelter for new young families.

Mr. SABO. I believe what is happening is that large amounts of capital are going into housing and not enough is available for that type of shelter.

Mr. DALTON. I do not know the answer to that.

Mr. SABO. Do you have statistics including not only the ordinary mortgages which are granted, but the ranges in which they are granted?

Mr. DALTON. I am sure we have the breakdown by different types of mortgage amounts and how many are made.

Mr. SABO. Yes; and the totals—I would find that very interesting to look at.

Mr. DALTON. I think we can supply that. I think what you are getting to is the real affordability for the low income home buyer.

Mr. SABO. I am concerned about affordability and where that limited resource goes in this country and also quite frankly, I am concerned about cost to the Treasury. We will be hearing from HUD later on. The truth is that the subsidy which most of us receive in terms of deducting our interest payment, costs the Treasury billions more than the total HUD budget does.

While I think there is a case to be made for the interest deduction as it relates to shelter, I am not sure the same case can be made for total deduction of interest paid, regardless of size of the mortgage. I think we need to begin to take a look in this country to see if we want to limit that kind of deduction.

Mr. DALTON. I think the country has committed itself to home ownership. I would hate to see us back away from that.

Mr. SABO. That is not what I am suggesting. There is a substantial difference in home ownership and making the home by far the most preferable investment for people. We tend to combine the two and I do not think it is the same.

Mr. DALTON. We will be happy to supply the information we have in terms of breakdowns.

[The information follows:]

The following shows the dollar volume of mortgage lending by FSLIC-insured associations in recent years by type (in billions of dollars):

	1977	1978	1979	1980
Construction loans for:				
1 to 4 family homes.....	\$17.8	\$19.8	\$18.2	\$13.3
Other residential property.....	2.5	2.3	2.0	1.4
Nonresidential property.....	2.3	2.2	2.1	2.0
Loans for purchasing:				
Single-family homes:				
Newly built.....	16.0	17.5	17.6	13.8
Existing.....	41.6	43.4	38.9	25.7
2 to 4 family homes.....	3.7	3.4	3.1	1.7
Other residential property.....	3.5	2.7	2.0	1.0
Nonresidential property.....	1.9	1.7	1.4	1.3
Loans for other purposes.....	16.1	15.2	13.3	11.1
All purposes.....	105.3	108.3	98.7	71.3

The average size of loans made for purchasing single-family homes over the period rose from \$36,900 in 1977, to \$41,300 in 1978, to \$47,200 in 1979, and to \$51,900 in 1980.

HOUSING EMPHASIS BY SAVINGS INSTITUTIONS WILL CONTINUE

Mr. SABO. Not being an expert in any financial institutions, I have a difficult time in discerning the difference between savings and loans and banks. All of a sudden it seems savings and loans are doing the same thing as banks are. The rate differential has disappeared and the savings and loans historic mission toward housing also seems to be disappearing.

Mr. DALTON. I would not agree with that assessment. I do not think savings and loans are becoming banks. I do not think they are moving away from their housing commitment. The thrift industry has financed the housing demands for the last 150 years. I think it will continue to have that commitment. I think you will see savings and loans become more family financial centers. Not only will they make the mortgage loan to the home buyer, but then, the savings and loans will attempt to provide the other type of family needs such as the NOW account, trust department, and consumer lending. They will make the loans on the automobile, the refrigerator and other things the home buyer needs.

Commercial banks, obviously will be competing for a lot of that business. I think that is healthy, but I think commercial banks will be doing the major commercial business that savings and loans are not moving into.

Mr. BOLAND. What percentage is the portfolio of savings and loans? Eighty percent?

Mr. KAPLAN. Yes.

Mr. BOLAND. As a result of that P.L. 96-221, that is going to drop considerably, isn't it?

Mr. KAPLAN. No.

Mr. BOLAND. Why?

Mr. KAPLAN. In part, because we still have the bad debt reduction law which requires 82 percent of assets be in so-called qualifying assets, primarily mortgages, in order to get the full bad debt reserve provision.

Moreover, many of the new powers given to savings and loans are not particularly profitable; for instance, consumer lending. A lot of banks have been losing money on that as well as credit cards.

Mr. BOLAND. The commercial banks would love to see the savings and loans pick it up then?

Mr. DALTON. It is a management decision whether in fact they want to get into these various powers or not.

Mr. KAPLAN. I might add as an additional point, that the Bank Board does feel that, while savings and loans may add somewhat less to their portfolios in terms of mortgages, they are becoming more important as originators who will sell mortgages to investors. Many of these new types of mortgages being authorized help them to do that. Savings and loans will become much more like mortgage bankers.

Mr. BOLAND. You want to feel those new forms will be much more attractive to investors?

Mr. KAPLAN. Yes, sir.

ADMINISTRATIVE AND NONADMINISTRATIVE EXPENSES

Mr. BOLAND. We will turn to the detailed budget justifications. Mr. Vaughan, turn to page B-7, the summary of agency expenses. Positions in 1980 and 1981 total 1,454. That represents an increase of 20 above the figures carried in last year's justifications. However, I understand that rather than representing a true increase, this is an honest reflection of the Bank Board's positions for the past three or four years.

Mr. VAUGHAN. Yes; it goes back more than five years.

Mr. BOLAND. Were any regulations violated by counting positions occupied by permanent personnel as other than permanent positions?

Mr. VAUGHAN. No. Our total permanent appointments did not exceed our total authorized permanent positions.

Mr. BOLAND. Who was aware of and approved the position designation within the Board?

Mr. VAUGHAN. At that particular point in time?

Mr. BOLAND. At any point in time; the Board, I presume.

What about the OMB? Did it have any knowledge of this situation?

Mr. VAUGHAN. No.

Mr. BOLAND. Have any safeguards been taken to preclude a recurrence of this situation?

Ms. FAIR. As the administrative officer of the Board, I approve allocations between offices for both permanent and temporary. It is closely monitored.

What happened, when we got to the Banking Board, I discovered in reviewing this, that there was this misallocation of positions. I asked David Vaughan to correct that and mark the record clean. We are moving on from there.

Mr. BOLAND. Could we have a list of the 20 positions involved?

Ms. FAIR. Yes, sir.

[The information follows:]

Positions Transferred from FSLIC to FHLBB

<u>Grade</u>	<u>Position Title</u>
Planning and Management Coordination Office:	
GS-12	Director
Personnel Management Office:	
GS-12	Personnel Mgmt. Spec.
Administrative Services Division:	
GS-5	Library Tech.
GS-6	Secretary (Typing)
GS-9	Contract Spec.
GS-12	Contract Spec.
WG-3	Laborer
WG-5	Motor Vehicle Oper.
WP-9	Offset Press Oper.
WP-9	Offset Pressman
Information Systems Division:	
GS-4	Computer Aid
GS-4	Computer Aid
GS-5	Computer Programmer
GS-5	Computer Programmer
GS-5	Computer Programmer
GS-5	Computer Operator
GS-13	Computer Specialist
Office of Policy and Economic Research:	
GS-8	Information Disclosure Spec.
GS-12	Economist
Office of Examinations and Supervision:	
GS-12	Financial Analyst

ACTUAL VERSUS BUDGETED WORK-YEARS

Mr. BOLAND. In actual workyears in 1980 were 1,369, or 50 less than the estimate of 1,419. That experience is similar to 1979. Too what do you attribute the shortfall?

Mr. VAUGHAN. Will you repeat that?

Mr. BOLAND. Actual workyears in 1980 were 1,369, or 50 less than the estimate of 1,419. That experience is similar to 1979. To what do you attribute the shortfall?

Mr. VAUGHAN. I am not certain about 1979 but obviously in 1980, we did have a problem with the hiring freeze. That is the main reason for the shortfall.

Mr. GREEN. What dollar savings were realized and how was that money used?

Mr. VAUGHAN. Most of the dollar savings really were not used. We have a savings of \$632,000 on B-7, if that is your question.

ESTIMATED 1981 SAVINGS DUE TO HIRING FREEZE

Mr. BOLAND. What about the freeze on hiring announced by President Reagan on January 20? Is the Board subject to that freeze?

Mr. VAUGHAN. Yes.

Mr. BOLAND. If the freeze remains in effect until the end of the fiscal year what savings do you estimate might result?

Mr. VAUGHAN. I really cannot tell at this point.

Mr. DALTON. We will be happy to make an estimate for the record.

[The information follows:]

Should the employment freeze remain in effect until the end of fiscal year 1981, based upon our current employment and projected terminations we estimate that savings of \$1.8 million could occur in our revised 1981 combined compensation and benefits estimate of \$44,479,000.

INCOME FROM ASSESSMENTS AND EXAMINATION FEES

Mr. BOLAND. Page C-2 contains the statement of income and expense for the Federal Home Loan Bank Board revolving fund. A comparison with the 1981 justification indicates that examining fees and charges in the 1981 current estimate have declined from \$19,276,000 to \$18,562,000. However, the assessment for services and facilities: FSLIC, has increased from \$28,577,000 to \$32,002,000. May we get an answer from the administrative officer?

Are you looking at the statement on C-2?

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. That contains a statement of income and expenses for the FHLB. You can see the figure on the top of the page.

Mr. VAUGHAN. Yes.

Mr. BOLAND. However, the figure for assessment and facilities FSLIC, has increased. What about that increase?

Mr. VAUGHAN. Primarily, on the assessment to the FSLIC, that reflects increased costs to the Board. Let me say, about 59 percent of the Board's expenses are paid by the FSLIC. The increased assessments reflect increased pay costs. These costs have gone up and would be reflected in increased assessment income for the Board.

INCREASED PAY COSTS

Mr. BOLAND. On C-4 the summary of the Board and staff offices, the 1981 supplemental requested for pay cost increase is \$1,250,000. That equates to 8.3 percent of the personnel compensation and benefits base. Last year the Office of Management and Budget issued guidance to Departments and Agencies advising them absorption rates of 30 percent of the pay cost increase were expected. Your absorption rate amounts to only eight percent. Especially considering the OMB guidance, why can't the Bank Board absorb more of the pay cost supplemental?

Mr. VAUGHAN. At the time when I made up these estimates. I did not think we could.

Mr. BOLAND. What about now?

Mr. VAUGHAN. At this point in time, it's still a little bit too early to tell.

Mr. BOLAND. Workyears have been overfunded for the past two years. Why shouldn't the Committee assume workyears are probably overfunded in 1981 also and correspondingly reduce the pay cost supplemental?

Mr. VAUGHAN. If you ignore the effect of the freeze, I would hope they are not overfunded. But, of course, the freeze is on and as long as it is, there is no question there will be some savings in that area.

APPLICATION OF CONGRESSIONAL REDUCTION FOR 1981

Mr. BOLAND. In action on the 1981 HUD-Independent Agencies Appropriation Bill, Congress reduced the administrative expenses limitation by \$1,000,000. Will you indicate to us, how that reduction was applied?

Mr. VAUGHAN. You want it in detail?

Mr. BOLAND. Detail it for the record, but just give us a few instances of where you are applying that reduction.

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. Is it a long explanation?

Mr. VAUGHAN. It is quite detailed because we spread the reduction over a number of accounts.

[The information follows:]

FEDERAL HOME LOAN BANK BOARD

Board and Staff Offices
 Administrative Expense
 Fiscal Year 1981
 Application of \$1,000,000 Congressional Reduction

<u>OBJECT CLASS</u>	<u>1981 Justification to Congress</u>	<u>Application of Congressional Reduction</u>	<u>Balance Approved</u>
Compensation	\$14,003,000	\$ -199,000	\$13,804,000
Benefits	1,415,000	-97,500	1,317,500
Transportation of persons	575,000	-125,000	450,000
Transportation of things	24,000	-0-	24,000
Rents, Communications, Utilities	1,318,000	39,000	1,357,000
Printing and Reproduction	475,000	-35,000	440,000
Other services:			
Data processing	782,000	-32,000	750,000
Reporting services	75,000	-38,000	37,000
Special studies	400,000	-275,000	125,000
Contract audits	300,000	-165,000	135,000
All other	547,000	32,500	579,500
Subtotal - Other Services	<u>2,104,000</u>	<u>-477,500</u>	<u>1,626,500</u>
Supplies and Materials	567,000	-19,000	548,000
Acquisition of Capital Assets	<u>619,000</u>	<u>-46,000</u>	<u>573,000</u>
TOTAL GROSS EXPENSES	21,100,000	-960,000	20,140,000
Less: Reimbursements	<u>-70,000</u>	<u>-40,000</u>	<u>-110,000</u>
NET EXPENSES	<u>\$21,030,000</u>	<u>\$-1,000,000</u>	<u>\$20,030,000</u>

Mr. BOLAND. Turn to C-9, the position summary. The administrative services division has increased eight and the information systems division has increased 11 from the 1981 budget estimate. Are these increases part of the 20 positions we discussed earlier?

Mr. VAUGHAN. Yes, they are.

Mr. BOLAND. Community investment has decreased from 26 position to 20. What is the reason for that?

Ms. FAIR. The Office of Community Investment set up the guidelines. Each district bank has a community investment staff and they do the actual work in the field. Also the consumer affairs positions were transferred from the Office of Community Investment into the operations and program staff so they can be there with the program operations.

WORK YEAR SHORTFALL

Mr. BOLAND. Let me return for a moment to the 1980 work year shortfall which is carried on B-7. The estimate was 1,419 and the actual was 50 less than that. The staff indicates that assuming an average salary of \$20,000 (which is probably understated), savings of \$1,000,000 would be realized. Yet the estimated savings as indicated on the second to the last table at the bottom of the page, is only \$632,000. Am I incorrect as to what estimated savings ought to have been?

Mr. VAUGHAN. Those were the actual savings.

Mr. BOLAND. But how do you account for the difference between the \$1,000,000 that would result when you estimate that total positions were 50 less than 1,419 at an estimated salary of \$20,000, and your estimate of only \$632,000?

Mr. VAUGHAN. I cannot account for it.

Mr. BOLAND. You may straighten it out for the record, if you will.

[The information follows:]

Total savings due to the 50 work year shortfall was approximately \$1,094,585, based on average GS salaries for fiscal year 1980 and related benefits. The reason that total estimated savings were only \$632,638 was due to the fact that savings in other line items were utilized to cover the pay raise request for which the Bank Board did not receive supplemental funding.

LONG-DISTANCE CALLS

Mr. BOLAND. Turn to page C-12, which shows rent, communications and utility expenses. Give us an explanation of the long distance expenses that increased \$77,000: from \$389,000 in 1981, to \$466,000 in 1982. Why are long distance expenses rising so rapidly?

Mr. VAUGHAN. Fully 95 percent of these costs are FTS costs. Those are allocated and assigned to us by GSA based upon the volume of activity and their operating costs. I might point out the \$389,000 figure I show in the 1981 estimates was a figure they gave me when we prepared the estimate. Subsequently I received a communication from GSA which will increase that figure about \$100,000 partly because of increased activity, but mostly because of an increase in GSA operating costs.

Mr. BOLAND. Do you take GSA costs as gospel all the time? Have you ever challenged them?

Mr. VAUGHAN. I have never challenged them. They do send us a sample of calls made and we look that over to see if calls are being abused; but no, we have not challenged their cost allocations.

TERMINAL RENTAL

Mr. BOLAND. Page C-13 describes equipment rental costs. It is interesting that the rental of 44 terminals was \$140,000 in the 1981 justifications. The rental expense of 70 terminals in 1982 is estimated to be \$110,000. This means the rental cost per terminal declines from \$3,182 in 1981 to \$1,571 in 1982.

Nice to see that—how do you explain it?

Mr. PETROCCHI. Unlike inflation, the cost of computer terminals is going down. The terminal we rented some months ago for \$140 we can now get for \$110 a month.

PRINTING COSTS

Mr. BOLAND. Printing costs are detailed on C-14. Is there any overstatement of printing costs? The original 1979 estimate was \$324,000, which was revised to \$313,000. Actual costs were \$267,000 or 15 percent under plan. The revised 1980 estimate was \$439,000. Actual costs were \$276,000 or 37 percent under plan. Why do these estimates vary so greatly from actual experience?

Mr. VAUGHAN. One of the problems we have is projecting these costs, particularly with respect to projecting the amount of items printed in the Federal Register; such activity can vary widely and it is difficult to project what will happen. In our revised figures, we had \$45,000 in there for the housing finance review publication which did not come to fruition during that particular year. That is another reason for some of the decreases in the cost. We have some problems with GPO when it comes to billing. They are very erratic in billing us and that makes another difficult problem in trying to estimate what our costs will be from one year to the next, and in recording actual costs from one year to the next.

HOUSING FINANCE REVIEW

Mr. BOLAND. In 1980, you estimated \$45,000 would be required to print the new economics quarterly, yet the actual cost as reflected on C-14 is \$1,640.

Mr. VAUGHAN. Yes.

Mr. BOLAND. Why is this publication necessary?

Mr. DALTON. Mr. Chairman, if I may speak to that. The Housing Finance Review was established to promote research on topics that would be useful to the Bank Board in regulating the S. & L. industry. There is no publication or journal today which is devoted specifically to housing finance. Previous articles have appeared piecemeal in numerous journals, but there is no one publication for this purpose. We felt to encourage the research in the area of housing finance, that this document was necessary.

The other journals often regard aspects of housing finance to be too specialized to publish. The real authorities who have the expertise to publish this kind of thing I think will find this type journal useful. As we indicated earlier, we feel a real need for this kind of thing.

Mr. BOLAND. How about the scheduled release for the January 1981 issue?

Mr. DALTON. That will be March.

Mr. BOLAND. Well, when it comes out, put us on the mailing list.

Mr. DALTON. I'll be glad to personally deliver the first copy, Mr. Chairman.

ADP SERVICES

Mr. BOLAND. Look at page C-15, the detailed schedule of other services. Last year we addressed the over-estimates in ADP services. In both 1978 and 1979 the over-estimate amounted to 43 percent. 1980 reflects a relative improvement. The estimate was overstated by \$193,000 or "only" 22 percent.

Looking at this record, why should the Committee place any confidence in the 1982 estimate?

Mr. PETROCCI. I think one of the places we were over-estimating was in the outside programming services we anticipated in 1979 and 1980, a large change in the financial reports we received from the industry as a result of a reduction burden which never occurred but is about to occur in 1981. That was the biggest savings. Also, we have cut down on the amount of time we have for outside computer services. We have backup time just in case our facility goes down.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

Mr. BOLAND. The 1980 estimate includes \$80,000 for the Federal Financial Institutions Examination Council, the first complete year of the Council's existence. Can you tell us a little bit about the Council's operation?

Mr. DALTON. Yes. As a matter of fact we have a meeting this afternoon. This is a council consisting of the Federal Reserve, Comptroller of the Currency, Federal Credit Union Administration, the FDIC and the Bank Board. We review financial institution procedures that affect more than one industry. Mr. Taylor is the chief staff person on the Council. Perhaps he would like to add something.

Mr. BOLAND. I understand that the Bank Board is an active participant in the Council's deliberations and programs?

Mr. DALTON. That is right.

Mr. TAYLOR. We are represented on every one of the task forces that compose the staff.

Mr. DALTON. The Comptroller of the Currency is currently chairman of the Committee and some of the staff work is done through his office, but there is a need for the figure you see in our request. As a matter of fact, that is a conservative figure that you see there in terms of the cost of our participation.

Mr. BOLAND. Why do the amounts for contract audits vary so much?

Mr. VAUGHAN. We have put some contingency funds in there, here again, because of some of the problem activity cases with which we may become involved with; it is difficult to predict the number of cases where contract audits might be needed. They have

provided funds to cover such costs *if* they are needed. We cut that back in 1981.

EMPLOYEE COUNSELING SERVICES

Mr. BOLAND. Employee counseling service appears to be a new line item. What does that represent?

Mr. VAUGHAN. It is a program established last year. In prior years we have been trying to handle this program informally, in-house, but it involves counseling employees on drug abuse, alcoholism and mental stress. We felt we were not handling the program properly in-house and decided that it should be handled by professionals under contract. It is authorized by law.

Mr. BOLAND. Where did you get the money to pay for it? There was no request for the \$48,060 spent for these services.

Mr. VAUGHAN. There were savings on some of the other line items.

Mr. BOLAND. Like the shortfall in work years?

Mr. VAUGHAN. Very possibly.

NEWS-GATHERING SERVICES

Mr. BOLAND. What about news services? Why did the news gathering service spend \$45,093 in 1980, more than double the \$22,000 estimate?

Mr. VAUGHAN. I have to supply that for the record. I am not certain why that increased.

[The information follows:]

Our actual news gathering services costs in 1980 were \$32,293 rather than the \$45,093 figure shown in the justification. Through error, some \$12,800 of obligations applicable to fiscal year 1981 were recorded as 1980 obligations and was not detected until the books were closed as of September 30, 1980. Action is being taken to minimize the possibility of such error recurring.

SPECIAL STUDIES

Mr. BOLAND. The 1980 estimate for special studies was \$364,000. Actual costs were \$491,000, or \$127,000—35 percent—above plan. What is the reason for that? Would you like to supply that for the record, too?

Mr. VAUGHAN. Yes, please.

[The information follows:]

During fiscal year 1979 for a number of reasons we were unable to undertake many of the economic studies planned for that year and this was one of the reasons for the substantial savings in Bank Board expenses for that year.

In 1980, because of the serious economic status of the S&L industry, the Board felt that it was necessary to initiate a number of studies over and above that originally planned aimed at providing it with information and other data needed to deal with the problems facing the industry. For example, in prior years such studies have resulted in the development and adoption of the RRM and other variable-rate type mortgages aimed at redressing the asset side of the industry balance sheet. The Board felt that, under the circumstances, it was justified in using some of the savings in other line items to cover such studies. We should point out that the number of studies planned for 1981 and 1982 has been reduced considerably.

COMMUNITY INVESTMENT FUND

Mr. BOLAND. On C-25, the middle of the page, advances to member institutions in 1980 totaled \$34,300,000,000 and outstanding advances increased \$5,600,000,000 to a total of \$44,200,000,000.

Let me ask, have the Federal Home Loan Banks achieved the objective of \$2,000,000,000 in advances under the Community Investment Fund?

Ms. FAIR. We do not have the specific information on that here, but we will supply it for the record.

[The information follows:]

By the end of the CIF's second program year (June 30, 1980) the FHLBanks had made CIF offerings totaling \$4.0 billion and had made actual CIF advances totaling over \$3.9 billion and thus have substantially met their objective of making \$2 billion of CIF advances each year. At the end of calendar year 1980, the FHLBanks had made approximately \$4.9 billion in CIF advances.

TREND IN SAVINGS AND LOAN MERGERS

Mr. BOLAND. We would like you to elaborate on a statement that appears in the second paragraph on page C-32: "This merger trend will accelerate during the next few years as a result of economic conditions and the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980." What about that?

Mr. DALTON. It is our expectation that there will be additional mergers in 1981, and 1982, more than we have had in the past. There are advantages to economies of scale in taking advantage of the powers that have been authorized by the Congress in the legislation that you refer to. So it is not an alarming trend. It is one we are doing our utmost to facilitate from the standpoint of approving those mergers. We have delegated some authority to our district banks to approve routine mergers so there is no duplication of effort.

PERSONNEL MANAGEMENT OFFICE POSITIONS

Mr. BOLAND. On C-38, the Personnel Management Office is described in the legend starting in the middle of the page, and the actual positions are listed on page C-9. Why does the PMO need a total of 23 people in 1982, which is an increase of two from the original 1981 submission?

Ms. FAIR. The principle reason for the increases has been the effects of the Civil Service Reform Act. The Civil Service Reform Act provided much more detailed procedures for employee valuation for instance in connection with the merit pay provisions of Civil Service Reform.

SES BONUSES

Mr. BOLAND. How many senior executive service grade employees received bonuses in 1980?

Ms. FAIR. Two.

Mr. BOLAND. What percentage of the SES Corps did they represent?

Ms. MCGEE. I am Doris McGee, Director of Personnel. We were allowed to give up to 25 percent and that represented 21 percent.

Mr. BOLAND. What were the amounts of the to bonuses?

Ms. MCGEE. \$10,000 and \$7,500.

PLANNING AND MANAGEMENT COORDINATION OFFICE

Mr. BOLAND. Page C-40 describes a new organizational entity, the Planning and Management Coordination Office. This previously unbudgeted operation cost \$50,000 in 1980 and an estimated \$125,000 in 1981 and 1982. Those amounts are depicted on page C-6. Where did you find the positions and funds for this office in 1980 and 1981?

Ms. FAIR. Actually there was a combined office and this represents the split of those two functions.

Mr. BOLAND. Why is the operation necessary? It seems to be merely a paper shuffling operation. Of course you do not agree with that, but why was it necessary?

Ms. FAIR. To set up, in fact, the basic management system that the Bank Board requires. That is principally what it is used for. I must say, I think it has had an effect in terms of tracking the applications, processing and improving the efficiency of the Bank Board, in terms of follow-up.

Mr. BOLAND. If other offices were operating efficiently, you would not need these positions.

Ms. FAIR. I think there always has to be some follow-up on management.

OFFICE OF INTERNAL REVIEW AND COMPLIANCE

Mr. BOLAND. During last year's hearings the former Chairman indicated that an office of inspector general was to be established. I did not notice any reference to an IG in the 1982 justifications. Has an IG been established?

Ms. FAIR. We do not call it an IG; it is now Internal Review and Compliance. We have not expanded the staff there, as we promised we would not; and he will eventually be assuming some of the investigative duties.

Mr. GREEN. To whom does that office report?

Ms. FAIR. To the Board.

COMMERCIAL LEASING

Mr. BOLAND. Mr. Janis indicated he was going to have the GSA consider taking over the commercial leasing responsibilities with respect to your building about which Mr. Green asked a question earlier. Has that been done?

Ms. FAIR. No, it has not been done. We proposed it to GSA. They were going to impose conditions, but we have not negotiated that.

Mr. BOLAND. On E-5, under the justification of the Office of Examinations and Supervision, the 1981 current estimate is \$36,265,000, including \$3,160,000 in pending supplemental requests. OMB bulletin 81-7, dated January 24, 1981, is designed to reduce 1981 executive branch travel by 15 percent. How does the bulletin affect the Bank Board and especially how does it affect the pending supplemental?

Mr. VAUGHAN. We are affected by the bulletin. The effect is to reduce the total travel obligations by ten percent. If the Congress

does grant the \$930,000 supplemental, I assume we would be required to apply the ten percent reduction to the supplemental also.

Mr. BOLAND. What was the total pay cost for the Office of Examinations and Supervision? What was the total figure absorbed in this operation?

Mr. VAUGHAN. We did not absorb any.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Mr. BOLAND. We will turn to F-16. This contains a tabular summary of the corporation. The 1982 request of \$1,030,000 is \$20,000 less than the current 1981 estimate. Workyears in 1980 were 2.3 less than planned. Is that the major reason for the \$127,000 lapse?

Mr. VAUGHAN. Yes, sir.

Mr. BOLAND. Why did the workers fall short with this corporation?

Mr. VAUGHAN. I really do not know that.

Mr. BOLAND. The 2.3 worker shortfall amounts to 12 percent. Now that is a fairly sizable shortfall. Does it have any significant effect on the operations of the corporation?

Mr. VAUGHAN. I do not know.

Mr. DALTON. Mr. Grant, have you any comment?

Mr. GRANT. We have not had any problems with the operation of the office. Maybe Mr. Hughes would want to speak further to the shortfall in manhours, working years.

Mr. HUGHES. It would have to be related to vacancies.

Ms. FAIR. There was a small reorganization of that unit and we made it a separate entity. During that period, there were considerable vacancies there, when we had an acting director. The workload also was not as great as it is. It is building up now to a larger number of cases handled by FSLIC.

FSLIC SPECIAL STUDIES

Mr. BOLAND. I notice on page F-19, there is no request for special studies in 1982. Was this decision made by the corporation and Bank Board or was it recommended by the OMB?

Mr. VAUGHAN. The decision was made by the Board.

Mr. BOLAND. Mr. Green?

Mr. GREEN. I will submit a question to be answered for the record.

[Mr. Green submitted the following question for the record.]

Question. Explain in detail the relative responsibilities of the Federal Home Loan Bank Board (Board) itself and the twelve district Federal Home Loan Banks (FHLBanks) in the setting and execution of policy governing advances to members of the Federal Home Loan Bank System.

Response. Section 10 of the Federal Home Loan Bank Act (Bank Act) authorizes each FHLBank to make advances to its members, "... subject to such regulations, restrictions, and limitations as the Board may prescribe." Under Section 9 of the Bank Act, each Bank is given full discretion to deny a requested advance, but must conform with Board regulations and policy in the granting of any advances. Section 7 of the Bank Act requires that the Board of Directors of each FHLBank administer the affairs of the Bank "... fairly and impartially and without discrimination in favor of or against any member or nonmember borrower ..." and to "... extend to each institution authorized to secure advances, such advances as may be made safely and reasonably, with due regard for the claims and demands of other institu-

tions, and with due regard to the maintenance of adequate credit standing for the Federal Home Loan Bank and its obligations."

The Board has adopted specific regulations governing the granting of advances in Part 525 of its Regulations for the Federal Home Loan Bank System and statements of policy on advances in Sections 531.1 and 531.9 of Part 531 of the Regulations for the Federal Home Loan Bank System. These regulatory statements of policy set out overall policy on what purposes advances may be granted for, what the Banks must consider in deciding whether to grant an advance, and what requirements the obligations evidencing advances must meet.

On quarterly basis, the Board meets with the Presidents of the FHLBanks to discuss advances policy and obtain the Bank Presidents' recommendations for a specific advances policy for the following quarter. Following these meetings, the Board Meets and adopts an advances policy which states the parameters within which the Banks must set the rates on advances and any other limitations on advances. The current advances policy is as follows:

"The Federal Home Loan Banks should maintain a policy of fostering residential mortgage financing through appropriate advances policies by each of the Banks. Interest rates on all advances should be set at levels near the estimated cost of newly issued consolidated obligations of comparable maturities.

All fixed-rate advances with maturities over one year should carry an adequate prepayment penalty or its equivalent sufficient to discourage early repayment. All advances maturing in 12 months or longer should be made pursuant to firm commitments.

It is not anticipated that the supply of funds for advances will be a constraint relative to the likely demands for advances. If, however, it become necessary to moderate the growth of advances in its district, a Bank may set rates on advances at slightly higher levels.

Any deviation from this policy statement shall require prior approval of the Bank Board."

Within the constraints of Board regulations and policy, the Board of Directors of each FHLBank establishes what specific types of advances will be offered to members, the rates of interest on advances, commitment fees, prepayment penalties, and policy on the granting of advances. The staff of each FHLBank is then responsible for making advances within Board and FHLBank policy.

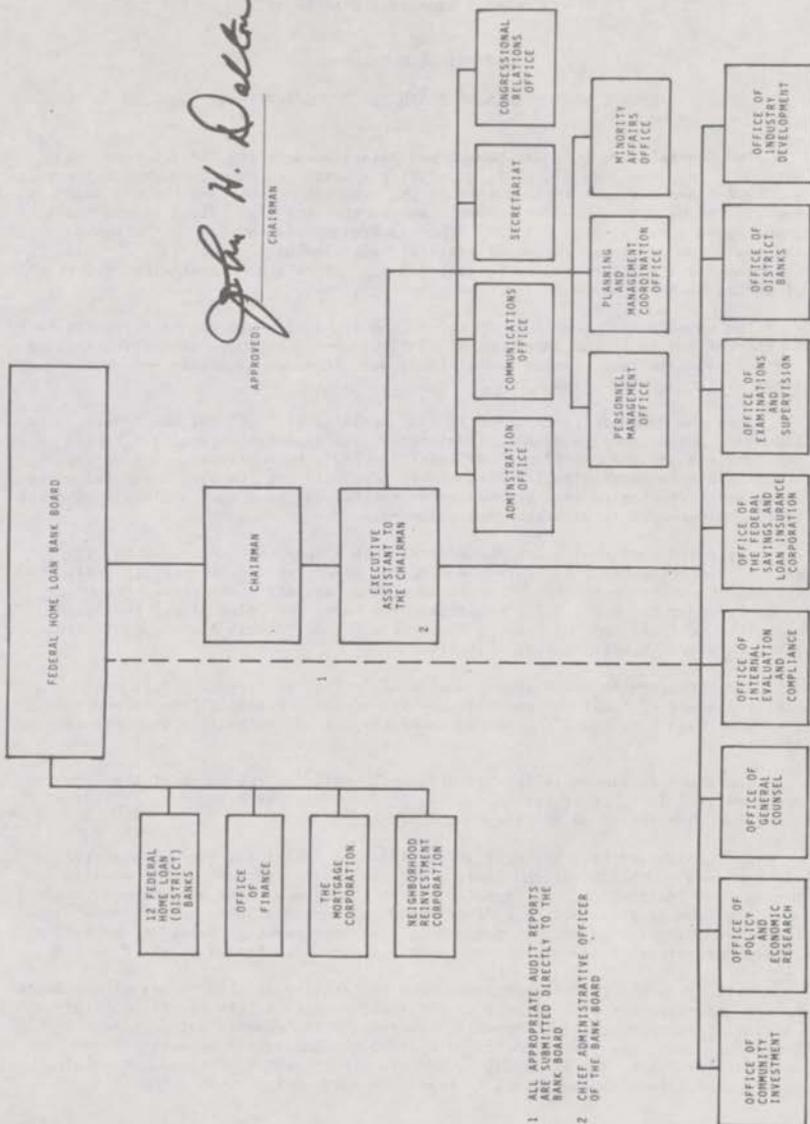
By permitting each FHLBank to establish advances plans and rates within guidelines established by the Board, each FHLBank is enabled to design advances plans that are fitted to the needs of the members in its District.

Mr. BOLAND. Chairman Dalton, thank you for joining us today. We are all through; you can now leave and have a good lunch in that beautiful building you have downtown.

We understand your problems—and you do have some serious problems in 1981. In any event, it was good to have had you with us.

[The justification follows:]

Federal Home Loan Bank Board Organization



APPROVED: *John H. Dalton*
CHAIRMAN

1 ALL APPROPRIATE AUDIT REPORTS ARE SUBMITTED DIRECTLY TO THE BANK BOARD
2 CHIEF ADMINISTRATIVE OFFICER OF THE BANK BOARD

Federal Home Loan Bank Board

HISTORICAL SUMMARY OF THE

FEDERAL HOME LOAN BANK BOARD AND ITS CONSTITUENT AGENCIES

The Federal Home Loan Bank Board was established by the Federal Home Loan Bank Act, approved July 22, 1932, to provide a permanent credit reservoir for thrift and home-financing institutions through the creation of regional Federal Home Loan Banks. The United States Government provided the original capital of the banks by investing a total of \$124,741,000. This investment was retired by the banks, over the years, at a rate in excess of statutory requirements. As of July 2, 1951, the Government's investment had been fully repaid. Since that time the capital stock of the 12 banks is owned by the member institutions.

The Home Owners' Loan Act, approved June 13, 1933, gave authority to the Board to charter and supervise local mutual institutions to be known as Federal savings and loan associations. These associations were to serve as a means of encouraging local thrift and home financing.

From the date of its creation in 1932 until April 25, 1939, the Federal Home Loan Bank Board functioned as an independent establishment reporting directly to the Congress and the President. On April 25, 1939, by congressional approval of the President's Reorganization Plan No. 1, the Board and the organizational units under its jurisdiction were grouped under the Federal Loan Agency along with other related Government corporations and organizations.

The Board continued under the Federal Loan Agency until February 24, 1942, when by Executive Order No. 9070 the five-man Board was vacated and its Chairman was made Commissioner of the "Federal Home Loan Bank Administration," the units formerly under the Board being retained. The Executive Order placed the Board under the National Housing Agency, together with the Federal Housing Administration and the Federal Public Housing Authority.

Under Reorganization Plan No. 3 of 1947, effective July 27, 1947, a bipartisan Board of three members was substituted for the single Commissioner and the "Home Loan Bank Board" became a component part of the Housing and Home Finance Agency.

The Board continued in this relationship until the enactment of the "Housing Amendments of 1955," approved August 11, 1955, which reestablished the "Federal Home Loan Bank Board" as an independent agency.

Reorganization Plan No. 6 of 1961, effective August 12, 1961, transferred to the Chairman of the Board, the Board's functions with respect to the overall management, functioning, and organization of the Agency. The appointment, removal, and direction of personnel, the distribution of business among and the communication of Board policies to such personnel, the enforcement of policies, as well as other administrative and management functions were transferred to the Chairman.

Nothing in the transfer impinges upon the ability of the Members of the Board to act independently with respect to substantive matters. In carrying out his managerial functions, the Chairman is governed by the general policies of the Board; the Board has the authority to approve the Chairman's appointments of the heads of major administrative units, and the other Members of the Board retain their control over the personnel in their immediate offices.

Federal Home Loan Bank Board

Federal Savings and Loan Insurance Corporation

On June 27, 1934, Title IV of the national Housing Act provided for the creation of the Federal Savings and Loan Insurance Corporation and placed it under the direction and management of the Federal Home Loan Bank Board. The capital stock of the Corporation was \$100,000,000. It was subscribed for by the former Home Owners' Loan Corporation. Retirement of the stock began in 1951 and was completed by July 1, 1958.

The Federal Savings and Loan Insurance Corporation insures the safety of savings against loss up to \$100,000 for each insured member in all Federally-chartered associations and in State-chartered associations which apply and qualify for such insurance.

Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation was established by Title III of the Emergency Home Finance Act of 1970 (84 Stat. 451-458), approved July 24, 1970. The Corporation's board of directors, by law, is comprised of the members of the Federal Home Loan Bank Board. The function of the Corporation is to provide a secondary market for residential mortgages. The operations are confined, so far as practicable, to residential mortgages which generally meet the purchase standards set by private institutional mortgage investors.

Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation (formerly the Urban Reinvestment Task Force) was established by Public Law 95-557, approved October 31, 1978, to promote reinvestment in older neighborhoods by local financial institutions working cooperatively with local people and local government. The Chairman of the Federal Home Loan Bank Board serves as a member of a six-person board of directors.

Federal Home Loan Bank Board

PROGRAM HIGHLIGHTS

The Federal Home Loan Bank Board supervises and regulates the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations, and the Federal Savings and Loan Insurance Corporation, created to serve the American public through the media of savings and loan associations, co-operative banks, and other financial institutions engaged in the encouragement of thrift and economical home ownership.

The Federal Home Loan Bank Board is primarily a regulatory and supervisory agency in the savings and home-financing field. It issues charters for Federal savings and loan associations and Federal Mutual Savings Banks, and insures savings accounts in such institutions, and in approved State-chartered savings and loan institutions.

The 1982 budget estimates of the Federal Home Loan Bank, the Office of Examinations and Supervision, and the Federal Savings and Loan Insurance Corporation are based on the need for maintaining all operations in a current status, giving full consideration to the complex problems arising from changing economic conditions and the increased competition for savings among financial institutions.

The costs of the Federal Home Loan Bank Board operations -- including the examinations of insured savings and loan associations -- are met by assessing the twelve Federal Home Loan Banks and the Federal Savings and Loan Insurance Corporation for services rendered, and by assessments and direct examination charges to savings and loan associations for the services of the Office of Examinations and Supervision. Thus, although the Board restricts its expenditures to budget limitations, the Board receives no appropriated funds from the U.S. Treasury.

The number, size, and business activity of the institutions supervised by the Board continues to fluctuate. The following table relating to savings and loan association members of the Bank System shows the number and assets on September 30, 1980 and mortgage loans made and the net inflow of savings for the 12-month period ending on that date; it also shows the changes over the comparable 1979 period in dollar and percentage terms.

Description	Fiscal	Fiscal	Increase or Decrease (-)	
	1979	1980	Amount	Percent
	(Dollars in Billions)			
Number of Member Savings and Loan Associations at September 30.....	4,143	4,113	-30	-0.7
Assets at September 30..	\$562.5	\$601.2	\$38.7	6.9
Mortgage Loan Made During Year.....	\$103.8	\$ 71.4	\$-32.4	-31.2
Net Inflow of New Savings During Year <u>1</u> /.....	\$ 42.1	\$ 34.8	\$-7.3	-17.3

1/ Includes Interest Credited

Federal Home Loan Bank Board

As indicated in the table on the previous page, the number of member savings and loan associations decreased by 30 over the number recorded at September 30, 1979. Assets showed an increase of \$38.7 billion over September 30, 1979; loans made during fiscal year 1980 decreased \$31.2 billion over the volume made during the preceding 12-months. The net inflow of savings declined by \$7.3 billion, as a result of high market interest rates and increased competition for savings from other types of financial institutions. At the end of fiscal year 1980, member savings and loan associations held about \$403 billion, or 44 percent, of all home mortgages.

FEDERAL HOME LOAN BANK SYSTEM

The Federal Home Loan Bank System, through its 12 regional Federal Home Loan Banks, strategically located throughout the country, provides a permanent credit reserve for eligible institutions. The Federal Home Loan Banks advance funds to these member institutions to meet withdrawal demands as well as seasonal and expansionary needs for additional home-mortgage funds. Through the use of interbank deposits, the System maintains flows of housing funds into every locality.

The regional Banks, the stock of which is owned by their member institutions, do not deal directly with individuals. The great majority of the members are savings and loan associations, also known sectionally as building and loan associations, co-operative banks, and homestead associations. Included also in the membership of the Federal Home Loan Bank System are 135 mutual savings banks and two life insurance companies.

The importance of the Federal Home Loan Bank System is indicated by the fact that at September 30, 1980, the combined resources of its member institutions totaled \$657 billion. In fiscal year 1980 its savings and loan members made housing and other mortgage loans amounting to \$71.4 billion.

Located in most cities, suburban areas, and towns throughout the United States, the System's member institutions serve around 105 million people including savers, investors, and borrowers.

Member institutions

The Federal Home Loan Bank System, comprised of the 12 regional Federal Home Loan Banks, had a membership of 4,250 institutions at September 30, 1980. Membership in the System since its inception increased from 2,080 at year end 1933 to 3,951 on December 31, 1938. Resulting primarily from consolidation and mergers, the membership gradually decreased to 3,698 in calendar year 1946. From that time, both the membership and membership assets went steadily upward until calendar year 1967. Membership assets have continued to grow since then, but the number of members has decreased in most years, as shown in the table on the following page, due primarily to mergers and voluntary withdrawals.

Federal Home Loan Bank Board

Number and Assets of Members of the Federal Home Loan Bank System

<u>Fiscal Year-End</u>	<u>Number</u>	<u>Assets (Billions)</u>
1950	3,898	\$ 15.4
1955	4,272	34.0
1960	4,674	65.8
1965	5,043	128.6
1970	4,714	173.3
1975	4,310	333.7
1976	4,244	386.1
1977	4,254	469.2
1978	4,241	535.9
1979	4,245	605.2
1980	4,250	656.6
1981*	4,120	730.1
1982*	3,990	809.6

*Estimate

Membership increased by 5 last year, in contrast to the historical trend, because of an increase in mutual savings bank membership. It is anticipated that membership will decline by approximately 130 in both fiscal years 1981 and 1982. Membership of mutual savings is expected to increase further, in part from conversion to federal from state charter, but the number of savings and loan members is expected to decline much more as a result of mergers stemming from the recent squeeze on earnings and increased competition among financial institutions.

Member assets totaled \$656.6 billion on September 30, 1980, 8.5% more than a year earlier. They are expected to increase by a larger \$73.5 billion, or 11.2% during the 12 months ending September 30, 1981, because of increased savings growth, and to reach \$809.6 billion by September 30, 1982, a rise of 10.9% in fiscal year 1982.

Federal Home Loan Bank Board

The following table shows composition of the total membership at September 30, 1979 and 1980, together with the estimated total assets:

<u>Members</u>	<u>September 30, 1979</u>		<u>September 30, 1980</u>	
	<u>Number</u>	<u>Assets</u>	<u>Number</u>	<u>Assets</u>
	(Dollars in Millions)			
Savings and Loan Associations:				
Federally-Chartered.....	1,996	\$319,772	1,983	\$339,024
State-Chartered-Insured.....	2,047	239,660	2,036	259,077
State-Chartered-Uninsured.....	100	3,046	94	3,074
Mutual Savings Banks.....	100	43,615	135	55,250
Insurance Companies.....	2	150	2	175
Total All Members.....	4,245	606,243	4,250	656,599

Included in the 94 State-chartered uninsured institutions at Sept. 30, 1980, are 38 co-operative banks in the State of Massachusetts. These institutions are members of the Massachusetts Share Insurance Fund of the Co-operative Central Bank.

Mortgage loans made by member savings and loan associations

Loans made by member savings and loan associations for the years indicated are shown in the following table:

<u>Loans Made by Member Savings and Loan Associations</u>		
(In Millions)		
<u>Fiscal Year</u>	<u>S&L Members of FHLB System</u>	<u>All Insured Associations</u>
1950	\$ 4,202	\$ 3,709
1955	10,298	9,820
1960	14,193	13,916
1965	23,789	23,473
1970	18,459	18,042
1975	38,862	38,642
1976	66,461	66,045
1977	98,900	98,343
1978	109,206	108,636
1979	103,826	103,288
1980	71,371	71,021
1981*	95,500	95,000
1982*	100,500	100,000

*Estimate

As indicated, the total dollar volume of mortgage loans made by member savings and loan associations in fiscal year 1980 aggregated \$71.4 billion. This was 31.3% less than a year earlier, primarily because of a sharp reduction in the flow of funds from savers but also because of a drop-off in loan repayments. Lending by member associations is expected to increase in both the current and following fiscal year because of larger saving inflows. Volume is projected to rise 33.8% to \$95.5 billion in fiscal 1981 and an additional 5.2% to \$100.5 billion in fiscal 1982. The total dollar volume of mortgage loans made by insured associations is also shown in the table, and follows a similar pattern.

Federal Home Loan Bank Board

The principal purposes for which loans were made by insured savings and loan members over the last three fiscal years are indicated in the following table:

Loans Made by Insured Savings and
Loan Associations, by Purpose of Loan
(Dollar Amounts in Millions)

Purpose	Fiscal 1978	%	Fiscal 1979	%	Fiscal 1980	%
Home Construction..	\$ 19,555	18.0	\$ 19,062	18.5	\$13,080	18.4
Home Purchase.....	63,508	58.5	62,198	60.2	42,092	59.3
Other Purposes*....	25,573	23.5	22,028	21.3	15,849	22.3
Total.....	108,636	100.0	103,288	100.0	71,021	100.0

*Includes loans for construction and purchase of apartments and non-residential property, refinancing, and miscellaneous purposes.

The volume of home construction loans made in fiscal 1980 showed a decrease of 31.4% when compared with 1979. Home purchase loans declined by 32.3% and loans for other purposes by 28.1%. The overall decrease was 31.2%.

Savings in member savings and loan associations

Trends in savings flow of member savings and loan associations are shown in the following table:

Trend in Savings in
Member Savings and Loan Associations
(In Billions)

Fiscal Year	Gross Savings Received**	Withdrawals	Net Inflows**
1950	\$ 4.5	\$ 3.0	\$ 1.5
1955	11.9	7.3	4.6
1960	23.0	16.3	6.7
1965	38.3	29.0	9.3
1970	59.0	55.1	3.9
1975	139.1	108.8	30.3
1976	163.1	119.7	43.4
1977	207.7	154.8	52.9
1978	249.2	205.9	43.3
1979	330.8	288.7	42.1
1980	431.2	396.4	34.8
1981*	465.0	410.6	54.4
1982*	576.0	520.8	55.2

*Estimate

**Includes interest credited

As indicated, gross savings received by member savings and loan associations during fiscal 1980 aggregated \$431.2 billion. This was 30.4% more than a year earlier partly because of further growth in 6-month money market certificates, which turnover every six months. Withdrawals of savings rose even more as a result of the rise in market interest rates, however, leaving a net inflow of only \$34.8 billion, 17.3% less than in the preceding year and the smallest since fiscal 1975. The net inflow of savings to associations is expected to rise 56.3% to \$54.4 billion in the current fiscal year as a result of lower market interest rates and a reduction in inflationary expectations, and to edge up slightly further to \$55.2 billion in fiscal 1982.

Federal Home Loan Bank Board

Summary of activities

The following table summarizes the condition of the members of the Federal Home Loan Bank System at September 30, 1980, and also provides our estimates for the fiscal years ending September 30, 1981 and 1982:

Federal Home Loan Bank System	Sept. 30, 1980	Sept. 30, 1981	Sept. 30, 1982
	Actual	Estimate	Estimate
(Dollars in Millions)			
Member institutions:			
Number.....	4,250	4,120	3,990
Assets.....	\$656,599	\$730,100	\$809,600
Savings.....	\$538,700	\$603,400	\$669,800
Mortgage Loans.....	\$518,800	\$575,800	\$633,400
Number of Insured Associations..	4,019	3,869	3,719
Regional Banks:			
Advances Outstanding.....	\$ 44,161	\$ 42,700	\$ 44,700

FEDERAL SAVINGS AND LOAN ASSOCIATIONS

The creation of Federal associations was authorized by Congress in 1933 to provide additional local thrift institutions for people to place their savings and/or obtain loans to finance their homes. Savings and loan associations have been making loans to help finance home purchases in the United States for the past 149 years.

All Federal savings and loan associations are required to be members of the Federal Home Loan Bank System and to carry insurance of their savings accounts with the Federal Savings and Loan Insurance Corporation.

At September 30, 1980, there were 1,983 Federal savings and loan associations operating under charter, examination, and supervision by the Federal Home Loan Bank Board. Their combined resources were \$339.0 billion. Federal savings and loan associations are in operation in every State, in the District of Columbia, and in Puerto Rico.

FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created in 1934, the Federal Savings and Loan Insurance Corporation insures, up to \$100,000 each, withdrawable savings, deposits and investment certificates in approved savings and loan associations and similar institutions. Insurance of savings has been an important factor in stimulating the flow of savings into thrift and home-financing institutions. These savings are used largely for the financing of homes. The number of insured institutions at September 30, 1980 was 4,019; their combined assets were \$598.1 billion. Reserves for insurance losses held by the Corporation were \$6.1 billion at September 30, 1980, and are estimated at \$6.7 and \$7.4 billion, respectively, at September 30, 1981 and 1982. All FSLIC insured institutions are members of the Federal Home Loan Bank System. (See more extensive activity description beginning on page F-5.)

Federal Home Loan Bank Board

SUMMARY OF AGENCY EXPENSES

The budget programs of the Federal Home Loan Bank Board including the Federal Savings and Loan Insurance Corporation are presented as business-type budgets.

The budget estimates for 1982, the revised estimates for the current fiscal year, and actual expenses for fiscal 1980 are summarized in the following two tables:

Comparative Summary of Positions and Work-Years

Unit	1980 Actual		1981 Estimate		1982 Estimate	
	Posi- tions	Work- Years	Posi- tions	Work- Years	Posi- tions	Work- Years
Board and Staff Offices.....	481	440	515	489	515	494
Federal Savings and Loan Insurance Corporation.....	973	929	20	20	20	20
Office of Examinations and Supervision.....	-0-	-0-	919	891	934	915
Total.....	<u>1,454</u>	<u>1,369</u>	<u>1,454</u>	<u>1,400</u>	<u>1,469</u>	<u>1,429</u>

Comparative Summary of Expenses

ADMINISTRATIVE EXPENSES:

Unit	1980 Actual	1981		1982 Estimate	Increase or Decrease(-)
		Budget Estimate	Current Estimate		
Board and Staff Offices.....	\$17,904,136	\$21,030,000	\$21,280,000	\$22,320,000	\$1,040,000
Federal Savings & Loan Insurance Corporation.....	<u>33,288,226</u>	<u>1,115,000</u>	<u>1,050,000</u>	<u>1,030,000</u>	<u>-20,000</u>
Sub-Total.....	51,192,362	22,145,000	22,330,000	23,350,000	1,020,000

NONADMINISTRATIVE EXPENSES:

Office of Exami- nations and Supervision.....	.....	<u>34,105,000</u>	<u>36,265,000</u>	<u>37,540,000</u>	<u>1,275,000</u>
Total.....	51,192,362	56,250,000	58,595,000	60,890,000	2,295,000
Estimated Savings.	632,638	.....	.....	.....	.....
Proposed Supplemental due to:					
Increased Pay Costs.....	.....	.....	-3,530,000	.....	3,530,000
Increased Travel Costs.....	.....	.....	- 930,000	.....	930,000
Actual, Authorization and Estimate....	<u>51,825,000</u>	<u>56,250,000</u>	<u>54,135,000</u>	<u>60,890,000</u>	<u>6,755,000</u>

Federal Home Loan Bank Board

Fiscal Year 1981

The following table summarizes the computation of the current fiscal year 1981 estimate by limitation account.

	Fiscal Year 1981			
	Original Estimate	Congressional Authorization	Requested Supplementals	Current Estimate
Board and Staff Offices..	\$21,030,000	\$20,030,000	\$1,250,000 1/	\$21,280,000
FSLIC.....	1,115,000	1,000,000	50,000 1/	1,050,000
Office of Examinations and Supervision.....	34,105,000	33,105,000	(930,000 2/ (2,230,000 1/)	36,265,000
	56,250,000	54,135,000	930,000 3,530,000	58,595,000

1/ October 1980 pay increase

2/ Public Law 96-346

As shown above, the current 1981 estimate of \$58,595,000 includes supplementals totaling \$3,530,000 attributable to the October 1980 general pay increase of 9.1%. The partial employment freeze has been taken into consideration in the preparation of the current 1981 dollar estimate and the 1981 work-years of 1,400. We are also requesting a 1981 supplemental of \$930,000 to cover increased travel costs associated with the increases in the per diem and mileage allowances provided by Public Law 96-346, approved September 10, 1980.

We should point out that the Washington Office of OES with 73 positions and the OES District Offices with 919 positions were fully exempted from the partial hiring freeze in November 1980. We, therefore, anticipate a high level of examiner employment throughout 1981 and 1982 unless the freeze is reimposed at a later date.

Fiscal Year 1982

The 1982 estimate of \$60,890,000 represents an overall net increase of only \$2,295,000 or 3.9% over the current 1981 estimate of \$58,595,000. This net increase is primarily the result of anticipated higher employment levels and general price increases in areas over which we have little control such as pay and benefit adjustments occasioned by the October 1980 pay raise, and increases in the cost of supplies, materials, and services required to carry on our operations at about the same level as that planned for 1981. We are also requesting funding for 15 additional examiner positions for 1982.

Federal Home Loan Bank Board

The total net increase of \$2,295,000, by category of expense, is shown below.

<u>Item</u>	Increase or Decrease (-)
Personnel Compensation.....	\$1,300,000
Personnel Benefits.....	169,500
Travel and Transportation of Persons.....	147,000
Transportation of Things.....	1,000
Rent, Communications, and Utilities.....	292,000
Printing and Reproduction.....	-16,000
Other Services.....	249,500
Supplies and Materials.....	51,000
Acquisition of Capital Assets.....	61,000
Reimbursable Expenses (decrease).....	<u>40,000</u>
Total.....	<u>\$2,295,000</u>

Distribution of these increases between the Bank Board and FSLIC Administrative accounts and the Office of Examinations and Supervision Nonadministrative account is shown on pages C-4, E-5, and F-15.

Federal Home Loan Bank Board Revolving Fund
 A. Statement of Sources and Applications of Funds

<u>FUNDS APPLIED</u>	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
<u>To operations</u>			
Acquisition of assets:			
Furniture, fixtures and equipment.....	\$ 75,149	\$ 687,000	\$ 678,000
Land and building.....	769,975	1,156,000	895,000
Expense:			
Administrative expense.....	17,548,016	20,852,000	21,794,000
Nonadministrative expense:			
Cost of examining and supervising savings and loan associations.....	-0-	36,237,000	37,511,000
Building operating expense.....	2,177,592	2,651,000	2,920,000
Increase in selected working capital..	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total applied to operations.....	<u>20,570,732</u>	<u>61,583,000</u>	<u>63,798,000</u>
<u>To financing</u>			
Increase in Treasury cash.....	<u>1,063,180</u>	<u>1,568</u>	<u>-0-</u>
Total funds applied.....	<u>21,633,912</u>	<u>61,584,568</u>	<u>63,798,000</u>
 <u>FUNDS PROVIDED</u>			
<u>By operations</u>			
Income	20,488,215	60,612,000	63,505,000
Decrease in selected working capital....	<u>1,145,697</u>	<u>972,568</u>	<u>293,000</u>
Total funds applied by operations.....	<u>21,633,912</u>	<u>61,584,568</u>	<u>63,798,000</u>
<u>By Financing</u>			
Decrease in Treasury cash.....	-0-	-0-	-0-
Total funds provided	<u>21,633,912</u>	<u>61,584,568</u>	<u>63,798,000</u>
 <u>BUDGET EXPENDITURES</u>			
Funds applied to operations.....	20,570,732	61,583,000	63,798,000
Funds provided by operations.....	<u>21,633,912</u>	<u>61,584,568</u>	<u>63,798,000</u>
Net budget expenditures.....	<u>-1,063,180</u>	<u>-1,568</u>	<u>-0-</u>

Federal Home Loan Bank Board Revolving Fund
B. Statement of Income and Expense

<u>Income</u>	<u>1980 Actual</u>	<u>1981 Estimate</u>	<u>1982 Estimate</u>
Examining fees and charges.....	\$ -0-	\$18,562,000	\$19,609,000
Assessment for services and facilities: Federal Savings and Loan Insurance Corporation.....	11,820,566	32,002,000	33,564,000
Federal Home Loan Banks.....	6,985,804	8,706,000	8,970,000
Rental income from building.....	1,416,457	1,157,000	1,217,000
Reimbursements from other accounts.....	167,349	110,000	70,000
Miscellaneous.....	98,039	75,000	75,000
<u>Total income.....</u>	<u>20,488,215</u>	<u>60,612,000</u>	<u>63,505,000</u>
 <u>Expense</u>			
Administrative expense:			
Reimbursable expense.....	167,349	110,000	70,000
Nonreimbursable expense.....	17,380,667	20,742,000	21,724,000
Subtotal.....	17,548,016	20,852,000	21,794,000
Depreciation on furniture, fixtures and equipment.....	520,487	538,000	596,000
Total administrative expense.....	18,068,503	21,390,000	22,390,000
Cost of examining and supervising savings and loan associations:			
Reimbursable expense.....	-0-	-0-	-0-
Nonreimbursable expense.....	-0-	36,237,000	37,511,000
Subtotal.....	-0-	36,237,000	37,511,000
Depreciation on furniture, fixtures and equipment.....	-0-	28,000	29,000
Total cost of examining and supervising savings and loan associations.....	-0-	36,265,000	37,540,000
Building operating expense.....	2,177,592	2,651,000	2,920,000
Depreciation on building and equipment and amortization of tenant improvements.....	931,813	929,000	935,000
Total building expense.....	3,109,405	3,580,000	3,855,000
<u>Total expense.....</u>	<u>21,177,908</u>	<u>61,235,000</u>	<u>63,785,000</u>
Assessments and fees in excess of expense.....	-689,693	-623,000	-280,000

ANALYSIS OF DEFERRED AND UNDISTRIBUTED CREDITS

Deferred and undistributed credits, beginning of year.....	56,875,703	56,186,010	55,563,010
Deferred and undistributed credits, end of year.....	56,186,010	55,563,010	55,283,010

Federal Home Loan Bank Board Revolving Fund
C. Statement of Financial Condition

<u>ASSETS</u>	1979 Actual	1980 Actual	1981 Estimate	1982 Estimate
Cash with U.S. Treasury.....	\$ -234,748	\$ 828,432	\$ 830,000	\$ 830,000
Accounts receivable.....	11,706,976	8,821,941	8,800,000	8,000,000
Fixed assets:				
Land, building and tenant improvements, net.....	47,057,385	46,943,361	47,220,361	47,230,361
Furniture, fixtures and equipment, net.....	<u>4,138,830</u>	<u>3,645,679</u>	<u>3,716,679</u>	<u>3,719,679</u>
<u>Total assets.....</u>	<u>62,668,443</u>	<u>60,239,413</u>	<u>60,567,040</u>	<u>59,780,040</u>
<u>LIABILITIES</u>				
Current liabilities.....	5,792,740	4,053,402	5,004,030	4,497,030
Deferred and undistributed credits.....	11,875,703	11,186,011	10,563,010	10,283,010
Paid in capital FHLBB bldg...	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>	<u>45,000,000</u>
<u>Total liabilities.....</u>	<u>62,668,443</u>	<u>60,239,413</u>	<u>60,567,040</u>	<u>59,780,040</u>

Federal Home Loan Bank Board

BOARD AND STAFF OFFICESSUMMARY

The 1982 estimates of administrative expenses of the Board and Staff Offices, the revised estimates for the current fiscal year, and actual expenses for 1980 are summarized in the following table:

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease(-)
		Budget Estimate	Current Estimate		
Positions.....	515	495	515	515	-0-
Work-Years	471	489	489	494	5
Personnel Com- pensation.....	\$13,104,117	\$14,003,000	\$14,968,000	\$15,400,000	\$ 432,000
Personnel Benefits...	1,215,533	1,415,000	1,403,500	1,476,000	72,500
Sub-Total.....	14,319,650	15,418,000	16,371,500	16,876,000	504,500
Contractual Services and Supplies.....	4,367,966	5,063,000	4,445,500	4,878,000	432,500
Acquisition of Capital Assets.....	548,477	619,000	573,000	636,000	63,000
Total Gross Expenses.....	19,236,093	21,100,000	21,390,000	22,390,000	1,000,000
Reimbursements.....	-164,367	-70,000	-110,000	-70,000	40,000
Total Net Expenses.....	19,071,726	21,030,000	21,280,000	22,320,000	1,040,000
Estimated Savings....	514,274	.....	.....	.....	.....
Proposed Supplemental Due to Increased Pay Costs.....	.....	.....	-1,250,000	.....	1,250,000
Actual, Authoriza- tion, & Estimate...	19,586,000	21,030,000	20,030,000	22,320,000	2,290,000

Fiscal Year 1981

Our 1981 budget estimate of \$21,030,000 was reduced \$1,000,000 to \$20,030,000 by the Congress. Our current 1981 estimate of \$21,280,000 includes a proposed 1981 supplemental to cover increased pay costs resulting from the October 1980 general pay increase. Individual line-item differences between the budget and current estimates for 1981 are discussed in subsequent sections of this part dealing with the Board and Staff Offices.

Fiscal Year 1982

Our 1982 budget estimate of \$22,320,000 represents an increase of \$1,040,000 or 4.9% over the current 1981 estimate. This is mostly an inflationary adjustment covering annualized increases in pay and benefits and anticipated price increases for other goods and services required to maintain our operations at about the 1981 level.

Federal Home Loan Bank Board

BOARD AND STAFF OFFICES

The total net increase of \$1,040,000 by category of expense, is shown below.

<u>Item</u>	<u>Increased Amount</u>
Personnel Compensation.....	\$ 432,000
Personnel Benefits.....	72,500
Travel and Transportation of Persons.....	50,000
Transportation of Things.....	1,000
Rent, Communications, and Utilities.....	103,000
Printing and Reproduction.....	-16,000
Other Services.....	256,500
Supplies and Materials.....	38,000
Acquisition of Capital Assets.....	63,000
Reimbursable Expenses (decrease).....	40,000
Total.....	<u>\$1,040,000</u>

Reimbursements - A table showing reimbursements to the Board for services rendered will be found on page C-21.

ANALYSIS OF EXPENSES - DETAIL

A comparative summary of administrative expenses for the Bank Board and Staff Offices for fiscal year 1980, 1981, and 1982, followed by an outline of personal services, other object classifications by type of expense, and including analyses and justification of the need for all such expenses, begins on the following page.

Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1980 Actual			1981 Estimate			1982 Estimate		
	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount	Gross Positions	Net Work-Years	Amount
Personnel Compensation and Benefits:									
Personnel Compensation:									
Office of the Chairman.....	6	6.2	\$ 299,882	6	5.5	\$ 272,000	6	5.8	\$ 268,000
Office of Board Member (Vacant).....	4	3.2	116,010	4	3.8	136,000	4	3.8	143,000
Office of Board Member (Prete).....	4	4.0	129,588	4	3.9	136,000	4	3.9	144,000
Administrative Office.....	5	4.5	177,031	5	5.0	176,000	5	4.8	182,000
Administrative Services Division.....	49	45.8	1,096,740	49	46.5	1,239,000	49	47.1	1,263,000
Budget Division.....	8	7.4	199,610	8	7.4	224,000	8	7.7	226,000
Controller's Division.....	40	38.7	651,646	40	38.0	704,000	40	38.4	728,000
Information Systems Division.....	56	49.4	1,244,790	56	53.3	1,456,000	56	53.8	1,501,000
Communications Office.....	16	14.5	408,069	16	15.2	442,000	16	15.3	458,000
Congressional Relations Office.....	3	2.4	81,909	3	2.9	100,000	3	2.9	105,000
Minority Affairs Office.....	4	4.0	192,403	4	3.8	176,000	4	3.8	187,000
Personnel Management Office.....	23	21.6	536,917	23	22.0	678,000	23	22.2	703,000
Planning and Management Coordination Office.....	3	0.9	49,973	3	2.9	126,000	3	2.9	125,000
Secretariat.....	22	20.7	415,266	22	20.9	470,000	22	21.1	481,000
Office of Community Investment.....	20	18.7	532,741	20	18.8	621,000	20	19.0	645,000
Office of District Banks.....	12	11.3	295,743	12	11.4	324,000	12	11.5	338,000
Office of Examinations and Supervision.....(1)	39	35.2	1,097,679	39	69.4	2,325,000	39	70.1	2,385,000
Office of General Counsel.....	82	72.5	2,300,728	82	77.9	2,753,000	82	78.7	2,831,000
Office of Industry Development.....	40	37.7	984,579	40	38.0	1,111,000	40	38.4	1,142,000
Office of Internal Evaluation and Compliance.....	14	11.4	271,035	14	13.3	387,000	14	13.4	403,000
Office of Policy and Economic Research.....	31	30.0	1,051,471	31	29.4	1,112,000	31	29.8	1,142,000
TOTAL PERSONNEL COMPENSATION.....	481	440.1	12,135,810	515	489.3	14,968,000	515	494.4	15,400,000
Personnel Benefits:									
Federal Employees Compensation Benefits.....			75,625			90,000			100,000
Health Benefits.....			211,078			256,000			280,000
Life Insurance.....			26,128			37,000			40,000
Moving and Related Expenses.....			1,012			5,000			5,000
Retirement.....			774,580			971,000			1,004,000
Social Security Tax (FICA).....			36,829			38,500			41,000
Sovereign Pay.....			-0-			5,000			5,000
Uniform Allowances.....			635			1,000			1,000
TOTAL PERSONNEL BENEFITS.....			1,125,887			1,403,500			1,476,000
TOTAL PERSONAL SERVICES AND BENEFITS.....			13,261,697			16,371,500			16,876,000

Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES
(Continued)

	1980 Actual		1981 Estimate		1982 Estimate	
	Gross Positions	Net Work-Years Amount	Gross Positions	Net Work-Years Amount	Gross Positions	Net Work-Years Amount
Contractual Services and Supplies:						
Travel and Transportation of Persons.....		\$ 619,536		\$ 450,000		\$ 500,000
Transportation of Things.....		38,617		24,000		23,000
Rent, Communications and Utilities.....		1,276,360		1,337,000		1,460,000
Printing and Reproduction.....		275,713		440,000		424,000
Other Services.....		1,916,605		1,626,300		1,883,000
Supplies and Materials.....		480,964		588,000		586,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES		4,259,795		4,445,500		4,878,000
Acquisition of Capital Assets:						
Equipment.....		547,011		573,000		636,000
TOTAL GROSS EXPENSES.....		18,068,503		21,390,000		22,390,000
Reimbursements from Other Accounts.....		-164,367		-110,000		-70,000
TOTAL NET EXPENSES.....		17,904,136		21,280,000		22,320,000
Estimated Savings.....		454,864		-0-		-0-
Proposed Supplemental due to Increased Pay Costs.....		-0-		-1,250,000		-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE.....		18,359,000		20,030,000		22,320,000

(1) The 33 positions and related expenses for the examination function of the Office of Examinations and Supervision - Washington were included under the FSIC Administrative Expense Limitation in FY 1980. (See comparative expense summary on page F-16. In FY 1981 the functions were reconstituted as a part of the Office of Examinations & Supervision under the Bank Board Administrative Expense Limitation.

Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1980 Actual		1981 Estimate	1982 Estimate
	OES-Manh 1/	FDICB			Total
Personal Services and Benefits:				
Gross Positions.....	34	481	515	515
Net Work-Years.....	31.4	440.1	471.5	494.4
TOTAL PERSONNEL COMPENSATION.....	\$ 948,307	\$12,135,810	\$13,104,117	\$15,400,000
Personal Benefits:				
Federal Employees Compensation	-0-	75,625	80,000	100,000
Health Benefits.....	1,685	27,778	29,000	35,000
Life Insurance.....	2,447	26,128	27,000	40,000
Medical Insurance.....	4,037	1,012	5,000	5,000
Novation and Related Expenses.....	63,084	774,580	971,000	1,004,000
Retirement.....	-0-	-0-	5,000	5,000
Severance Pay.....	1,393	36,829	38,500	41,000
Social Security Tax (FICA).....	-0-	832	1,000	1,000
Uniform Allowances.....	89,446	1,125,887	1,403,500	1,476,000
TOTAL PERSONNEL BENEFITS.....	1,027,853	13,261,697	15,371,500	16,876,000
TOTAL PERSONAL SERVICES AND BENEFITS.....	1,976,160	25,401,507	28,475,617	32,276,000
Contractual Services and Supplies:				
Travel and Transportation of Persons.....	42,965	419,536	450,000	500,000
Telephone.....	13,487	38,617	24,000	25,000
Postage.....	29,269	1,126,260	1,135,929	1,460,000
Rent, Communications and Utilities.....	400	275,713	440,000	424,000
Printing and Reproduction.....	12,893	1,918,605	1,826,500	1,883,000
Other Services.....	9,057	480,984	548,000	586,000
Supplies and Materials.....	108,171	4,239,795	4,445,500	4,878,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.....	1,957,307	12,989,050	13,872,929	15,236,000
Acquisition of Capital Assets:				
Equipment.....	1,466	567,011	573,000	635,000
TOTAL GROSS EXPENSE.....	1,167,590	18,068,503	21,390,000	22,390,000
Reimbursements From Other Accounts.....	-0-	-164,367	-110,000	-70,000
TOTAL NET EXPENSES.....	1,167,590	17,904,136	21,280,000	22,320,000
Estimated Savings.....	59,410	454,864	-0-	-0-
Proposed Supplemental Due to Increased Pay Costs.....	-0-	-0-	-1,250,000	-0-
ACTUAL, AUTHORIZATION, AND ESTIMATE.....	1,227,000	18,359,000	20,030,000	22,320,000

1/ Shown for comparative purposes only. The positions and related funds for the Washington Office of the Office of Examinations and Supervision are included under the FSLIC administrative expense limitation for 1980. (See page F-16.)

Federal Home Loan Bank

PERSONNEL COMPENSATION

	1980 Actual	1981		1982 Estimate	Increase or Decrease(-)
		Budget Estimate	Current Estimate		
<u>POSITIONS:</u>					
Office of the Chairman	6	7	6	6	-0-
Office of Board Member (Vacant)	4	4	4	4	-0-
Office of Board Member DiPrete	4	4	4	4	-0-
Administration Office	5	5	5	5	-0-
Administrative Services Division	49	41	49	49	-0-
Budget Division	8	8	8	8	-0-
Controller's Division	40	41	40	40	-0-
Information Systems Division	56	47	56	56	-0-
Communications Office	16	16	16	16	-0-
Congressional Relations Office	3	3	3	3	-0-
Minority Affairs Office	4	4	4	4	-0-
Personnel Management Office	23	21	23	23	-0-
Planning and Management Coordination Office	3	-0-	3	3	-0-
Secretariat	22	22	22	22	-0-
Office of Community Investment	20	26	20	20	-0-
Office of District Banks	12	12	12	12	-0-
Office of Examinations and Supervision	73	69	73	73	-0-
Office of General Counsel	82	79	82	82	-0-
Office of Industry Development	40	43	40	40	-0-
Office of Internal Evaluation and Compliance	14	14	14	14	-0-
Office of Policy and Economic Research	<u>31</u>	<u>29</u>	<u>31</u>	<u>31</u>	<u>-0-</u>
Total Positions	515	495	515	515	-0-
Work-years	471	489	489	494	5
Gross Salary (\$000)	\$13,104	\$14,003	\$14,968	\$15,400	\$432

The functions, responsibilities, and justifications of the staffing level for each of the above units are presented under the activities section of this document beginning on page C-22.

During 1980, in conjunction with the closing of the FSLIC office in Chicago, Illinois, 20 positions formerly classified as nonadministrative were reclassified as administrative and transferred to the administrative expense limitation for funding purposes. The Board's overall employment ceiling for 1980 and 1981 was not increased, and this action was merely a reclassification of positions, approved by the Office of Management and Budget, to cover substantial workload increases in certain offices and divisions.

Federal Home Loan Bank Board

PERSONNEL BENEFITS

	1980 Actual	1981		1982 Estimate	Increase or Decrease(-)
		Budget Estimate	Current Estimate		
Federal Employees'					
Compensation Act..	\$ 75,625	\$ 110,000	\$ 90,000	\$ 100,000	\$ 10,000
Health Benefits.....	229,763	264,000	256,000	280,000	24,000
Life Insurance.....	28,575	44,500	37,000	40,000	3,000
Retirement.....	837,664	933,500	971,000	1,004,000	33,000
Social Security					
Taxes (FICA).....	38,222	33,000	38,500	41,000	2,500
Severance Pay.....	-0-	16,000	5,000	5,000	-0-
Uniform Allowances..	635	1,000	1,000	1,000	-0-
Moving and Related Expenses.....	5,049	13,000	5,000	5,000	-0-
Total.....	<u>1,215,533</u>	<u>1,415,000</u>	<u>1,403,500</u>	<u>1,476,000</u>	<u>72,500</u>

FEDERAL EMPLOYEES' COMPENSATION ACT

The 1982 estimate of \$100,000 provides for reimbursement to the Department of Labor, Office of Workers' Compensation Programs, for benefits and other payments made to Bank Board employees in fiscal 1982 under Section 209 of Public Law 86-767, approved September 13, 1960.

HEALTH BENEFITS

The 1982 estimate of \$280,000 provides for the Bank Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382); it is based upon actual cost in the current year.

LIFE INSURANCE

The 1982 estimate of \$40,000 represents the Bank Board's (Employer) portion of the premiums payable under the Federal Employees' Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal year 1982.

RETIREMENT

The 1982 estimate of \$1,004,000 provides for the Bank Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1982.

SOCIAL SECURITY TAXES

The 1982 estimate of \$41,000 provides for the Bank Board's (Employer) share of contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

SEVERANCE PAY

The 1982 estimate of \$5,000 provides pay for employees whose services are involuntarily terminated and who are eligible for such payments.

Federal Home Loan Bank Board

PERSONNEL BENEFITS (cont'd)

UNIFORM ALLOWANCES

The 1982 estimate of \$1,000 provides for uniform allowances for Bank Board employees in accordance with Law (5 U.S.C. 5901-5902).

MOVING AND RELATED EXPENSES

The 1982 estimate of \$5,000 provides for the payment of certain moving and related expenses as provided for in Public Law 89-516. Included in this category are reimbursements to employees for subsistence and temporary expenses incurred in moving from one location to another, real estate costs in connection with selling the residence at the old official station and purchasing a new home at the new official station, and certain miscellaneous moving expenses.

TRAVEL AND TRANSPORTATION OF PERSONS

	1980 Actual	1981		1982 Estimate	Increase or Decrease(-)
		Budget Estimate	Current Estimate		
Office of the Chairman.....	\$35,146	\$ 16,000	\$ 16,000	\$ 16,000	\$ -0-
Office of Board Member(Vacant).	15,064	10,000	10,000	11,000	1,000
Office of Board Member DiPrete.	12,138	10,000	10,000	11,000	1,000
Administration Office.....	2,514	2,000	2,000	2,000	-0-
Administrative Services					
Division.....	14,829	24,000	19,000	22,000	3,000
Budget Division.....	20	1,000	1,000	1,000	-0-
Controller's Division.....	5,521	5,000	4,000	5,000	1,000
Information Systems Division.	14,683	21,000	20,000	22,000	2,000
Communications Office.....	22,048	14,000	14,000	15,000	1,000
Congressional Relations Office.	1,214	2,000	2,000	3,000	1,000
Minority Affairs Office.....	11,825	22,000	13,000	14,000	1,000
Personnel Management Office....	13,354	12,000	14,000	16,000	2,000
Planning and Management					
Coordination Office.....	-0-	-0-	7,000	1,000	-6,000
Secretariat.....	349	2,000	1,000	2,000	1,000
Office of Community Investment.	43,197	90,000	40,000	44,000	4,000
Office of District Banks.....	17,827	35,000	14,000	16,000	2,000
Office of Internal Evaluation and Compliance.....	9,478	23,000	15,000	15,000	-0-
Office of Examinations and Supervision.....	43,575	80,000	59,000	74,000	15,000
Office of General Counsel.....	103,928	104,000	100,000	112,000	12,000
Office of Industry Development.	32,182	45,000	32,000	35,000	3,000
Office of Policy and Economic Research.....	34,199	35,000	35,000	40,000	5,000
Advisory Council.....	29,410	22,000	22,000	23,000	1,000
Total.....	462,501	575,000	450,000	500,000	50,000

Federal Home Loan Bank Board

TRANSPORTATION OF THINGS

1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
	<u>Budget Estimate</u>	<u>Current Estimate</u>		
\$52,104	\$24,000	\$24,000	\$25,000	\$1,000

This item provides for the cost of shipment of supplies and equipment to and from the Bank Board, and the moving of furniture and personal effects of employees transferred to or from the Bank Board.

RENT, COMMUNICATIONS, AND UTILITIES

	1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease(-)
		<u>Budget Estimate</u>	<u>Current Estimate</u>		
<u>Rent and Utilities:</u>					
<u>Office and Storage</u>					
Space.....	\$ 2,951	\$ 5,000	\$ 3,000	\$ 3,000	\$ -0-
Equipment.....	422,104	447,500	487,000	487,000	-0-
Sub-total.....	<u>425,055</u>	<u>452,500</u>	<u>490,000</u>	<u>490,000</u>	<u>-0-</u>
<u>Communications:</u>					
<u>Switchboard and Other Fixed</u>					
Charges.....	208,841	202,500	220,000	220,000	-0-
<u>Long Distance</u>					
Calls.....	282,802	342,000	389,000	466,000	77,000
<u>Telegrams and</u>					
Teletype.....	7,207	21,000	8,000	9,000	1,000
Postage.....	232,024	300,000	250,000	275,000	25,000
Sub-total.....	<u>730,874</u>	<u>865,500</u>	<u>867,000</u>	<u>970,000</u>	<u>103,000</u>
Grand Total.....	<u>1,155,929</u>	<u>1,318,000</u>	<u>1,357,000</u>	<u>1,460,000</u>	<u>103,000</u>

Federal Home Loan Bank Board

RENT, COMMUNICATIONS, AND UTILITIES (cont'd)RENT AND UTILITIESEquipment

The estimate of \$487,000 provides for rental of the following equipment:

	<u>Description</u>	<u>Annual Rental</u>
70	Terminals and Accessory Equipment.....	\$ 110,000
20	Automatic Copying Machines and Accessory Equipment.....	175,000
45	Word Processing Machines and Accessory Equipment.....	186,000
	Miscellaneous.....	<u>16,000</u>
	Total.....	<u>487,000</u>

Following is an explanation of the use of each type of equipment shown above.

\$110,000 is needed for the rental of 70 computer terminals for multi-purpose use at the Bank Board. Much terminal support is needed to provide the staff with time-sharing and remote batch processing at our in-house and out-of-house computer sites.

\$175,000 is estimated to cover the expense associated with 20 automatic copying machines.

The rental of 45 word processing machines for \$186,000 is required for work in areas where many perfect-copy letters are needed, and they are used extensively in text editing.

Miscellaneous rentals are budgeted at \$16,000. This is for equipment to aid the data processing effort such as key punch and key verifying machines, and a sorter. The estimate also covers rental of a film processor, labeling machines, and special communications equipment associated with our in-house time-sharing computer.

COMMUNICATIONS

The estimate shows a total increase of \$103,000 over the current year, practically all of which are uncontrollable increases. The cost of operating the FTS network, allocated to the Bank Board by GSA, will increase by \$77,000, and due to anticipated increased postage rates we estimate an increase in penalty mail expenses of \$25,000.

Federal Home Loan Bank Board

PRINTING AND REPRODUCTION

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
FHLBB Journal and Annual Report.....	\$ 85,633	\$120,000	\$100,000	\$100,000	\$ -0-
Housing Finance Review....	1,640	45,000	45,000	50,000	5,000
FHLBB Annotated Manual....	76,865	125,000	140,000	100,000	-40,000
Federal Register and CFR...	62,467	100,000	70,000	75,000	5,000
Forms and Other.....	49,508	85,000	85,000	99,000	14,000
Total.....	<u>276,113</u>	<u>475,000</u>	<u>440,000</u>	<u>424,000</u>	<u>-16,000</u>

The item of \$100,000 provides for publishing the Federal Home Loan Bank Board Journal and Annual Report. Provision is made in the estimate for increased costs and expansion of Bank Board activities to be reported in the Journal and Report.

The item of \$50,000 covers the cost of publishing a proposed quarterly economic Journal. The first issue of the Housing Finance Review is scheduled to appear in January, 1981.

The item of \$100,000 for 1982 provides for updating the Federal Home Loan Bank Board Manual of statutes, regulations, policy statements, rulings and general counsel opinions relating to the Board's function. The 1981 revised estimate of \$140,000 includes funds for a complete reprinting of the Manual, required by GPO about every three years.

The item of \$75,000 provides for the cost of printing regulatory amendments, notices, etc., in the Federal Register and in the Code of Federal Regulations. We believe such costs will be substantially higher than 1980 Actual in 1981 and 1982 due to increased printing costs and activity.

The item of \$99,000, which represents an increase of \$14,000 over the current year provision, is for the printing of statistical data forms used in connection with data processing work carried on by the Information Systems Division. We believe increased activity and inflation in printing and paper costs will cause substantial increases in such expenses in 1981 and 1982.

Federal Home Loan Bank Board

OTHER SERVICES

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
ADP SERVICES:					
Telecommunications.....	\$124,214	\$ 90,000	\$125,000	\$135,000	\$ 10,000
Computer Time.....	103,072	108,000	100,000	115,000	15,000
Data Conversion.....	122,382	178,000	160,000	171,000	11,000
Programming.....	73,392	150,000	100,000	100,000	-0-
Maintenance.....	188,943	182,000	210,000	220,000	10,000
Software Lease.....	53,402	74,000	55,000	55,000	-0-
Sub-total.....	<u>665,405</u>	<u>782,000</u>	<u>750,000</u>	<u>796,000</u>	<u>46,000</u>
Federal Fin. Inst.					
Exam. Council.....	59,000	70,000	70,000	80,000	10,000
Special Studies.....	491,003	400,000	125,000	226,000	101,000
Training Program.....	160,669	233,000	229,000	256,000	27,000
Contract Audits.....	120,300	300,000	135,000	191,000	56,000
Reporting Services					
- Hearings.....	25,949	75,000	37,000	40,000	3,000
Employee Counseling					
Services.....	48,060	-0-	35,000	35,000	-0-
Health Service					
Program.....	70,140	60,000	60,000	67,000	7,000
Repairs to Furni- ture, Fixtures, and Equipment.....					
	50,160	51,000	55,000	60,000	5,000
News Gathering					
Service.....	45,093	25,000	32,000	34,000	2,000
Security Investi- gations.....					
	3,710	10,000	10,000	11,000	1,000
Labor - Intra- Agency Moving.....					
	1,630	4,000	3,000	3,000	-0-
Reception and Representation.....					
	447	2,000	1,500	1,500	-0-
Miscellaneous.....	189,732	92,000	84,000	82,500	-1,500
Total.....	<u>1,931,298</u>	<u>2,104,000</u>	<u>1,626,500</u>	<u>1,883,000</u>	<u>256,500</u>

Federal Home Loan Bank Board

OTHER SERVICES (cont'd)

The 1982 estimate of \$1,893,000 represents a net increase of \$256,000 over the 1981 revised estimate, but the amount is \$48,298 less than the 1980 actual. Following is a discussion of the major items included in this category.

ADP SERVICESTelecommunications

These funds will be used to provide the Bank Board access to commercial nationwide networks, for the processing of the recurring savings and loan surveys through our District Banks.

Computer Time

The estimate of \$115,000 for computer time is as follows:

General Research (\$65,000) - This research is of a general type to mainly support short-term projects that result from unplanned requests from the Office of Policy and Economic Research for various analyses.

Outside Contingency (\$50,000) - These funds will be used only if our in-house machine has extensive downtime during critical production or development periods.

Data Conversion

These funds will be used to convert data collected from saving and loan institutions to machine readable form. This input is used to drive the systems required to monitor the savings and loan industry.

Programming

An amount of \$100,000 is requested for programming services to cover the cost of programming and systems development which cannot be handled by our in-house staff.

Maintenance

The preventive maintenance costs for 1982 are estimated at \$220,000. Preventive maintenance is necessary to assure computer reliability so that it meets the data processing needs of the Bank Board.

Federal Home Loan Bank Board

OTHER SERVICES (cont'd)FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

The 1982 estimate of \$80,000 covers the Bank Board's 20% share of the 1982 operating expenses of the Federal Financial Institutions Examination Council pursuant to Public Law 95-630, approved November 10, 1978.

SPECIAL STUDIES

The 1982 budget includes \$226,000 to cover the estimated cost of special studies. Below is a summary of the major currently planned studies followed by a brief description of each.

<u>List of Studies</u>	<u>Approximate Budget</u>
1. Housing Finance Review.....	\$ 11,000 *
2. Research Seminars and Forecasting Conference.....	30,000
3. Advanced Study of Financial Intermediaries.....	60,000
4. Analysis of Tax Issues for S&Ls.....	20,000
5. Feasibility of a Functional Cost Analysis System for S&Ls...	70,000
6. Relationship of Concentration in Mortgage Markets to Mortgage Rates.....	25,000
7. Impact of Increased Service Corporation Authority.....	10,000
Total.....	<u>\$226,000</u>

* This figure represents only editorial services for the Review. Printing costs are shown on page C-14.

1. Housing Finance Review

In connection with the Housing Finance Review, the Office of Policy and Economic Research will contract with knowledgeable persons in the field of housing finance who will serve as editorial advisors to formulate editorial policies, establish publication standards and review material submitted for publication. The Housing Finance Review is unique among Federal Agencies.

2. Research Seminars and Forecasting Conference

The objective of this special research project category is to support conferences and fund meetings with researchers who are involved in projects of special interest to the Office of Policy and Economic Research, in particular, and the Federal Home Loan Bank System and the Bank Board in general. Included are annual housing forecast conferences and meetings on specialized topics in housing and residential finance. Benefits from these meetings stem from the expertise provided by outside researchers involved in projects of interest to the Bank Board which enhances the research efforts and productivity of Bank Board staff.

Federal Home Loan Bank Board

OTHER SERVICES (cont'd)3. Advanced Study of Financial Intermediaries

Howard University, with partial funding from the Bank Board, is establishing a program of advanced study in the theory and operations of financial intermediaries in general and non-bank financial intermediaries in particular. The economic environment in which financial intermediaries operate has become increasingly complex in recent years, and the economic importance of these intermediaries as links between the real and monetary markets has increased significantly. The advanced study program is intended to provide graduate level minority students with the knowledge and skills that will be increasingly necessary to this industry. The project consists of four parts: (1) the establishment of a graduate course in the economics and operations of financial intermediaries; (2) development of graduate research assistantships and work study programs designed to provide early exposure to issues and problems relating to financial institutions in practice as well as theory; (3) the awarding of dissertation fellowship in the area of financial intermediaries and/or monetary economics; and (4) a research effort directed specifically toward examining economic issues and operations of financial intermediaries. FY 1982 will be the third year of the project.

4. Analysis of Tax Issues for S&Ls

This project will continue work initiated in previous fiscal years and use the comprehensive model which has been developed for analysis of the implications of tax policy changes on the housing and mortgage finance markets and for S&Ls. Potential topics of study include tax exemptions for interest paid to depositors; investment tax credit treatment accorded S&Ls relative to other taxpayers; changes in capital gains tax provisions; and the implications of changes in the method for computing additions to bad debt reserves.

5. Feasibility of a Functional Cost Analysis System for S&Ls

The Federal Reserve has developed a system of functional cost analysis for commercial banks. This project would determine the feasibility of developing such a system for savings and loan associations. Involved in the study would be a comprehensive review of the Federal Reserve functional cost system, analysis of the reliability of the cost estimates it produces, a determination of its applicability to S&Ls, and recommendations as to the modifications and data collection that would be necessary to implement such a system for S&Ls, if it is determined feasible. Also, a review of previous efforts at functional cost analysis at the Bank Board is necessary.

6. Relationship of Concentration in Mortgage Markets to Mortgage Rates

The purpose of this study would be to determine the degree to which there is a relationship between the extent of concentration in mortgage lending and monopoly profits earned by mortgage lenders. The results of this study would assist the Board in evaluating the possible anti-competitive impact of S&L mergers in terms of mortgage lending, based on their impact on concentration ratios.

Federal Home Loan Bank Board

OTHER SERVICES (cont'd)7. Impact of Increased Service Corporation Authority

The 1980 Deregulation Act includes a provision which increases the portion of assets which an S&L may invest in a service corporation from one percent to three (provided that at least one third of the total investment is used primarily for community, inner-city and community development purposes). The project will document the additional types of activities that S&Ls may now engage in through their service corporations and analyze these activities from the standpoint of riskiness and earnings potential.

TRAINING

The 1982 budget estimate includes \$256,000 for training. The primary objectives of the training are:

- (1) to increase employee's technical competence in carrying out responsibilities set forth by Congress and to keep current with advances in the industry;
- (2) to further develop and refine supervisory and management skills needed to establish and maintain a high level of productivity and organizational effectiveness; and
- (3) to maintain a productive administrative and clerical support staff which is essential to the efficiency of the organization.

These objectives will be met through (1) outside seminars and courses conducted by private and public universities and other organizations; (2) in-house courses conducted by Bank Board staff and consultants; and (3) materials and information provided for independent study.

Supervisory and management training, which accounts for the increase in the training estimates, is required by the Civil Service Reform Act. All new supervisors must take 80 hours of supervisory training, and each agency must have an executive development program. FY '82 will represent the first full year of operation for our supervisory training program and executive development program.

CONTRACT AUDITS

For 1982, \$130,000 is provided for the annual financial audits of the twelve Federal Home Loan Banks, and the Office of Finance's Consolidated Securities Fund and Combined Cash and Securities Accounts. In addition, \$61,000 is estimated for audits by independent firms to examine the Banks for compliance with Board delegated authority and special studies and review of Bank operations, and to retain outside consultants and auditors to support the activities of the Office of Internal Evaluation and Compliance. Included in this amount are fees for audits of Bank Board lessees and technical assistance in the area of data processing. The Office also anticipates retaining experts in different fields to assist it in performing operational audits of program areas.

Federal Home Loan Bank Board

OTHER SERVICES (cont'd)REPORTING SERVICES - HEARINGS

The 1982 estimate of \$40,000 will provide funds for the cost of taking depositions and obtaining transcripts of hearings mostly in connection with investigations and other proceedings relating to problem institutions.

EMPLOYEE COUNSELING SERVICES

The item of \$35,000 will provide counseling services to employees pursuant to the requirements of Public Laws 91-616 and 92-255.

HEALTH SERVICE PROGRAM

The \$67,000 Health Service Program funds are needed to:

1. Comply with the Presidential directive to the Office of Personnel Management on improving employee health services and the Office of Management and Budget (OMB), Circular A-72. The funds allow a continuation of the programs set up with executive health examiners to provide employee health examinations.
2. Maintain a health unit in accordance with Public Law 658 and Circular A-72.
3. Fund the Health Maintenance Program (e.g., hearing tests, glaucoma tests, flu shots, etc.).

SUPPLIES AND MATERIALS

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
General Office					
Supplies.....	\$244,699	\$310,000	\$284,000	\$317,000	\$ 33,000
Print Shop and					
Copying Supplies.....	179,372	189,000	190,000	203,000	13,000
Law Library Books.....	32,915	38,000	37,000	39,000	2,000
Research Library					
Books.....	<u>33,035</u>	<u>30,000</u>	<u>37,000</u>	<u>27,000</u>	<u>-10,000</u>
Total.....	<u>490,021</u>	<u>567,000</u>	<u>548,000</u>	<u>586,000</u>	<u>38,000</u>

The 1982 estimate of \$586,000 represents an inflationary increase of \$38,000 over the 1981 current estimate. Following is a brief description of each of the items comprising supplies and materials.

1. The item of \$317,000 provides for keeping general supplies inventory at its normal level and for the purchase of supplies not kept in stock. The increase of \$33,000 allows for increased costs in fiscal year 1982.
2. The item of \$203,000 provides for the purchase of supplies and materials, including copying supplies, used by the Printing and Reproduction Section of the Administrative Services Division in rendering services to the Office of Federal Savings and Loan Insurance Corporation, and to the staff of the Bank Board.

Federal Home Loan Bank Board

SUPPLIES AND MATERIALS (cont'd)

3. The item of \$39,000 provides for the purchase of law books, recompiled volumes, new editions, pocket parts, and/or supplementals, necessary to keep the Law Library up-to-date. The cost of such items has increased sharply.
4. The item of \$27,000 provides for the purchase of books for the Research Library; it also provides for subscriptions to newspapers and periodicals, and for the binding of selected periodicals.

ACQUISITION OF CAPITAL ASSETS - EQUIPMENT

1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
	Budget Estimate	Current Estimate		
\$548,477	\$619,000	\$573,000	\$636,000	\$ 63,000

It is the policy of the Bank Board to amortize the cost of furniture, fixtures and equipment over an average life of ten years. Provision is therefore made in this category to cover the fixed depreciation expense on furniture, fixtures, and equipment currently owned, plus additional purchases anticipated during the current year and fiscal 1982.

Of the \$636,000 provided for fiscal 1982, \$596,000 represents depreciation expense; the remaining \$40,000 covers noncapitalized items included in this classification.

REIMBURSEMENTS FROM OTHER ACCOUNTS

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Agency for Inter- national Develop- ment.....	\$ 45,128	\$ 55,000	\$ 55,000	\$ 55,000	\$ -0-
Other Agencies.....	119,239	15,000	55,000	15,000	-40,000
Total.....	164,367	70,000	110,000	70,000	-40,000

The 1982 estimate provides for reimbursements to the Bank Board of \$55,000 from the Agency for International Development (AID) to cover the estimated annual costs to be incurred by the Bank Board for providing AID with technical support services, training and other functions performed by Bank Board personnel in connection with foreign assistance programs dealing with savings and home financing in foreign countries.

The estimate also provides for reimbursements of \$15,000 to the Bank Board from other agencies for the cost of printing, reproduction, and other services furnished by the Bank Board.

Federal Home Loan Bank Board

AUTHORIZATION LANGUAGE

Except for changes in limitation amounts there are no differences between the proposed language for fiscal year 1982 and the language for fiscal year 1981.

PROGRAMS AND ACTIVITIES

An analysis of administrative expenses by activities for the three years included in the Budget is shown in the table on the following page and is followed by an outline of each activity in the order shown.

Federal Home Loan Bank Board

ADMINISTRATIVE EXPENSES (GROSS) ACTIVITIES
(Dollars in thousands)

	Examination and Supervision of Federal Home Loan Banks	Chartering Federal and Insuring Savings and Loan Associations	Executive Direction and Staff Services	Analysis of Operations	Adminis- trative Services
<u>Fiscal Year 1982</u>					
Positions.....	12	40	276	85	102
Work-Years.....	11	38	265	82	98
Personnel Compensation...	\$338	\$1,142	\$ 8,921	\$2,600	\$2,399
Personnel Benefits.....	33	109	856	249	229
All Other Expenses.....	182	241	2,478	1,783	830
Total	\$553	\$1,492	\$12,255	\$4,632	\$3,458
<u>Fiscal Year 1981</u>					
Positions.....	12	40	276	85	102
Work-Years.....	11	38	262	81	97
Personnel Compensation...	\$324	\$1,111	\$ 8,665	\$2,525	\$2,343
Personnel Benefits.....	30	104	813	237	220
All Other Expenses.....	162	220	2,288	1,561	787
Total	\$516	\$1,435	\$11,766	\$4,323	\$3,350
<u>Fiscal Year 1980</u>					
Positions.....	12	40	242	85	102
Work-Years.....	11	38	215	80	96
Personnel Compensation...	\$296	\$ 985	\$ 6,434	\$2,296	\$2,125
Personnel Benefits.....	28	91	597	213	197
All Other Expenses.....	114	161	2,138	1,478	916
Total	\$438	\$1,237	\$ 9,169	\$3,987	\$3,238

Federal Home Loan Bank Board

EXAMINATION AND SUPERVISION OF
FEDERAL HOME LOAN BANKS

The function of supervising the 12 Federal Home Loan Banks is the responsibility of the Office of District Banks. The Office of Internal Evaluation and Compliance has responsibility for arranging financial audits of the District Banks utilizing the services of certified public accounting firms.

The twelve Federal Home Loan Banks constitute a national credit reservoir available to thrift and home-financing institutions. The Banks provide a source of funds available for housing credit demands and unusual savings withdrawals.

The Banks obtain their funds primarily from bonds and discount notes which are sold to the public. Other sources are member deposits and capital stock purchased by members, and to a lesser degree, earnings and inter-bank deposits.

OPERATING HIGHLIGHTS (Federal Home Loan Banks)

Description	Sept. 30, 1978	Sept. 30, 1979	Sept. 30, 1980
	(In Thousands)		
Assets.....	\$35,917,018	\$44,951,924	\$52,852,472
Liabilities.....	31,031,176	38,963,549	46,885,433
Capital Stock.....	3,925,171	4,766,766	5,034,538
Legal Reserve.....	471,710	572,680	678,413
Net-Income for Year.....	345,788	504,859	528,674
Investments (at Par).....	3,912,004	3,067,581	4,495,818

During fiscal year 1980, assets increased by \$7.9 billion reflecting an increase of \$1.4 billion in investments and an increase of \$5.6 billion in advances to members. Liabilities, consisting primarily of consolidated obligations, increased by \$7.9 billion.

CAPITAL STOCK

The capital stock of the twelve Banks, \$5.0 billion as of September 30, 1980 representing an increase of 5.6% over the amount at September 30, 1979 is totally owned by the member institutions. The United States Government had provided the original capital of the Banks by investing \$124.7 million over a period of years. This investment was retired as of July 2, 1951, by the Banks at a rate in excess of the statutory requirements.

CONSOLIDATED OBLIGATIONS - BONDS

All issues of consolidated obligations - bonds are the joint and several obligations of the Banks. The following table shows the amount and number of offerings for the years indicated.

Fiscal Year	Number of Offerings	Amount in Millions
1972	7	1,510
1973	11	5,800
1974	22	10,300
1975	15	7,800
1976	6	3,100
TQ	2	1,200
1977	8	3,600
1978	9	7,900
1979	12	9,100
1980	16	13,000

Federal Home Loan Bank Board

As indicated, the Federal Home Loan Banks made sixteen bond offerings of consolidated obligations totaling \$13.0 billion during fiscal 1980. Maturities of all sixteen issues were one year or longer. The coupon rate ranged from 9.60% to 15.80% and compares with the 1979 range of 9.00% to 10.00%. The total amount of the bond offering represented an increase of \$3.9 billion, or 42% above the \$9.1 billion amount offered during fiscal 1979. In addition to bonds, the Banks offered \$20.1 billion in short-term discount notes. The proceeds from all offerings were used to meet the demands of the membership for housing credit and to repay maturing issues.

The following table shows cumulative totals of Consolidated Obligations - bond issues, retired, and outstanding as of September 30, 1978, 1979 and 1980.

<u>Description</u>	<u>Sept. 30, 1978</u>	<u>Sept. 30, 1979</u>	<u>Sept. 30, 1980</u>
(In Thousands)			
Issued.....	\$104,482,250	\$113,582,250	\$126,582,250
Retired.....	<u>82,902,655</u>	<u>88,124,475</u>	<u>94,721,550</u>
Outstanding.....	<u>\$ 21,579,595</u>	<u>\$ 25,457,775</u>	<u>\$ 31,860,700</u>

The \$31.9 billion balance outstanding as of September 30, 1980 represents an increase of \$6.4 billion or 25% from the comparable total as of September 30, 1979.

ADVANCES TO MEMBERS

The following table illustrates the trend in advances to member institutions, repayments, and balances outstanding for fiscal years indicated.

<u>Fiscal Year</u>	<u>Advances</u>	<u>Repayments</u>	<u>Outstanding</u>
(In Millions)			
1972	3,652.8	4,819.4	6,074.8
1973	8,002.0	2,931.6	11,145.2
1974	10,986.6	4,489.8	17,642.0
1975	8,798.9	9,638.3	16,802.6
1976	6,575.5	8,104.3	15,273.8
TQ	3,033.1	2,245.1	16,061.8
1977	10,256.7	9,265.0	17,053.5
1978	23,883.3	11,779.0	29,157.8
1979	27,743.3	18,305.1	38,596.0
1980	34,307.8	28,742.3	44,161.5

Advances made to member institutions during fiscal year 1980 aggregated \$34.3 billion, an increase of \$6.6 billion over the \$27.7 billion advances made during 1979. The balance outstanding aggregated \$44.2 billion, an increase over the previous fiscal year of \$5.6 billion or 14%; repayments were \$28.7 billion in 1980 as compared to \$18.3 billion in 1979, an increase of \$10.4 billion.

FINANCIAL CONDITION

Beginning on the following pages, the financial statements of the Banks, as of September 30, 1980 and 1979, are presented as listed below:

1. Combined Statement of Condition
2. Combined Statement of Income and Expense
3. Combined Statement of Income and Disposition of Net Income

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF CONDITION
AS OF DATES INDICATED
(In Thousands)

<u>ASSETS</u>	September 30, 1980	September 30, 1979	Increase or Decrease (-)
CASH.....	\$ 136,212	\$ 179,885	\$ -43,673
INVESTMENTS			
<u>Securities (par)</u>			
U.S. Treasury.....	1,084,000	8,200	1,075,800
Government Agencies.....	66,000	-0-	66,000
Other.....	3,195,818	2,959,381	236,437
Sub-Total.....	<u>4,345,818</u>	<u>2,967,581</u>	<u>1,378,237</u>
FHL Mortgage Corporation Stock.....	150,000	100,000	50,000
Total Investment.....	4,495,818	3,067,581	1,428,237
ADVANCES OUTSTANDING			
To members.....	44,161,463	38,596,049	5,565,414
To FHL Mortgage Corporation.....	<u>3,546,650</u>	<u>2,698,600</u>	<u>848,050</u>
Total Advances.....	47,708,113	41,294,649	6,413,464
LOANS OUTSTANDING			
To Agency for International Development, Net.....	81,778	90,987	-9,209
To Other Federal Home Loan Banks.....	<u>55,000</u>	<u>15,250</u>	<u>39,750</u>
Total Loans.....	136,778	106,237	30,541
ACCOUNTS RECEIVABLE.....	288,832	224,234	64,598
BANK PREMISES AND EQUIPMENT (NET).....	14,498	12,039	2,459
DEFERRED CHARGES.....	<u>72,221</u>	<u>67,299</u>	<u>4,922</u>
Total Assets.....	<u>52,852,472</u>	<u>44,951,924</u>	<u>7,900,548</u>
LIABILITIES AND CAPITAL			
DEPOSITS AND BORROWING MEMBERS.....	9,569,054	8,289,045	1,280,009
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES.....	680,530	517,491	163,039
DEFERRED CREDITS.....	36,692	11,401	25,291
CONSOLIDATED OBLIGATIONS 1/.....	<u>36,599,157</u>	<u>30,145,612</u>	<u>6,453,545</u>
Total Liabilities.....	46,885,433	38,963,549	7,921,884
TOTAL CAPITAL STOCK.....	<u>5,034,538</u>	<u>4,766,766</u>	<u>267,772</u>
RETAINED EARNINGS			
Legal Reserve.....	678,413	572,680	105,733
Dividend Stabilization.....	6,296	27,976	-21,680
Undivided profits.....	247,792	620,953	-373,161
Total Retained Earnings.....	932,501	1,221,609	-289,108
Total Capital.....	<u>5,967,039</u>	<u>5,988,375</u>	<u>-21,336</u>
Total Liabilities and Capital.....	<u>52,852,472</u>	<u>44,951,924</u>	<u>7,900,548</u>

1/ Consolidated Federal Home Loan Bank Obligations issued by the Federal Home Loan Bank Board and now outstanding are the joint and several obligations of all Federal Home Loan Banks. Includes short-term discount notes totaling \$4,738,437,000 and \$4,687,837,000 at September 30, 1980, and September 30, 1979, respectively.

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF INCOME AND EXPENSE
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1980 and SEPTEMBER 30, 1979
(In Thousands)

	1980		1979	
	Amount	Percent	Amount	Percent
EARNED INCOME				
Interest on Advances.....	\$4,247,864	86.7	\$2,887,087	85.9
Income From Investments.....	604,686	12.3	439,867	13.1
Interest and Fees on AID Loans...	7,275	0.2	11,507	0.3
Income from Other Services.....	41,194	0.8	22,062	0.7
Total Income.....	<u>4,901,019</u>	<u>100.0</u>	<u>3,360,523</u>	<u>100.0</u>
EXPENSES				
INTEREST AND OTHER COSTS				
Interest and Concessions -				
Consolidated Obligations.....	3,106,214	63.4	2,122,400	63.1
Assessments - Federal Home				
Loan Bank Board.....	9,117	0.2	9,551	0.3
Assessments - Office of Finance	3,014	0.1	2,608	0.1
Interest on Deposits.....	1,201,066	24.5	675,247	20.1
Other Interest.....	925	-0-	571	-0-
Total Interest and Other				
Cost.....	<u>4,320,336</u>	<u>88.2</u>	<u>2,810,377</u>	<u>83.6</u>
OTHER OPERATING EXPENSES				
Salaries and benefits.....	28,722	0.6	25,180	0.8
Fees and Professional Services..	2,465	0.1	1,864	0.1
Travel Expense.....	2,047	-0-	1,535	0.1
Telephone and Transmission Costs.	1,290	-0-	1,106	-0-
Stationery and Supplies.....	5,968	0.1	4,845	0.1
Cost of Quarters (Net).....	4,047	0.1	3,746	0.1
Depreciation - Furniture				
and Equipment.....	573	-0-	574	-0-
Equipment Rental and Expense....	4,633	0.1	4,610	0.1
Other.....	2,264	-0-	1,827	0.1
Total Other Operating Expenses.	<u>52,009</u>	<u>1.0</u>	<u>45,287</u>	<u>1.4</u>
TOTAL EXPENSES.....	<u>4,372,345</u>	<u>89.2</u>	<u>2,855,664</u>	<u>85.0</u>
NET INCOME.....	<u>528,674</u>	<u>10.8</u>	<u>504,859</u>	<u>15.0</u>

Federal Home Loan Bank Board
Federal Home Loan Banks

COMBINED STATEMENT OF INCOME AND DISPOSITION OF NET INCOME
FROM BEGINNING OF OPERATIONS THROUGH SEPTEMBER 30, 1980
(In Thousands)

	Combined	
	Amount	Percent
INCOME.....	\$23,483,552	100.0
CHARGES AGAINST INCOME.....	<u>20,091,600</u>	<u>85.6</u>
Net Income.....	3,391,952	14.4
DISPOSITION OF NET INCOME		
Retained Earnings as of September 30, 1980:		
Legal Reserve.....	678,413	20.0
Dividend Stabilization.....	6,296	.2
Undivided Profits.....	<u>247,792</u>	<u>7.3</u>
Total Retained Earnings.....	<u>932,501</u>	<u>27.5</u>
Dividends Paid:		
U.S. Government.....	26,176	0.8
Member Institutions.....	<u>2,429,725</u>	<u>71.6</u>
Total Dividends Paid.....	2,455,901	72.4
Transfer to Retirement Fund.....	3,530	0.1
Organization Expense - Spokane Bank.....	<u>119</u>	<u>-0-</u>
TOTAL.....	<u>3,391,952</u>	<u>100.0</u>

Federal Home Loan Bank Board

SUPERVISION

The responsibilities of the Bank Board and its staff units in supervising the Federal Home Loan Banks include:

1. Issuance of regulations and policy guidelines covering the operations of the Federal Home Loan Banks.
2. Appointment of public interest members of each District Bank's Board of Directors and the conduct of the annual election of the industry members of each Board.
3. Review, analysis, and approval of the operating and capital expenditures budgets of each Bank.

EXAMINATION

The Office of Internal Evaluation and Compliance (OIEC) has responsibility for arranging financial audits of the District Banks to determine that the Banks are adhering to sound financial principles and the Bank Board's operating policies. Certified public accounting (CPA) firms are used by the Office to perform the annual financial audits of the Banks.

Compliance and performance audits of the Banks are performed by each Bank's Internal Auditor. OIEC provides guidance and assistance to the internal auditors; coordinates the internal audit activities; and reviews copies of the internal audit reports.

* * * * *

Following is a more detailed description of the functions and responsibilities of the Office of District Banks relating to the examination and supervision of the Federal Home Loan Banks.

OFFICE OF DISTRICT BANKS

The Office of District Banks has the general responsibility to provide the Bank Board with an overview of the management of each of the Federal Home Loan Banks. The Office has specific responsibility for:

1. Reviewing Bank operations and formulating policy statements and recommendations concerning Bank operations, budgets, and financial matters.
2. Evaluating banking functions and member services provided by the Banks.
3. Interfacing communications and coordinating with other Bank Board offices on matters relating to the Banks.
4. Conducting the election of Federal Home Loan Bank directors.

Federal Home Loan Bank Board

Reviewing Bank operations and formulating policy recommendations

Review of Bank operations is accomplished through analysis of publications and reports such as: (1) each Bank's statements of goals and objectives; (2) each Bank's budget; (3) progress reports; (4) financial statements and operating reports; (5) organization charts; and (6) manpower reports. Evaluation of a Bank's performance toward the achievement of its stated goals and objectives is related to the effective utilization of resources.

The Office provides the Bank Board with policy options and specific recommendations on Bank System activities. The most important areas are (1) goals and objectives and related budget policies; (2) policies on advances, dividends, deposits and other financial operations; and (3) individual bank operations and management reviews including:

- a. appointment and promotion of Bank officers and appointment of public interest directors;
- b. organizational structure, staffing, salary guidelines; and
- c. accounting policies.

Evaluating banking functions and member services provided by the Banks

The credit policies and lending programs of the twelve District Banks are monitored by the Office, as they relate to the volume of funds available to member institutions for housing credit. Federal Home Loan Bank advances outstanding to savings and loan members as of September 30, 1980 amounted to \$44.2 billion. These advances include community investment fund advances, which are made under a special program to members meeting eligibility criteria. CIF advances are designed to encourage active association involvement in programs for preserving and revitalizing older communities and are priced at a preferential rate which is 50 basis points below the estimated cost of issuing consolidated obligations of comparable maturities. The target is to advance \$2 billion per year under this program. In addition, a Targeted Advances Program is designed to augment the earnings of qualifying members by providing advances 2.5 percent below the current advances rate.

Emphasis is placed on enhancing the member services provided by each individual Bank. Efforts are specifically directed toward improving and expanding the services currently provided by the Banks which include demand and time deposits, investment and safekeeping, and economic forecasting. The Bank Board recently authorized the Banks to participate in the collection, processing, and settlement of payment instruments for current members and eligible institutions.

Communications

The Office provides the interface between the Banks and the Bank Board. The Banks are provided with interpretations of and changes in Bank Board policy. The Banks are represented in meetings with the Federal Home Loan Bank Board, The Federal Reserve Board and other Federal agencies.

The Office of District Banks also coordinates with other Bank Board offices on matters concerning the Banks and the Bank System. Additional Office functions include the planning of monthly bank presidents' conferences and coordination of joint research projects undertaken by the Banks and the Bank Board. Teletype and facsimile communications between the Bank Board and the Banks are the Office's Home Loan Bank directors. This includes determining the number of directorships to be designated for each State, preparing and sending to each institution eligible to participate a certificate of nomination, determining if those nominated are eligible to be candidates and wish to have their names placed on the ballot, sending ballots to each institution eligible to vote, determining the results of the election, and notifying the membership of the results.

Federal Home Loan Bank Board

CHARTERING FEDERAL AND INSURING SAVINGS AND LOAN ASSOCIATIONS

This activity is carried on by the Office of Industry Development which includes 40 positions, three less than in our previous submission.

CHARTERING FEDERAL SAVINGS AND LOAN ASSOCIATIONS

Section 5(a) of the Home Owners' Loan Act of 1933 authorizes the Board to provide for the organization, incorporation, charter issuance, examination, operation, and regulation of institutions to be known as Federal savings and loan associations and Federal mutual savings banks.

These associations provide thrift and home-mortgage lending facilities in communities where such facilities are unavailable or inadequate. They are established by granting of charters to newly created associations anywhere in the United States or its Territories. Existing State-chartered associations and Mutual Savings Banks may also apply and, if eligible, convert to a Federal charter.

The savings or share account of each saver in Federal savings and loan associations is insured up to \$100,000 by the Federal Savings and Loan Insurance Corporation. The associations are subject to periodic examination by the Federal Home Loan Bank Board and are members of the Federal Home Loan Bank System.

The following table shows membership, aggregate assets, and reserves and undivided profits of Federal associations for the years indicated:

<u>Fiscal Year-End</u>	<u>Member- ship</u>	<u>Assets in Billions</u>	<u>Reserves and Undivided Profits (In Millions)</u>
1950	1,515	\$ 7.9	\$ 513
1955	1,656	18.5	1,184
1960	1,856	36.4	2,493
1965	1,993	64.3	4,342
1970	2,079	90.4	6,403
1975	2,059	182.7	10,610
1980	1,983	339.0	17,975

As shown, a steadily increasing upward trend in assets is reflected. In the last five years they have increased by 85.5% from \$182.7 billion at June 30, 1975 to \$339.0 billion at September 30, 1980. Similarly, reserves and undivided profits for the same period have kept pace with this growth, increasing from \$10.6 billion to \$18.0 billion, an increase of \$7.4 billion or 69.8%.

INSURING SAVINGS AND LOAN ASSOCIATIONS

Insurance protection is obligatory for all Federally-chartered associations and mutual savings banks. State-chartered institutions of the savings and loan type which apply for insurance and meet the Corporation's requirements are also insured.

In the underwriting process, the Office of Industry Development analyzes all factors bearing upon the financial condition and other aspects of applicant associations. Included among these are: Capital structure, assets, liabilities, reserve position, operating income and expense ratios, liquidity position, etc. Other considerations are character of management and directorate, and soundness of all policies and practices pursued in appraising and lending. All factors are evaluated in light of local economic conditions and the trends and prospects of the general economy.

Federal Home Loan Bank Board

Public demand for protection of its savings makes it advisable for uninsured savings and loan associations throughout the country to seek insurance of the accounts of their savings and investors. The following table shows the number of insured institutions at the end of the fiscal years indicated and the net increase each year:

<u>Fiscal Year-End</u>	<u>Number of Insured Associations</u>	<u>Net Increase</u>
1950	2,799	-
1955	3,472	673
1960	4,044	572
1965	4,483	439
1966	4,514	31
1970	4,406	-108
1975	4,110	-296
1980	4,019	- 91
1981*	3,869	-150
1982*	3,719	-150

*Estimate

As indicated, the 1980 figure is expected to decrease by 150 associations in fiscal 1981 and 150 more during fiscal 1982, bringing the total at September 30, 1982 to 3,719. The number of associations has been declining since 1966 mainly as a result of mergers and acquisitions of generally small uneconomic institutions. This merger trend will accelerate during the next few years as a result of economic conditions and the passage of the Depository Institutions Deregulation and Monetary Control Act of 1980.

Following is a more detailed description of the functions and responsibilities of the Office of Industry Development stressing the importance of the office, not only in the processing of applications but also in areas of program development and expansion techniques.

OFFICE OF INDUSTRY DEVELOPMENT

The Office of Industry Development has the primary responsibility of providing recommendations to the Bank Board for development and implementation of sound, responsive regulations, policies, and procedures, as well as innovative and informative programs designed to (1) encourage the safe and sound growth and expansion of the savings and loan industry, and (2) promote competition to provide a broad range of convenient, economical savings, home-financing and related services so that the savings and loan industry is responsive to the housing finance needs of the American public. In order to carry out this responsibility, the Office of Industry Development has three primary functions:

1. The Office processes, reviews, evaluates and presents to the Bank Board applications from savings and loan associations for various activities and actions which, by statute or regulation, require approval by the Federal Home Loan Bank Board. This involves developing new policies and regulations, providing instructions to the industry and Federal Home Loan Banks, devising and evaluating application procedures, analyzing and evaluating information provided by applicants, and making recommendations to the Bank Board for appropriate action on applications. Within the Office's delegated authority, specified officials of the Office also may approve or deny certain types of applications.

During FY 1980, the Office of Industry Development processed 611 applications, a 13.4% increase over FY 1979, and reviewed another 574

Federal Home Loan Bank Board

applications after approval by the Federal Home Loan Banks' Supervisory Agents who are authorized agents of the Board. Applications processed by OI during FY 1980 included 18 applications to establish new Federal savings and loan associations, 76 applications for insurance of accounts by the Federal Savings and Loan Insurance Corporation, 62 mergers (another 23 mergers were approved by the Federal Home Loan Banks), 148 facility applications, 24 remote service unit requests and 281 miscellaneous applications. Significant increases occurred in three major categories during FY 1980: insurance of accounts applications increased 111% over FY 1979, mergers increased 98% and applications to establish new Federal associations increased 29%.

Major accomplishments in the applications area during FY 1980 included development of evaluation and processing procedures for Federal mutual savings bank charter applications, and approval of the Board's first application from a mutual savings bank for conversion to a Federal mutual savings bank charter. Additionally, the Office developed new application processing procedures to facilitate implementation of the Board's new simplified branching regulations. The Office also implemented a proposal to streamline the application process through delegation of the Board's authority to act on several types of applications to the District Banks.

2. The Office undertakes a variety of studies and projects designed to develop sound regulations, policies, procedures and programs which promote competition, encourage the extension of a broad range of savings and loan services to the American public and stimulate the safe and sound growth of the savings and loan industry. An important aspect of this function is the Office's responsibility to encourage the expansion of convenient, economical savings and home-financing services in accordance with the needs of communities which the savings and loan industry serves.

During FY 1980, the Office of Industry Development devoted a significant portion of its efforts to development of regulations and procedures designed to implement new legislation and/or simplify the Board's application requirements. In this connection, the Office: (a) completed a major project involving simplification of the Board's regulatory requirements and procedures governing the branching activities of Federal associations; (b) revised the Board's merger regulations to improve the processing of merger applications by expanding the Federal Home Loan Banks' authority to approve mergers; (c) eliminated application requirements for issuance of commercial paper through liberalization of the Board's borrowing regulations and (d) developed regulations and procedures to implement the Board's authority to accept applications by state-chartered stock associations for conversion to a Federal charter. Additionally, OI participated in the development of revised regulations, policies and procedures to implement the Depository Institutions De-regulation and Monetary Control Act of 1980. OI also continued to participate in the development of policies and procedures implementing the requirements of the Community Reinvestment Act and the Electronic Funds Transfer Act of 1978.

3. The Office of Industry Development is responsible for designing and implementing specific programs to encourage the establishment, growth and expansion, safety and soundness, of minority-owned-and-operated savings and loan associations. In this connection, the Office is responsible for development, coordination and implementation, in conjunction with the Federal Home Loan Banks, other government agencies and the various trade organizations, of a broad range of programs designed to provide technical assistance, educational seminars, counseling services and investment funds for new and existing minority-managed associations. Minority-managed associations are savings and loans controlled at least 51% by socially or economically disadvantaged Americans. Currently, 84 insured associations qualify as minority-managed-and-owned.

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During FY 1980, the Office of Industry Development implemented several programs designed to assist minority-managed savings and loans. These programs, which will be continued during FY 1981, provide for the following: (a) an Operations Review Program which will provide several minority-managed associations with an evaluation of their operations and recommendations to assist in strengthening their operations; (b) on-site training sessions for association directors designed to apprise directors of their duties and responsibilities, as well as to provide information on new trends and developments in the savings and loan industry; (c) use of private consulting firms to provide direct management and "on-site" technical assistance in various aspects of savings and loan operations for minority-managed savings and loans; and (d) organization of a 301(d) Small Business Investment Company (SBIC) for the purpose of funding a long-range program to assist minority-managed associations. The SBIC will provide capital infusion for lending and technical assistance for minority-managed savings and loan associations.

Workload and Personnel Requirements

It is anticipated that the volume of applications submitted for processing by the Office of Industry Development will continue to increase during FY 1981 and remain at a high level for several years thereafter. In addition to the 13.4% increase in application volume during FY 1980, a significant increase in the Office's workload is projected to occur during FY 1981 primarily as a result of continued expansion of savings and loan merger activity and implementation of new statutory authority by the Board. In this connection, we note that the Board is anticipating a substantial influx of applications from existing state-chartered mutual savings banks seeking Board authorization to convert to a Federal mutual savings bank charter. (The Financial Institutions Regulatory and Interest Rate Control Act of 1978 granted the Board the authority to charter Federal mutual savings banks). Additionally, implementation of the Depository Institutions Deregulation and Monetary Control Act of 1980 will require the Office to develop evaluation procedures and begin to process two new types of applications: (1) applications by Federal associations to provide trust services, and (2) applications by state-chartered stock associations for conversion to a Federal stock association charter.

In addition to the anticipated increase in application volume, expansion of the Office's program development and research activities will impact greatly on the Office's workload and personnel requirements for FY 1981. With implementation of the Depository Institutions Deregulation and Monetary Control Act of 1980, competition within the financial community for savings capital will become more intense, and new ways must be found to channel a fair share of such funds into savings and loan associations, which represent the Nation's largest supplier of funds for residential housing. To achieve this end in the current fiscal year and thereafter, the Office of Industry Development must continue to commit a significant portion of its resources for research and evaluation of a broad range of industry development programs.

Finally, as part of its industry development activities, the Office must continue to give special attention to its efforts to assist the development of minority-managed savings and loans. Recent economic difficulties which have adversely affected the entire financial community have had a disproportionate impact on associations in our minority communities and underscore the need for maintenance of a strong program for minority association development. If minority-managed associations are to continue to compete as viable institutions in the financial community, the Board must continue to research and develop programs that will help channel savings capital into minority-managed savings and loan associations, and improve their operational performance.

Federal Home Loan Bank Board

EXECUTIVE DIRECTION AND STAFF SERVICES

The following offices and positions are included in this joint activity for fiscal 1982. Offices of the Chairman and Board Members (14); Communications Office (16); Congressional Relations Office (3); Minority Affairs Office (4); Office of Internal Evaluation and Compliance (14); Personnel Management Office (23); Secretariat (22); Office of Community Investment (20); Office of General Counsel (82); Office of Examinations and Supervision (73); and Planning and Management Coordination Office (3). There are a total of 276 positions assigned to the joint activity.

EXECUTIVE DIRECTION

The Board establishes the policies for all operations. It supervises the operations of the 12 regional Federal Home Loan Banks and the examination of each Bank at least annually.

It approves applications and issues charters for Federal savings and loan associations and Federal mutual savings banks and prescribes regulations relating to their lending and other activities.

It is responsible for examination and supervision of all member institutions insured by the Federal Savings and Loan Insurance Corporation. It is the final authority for the administration of the insurance system, including approval or disapproval of applications for insurance and of requests from insured institutions to permit mergers, purchase of assets, consolidations, etc. It makes final determination of the course of action to be taken by the Insurance Corporation to prevent default in an insured institution as well as the method of settlement when an insured institution is declared in default.

STAFF SERVICES

Supporting functions including utilization of personnel, legal services, public relations, and internal and operational audits are provided to the Bank Board and to the Insurance Corporation. Such services are furnished by Communications, Congressional Relations, Minority Affairs, Internal Evaluation and Compliance, Personnel Management, Secretariat, Office of Community Investment, Office of General Counsel, Office of Examinations and Supervision, and Planning and Management Coordination.

Other services furnished by the Bank Board's staff are fiscal and housekeeping services; these are treated and discussed in this submission as a separate activity under the caption "Administrative Services".

Following are more detailed descriptions of the functions and responsibilities of the offices involved in this activity.

OFFICES OF THE CHAIRMAN AND BOARD MEMBERS

The Federal Home Loan Bank Board, a bi-partisan Board of three members, was established as the successor agency to the Home Loan Bank Board, pursuant to the provisions of an Act cited as the "Housing Amendments of 1955" (69 Stat. 635). It supervises the Federal Home Loan Bank System, the System of Federal Savings and Loan Associations, the Federal Savings and Loan Insurance Corporation (FSLIC), and the Federal Home Loan Mortgage Corporation.

Federal Home Loan Bank Board

Under Reorganization Plan No. 6 of 1961, effective August 12, 1961, the Chairman is chief executive officer of the Board. Subject to the general policies of the Board, he is responsible for the overall management, functioning, and organization of the Agency; the appointment, removal, and direction of personnel; and the preparation, review, presentation, and justification of budget estimates.

Some of the major duties and functions of the Board Members include the establishment of policies for all the Board operations. They supervise the operations of the twelve Federal Home Loan Banks, including the establishment of certain regulations for the guidance of the boards of directors and officers of such Banks. They are responsible for annual examinations of the twelve Banks.

The Board approves the issuance of charters for the organization of Federal savings and loan associations and Federal mutual savings banks. It is responsible for their examination and supervision and prescribes certain regulations governing their lending and other activities.

In addition, it is responsible for examination and supervision of all Federal Savings and Loan Insurance Corporation insured State-chartered institutions. It passes on and approves, where acceptable, all applications for insurance of accounts by the Federal Savings and Loan Insurance Corporation, and other applications related to the Insurance Corporation's activities.

The Emergency Home Finance Act of 1970 (Public Law 91-351) authorized the establishment of a Federal Home Loan Mortgage Corporation (FHLMC) which buys and sells mortgages, both conventional and guaranteed or insured. The three members of the Board constitute the Board of Directors of the Corporation.

COMMUNICATIONS OFFICE

Communications presents policies, announcements and actions to: the public; Bank Board offices; the savings and loan industry; other Government agencies; and all media. Public understanding and trust in insured savings and loan associations is essential to the success of Bank Board operations. Industry and government support are important to the Board's goals, as is the support of the financial community.

This information is disseminated in various ways: press releases; Federal Home Loan Bank Board Journal (monthly); press conferences; answering correspondence and phone calls; Spotmaster recordings; speeches; interviews for radio, television, magazines (general, trade, and professional); newspapers; guest column contributions; and other articles signed by the Chairman, Board Members or senior staff members.

Existing activities

1. Publications of the FHLBB Journal, Across the Board (a bi-monthly internal news-letter for employees), and an annual report.
2. Issuance of monthly statistics on mortgage rates, interest costs, and savings flows; press releases; articles; columns; and interviews for radio and television.
3. Answering of queries from the media, public, industry, Government, academia, and other elements interested in the Bank Board, the Federal Home Loan Mortgage Corporation, the Federal Savings and Loan Insurance Corporation, the Fiscal Agent, and the savings and loan industry.
4. Maintenance of an agency speaker's bureau to provide knowledgeable and professional career personnel who will be available upon requests from citizens' groups and national organizations concerned with issues of housing and home finance.

Federal Home Loan Bank Board

5. Circulation of bi-monthly clipsheet (a digest of financial and housing news from the Nation's press).
6. Coordination of a public information service on Bank Board activities with the twelve Federal home loan banks.
7. Preparation of programs and projects for the Board's personnel orientation and development programs.

CONGRESSIONAL RELATIONS OFFICE

The Board's Congressional Relations function is centered in the Chairman's Office for assisting and advising the Chairman in the development, coordination, and maintenance of the Federal Home Loan Bank Board relationships with the Congress. This function is responsible for keeping abreast of all legislative programs as they pertain to the Federal Home Loan Bank Board, Federal Savings and Loan Insurance Corporation, and savings and loan industry in general, and for advising the Board on the status, prospects for enactment, and interpretation of such legislative and other pertinent Congressional action.

MINORITY AFFAIRS OFFICE

The Minority Affairs Office was established to advise and counsel the Chairman and the Bank Board on a broad range of policy matters relating to the development and implementation of equal employment opportunity in the savings and loan industry, the Federal Home Loan Bank Board, the Federal Savings and Loan Insurance Corporation, the Federal Home Loan Mortgage Corporation, and the twelve Federal Home Loan Banks. More specifically, it has the responsibility to:

1. Develop and implement policies which ensure fair employment practices for all persons without regard to their race, color, religion, sex, age, national origin, handicap, or veteran's status.
2. Audit and evaluate all recruiting, hiring, training, compensation, job classification, assignments, working conditions, promotions, transfers, layoffs, terminations, disciplinary actions, and all other terms, conditions and privileges of employment as they relate to equal employment and affirmative action.
3. Establish and promote industry-wide women and minority vendors' participation.
4. Serve as principal advisor to the Board on all policy and program activities of the Federal Home Loan Bank System which affect or may affect "protected class" groups.
5. Establish and participate with local and national community based organizations for the improvement of employability of women and minorities.
6. Serve as liaison between the Federal Home Loan Bank System and all agencies having employment enforcement responsibility.

Federal Home Loan Bank Board

OFFICE OF INTERNAL EVALUATION AND COMPLIANCE

The Office of Internal Evaluation and Compliance provides the Chairman, Members of the Board and top management with independent professional audits and investigations of Federal Home Loan Bank Board and Federal Savings and Loan Insurance Corporation activities. When so requested by the Board the office may also conduct internal audits and investigations for the Federal Home Loan Banks, the Office of Finance, and the Neighborhood Reinvestment Corporation. The Office's involvement in these activities is designed to promote economy, efficiency and effectiveness in operations and to detect fraud and abuse. In addition, the Office provides guidance to the audit committees and internal audit staffs of each of the twelve Federal Home Loan Banks, and coordinates the services of certified public accounting firms who perform the financial audits of these banks. Within the Office the Division for Audits and the Division for Investigations share responsibility for accomplishing the Office's objectives.

The Audit Division emphasizes detecting opportunities for improved operations, achieving greater economy and efficiency and reducing the potential for waste and fraud at the Bank Board. All audits are performed in accordance with generally accepted accounting principles and Standards for Audit of Governmental Organizations, Programs, Activities and Functions published by the U.S. General Accounting Office.

The Investigation Division performs investigations in conformance with Federal laws and, when appropriate, with rules of criminal procedures, legal opinions and advice of the Department of Justice or the General Counsel. Investigations are designed to combat fraud and abuse, and to promote a positive environment in which managers may carry out the agency's activities.

PERSONNEL MANAGEMENT OFFICE

The Personnel Management Office (PMO) administers personnel policies, programs, and operations in order to ensure an adequate work force to carry out the mission and functions of the Bank Board.

PMO provides advisory services to managers and supervisors on all matters affecting Bank Board employees, including recruitment, staffing, classification, training, employee relations, and labor-management relations. It counsels employees on all matters affecting their terms and conditions of employment.

PMO coordinates executive staffing activities, including the Senior Executive Service, and provides staff support to the Executive Resources Board and Performance Review Board. It implements and monitors the Federal Equal Opportunity Recruitment Program.

PMO classifies all jobs in accordance with standards published by the Office of Personnel Management and provides technical review of organizational changes.

PMO processes all personnel actions and maintains employment records. It also coordinates health and insurance programs, the retirement program, the awards program, and other employee benefit programs.

PMO carries out labor-management responsibilities for the Bank Board, including negotiations of collective bargaining agreements and resolution of labor-management disputes. It also coordinates employee appeals to reviewing authorities outside the Bank Board (e.g. MSPB, EEOC).

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PMO plans and develops agency-wide policies and programs for performance appraisal, merit pay, merit promotion, employee conduct, training and executive development. PMO also develops and implements specific plans to carry out programs mandated by the Civil Service Reform Act of 1978.

PMO also serves as a liaison with the Office of Personnel Management and other organizations relating to Federal personnel matters.

SECRETARIAT

The Secretariat is the central point for the receipt of formal matters addressed to the Bank Board. The Secretary, in the name of the Bank Board, is responsible for the promulgation of its rules, regulations, and decisions and also is the Secretary to the Federal Savings and Loan Insurance Corporation.

The Secretariat coordinates staff transmission to the Board, schedules and arranges Board meetings, organizes the agenda, insures the provisions of the "Government in the Sunshine Act" are complied with, coordinates with the Office of the General Counsel and other staff offices on release of information under the Public Information Act and the Privacy Act, prepares minutes on each meeting, recording decisions made, maintains liaison on unfinished business, and acts as advisor to the Board on procedural matters. The Secretariat also prepares, distributes and records Federal savings and loan association charters, insurance certificates, Bank membership certificates, and certificates of appointment and election of directors of the Federal Home Loan Banks. The Secretariat is custodian of the Bank Board's permanent files, including the Minutes of the Federal Home Loan Bank Board, the former Home Owners' Loan Corporation, the directives of the former Federal Home Loan Bank Administration, and its constituent agencies.

The Secretary serves as Liaison Officer with the Office of the Federal Register.

Workload

During the fiscal year 1980, the Bank Board met 95 times on Federal Home Loan Bank Board business. During these meetings the Board adopted 912 resolutions and recorded 296 minute entries. A total of 22 Chairman's Orders were issued and 30 proposed and 99 final regulations were published in the Federal Register. In addition, the Secretary to the Board recorded for the Federal Home Loan Mortgage Corporation 24 meetings of the Board of Directors during which 30 resolutions were adopted and 14 minute entries were recorded.

Docket, Index and Micrographics Branch

The Docket Branch maintains and services 7,131 case files for Federal and State chartered association of which 4,247 are active and 2,884 inactive. The Branch maintains and services case files for 703 service corporations and 420 savings and loan holding companies of which 215 are active. In addition to maintenance and storage, the Branch is responsible for the loan, retrieval, and general security of the files.

The Branch received, classified and filed 383,000 documents, 23,600 internal requests for records, 472 public requests for records and information, microfilmed 700,000 images and made 300,000 new 4x6 microfilm jackets. The Branch received 312 requests to research information from current and outdated records.

The Branch indexed 821 resolutions, 312 minute entries, and prepared 41 items for shipment to the Federal Register. It received 150 requests to research the minutes and received 1,000 requests for copies of resolutions.

Federal Home Loan Bank Board

The Branch performs support functions for the various offices of the Bank Board. In addition to microfilming records, the Branch is responsible for providing microfilm services for other offices of the Bank Board. The Branch is in the process of converting its records to a micrographics system. Due to this conversion we expect a heavier demand for technical training, equipment, and supplies in the micrographics area through fiscal year 1982.

PLANNING AND MANAGEMENT COORDINATION OFFICE

The Planning and Management Coordination Office is responsible for assisting the Board in establishing and in providing for the effective implementation of agency goals and priorities, and for insuring effective interoffice coordination and teamwork. This includes such activities as: conducting planning meetings; coordinating planning activities with budget preparation; monitoring and reporting on key operations and progress toward goals; conducting studies, evaluations and preparing recommendations in order to improve management systems and organizational effectiveness; and coordinating responsibilities that cut across organizational lines.

OFFICE OF COMMUNITY INVESTMENT

The Office of Community Investment (OCI) advises the Board and makes recommendations on policies and programs that help the thrift industry recognize its responsibilities and opportunities to increase lending in older urban and rural communities. It coordinates this work with a network of Community Investment Officers (CIO) located in the 12 Federal Home Loan Banks.

OCI has a dual mission: it provides education, information exchange and technical assistance on community investment issues and programs to CIOs, the industry, other government agencies, state and local governments, community and special interest organizations; and it assists other Bank Board offices in related activities through recommendations on legislation, application reviews, advice on examinations and support for CRA enforcement activities.

The office represents the Bank Board on numerous interagency working groups developing policies and programs on issues such as urban credit commercial revitalization, neighborhood self-help, and small communities and rural areas. The office is also responsible for the Bank Board's efforts to encourage energy conservation and serves on two subcommittees of the White House Energy Outreach Task Force. Among the initiatives in this area are training sessions which have now reached more than 1000 lenders, an information booklet, several articles and a videotape on energy conservation programs by lenders.

OCI had oversight responsibilities for the joint FHLBB-FDIC study of the Home Mortgage Disclosure Act and developed recommendations for extending and strengthening the Act. The office also advises the Office of Examinations and Supervision in developing improved guidelines for CRA examinations, and recommends to the Board on applications where CRA performance questions have been raised.

OFFICE OF GENERAL COUNSEL

This office is the central coordinating point within the Federal Home Loan Bank Board for all legal matters and is responsible for the representation of the Board, its members and the FSLIC in litigation in the courts and in the administrative proceedings involving all enforcement activities of the Board. The Office is directed by the General Counsel and Deputy General Counsel, and three Senior Associate General Counsels, with staff working in nine divisions, each headed by an Associate General Counsel.

Federal Home Loan Bank Board

Office of the Senior Associate General Counsel for Policy and Administration

The Senior Associate General Counsel for Policy and Administration is responsible for the management and supervision of the Legislation Division, Regulations Division, Research and Analysis Division and the Administration Division.

Legislation Division

This Division is responsible for preparing all legislative proposals submitted by the Bank Board to the Congress and prepares major Bank Board policy statements, in the form of testimony, to be presented at Congressional hearings. This Division also analyzes and monitors all bills pertinent to the Agency and prepares reports of the Bank Board's views on pending legislation. The Division compiles and analyzes the legislative history of laws which the Bank Board must implement.

The Division has succeeded in providing its services in a timely and effective fashion with a minimum of staff. During fiscal years 1979 and 1980, the Division performed a great deal of work in connection with the ultimate enactment of Public Law 96-221, including monitoring the legislation, preparing testimony and drafting amendments and legislative history. The Division has also been working on implementing the legislation, both in terms of preparing regulations and in performing legal research to assist other offices. In fiscal years 1979 and 1980, the Division prepared legislative proposals to liberalize collateral requirements for advances, increase FSLIC insurance coverage of pension and public unit funds, permit second-tier service corporations, restrict bank take-overs of savings and loan associations, and correct technical problems in Public Law 95-630.

Regulations Division

This Division, in cooperation with other Bank Board offices, drafts and prepares for publication in the Federal Register regulations and policy statements which implement the Bank Board's statutory authority, policies, objectives and directives. The Division also issues opinions interpreting many areas of the regulations.

Due to changing economic conditions and additional statutory enactments, new regulations and amendments to existing regulations have greatly increased in number. Since July 1979, this Division has assisted in promulgation by the Board of 28 proposed and 63 final, new or amended regulations, policy statements, or rulings.

There is every indication that the regulatory workload of the office will expand through fiscal years 1981 and 1982 as the magnitude, momentum and complexities of the savings and loan industry increase.

Research and Analysis Division

This Division has responsibility for detailed legal analysis and research of issues of concern to the Bank Board such as questions of constitutional law, tax law issues, including taxation of savings and loan associations, home mortgage instruments, savings account interest and taxation of the Federal Home Loan Bank System, civil rights issues, and other general matters of concern to the Bank Board.

The Research and Analysis Division was created as a result of the reorganization of the Office of General Counsel in July 1980. The functions of this Division were previously handled by several other Divisions within the Office of General Counsel.

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Administration Division

This Division has responsibility for handling contractual and leasing issues regarding the Bank Board building, EEO complaints and adverse action hearings, compliance with the Freedom of Information and Sunshine Acts, as well as other administrative matters relating to the Bank Board, labor negotiations for the Bank Board, and the tort claims made against the Board.

The Administration Division was also created as a result of the recent reorganization of the Office of General Counsel.

Office of the Senior Associate General Counsel for Operations

The Senior Associate General Counsel for Operations is responsible for the management and supervision of the Litigation Division, FSLIC Division, and Compliance Division.

Litigation Division

The Litigation Division represents the Agency in virtually all court cases involving the Bank Board and provides litigation assistance in other legal proceedings as may be required.

Such litigation may arise as a result of the grant or denial by the Board of applications for charters, branches, mobile facilities, conversions, electronic funds transfer system terminals, and mergers of Federal savings and loan associations, and the grant or denial by the Board, as the operating head of the FSLIC, of holding company applications and applications for insurance of accounts. The Board also participates in lawsuits that involve challenges to the validity of Board regulations or to the exclusive nature of the Board's authority over Federally-chartered savings and loans.

During the first eight months of fiscal year 1980, the Litigation Division handled directly 40 lawsuits in Federal district courts around the country against the Board, the FSLIC and/or the Board's staff. In addition, the Division represented the Bank Board as *amicus curiae* in six cases. The staff also authored numerous memoranda and opinions for, and on behalf of the General Counsel and the Bank Board on sensitive matters involving actual or potential lawsuits. In addition, the Division coordinates and works with the Department of Justice with respect to certain litigation matters involving savings and loan associations, and prepares legal opinions and memoranda for the use of that Department in connection with such matters.

FSLIC Division

The FSLIC Division provides legal advice and assistance in connection with the FSLIC's default prevention and financial assistance activities. It provides advice on such matters as contribution agreements, receivers and conservators, liquidation, insurance of accounts, bonding, and suits against directors and officers of savings and loan associations.

For fiscal year 1980, this Division negotiated and drafted agreements and accompanying documents that prevented the failure of nine problem associations. The staff also expended substantial efforts toward remedying the problem status of three other associations and preliminary efforts were begun toward the resolution of the problems of four other associations. The Division has responsibility for negotiating and preparing documents for the termination of existing contribution agreements and supervising FSLIC litigation against former directors of assisted associations, litigation involving assisted associations and actions challenging the appointment of the FSLIC as receiver.

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Compliance Division

The Compliance Division conducts investigations of suspected statutory or regulatory violations and unsafe and unsound practices by federally insured savings and loan associations, and brings administrative enforcement actions leading to insurance.

The Division also is responsible for preparing all criminal reference letters sent to the Department of Justice and providing such assistance as may be requested by that Department, in regard to these references. Criminal reference letters are sent to the Justice Department where evidence obtained during an examination of an insured savings and loan association indicates that a crime may have been committed.

During fiscal year 1980, the Division completed 8 formal examinations, 6 informal examinations resulting in 3 cease-and-desist orders, 2 removal and/or prohibition orders and 15 detailed criminal referrals. The Division processed 474 Form 366 referrals (Defalcation Reports) of which 74 were referred to the Department of Justice. In addition, the Division conducted 5 internal agency investigations and drafted 2 supervisory agreements.

Office of the Senior Associate General Counsel for Securities and Business Transactions

The Senior Associate General Counsel for Securities and Business Transactions is responsible for the management and supervision of the Securities Division and Business Transactions Division.

Securities Division

The Securities Division is responsible for administering and enforcing provisions of the Securities Exchange Act of 1934 as it relates to regulating securities registration, periodic reporting, proxy solicitation and the inside trading of stock of registered stock savings and loans. This Division processes applications for conversions by savings and loans from mutual to stock form and also processes state stock to Federal stock conversions as soon as regulations setting forth the procedure for such conversions are adopted. The Securities Division also evaluates applications for issuance of subordinated debt, commercial paper, Eurodollar certificates, and mortgage-backed bonds by associations, and reviews annual reports filed by savings and loans under the Bank Board's conflict of interest regulations.

During fiscal year 1980, this Division recommended and the Board approved 67 mutual to stock conversion applications. As an adjunct to these 67 mutual to stock conversions, 21 additional converted capital stock associations have registered under the '34 Act and thereby are required to make full disclosure for the benefit of the investing public. The registered companies, which now total 87, will continue to increase as more mutual associations are converted to the stock form.

Business Transactions Division

The Business Transactions Division is responsible for providing advice concerning the legal aspects of merger, holding company and remote service unit applications. This division also provides reviews of novel legal issues raised in all other types of applications, including permission to organize Federal associations, branch offices and mobile facilities of Federal associations, conversions from state to Federal mutual charter, change in control of service corporations, insurance of accounts and Federal home loan bank membership.

Federal Home Loan Bank Board

The Division prepares a legal opinion on each application presenting novel and unusual issues. From June 1979 through May 1980, this Division prepared or cleared 64 non-standard Board Resolutions and prepared 425 legal opinions.

OFFICE OF EXAMINATIONS AND SUPERVISION - WASHINGTON OFFICE

The Office of Examinations and Supervision consists of a headquarters office in Washington, D. C. and field offices (including district offices and subsidiary area offices) in each of the 12 Federal Home Loan Bank districts. The Washington Office:

1. Directs the field offices in conducting examinations of FSLIC-insured savings and loan associations to determine their financial safety and soundness and to determine their compliance with Federal statutes and Bank Board regulations; provides nationally-consistent procedures and methods for conducting examinations by field offices; develops and implements new management systems within field offices which promote the review and early detection of associations in potential financial distress; conducts or supervises training of field examination personnel; coordinates examination procedures, training and policy with counterpart state regulatory authorities with respect to state-chartered institutions, and provides direction, guidance and support for the day-to-day administration of field offices and personnel.
2. Reviews reports of examinations of individual associations to determine the necessity of corrective supervisory actions; coordinates the implementation of supervisory actions with supervisory agents in the 12 Federal Home Loan District Banks and, as necessary, with counterpart state regulatory authorities in the case of state-chartered institutions; monitors and supports actions taken by the supervisory agents to improve association policies, practices or financial condition; and communicates and coordinates policies and procedures among supervisory agents necessary for nationally-consistent administration, Board decisions, policies and regulations affecting the supervision of associations.
3. Reviews applications, financial statements and other documents submitted by associations to the Board in terms of regulatory compliance, potential supervisory concern, or civil rights implications, as appropriate, and makes recommendations to the Board or other Bank Board offices with respect to acceptance, approval or disapproval.
4. In cases of actual or potential association financial distress, advises the Board and other Bank Board staff with respect to financial condition; recommends to the Board appropriate actions to resolve problems including cease and desist orders, removal of officers, termination of insurance, merger, liquidation, or purchase of assets; and carries out directly or assists other Board offices or District Banks in carrying out Board decisions in such cases.
5. Provides policy advice and recommendations to the Board and other Board offices with respect to implementation and effective enforcement of applicable Federal civil rights and consumer protection statutes; and administers in conjunction with supervisory agents responses to and resolutions of complaints from consumers regarding associations.
6. In coordination with other Bank Board offices for action by the Board, initiates or participates in the development, review, and clearance of new or amended Board regulations or other policy issuances; initiates or participates in the development of regulatory reform agenda, as needed, in coordination with other Federal agencies, professional organizations from the savings and loan or accounting industries, state regulatory authorities, public interest organizations and the public.

Federal Home Loan Bank Board

OPERATIONS AND ECONOMIC ANALYSIS

This joint activity is executed by the Information Systems Division and the Office of Policy and Economic Research. It involves the design of statistical and data processing procedures, and the collection, evaluation and processing of large amounts of data for use by the Bank Board, other Government entities, the industry, and the public. There are 85 positions assigned to this joint activity.

Following is a more detailed description of the functions and responsibilities of the offices involved in this joint activity.

ANALYSIS OF OPERATIONS - INFORMATION SYSTEMS DIVISION

This part of the joint activity is executed by the Information Systems Division. The Division provides a wide variety of data processing services to the Bank Board, its staff, the savings and loan industry, the public, the financial community, and selected Government agencies. Services range from the collection, correction and processing of both savings and loan survey and Bank Board administrative data, to information retrieval and analysis for special studies and inquiries.

Two of its continuing objectives are the implementation of cost effective administrative and financial systems for efficient Bank Board resource management, and comprehensive savings and loan survey systems with rapid data availability to support the Bank Board's efforts to promote the growth and economic viability of the savings and loan industry. Realization of these objectives provides management and operational areas with the information to evaluate, plan for and control:

1. Personnel requirements to carry out the agency mission.
2. The Federal Home Loan Banks' status and performance.
3. Insured member association financial operations.
4. The housing market served by the Federal Home Loan Bank System.
5. External factors affecting the agency mission and operations.

To insure that the objectives above are fully supported by the Information Systems Division, the following ongoing activities will be conducted:

1. Support the practical application of advanced computer techniques.
2. Improve the timeliness and quality of services and existing systems.
3. Continue the development of systems to increase the effectiveness of internal agency administration.
4. Insure that response to unscheduled requests for ADP services meet user needs in a timely manner.
5. Provide effective internal management and administration of the Division.

Workload

During the budget period, the ADP activity will provide support for maintenance and modification of over 60 recurring production systems, as well as furnish systems and programming for implementing ad hoc projects. New information systems will be developed to support the Board's policy making and supervisory functions and for adherence to legislative and statutory obligations. Stronger emphasis

Federal Home Loan Bank Board

from the legislative and judicial branches has been focused on S&L lending patterns to identify possible discriminatory lending practices, and on full disclosure of information. Projects to support new information requirements include:

1. Federal Savings and Loan Insurance Corporation (FSLIC)

The FSLIC plans to convert the automated Insurance Claim System now operating at a commercial service bureau to the Bank Board's DEC-10 computer. This system gives the FSLIC the ability to expedite an insurance payout, if necessary, utilizing automated techniques and control procedures. The necessity to operate this system using in-house capabilities is due to being absolutely certain that all computer resources for a payout would be available on a demand basis. Although the current service bureau does indicate a limited capacity to respond to the dynamic aspects of a payout, the absolute confidence of utilizing ISD resources is necessary to meet the FSLIC needs.

2. Consumer Affairs - Civil Rights, Office of Examinations and Supervision (OES) - The Community Reinvestment Act (CRA)

CRA requires each institution to define its service area. Based on this definition examiners from the staff of OES are required to ascertain that institutions are meeting the credit needs of their area. The only data which was available to assist the examiners in this process was 1970 census data. It is currently anticipated that 1980 census data will be available in early 1982. Based on the experience of the examiners in using the 1970 census data, the 1980 census will be acquired at the earliest possible time and new reports data will be produced to assist the examiners in determining CRA compliance.

3. Administration Office - General Ledger

The support systems necessary to provide data for entry into the general ledger records of the Bank Board are currently automated. These systems include payroll; accounts payable; furniture, fixtures and equipment, etc. In addition, a system already exists to analyze the budget of the Bank Board and to identify variances to the budget. All these data are then analyzed and entered into the general ledger using manual procedures. In order to gain better control over the posting to the general ledger and expedite the closing of books on a monthly and periodic basis, ISD expects to develop an automated system to assist the Controller's Division in improving performance in this area.

The Information Systems Division will consist of 56 positions in fiscal years 1981 and 1982.

ECONOMIC ANALYSIS - OFFICE OF POLICY AND ECONOMIC RESEARCH

This Office is responsible for policy and economic analysis in the area of general economic developments, capital and mortgage markets, housing, the savings and loan industry and competing financial intermediaries, and matters relating to legislation, regulation, and policies of the Bank Board.

The Office has many specific as well as general functions:

1. The development and maintenance of a program in basic and applied research designed to increase the understanding of the savings and loan industry and of the savings and mortgage markets in which it operates.

Federal Home Loan Bank Board

2. The development and maintenance of a statistical and econometric program to provide current information to the Bank Board and to make it possible to perform both current and effective research.
3. Economic analyses and critiques of on-going and proposed Bank Board policies, regulations, and legislation for Bank Board use. The Office collaborates with other offices through intra-agency committees and other means in designing and formulating new policies, regulations, and legislation.
4. Advising the Board and Bank Board offices of this Office's views on specific matters having economic ramifications, such as the anti-competitive aspects of mergers and holding company acquisitions.
5. Monitoring general economic and financial developments so as to provide the Bank Board with an adequate updated knowledge of the economic environment necessary for the formulation and execution of policy. This includes the preparation of general economic reports basically concerned with the housing, savings, and mortgage markets.
6. Maintenance of working relationships informally and through interagency committees with the Treasury Department, Council of Economic Advisers, Federal Reserve System, Office of Management and Budget, and the Department of Housing and Urban Development; activities with the Federal Home Loan Banks on research and policy projects; and liaison with universities and other public and private organizations.
7. Responsibilities for publications arising out of the Office's work and analyses. These include selected chapters of the Annual Report of the Bank Board, the Housing Finance Review, articles and monographs published as working papers, and preparation of statistical data for periodic Bank Board publication.
8. Overseeing the Bank Board's contract with the Agency for International Development (AID) and the Federal Home Loan Banks' participation in the AID Housing Guarantee Program. This also involves developing a program in international housing research.
9. Providing research support and advice to other Bank Board offices. This includes providing technical assistance for the development of both internal and contracted research.
10. Assuring and monitoring outside contracts for research projects on topics concerning the savings and loan industry.
11. Monitoring secondary mortgage market activities, in particular those of the Federal Home Loan Mortgage Corporation and providing staff support to the Bank Board in its role as the Board of Directors of the Mortgage Corporation.
12. Providing staff support for the Board Chairman's membership on the Depository Institutions Deregulation Committee.

Workload and Personnel Requirements

The research activities of the Office of Policy and Economic Research encompass a wide range of economic, financial, regulatory and policy areas. The Office of Policy and Economic Research conducts both short-run policy oriented research and long-term research on various aspects of savings and loan operations and the housing and mortgage finance system. Additionally, the Statistical

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Division in the Office of Policy and Economic Research is responsible for collecting and monitoring reports for the savings and loan industry and for producing statistical reports and special reports on selected aspects of savings and loan operations.

The staff of this Office is quite small in relation to other Federal agencies and considering the widespread impact of the thrift industry upon the general economy. The large projected increase in housing needs over the coming decade makes it imperative that the Bank Board have adequate intelligence designed to improve its role and performance. The Office will consist of 31 positions in Fiscal Years 1981 and 1982.

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ADMINISTRATIVE SERVICES

The following offices and positions are included in this activity for fiscal year 1982; Administration Office (5); Controller's Division (40); Budget Division (8) and the Administrative Services Division (49).

Following is a more detailed description of the functions and responsibilities of the offices involved in performing administrative services.

ADMINISTRATION OFFICE

The Director of Administration has direct responsibility for the administration, coordination, and management of the following four operating units which provide service to all offices of the Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation: (1) Administrative Services Division; (2) Controller's Division; (3) Budget Division; and (4) Information Systems Division, which for activity purposes, is included under Operations and Economic Analysis. The Director, on behalf of the Chairman, also has management responsibility for the activities of the Small and Disadvantaged Business Utilization Office.

Controller's Division

The Controller's Division plans, develops, and executes the financial and fiscal policies of the Bank Board and the Federal Savings and Loan Insurance Corporation (FSLIC). The Division consists of three branches: Travel Management, Accounting Services, and Operations.

The primary responsibility of the Travel Management Branch is to handle all matters related to the Bank Board and FSLIC travel. This responsibility includes:

- 1) acting as a central coordinator for all travel matters. This includes the preparation, for higher level approval, of the Bank Board and FSLIC travel policies and making recommendations to higher management for improving travel practices.
- 2) providing record keeping and physical maintenance of all Government Transportation Requests used by Bank Board and FSLIC employees.
- 3) providing assistance to all employees relocating to new duty stations.
- 4) verifying, auditing, and/or approving all travel vouchers and travel advances.

The primary responsibility of the Accounting Services Branch is to plan, develop and maintain the accounting systems and methods to reflect the results of all Bank Board and FSLIC transactions. The functions include:

- 1) receiving and recording all receipts consisting primarily of examination fees, general assessments, insurance premiums, receipts from asset disposal, Freedom of Information billings, and rental income.
- 2) maintaining all requested accounting records. These involve expense ledgers, general ledgers, investment ledgers, and cash receipts and inventory purchase journals.

Federal Home Loan Bank Board

- 3) preparing financial reports for internal management services and for other Federal agencies.
- 4) analyzing and recommending assessments to be made on the Federal Home Loan Banks and on the FSLIC.

The Operations Branch is responsible for the payroll and bill paying functions of the Bank Board and the FSLIC. The responsibilities include:

- 1) preparing the agency payroll and associated payroll, earnings and leave reports.
- 2) processing all invoices and disbursement vouchers associated with the normal day-to-day operations of the Bank Board and FSLIC.
- 3) conducting special studies of employee activities related to leave, earnings and other pay related matters.
- 4) providing coordination and control over all bill paying activities in order to make proper disbursement.

Workload

The Division continues its long range program to improve and further automate and integrate the Bank Board's and FSLIC's accounting systems. In fiscal year 1979 on-line computer terminals were installed to expedite the updating of information for payroll preparation. The Division has also implemented cash improvements resulting from the President's Reorganization Project for Cash Management. An automated on-line system for Payment of Insurance was developed, tested and adopted to facilitate quicker disbursement to savers in the event of a default. In addition, the Division was extensively involved in making changes to the automated accounting systems in order to accommodate the reorganizational changes in the Bank Board and the FSLIC.

During fiscal year 1980 additional on-line terminals were installed to expedite the updating of the accounts payable and the accounts receivable billing systems. These changes as well as some others have enabled the Division to handle an increased workload without having to increase staff.

Budget Division

The primary responsibilities of the Budget Division are to plan and control the annual budgets. The functions include:

- 1) supervising the preparation and publication of the Bank Board's and FSLIC's budget estimates to the OMB and to the Congress.
- 2) reviewing and analyzing budget estimates and supporting justification for reasonableness, accuracy, completeness, propriety, and conformance with Bank Board policies and programs.
- 3) advance approval of major expenditures and position control.
- 4) preparing budget variance reports including analysis of current actual versus budget estimates, and preparation of quarterly apportionments of approved budget for OMB approval.
- 5) developing and maintaining manuals of budget procedures, policies, and practices.

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Administrative Services Division

The Administrative Services Division, through its three Branches - Procurement Management, Facilities and Special Services, and Management Analysis - provides support services for all Headquarters and Field Offices of the Bank Board. The Division's responsibilities include operation and maintenance of the Headquarters building, all contracting and procurement activity, property management, internal management studies and productivity measurement, the Print Shop and the Research Library.

The Division Director is responsible for the development of Federally mandated programs for energy conservation, occupational safety and health, security, and emergency preparedness. He has direct responsibility for all Headquarters building management activity including building plant operation and maintenance, commercial leasing, new construction, and interior space allocation. These activities are handled through a commercial management contractor, whose operations are monitored by Division staff.

The Director serves as the Bank Board's Contracting Officer with responsibility for all contracting and small procurement including adherence to FPR's, CFR's, OMB Circular No. A-76 and the program for Socially and Economically Disadvantaged Small Business Contracts.

Procurement Management Branch

The Procurement Management Branch, through the Contracts and Procurement Sections, is responsible for procuring necessary goods and services in a proper and timely fashion at the least possible cost. The Branch insures adherence to all applicable Federal statutes, Executive Orders, and OMB Circulars; proper property management procedures; and maintains the Bank Board's furniture, fixtures and equipment.

The Contracts Section prepares and executes all contracts for goods and services on behalf of the Bank Board, appoints and monitors the performance of contract administrators, maintains the agency's official contract files and insures that necessary internal funding approvals are obtained prior to the execution of contracts.

The Procurement Section prepares and issues all purchase orders, insures property accountability through maintenance of the furniture and equipment inventory and other procedures, operates the stock room, effects repairs to furniture and equipment, and processes and pays vouchers submitted against the Imprest (petty cash) Fund.

Facilities and Special Services Branch

The Facilities and Special Services Branch is comprised of the Building Management Section, the Printing and Distribution Section, and the Research Library.

The Building Management Section has responsibility for all aspects of Headquarters building operation which includes administration of the contract with the building management firm (HVAC maintenance and operation, custodial service, building repairs, retail space leasing, plumbing and electrical systems, etc). The Branch is also responsible for building security, interior

Federal Home Loan Bank Board

and exterior landscaping, parking, the Safety and Materials Recovery programs, the automobile fleet, the Energy Management Program, leased space for field offices, the issuance of Government Bills of Lading, the movement and minor repair of building furniture, receipt and delivery to users of goods delivered to the building, storage, classified information security, emergency preparedness plans, and the building's telecommunications system.

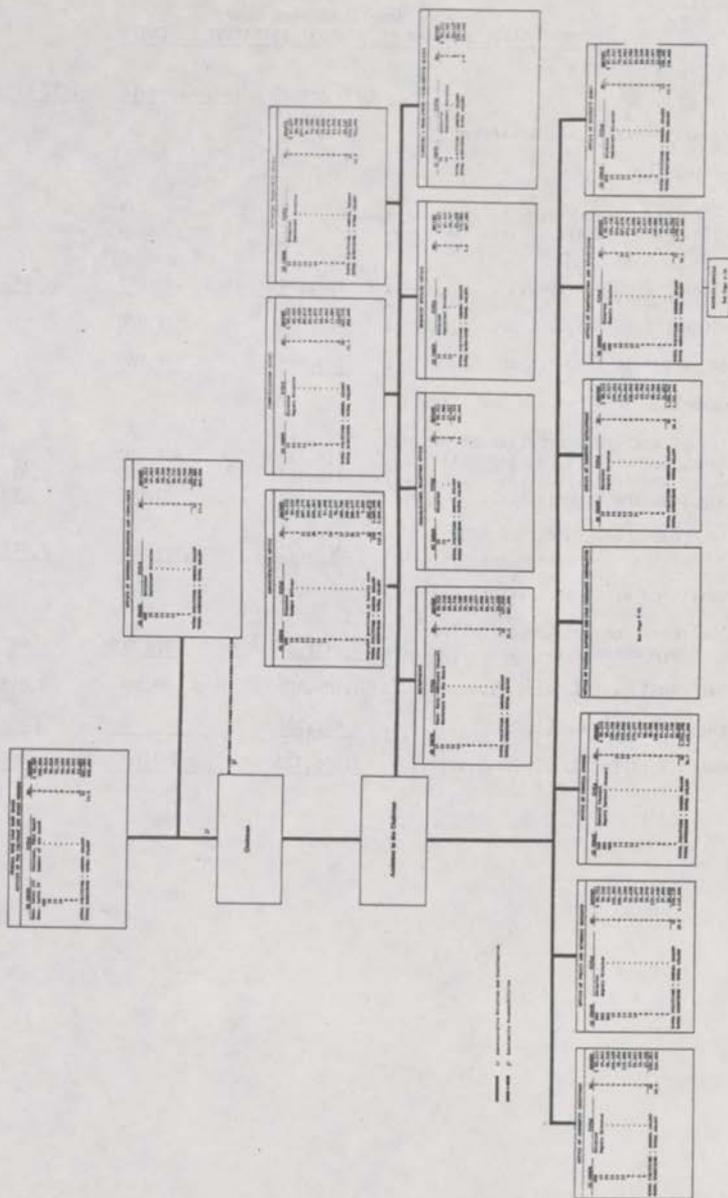
The Printing and Distribution Section operates the Print Shop, mail distribution service, driver pool, and copier rental and maintenance. The Print Shop provides services to the Headquarters staff through the operation of offset presses, collating machines, power paper cutters, drilling and punching equipment and copying and binding machines. It is also responsible for copier rentals and supplies for the Bank Board's twelve district and nineteen branch offices.

The Research Library provides a general reference service for all Bank Board offices including newspapers, periodicals and books. Library materials deal, for the most part, with economics and savings and loan industry related matters. It serves as a source of secondary research material for all offices, primarily the Office of Policy and Economic Research. It also serves as a depository for Bank Board publications - reports, industry analysis, etc.

Management Analysis Branch

The Management Analysis Branch conducts management studies carried out through methods and procedures analysis and organization and manpower utilization surveys. It develops and operates the Records Management Program that includes records, directives, correspondence, forms and reports management, paperwork reduction, and files maintenance. These responsibilities encompass the Privacy Act and Productivity Programs for the Bank Board. The Branch publishes the Bank Board's organizational manual, responds to requests from the GAO and OMB on administrative reports, and updates administrative material in the Federal Register.

Personal Services Loan Book Based
 on
 Federal Reserve Loan Book System
 Federal Reserve Board
 Federal Reserve System
 FEDERAL RESERVE BOARD
 FEDERAL RESERVE SYSTEM
 FEDERAL RESERVE BANK OF NEW YORK
 FEDERAL RESERVE BANK OF RICHMOND
 FEDERAL RESERVE BANK OF CINCINNATI
 FEDERAL RESERVE BANK OF CLEVELAND
 FEDERAL RESERVE BANK OF DETROIT
 FEDERAL RESERVE BANK OF KANSAS CITY
 FEDERAL RESERVE BANK OF MINNEAPOLIS
 FEDERAL RESERVE BANK OF ST. LOUIS
 FEDERAL RESERVE BANK OF PHOENIX
 FEDERAL RESERVE BANK OF PORTLAND
 FEDERAL RESERVE BANK OF SAN FRANCISCO
 FEDERAL RESERVE BANK OF SEATTLE
 FEDERAL RESERVE BANK OF TAMPA
 FEDERAL RESERVE BANK OF WASHINGTON, D.C.



Federal Home Loan Bank Board
COMPARATIVE SUMMARY OF NONADMINISTRATIVE EXPENSES

	<u>1980 Actual</u>	<u>1981 Estimate</u>	<u>1982 Estimate</u>
Personal Services and Benefits:			
Positions:			
Gross.....	5	5	5
Net Work-Years.....	<u>5</u>	<u>5</u>	<u>5</u>
PERSONNEL COMPENSATION.....	\$ <u>102,214</u>	\$ <u>125,000</u>	\$ <u>141,000</u>
PERSONNEL BENEFITS.....	<u>7,654</u>	<u>11,000</u>	<u>12,000</u>
TOTAL PERSONAL SERVICES AND BENEFITS..	<u>109,868</u>	<u>136,000</u>	<u>153,000</u>
Contractual Services and Supplies:			
Travel and Transportation of Persons	61	-0-	-0-
Rent, Communications, and Utilities.	616,712	671,000	780,000
Other Services.....	1,449,967	1,773,000	1,937,000
Supplies and Materials.....	<u>983</u>	<u>21,000</u>	<u>25,000</u>
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.....	<u>2,067,723</u>	<u>2,465,000</u>	<u>2,742,000</u>
Acquisition of Capital Assets:			
Depreciation and Noncapitalized Equipment.....	<u>931,814</u>	<u>979,000</u>	<u>960,000</u>
TOTAL GROSS EXPENSES.....	3,109,405	3,580,000	3,855,000
Less Reimbursements.....	<u>-2,982</u>	<u>-0-</u>	<u>-0-</u>
TOTAL NET EXPENSES.....	<u>3,106,423</u>	<u>3,580,000</u>	<u>3,855,000</u>

Federal Home Loan Bank Board

Non-Administrative Expenses - Building Operations

The budget estimates for 1981 and 1982 and actual expenses for 1980 for the major Building Operations Expenses are summarized below:

RENT, COMMUNICATIONS, AND UTILITIES

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>	Increase or Decrease (-)
Electricity.....	\$527,276	\$546,000	\$630,000	\$84,000
Steam.....	89,436	125,000	150,000	25,000
Total.....	<u>616,712</u>	<u>671,000</u>	<u>780,000</u>	<u>109,000</u>

OTHER SERVICES

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>	Increase or Decrease (-)
Advertising.....	\$ 900	\$ 10,000	\$ 10,000	\$ -0-
Building Maintenance....	807,908	669,000	739,000	70,000
Building Repairs.....	77,821	107,000	125,000	18,000
Custodial Service.....	226,720	380,000	418,000	38,000
Guard Services.....	251,263	327,000	360,000	33,000
Insurance.....	41,279	43,000	45,000	2,000
Management Fee and Other Professional Services..	39,876	217,000	220,000	3,000
Miscellaneous.....	<u>4,200</u>	<u>20,000</u>	<u>20,000</u>	<u>-0-</u>
Total.....	<u>1,449,967</u>	<u>1,773,000</u>	<u>1,937,000</u>	<u>164,000</u>

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

PROGRAM HIGHLIGHTS

The Office of Examinations and Supervision (OES) is responsible for conducting examinations of the approximately 4,000 savings and loan associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC) to determine their financial safety and soundness and their compliance with Federal statutes and Bank Board regulations. On the basis of these examinations, the Office is further responsible for initiating or coordinating the implementation of corrective supervisory action when financial conditions or operating policies of individual associations warrant. In carrying out these responsibilities, the Office protects the assets of the FSLIC against loss due to the financial failure of any FSLIC-insured association.

Examinations are conducted by a nation-wide OES field staff of savings and loan examiners assigned to district offices in each of the twelve Federal Home Loan Bank Districts. Examiners conduct examinations on the basis of guidance prepared in Washington to insure national consistency. In addition to regular, periodic and special supervisory examinations of insured associations, examiners also conduct examinations of affiliates of insured associations under the Financial Institutions Supervisory Act of 1966, and of holding companies and their subsidiaries under the Savings and Loan Holding Company Amendments of 1967. Finally, district offices also examine institutions to determine their eligibility for membership in the Federal Home Loan Bank System, insurance of savings on share accounts, or conversion from State to Federal Charter.

In addition to providing administrative support to field examiners, the district examination offices conduct a variety of monitoring activities designed to provide the Bank Board with early warning of financial or other operating problems of insured associations, including the review of monthly and semiannual financial reports submitted by associations. On the basis of this and other information, the field offices are responsible for scheduling on-site examinations by field examination staff in accordance with indications of greatest supervisory risk to the FSLIC insurance fund.

OES's Washington staff reviews reports of examinations to determine the necessity of corrective supervisory action in coordination with supervisory agents in the twelve Federal Home Loan District Banks and, as necessary, with counterpart State regulatory activities in the case of State-chartered institutions. When necessary, OES advises the Board and other Bank Board staff with respect to the financial condition of associations in actual or potential financial distress, recommends appropriate activities to the Bank Board to resolve or initiate problem situations and carries out directly or assists other Bank Board offices or District Banks in implementing Bank Board decisions in such cases.

OES Washington headquarters' staff further conducts a nation-wide training program for examiners, including State savings and loan examiners, and prepares and issues uniform policy guidance for coordinated actions by examiners and by supervisory agents. Finally, this staff participates with other Bank Board offices in the preparation and consideration of regulatory and legislative proposals in support of the Board.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

ORGANIZATION OF OFFICE OF EXAMINATIONS AND SUPERVISION

The Office of Examinations and Supervision consists of five principal units: Field Operations, Supervision, and Policy/Programs (headed by Deputy Directors); and Consumer/Civil Rights and Administration/Budget (headed by Assistant Directors). Field Operations consists of a small Washington Staff and all field examiner personnel assigned within each of the twelve Federal Home Loan Bank Districts. All staff in the remaining four units are stationed in Washington.

PERSONNEL REQUIREMENTS

The table below shows the number of positions allocated to and requested by OES for fiscal years 1980, 1981, 1982.

WASHINGTON AND DISTRICT OFFICE POSITIONS

<u>POSITIONS</u>	<u>1980 ACTUAL</u>	<u>1981 ESTIMATE</u>	<u>1982 ESTIMATE</u>
<u>Office of Director</u>			
Professional.....	2	2	2
Clerical.....	1	1	1
<u>Supervision</u>			
Professional.....	26	26	26
Clerical.....	9	9	9
<u>Policy/Programs</u>			
Professional.....	13	13	13
Clerical.....	4	4	4
<u>Consumer Affairs/Civil Rights</u>			
Professional.....	3	3	3
Clerical.....	2	2	2
<u>Administration and Budget</u>			
Professional.....	4	4	4
Clerical.....	6	6	6
<u>Field Operations</u>			
Deputy Directors.....	3	3	3
District Directors.....	12	12	12
Assistant District Directors..	45	45	45
Civil Rights Specialists.....	12	12	12
EDP Specialists.....	0	0	12
Real Estate Appraisers.....	13	13	13
Field Managers.....	90	92	92
Examiners.....	638	636	651
Clerical.....	109	109	97
TOTAL FIELD STAFF	919	919	934
TOTAL WASHINGTON STAFF	<u>73</u>	<u>73</u>	<u>73</u>
TOTAL STAFF	<u>992</u>	<u>992</u>	<u>1,007</u>

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

WORKLOAD - DISTRICT OFFICES

The work-days required in fiscal 1982 for examinations in each of the classifications shown in the Workload Table shown below total 137,260. General administration and training increase the total workload to 178,860 work-days. It is estimated that each examiner will have an average of 220 available work-days in 1982. Dividing 220 into the total workload of 178,860 work-days, a need for 813 field examiners, including 12 District Directors, is shown. Adding 101 clerical work-years to the 813 professional work-years results in a total of 914 work-years for 1982.

To summarize, the field estimate provides for 934 positions. Of this number 824 positions are for field examiners, including the 12 District Directors; there are 13 real estate appraiser positions; the remaining 97 positions are for the clerical staff.

EXAMINATION WORKLOAD

	<u>1980</u> <u>Actual</u>	<u>1981</u> <u>Estimate</u>	<u>1982</u> <u>Estimate</u>
<u>Reimbursable Staff-Days</u>			
<u>Supervisory</u>			
<u>Federal and State Associations</u>			
Examinations Completed	2,090	2,042	2,225
Average Staff-Days per Examination	37.7	38.0	39.0
Staff-Days Required	78,782	77,600	86,760
<u>Joint Insured State Associations</u>			
Examinations Completed	1,350	1,307	1,242
Average Staff-Days per Examination	29.3	29.5	30.0
Staff-Days Required	39,613	38,570	37,265
<u>Eligibility</u>			
Examinations Completed	10	29	4
Average Staff-Days per Examination	97.0	107.6	30.0
Staff-Days Required	970	3,120	120
<u>Affiliates of Insured Institutions</u>			
Examinations Completed	23	26	20
Average Staff-Days per Examination	11.5	10.0	7.0
Staff-Days Required	265	260	140
<u>Holding Companies</u>			
Examinations Completed	62	60	55
Average Staff-Days per Examination	6.7	6.5	7.0
Staff-Days Required	415	390	385
<u>Service Corporations</u>			
Examinations Completed	1,583	1,580	1,800
Average Staff-Days per Examination	3.2	3.2	3.0
Staff-Days Required	5,035	5,000	5,400

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

EXAMINATION WORKLOAD (cont'd)

<u>Special Examinations</u>			
Examinations Completed	216	225	300
Average Staff-Days per Examination	21.3	20.0	21.0
Staff-Days Required	4,598	4,500	6,300
<u>Other Services</u>			
Staff-Days Required	926	900	900
Total Reimbursable	130,604	130,340	137,260
<u>Non-Reimbursable</u>			
<u>Overhead</u>			
Personnel Management	1,898	2,000	2,000
General Administration	30,394	29,900	29,400
Sub-Total: District Offices Staff-Days Required	32,292	31,900	31,400
<u>Training and Development of Examiners</u>			
Sub-Total: Training and Development Staff-Days Required	10,981	12,000	10,200
<u>Summary: Examining Personnel Required</u>			
Total Staff-Days Required	173,877	174,240	178,860
Available Staff-Days per Examination	221	220	220
Staff-Years (Examining Personnel) Required	786	792	813

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

BUDGET OF THE DISTRICT OFFICES - OFFICE OF EXAMINATIONS AND SUPERVISION

The fiscal year 1982 budget of the District Offices of the Office of Examinations and Supervision is compared to fiscal year 1980 and 1981 in the table below.

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Positions.....	919	919	919	934	15
Work-Years.....	878	911	891	914	23
Personnel Compensation.	\$21,877,543	\$23,709,000	\$25,001,000	\$25,853,000	\$852,000
Personnel Benefits.....	2,052,981	2,296,000	2,388,000	2,483,000	95,000
Total Personal Services and Benefits.....	23,930,524	26,005,000	27,389,000	28,336,000	947,000
Contractual Services and Supplies.....	7,252,460	8,025,000	8,828,000	9,160,000	332,000
Acquisition of Capital Assets.....	100,309	75,000	48,000	44,000	- 4,000
Total Gross Expenses...	31,283,293	34,105,000	36,265,000	37,540,000	1,275,000
Estimated Savings.....	9,293	.....	.....	.....	.....
Proposed Supplementals due to:					
Increased Pay Costs .....	.....	.....	-2,230,000	.....	2,230,000
Increased Travel Costs .....	.....	.....	- 930,000	.....	930,000
Actual, Authorization, and Estimate.....	31,274,000	34,105,000	33,105,000	37,540,000	4,435,000

Fiscal Year 1981

As indicated, the fiscal year 1981 budget estimate of \$34,105,000 was reduced \$1,000,000 by the Congress, practically all of which was applied to compensation and benefits. We are requesting a 1981 supplemental of \$2,230,000 to cover increased compensation and benefit costs resulting from the 9.1% October 1980 general pay increase. We are also requesting a 1981 supplemental of \$930,000 to cover increased travel costs resulting from Public Law 96-346.

Fiscal Year 1982

The 1982 estimate of \$37,540,000 represents an increase of \$1,275,000, or 3.5% over the current 1981 estimate. This increase is attributable primarily to a higher employment level, annualization of the October 1980 general pay increase, within-grade step increases, and other pay adjustments, and benefits (\$947,000); increased travel costs (\$95,000); and provisions for general price increases. As shown above, the 1982 estimate includes funding for 15 additional examiner positions estimated to cost \$280,000 for compensation, benefits and travel.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Office

BUDGET OF THE DISTRICT OFFICES - OFFICE OF EXAMINATIONS AND SUPERVISION (cont'd)

The total net increase of \$1,275,000, by category of expense, is shown in the following table.

<u>Item</u>	<u>Increased Amount</u>
Personnel Compensation.....	\$852,000
Personnel Benefits.....	95,000
Travel and Transportation of Persons.....	95,000
Transportation of Things.....	-0-
Rent, Communications, and Utilities.....	182,000
Printing and Reproduction.....	-0-
Other Services.....	43,000
Supplies and Materials.....	12,000
Acquisition of Capital Assets.....	<u>-4,000</u>
Total.....	<u>1,275,000</u>

On the following page there is a more detailed comparative summary of District Offices examination expenses and this summary is followed by an explanation and justification of the individual line items.

Federal Home Loan Bank Board
Office of Examinations and Supervision
COMPARATIVE SUMMARY OF NONADMINISTRATIVE EXPENSES
(continued)

	1980 Actual		1981 Estimate		1982 Estimate	
	Gross Positions	Net Work-Years Amount	Gross Positions	Net Work-Years Amount	Gross Positions	Net Work-Years Amount
Contractual Services and Supplies:						
Travel and Transportation of Persons.....		5,346,411		6,505,000		6,600,000
Transportation of Things.....		33,408		50,000		50,000
Rent, Communications and Utilities.....		1,447,275		1,767,000		1,949,000
Printing and Reproduction.....		1,345		3,000		3,000
Other Services.....		330,526		386,000		429,000
Supplies and Materials.....		93,498		117,000		129,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.....		7,252,461		8,828,000		9,160,000
Acquisition of Capital Assets:						
Equipment.....		100,309		48,000		44,000
TOTAL GROSS EXPENSES.....		31,283,293		36,265,000		37,540,000
Reimbursements from other Accounts.....						
TOTAL NET EXPENSES.....		-9,293		-0-		-0-
Estimated Savings.....						
Proposed Supplemental Due to: Increased Pay Costs.....		-0-		-2,230,000		-0-
Increased Travel Costs.....		-0-		-920,000		-0-
ACTUAL, AUTHORIZATION AND ESTIMATE.		31,274,000 (1)		33,105,000		37,540,000

(1) Included for comparative purposes only. OES field office expenses were covered under the FSLIC expense limitation for FY 1980. See FSLIC comparative expense summary on page F-16.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

PERSONNEL COMPENSATION

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Positions.....	919	919	919	934	15
Work-Years.....	878	911	891	914	23
Net Salary.....	\$21,877,543	\$23,709,000	\$25,001,000	\$25,853,000	\$852,000

The 1981 current estimate includes requested supplemental funds of \$2,082,000 attributable to the October 1980 general pay increase.

The 1982 estimate shows an increase of \$852,000 over the current 1981 estimate. The increase is attributable to the annualization of the October 1980 pay raise, within-grade increases, and other pay adjustments, as well as funds (\$164,000) to support the 15 additional examiner positions requested.

PERSONNEL BENEFITS

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Health Benefits.....	\$ 451,182	\$ 475,000	\$ 485,000	\$ 519,000	\$ 34,000
Life Insurance.....	67,422	82,000	77,000	82,000	5,000
Moving and Related Expenses.....	28,436	105,000	85,000	85,000	-0-
Retirement.....	1,499,992	1,624,000	1,735,000	1,790,000	55,000
Severance Pay.....	-0-	5,000	-0-	-0-	-0-
Social Security Taxes (FICA).....	5,949	5,000	6,000	7,000	1,000
Total.....	<u>2,052,981</u>	<u>2,296,000</u>	<u>2,388,000</u>	<u>2,483,000</u>	<u>95,000</u>

The 1981 current estimate includes requested supplemental funds of \$148,000 attributable to increased costs resulting from the October 1980 pay raise.

The 1982 estimate shows an increase of \$95,000, of which \$16,000 is required to support the 15 additional examiner positions requested.

HEALTH BENEFITS

The 1982 estimate of \$519,000 provides for the Bank Board's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382).

LIFE INSURANCE

The 1982 estimate of \$82,000 represents the Bank Board's (Employer) portion of the premiums payable under the Federal Employees' Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1982.

MOVING AND RELATED EXPENSES

The 1982 estimate of \$85,000 provides for the payment of certain moving and related expenses as provided for in Public Law 89-516. Included in this category are reimbursements to employees for subsistence and temporary expenses incurred in moving from one location to another, real estate costs in connection with selling the residence at the old official station and purchasing a new home at the new official station, and certain miscellaneous moving expenses.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

RETIREMENT

The 1982 estimate of \$1,790,000 provides for the Bank Board's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1982.

SOCIAL SECURITY TAXES

The 1982 estimate of \$7,000 provides for payment of the Bank Board's (Employer) share contributions under the Federal Insurance Contributions Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

TRAVEL AND TRANSPORTATION OF PERSONS

1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
	Budget Estimate	Current Estimate		
\$5,346,411	\$5,575,000	\$6,505,000	\$6,600,000	\$95,000

Practically all of these funds are required to cover travel and transportation costs of our savings and loan examiners. The 1981 current estimate of \$6,505,000 includes requested supplemental funds of \$930,000 to cover the 45% increase in per diem rates and the 17% increase in mileage rates authorized by Public Law 96-346, approved September 10, 1980.

The original 1982 estimate of \$6,600,000 includes funds to cover travel for the 15 additional examiner positions requested for 1982.

TRANSPORTATION OF THINGS

1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
	Budget Estimate	Current Estimate		
\$33,408	\$65,000	\$50,000	\$50,000	\$-0-

This item provides for the shipment of supplies, equipment, and the moving of furniture and personal effects to and from the respective District Offices and the Home Office in Washington, D.C. The estimate includes \$40,000 for the moving of furniture and personal effects of field examiners transferred from one District to another or to the Home Office in Washington, D.C.

RENT, COMMUNICATIONS, AND UTILITIES

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
<u>Rent and Utilities:</u>					
Office and					
Storage Space.....	\$ 862,323	\$ 985,000	\$ 950,000	\$1,040,000	\$ 90,000
Equipment.....	151,419	256,000	254,000	284,000	30,000
Sub-total.....	<u>1,013,742</u>	<u>1,241,000</u>	<u>1,204,000</u>	<u>1,324,000</u>	<u>120,000</u>

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

RENT, COMMUNICATIONS, AND UTILITIES (cont'd)

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
<u>Communications:</u>					
Switchboard & Other					
Fixed Charges.....	113,526	125,000	139,000	144,000	5,000
Long Distance					
Calls.....	167,978	204,000	203,000	240,000	37,000
Telegrams and					
Teletype.....	-0-	1,000	1,000	1,000	-0-
Postage.....	152,027	220,000	220,000	240,000	20,000
Sub-total.....	<u>433,531</u>	<u>550,000</u>	<u>563,000</u>	<u>625,000</u>	<u>62,000</u>
GRAND TOTAL.....	<u>1,447,273</u>	<u>1,791,000</u>	<u>1,767,000</u>	<u>1,949,000</u>	<u>182,000</u>

RENT AND UTILITIES

Office and Storage Space

The 1982 estimate of \$1,040,000 includes the rental of 93,929 square feet of office and storage space, at varying rates, which average \$10.57 per square foot in 40 field offices totaling \$993,200. This compares with 91,529 square feet of office and storage space in fiscal 1981 (revised) at an estimated cost of \$935,300. The additional \$57,900 will provide for needed expansion of some offices to relieve overcrowding; and will allow for anticipated rate increase in 1982.

Equipment

The 1982 estimate of \$284,000 covers the following types of rental equipment located in the various district offices.

	Description	Annual Rental
34	Automatic Copying Machines and Accessory Equipment.....	\$128,000
29	Terminals and Accessory Equipment....	72,000
19	Word Processing Machines and Accessory Equipment (required for work areas where many perfect copy letters are needed and for text editing).....	82,000
	Miscellaneous.....	<u>2,000</u>
	Total.....	<u>\$284,000</u>

COMMUNICATIONS

The \$625,000 estimate for 1982 represents a \$62,000 increase over the current estimate for 1981 caused by anticipated higher switchboard rates as well as the Bank Board's share of the added cost of running the FTS network by GSA, and higher penalty mail costs due to anticipated higher postage rates.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

PRINTING AND REPRODUCTION

1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
	<u>Budget Estimate</u>	<u>Current Estimate</u>		
\$1,345	\$3,000	\$3,000	\$3,000	\$ -0-

Provision is made for the printing of letterheads, envelopes, and other printed matter. The estimate also provides for the reproduction of examination reports in most of the District Offices.

OTHER SERVICES

Description	1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
		<u>Budget Estimate</u>	<u>Current Estimate</u>		
Personnel Development					
Program.....	\$239,738	\$325,000	\$310,000	\$335,000	\$25,000
Health Service Program....	32,774	55,000	30,000	33,000	3,000
Renovation and Rehabilitation.....	32,855	45,000	20,000	30,000	10,000
Repairs to Furniture, Fixtures, and Equipment.	13,769	10,000	15,000	20,000	5,000
Security Investigations...	-0-	1,000	1,000	1,000	-0-
Miscellaneous.....	<u>11,389</u>	<u>20,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-0-</u>
Total.....	<u>330,525</u>	<u>456,000</u>	<u>386,000</u>	<u>429,000</u>	<u>43,000</u>

The 1981 and 1982 estimates for personnel development include \$150,000 for the purpose of training State examiners, as required by the Congress.

Following is a description of the District Offices Personnel Development and Health programs which account for most of the expense in this category.

PERSONNEL DEVELOPMENT PROGRAM

OES's effectiveness in carrying out its responsibilities is in large part contingent on the training which OES provides its staff. The objectives of OES's training program are the basic education of new examiners, development of expertise in important aspects of savings and loan operations and the motivation and career development of senior examiners and other OES staff members to assume management positions in the future. The importance of training to OES's effectiveness has increased over time with the increasing scope and complexity of the industry's operations and Federal requirements. The importance of training will increase further as examiners and other OES professionals become involved, for the first time, with consumer lending, NOW accounts and other powers which savings and loans will be adopting in response to the Monetary Control Act of 1980; further growth in the use of EDP in the savings and loan industry; and continuing emphasis in community reinvestment, nondiscrimination and consumer protection in financial transactions.

OES uses a variety of approaches in training its staff depending on the complexity of subject matter, the number of personnel to be trained and the types of training aids and material required. These different approaches include local training provided by a district office for its own examiners, national OES training courses provided at centralized locations by OES staff, and training provided by the Federal Financial Institutions Examination Council and

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

OTHER SERVICES (cont'd)

by other bodies in particular subjects. The curriculum and scheduling of all OES training, however, is implemented or coordinated at the national level to ensure national consistency and coverage.

Further, as directed by Congress, OES and the Bank Board have devoted significant resources to the inclusion of state examiners in the Bank Board's training program and activities associated with Federal-State Joint Committee on Examinations. During 1980, under this program, the Bank Board provided state examiner training as follows:

<u>Subject</u>	<u>Number of State Examiners</u>
Advanced Civil Rights	212
New Examiner Training School	43
Appraisal Practices	46
Regulation Z	106
Forward Commitments	2
Computer Auditing	64
Training Related to Monetary Control Act	41
Career Development	67

Among the specific activities to be included in the OES FY 1982 training program are:

1. On-The-Job Development

Our examiners spend their first week of duty in their district office where they are oriented to the Federal Home Loan Bank Board, the Office of Examinations and Supervision, the savings and loan industry, and the examination process. Additional training will be given to OES supervisors and managers during FY 1982 to explain their responsibilities regarding the development of their subordinates.

2. New Examiner Training School (NETS)

At the New Examiner Training School, our new examiners are acquainted with savings and loan terminology, industry forms, FHLBB and OES forms, Federal regulations, and examination objectives and procedures. The new examiners are also introduced to examination techniques by going through a simulated examination where they encounter the elements of materiality and judgment.

3. Real Estate Appraisal School

At this school examiners are introduced to the terminology, principles, and techniques of residential real estate appraising and also learn to use proper procedures when reviewing and reporting on the adequacy of appraising practices. A second objective is to provide the theoretical background necessary for further appraisal training, especially concerning commercial income properties.

4. EDP and the S&L

This training session is presented through audio-visual learning modules and has three objectives: first, to provide the examiners with general understanding of electronic data processing; second, to show the examiners how electronic data processing is used in savings and loan associations; and third, to provide the examiners with an understanding of the controls that are necessary in a electronic data processing environment.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

OTHER SERVICES (cont'd)

5. Training Modules

Training will be developed nationally and administered on the district level in the following areas during FY 1982: NOW accounts, trust operations, consumer lending, credit card operations, advanced loan application register, management training in EEO and affirmative action, loan underwriting, and forward commitments. All modules will be included in NETS prior to FY 1982.

6. Special Courses

Other training opportunities include Washington, D.C. duty, participation as an instructor or coordinator at OES training courses, and the attendance at the various courses offered by the Federal Financial Institutions Examination Council and the Office of Personnel Management.

7. Advanced Management Seminar

A need has been recognized to provide advanced management training, during FY 1982, to OES supervisors and managers. Specific skill areas include: communications, attitude, motivation, counseling, team building, equal opportunity and many others. The goal is to produce first-rate managers capable of dealing with organizational as well as technical examination problems.

HEALTH SERVICE PROGRAM

The \$33,000 Health Service Program funds are needed to;

1. Comply with the Presidential directive to the Office of Personnel Management on improving employee health services and the OMB Circular A-72. The funds allow a continuation of the programs set up with executive health examiners to provide employee health examinations.
2. Fund the Bank Board's share of the cost of operating certain health units maintained near some of the District Offices and utilized by the District Offices' staff.
3. Fund the Health Maintenance Programs (e.g., hearing tests, glaucoma tests, flu shots, etc.).

SUPPLIES AND MATERIALS

1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
	<u>Budget Estimate</u>	<u>Current Estimate</u>		
\$93,498	\$135,000	\$117,000	\$129,000	\$12,000

The 1982 estimate provides for supplies and materials for the District Offices. The estimate represents an increase of \$12,000 over the current 1981 estimate of \$117,000 and provides for anticipated price increases in 1982.

Federal Home Loan Bank Board
Office of Examinations and Supervision - District Offices

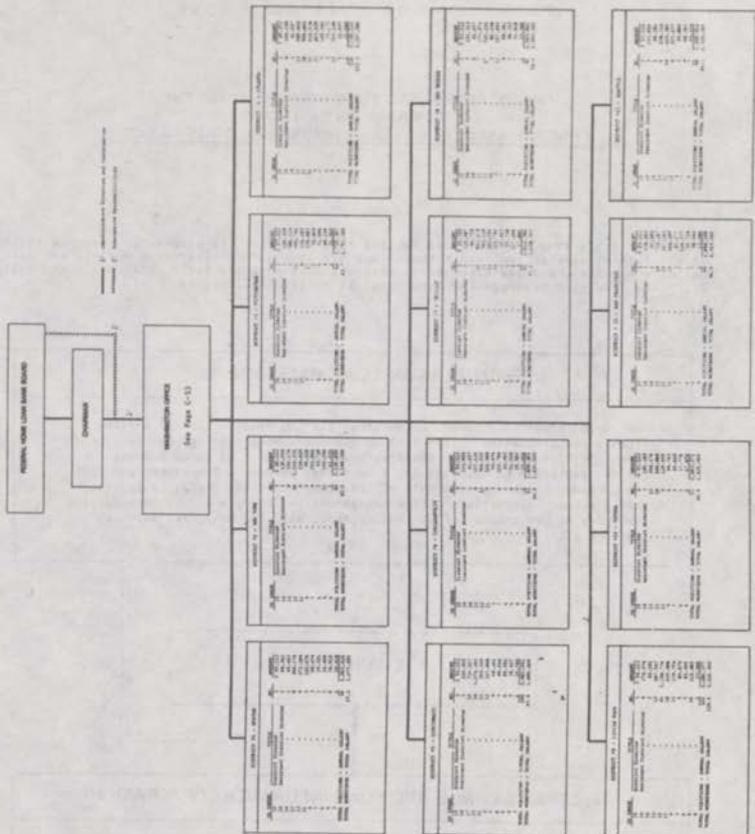
ACQUISITION OF CAPITAL ASSETS

<u>1980</u> <u>Actual</u>	<u>1981</u>		<u>1982</u> <u>Estimate</u>	<u>Increase or</u> <u>Decrease (-)</u>
	<u>Budget</u> <u>Estimate</u>	<u>Current</u> <u>Estimate</u>		
\$100,309	\$75,000	\$48,000	\$44,000	\$-4,000

It is the policy of the Federal Home Loan Bank Board to amortize the cost of furniture, fixtures, and equipment over an average life of 10 years. Provision is therefore made in this category to cover the fixed depreciation expense of furniture, fixtures, and equipment currently owned, plus additional purchases anticipated during the current fiscal year and fiscal year 1982.

Of the \$44,000 provided the District Offices for fiscal year 1982, \$29,000 represents depreciation expense; the remaining \$15,000 covers non-capitalized items included in this classification.

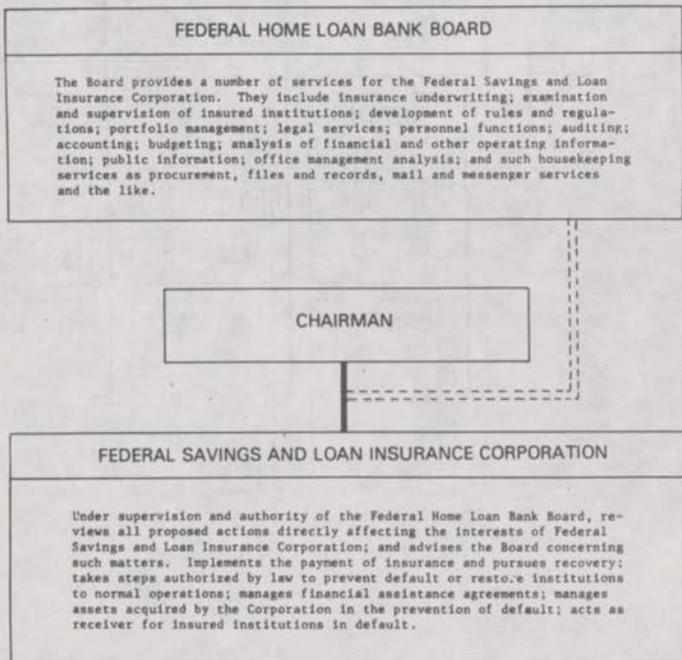
PERSONAL SERVICES DATA BY ORGANIZATIONAL UNIT - FISCAL YEAR 1962



FEDERAL HOME LOAN BANK BOARD

ORGANIZATION AND FUNCTION CHART OF THE
OPERATIONS OF THE
FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

Created by Title IV of the National Housing Act, 1934, for the purpose of insuring savings in all Federal savings and loan associations and in all State-chartered savings and loan, building and loan, and homestead associations and cooperative banks which apply and qualify. The insurance coverage for each saver is limited to \$100,000.



————— Administrative Direction and Coordination
 - - - - - Substantive Responsibilities

Approved:

John H. Dalton
 CHAIRMAN

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
A. Statement of Sources and Applications of Funds

<u>FUNDS APPLIED</u>	<u>1980 Actual</u>	<u>1981 Estimate</u>	<u>1982 Estimate</u>
<u>To Operations</u>			
Acquisition of assets:			
Assets purchased from insured			
institutions.....	\$1,001,114,374	\$ 502,500,000	\$ 150,000,000
Furniture, fixtures and equipment.....	183,361	8,000	15,000
Loans to insured institutions.....	157,301,516	552,750,000	40,000,000
Contributions and provision for			
contributions to insured			
institutions.....	15,064,140	35,300,000	35,000,000
Expenses.....	264,523,856	126,860,762	112,779,999
Refund of additional premium			
prepayments.....	119,191,983	121,365,823	119,725,228
Credit allowed on regular insurance			
premiums.....	110,170,569	123,323,400	136,567,100
Increase in selected working capital....	-0-	102,320,466	-0-
Total applied to operations.....	<u>1,667,549,799</u>	<u>1,564,428,451</u>	<u>594,087,327</u>
<u>To financing</u>			
Increase/Decrease (-) in Treasury			
Cash.....	219,646	-218,608	-536
Increase/Decrease (-) in investments in			
U.S. Securities (par).....	<u>-553,284,000</u>	<u>-415,015,000</u>	<u>649,810,000</u>
Total applied to financing.....	<u>-553,064,354</u>	<u>-415,233,608</u>	<u>649,809,464</u>
Total funds applied.....	<u>1,114,485,445</u>	<u>1,149,194,843</u>	<u>1,243,896,791</u>
<u>FUNDS PROVIDED</u>			
<u>By operations</u>			
Realization on loans to insured			
institutions.....	6,020,978	7,900,000	9,996,000
Realization on assets acquired from			
insured institutions.....	6,503,499	143,500,000	151,000,000
Return on additional premiums -			
prepayments.....	76,045,463	58,648,762	42,801,999
Gain on assets acquired from insured			
institutions.....	33,266,217	45,000,000	45,000,000
Income.....	898,550,396	894,146,081	993,369,490
Decrease in selected working capital....	94,098,892	-0-	1,729,302
Total funds provided.....	<u>1,114,485,445</u>	<u>1,149,194,843</u>	<u>1,243,896,791</u>
<u>BUDGET EXPENDITURES</u>			
Funds applied to operations.....	1,667,549,799	1,564,428,451	594,087,327
Funds provided by operations.....	<u>1,114,485,445</u>	<u>1,149,194,843</u>	<u>1,243,896,791</u>
Net budget expenditures.....	<u>553,064,354</u>	<u>415,233,608</u>	<u>-649,809,464</u>

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
B. Statement of Income and Expense

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
<u>Income</u>			
Examining fees and charges.....	\$ 17,842,559	\$ -0-	\$ -0-
Insurance premium and admission fees earned.....	385,322,773	425,253,200	470,921,140
Interest on U.S. and Federal agency securities.....	444,241,583	450,628,785	505,320,311
Interest on loans.....	8,190,079	14,259,096	13,123,039
Income on assets acquired from insured institutions.....	42,428,657	4,000,000	4,000,000
Gain on assets acquired from insured institutions.....	33,266,217	45,000,000	45,000,000
Miscellaneous.....	524,745	5,000	5,000
<u>Total income.....</u>	<u>931,816,613</u>	<u>939,146,081</u>	<u>1,038,369,490</u>
<u>Expense</u>			
Administrative expenses.....	33,288,226	1,050,000	1,030,000
Payments to the Federal Home Loan Bank Board for services and facilities....	11,820,566	32,002,000	33,564,000
Liquidation and other expenses.....	6,349,886	35,160,000	35,384,000
Contributions and provision for contributions to insured institutions.....	15,064,140	35,300,000	35,000,000
<u>Subtotal.....</u>	<u>66,522,818</u>	<u>103,512,000</u>	<u>104,978,000</u>
Cost of settlement of litigation.....	635,203	-0-	-0-
Loss on sale/exchange of securities....	28,410,053	-0-	-0-
Accrued return on additional premiums - prepayments.....	76,045,463	58,648,762	42,801,999
Provision for losses on assets acquired.....	107,974,459	-0-	-0-
Depreciation on furniture, fixtures and equipment.....	39,518	12,500	13,500
<u>Total expense.....</u>	<u>279,627,514</u>	<u>162,173,262</u>	<u>147,793,499</u>
<u>Net income for the year.....</u>	<u>652,189,099</u>	<u>776,972,819</u>	<u>890,575,991</u>

ANALYSIS OF RETAINED EARNINGS*

Retained earnings, beginning of year...	4,681,066,180	5,333,255,279	6,110,228,098
Retained earnings, end of year.....	5,333,255,279	6,110,228,098	7,000,804,089

*In addition to retained earnings which are credited to the primary reserve, additional premiums (prepayments) and return on additional premiums are credited to a secondary reserve. (See attachment C).

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation
C. Statement of Financial Condition

ASSETS	1979 Actual	1980 Actual	1981 Estimate	1982 Estimate
Cash with U.S. Treasury.....	\$ 3,326	\$ 221,122	\$ 2,514	\$ 1,978
Cash with Banks.....	52,410	237,816	25,000	25,000
Investments.....	5,561,181,700	5,007,897,700	4,592,882,700	5,242,692,700
Accounts receivable, net.....	84,475,130	88,892,614	90,636,475	88,907,173
Assets acquired from insured institutions, net.....	40,628,324	1,035,960,224	1,394,960,224	1,393,960,224
Loans to insured institutions, net.....	31,327,142	181,886,654	726,736,654	756,740,654
Deferred charges.....	4,863	33,563	20,000	20,000
Furniture, fixtures and equipment, net.....	95,627	239,470	234,970	236,470
<u>Total assets.....</u>	<u>5,717,768,522</u>	<u>6,315,369,163</u>	<u>6,805,498,537</u>	<u>7,482,584,199</u>
LIABILITIES				
Current liabilities.....	62,779,856	160,350,401	60,000,000	60,000,000
Deferred credits.....	5,192,646	6,350,733	5,900,000	5,900,000
<u>Total liabilities.....</u>	<u>67,972,502</u>	<u>166,701,134</u>	<u>65,900,000</u>	<u>65,900,000</u>
INSURANCE RESERVES				
Primary reserve.....	4,681,066,180	5,333,255,279	6,110,228,098	7,000,804,089
Secondary reserve (additional premiums).....	919,576,378	762,769,056	586,277,142	394,981,804
Reserve for accrued return on additional premiums.....	49,153,462	52,643,694	43,093,297	30,898,306
<u>Total insurance reserves...</u>	<u>5,649,796,020</u>	<u>6,148,668,029</u>	<u>6,739,598,537</u>	<u>7,416,684,199</u>
<u>Total liabilities and insurance reserves</u>	<u>5,717,768,522</u>	<u>6,315,369,163</u>	<u>6,805,498,537</u>	<u>7,482,584,199</u>

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PROGRAM HIGHLIGHTS

The Federal Savings and Loan Insurance Corporation insures savings accounts up to \$100,000 for each saver in Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, known in some sections of the country as co-operative banks and homestead associations.

The budget program is designed to permit the Corporation to handle adequately and with dispatch its various insurance activities and to protect the savings of people invested in insured associations of the savings and loan type.

<u>Description</u>	<u>Sept. 30, 1980 Actual</u>	<u>Sept. 30, 1981 Estimate</u>	<u>Sept. 30, 1982 Estimate</u>
	(Dollars in Millions)		
<u>Insured Institutions:</u>			
Number.....	4,019	3,869	3,719
Assets.....	\$598,101	\$660,000	\$726,700
Potential liability.....	\$482,540	\$533,600	\$585,000
Net worth.....	\$ 32,000	\$ 35,100	\$ 39,200
<u>Insurance Corporation:</u>			
Reserve for Insurance losses....	\$ 6,149	\$ 6,707	\$ 7,385

CREATION AND GROWTH

The Corporation was created in 1934 to insure savings accounts up to \$5,000 in all Federal savings and loan associations and in approved State-chartered savings and loan or building and loan associations, co-operative banks, and homestead associations. In 1950, the insurance limit was raised to \$10,000 by Public Law 797, Eighty-first Congress. In 1966, the insurance limit was raised to \$15,000 by Public Law 695, Eighty-ninth Congress. In 1969, the insurance limit was raised to \$20,000 by Public Law 151, Ninety-first Congress. In 1974 the insurance limit was raised to \$40,000 by Public Law 93-495. In 1980, the insurance limit was raised to \$100,000 by Public Law 96-221, approved March 21, 1980.

As intended by Congress, the insuring of the accounts of individual investors creates an incentive for the investment of savings in institutions of the savings and loan type thus stimulating the flow of private credit for home-financing into institutions specifically created for home-financing. Insurance has also proved to be a stabilizing force in this segment of the financial structure of the Nation.

Public demand for protection of its savings has greatly increased the growth of insured institutions. This growth is reflected in the following table showing the number, assets, and average size of insured institutions at the end of the fiscal years indicated.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

<u>Fiscal Year-End</u>	<u>Number of Members</u>	<u>Assets in Billions</u>	<u>Average Size in Millions</u>
1950	2,799	\$ 12.5	\$ 4.5
1955	3,472	31.6	9.1
1960	4,044	63.3	15.7
1965	4,483	119.7	26.7
1970	4,406	161.4	36.6
1975	4,110	310.3	75.5
1976	4,049	357.9	88.4
1977	4,069	435.3	107.0
1978	4,053	498.8	123.0
1979	4,043	559.4	138.0
1980	4,019	598.1	149.0
1981*	3,869	660.0	171.0
1982*	3,719	726.7	195.0

*Estimate

As indicated, membership reached 4,019 at September 30, 1980, a decrease of 24 for the year. It is expected to decrease by 150 in the current fiscal year and 150 in fiscal 1982, bringing the total to 3,719 by September 30, 1982.

Assets of insured institutions aggregated \$598.1 billion at September 30, 1980, an increase of \$38.7 billion or 6.9%. An increase of \$61.9 billion is expected in the current fiscal year, and \$66.7 billion in fiscal 1982, bringing the total to \$726.7 billion at September 30, 1982, an estimated increase of \$128.6 billion or 21.5% in the two years.

The average size of these insured institutions increased from \$138.0 million at September 30, 1979, to \$149.0 million at September 30, 1980, an increase of 7.9%. It is expected to reach \$195.0 million by September 30, 1982, an increase of 30.9% over September 30, 1980.

The number of insured and uninsured savings and loan associations at September 30, 1980, was 4,647. Of this number, 4,019 or 86.5% were insured while 628 or 13.5% were not. Estimated assets of insured savings and loan associations at September 30, 1980, aggregated \$598.1 billion. Assets of uninsured savings and loan associations on the same date aggregated \$11.2 billion; percentage wise, insured associations held 98.1% of the assets while uninsured associations held 1.9%. In summary, insured associations represented 86.5% of all savings and loan associations and held 98.1% of the assets of all savings and loan associations.

INVESTORS

The table on page F-7 shows the number of insured investors, total savings, and size of the average insured account at year-end for the fiscal years indicated.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

<u>Fiscal Year-End</u>	<u>Number of In- sured Investors (In Thousands)</u>	<u>Savings in Billions</u>	<u>Size of Average In- sured Account</u>
1950	7,663	\$ 10.6	\$1,389
1955	14,700	27.0	1,837
1960	25,869	54.9	2,122
1965	37,407	102.0	2,727
1970	45,670	134.0	2,934
1975	64,300	262.1	4,076
1980	90,800	487.3	5,367
1981*	97,200	541.7	5,573
1982*	103,900	596.9	5,745

*Estimate

The number of insured investors at September 30, 1980, showed an increase of 2.0% over the number at September 30, 1979. This figure is expected to increase by 7.0% in the current fiscal year, and reach 103,900,000 by September 30, 1982, an increase of 14.4% for the 24-month period.

Aggregate savings of investors totaled \$487.3 billion at September 30, 1980, an increase of \$34.1 billion or 7.5% since September 30, 1979; an increase of \$54.4 billion or 11.2% is expected during the current fiscal year. Aggregate savings are expected to reach \$596.9 billion by September 30, 1982, an increase of \$109.6 billion or 22.5% over September 30, 1980.

The size of the average insured account was \$5,367 at September 30, 1980. It is expected to reach \$5,745 by September 30, 1982, an increase of 7.0% in the 24-month period.

RESERVES

The following table shows the reserves accumulated, by all insured institutions as well as by the Insurance Corporation, by fiscal years:

<u>Fiscal Year-End</u>	<u>All Insured Institutions</u>	<u>FSLIC</u>		
		<u>Total</u>	<u>Primary</u>	<u>Secondary</u>
<u>(In Millions)</u>				
1950	\$ 874	\$ 88	\$ 88	\$...
1955	2,090	171	171	...
1960	4,400	354	354	...
1965	8,122	1,487	690	797
1970	11,542	2,854	1,326	1,528
1975	18,414	3,933	2,566	1,367
1976	20,142	4,261	2,951	1,310
1977	23,700	4,744	3,519	1,225
1978	27,400	5,164	4,051	1,113
1979	30,871	5,650	4,681	969
1980	32,000	6,149	5,333	816
1981*	35,100	6,707	6,078	629
1982*	39,200	7,385	6,969	416

*Estimate

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

The reserves and undivided profits of insured institutions aggregated \$32.0 billion at September 30, 1980, an increase of 3.6% over the figure at September 30, 1979. It is expected to reach \$39.2 billion by September 30, 1982, an increase of 22.5% in the 24-month period.

RESERVES - LEGISLATIVE HISTORY

The Corporation's Reserve for Insurance losses was \$410 million at June 30, 1961. The basic law required the Corporation to build up a reserve until it was equal to 5% of all insured accounts plus all creditor obligations of all insured institutions. The enactment of Public Law 87-210, approved September 8, 1961, revised the reserve requirements. This law, effective January 1, 1962, required each insured institution to pay the Corporation annually an additional premium in the nature of a prepayment at a rate equal to 2% of the increase in savings for the previous calendar year less an amount equal to any requirement for the purchase of Federal Home Loan Bank stock during such period. The law further required the Corporation to establish a Primary Reserve, which is the general reserve of the Corporation, and a Secondary Reserve to which was credited the amounts of the prepayments made by the insured institutions. When the sum of these two reserves equaled 2% of total savings plus creditor obligations, the prepayments would cease and the Corporation would commence transferring the Secondary Reserve to the Primary Reserve by charging each insured association's accumulated prepayments with its regular annual premium liability. Finally, if the aggregate of the Secondary and Primary Reserves dropped below 1.75% of total savings plus creditor liabilities at the end of any calendar year, premium prepayments would resume and regular annual premiums would be paid by insured institutions until the aggregate of the Primary and Secondary Reserves again reached 2.0% as of the end of a calendar year.

Public Law 91-151, approved December 23, 1969, excluded creditor obligations from the above-mentioned calculations and provided that the condition under which prepayments were to cease and accumulated prepayments were to be credited toward regular premiums was deemed to have been met as of the close of December 31, 1969. Public Law 92-213, approved December 22, 1971, reduced the premium prepayment resumption trigger from 1.75% to 1.60%.

At December 31, 1972, the Corporation's reserves ratio dropped to below 1.60% of total savings in insured institutions. Public Law 93-100, approved August 16, 1973, permanently removed the requirement for premium prepayments and granted to the Board authority to determine each year the amount of members' annual premiums which would be paid in cash (the amount cannot be less than 30% nor more than 70%), and the amount which would be charged to the members' pro rata share of the Secondary Reserve. The law also provided that if the Corporation's aggregate reserves fall below 1.25% of total insured savings capital, regular annual premiums would be paid 100% in cash.

Public Law 93-495, approved October 28, 1974, provides for a phase-out of the Secondary Reserve over the first 10 minimum net reduction years occurring after December 31, 1973. In May of each year, the Corporation will reduce the amount of each insured institution's pro rata share of the Secondary Reserve as of the preceding December 31 by a cash refund of the difference between such pro rata share at that date and a prescribed percentage of its balance as of December 31, 1973.

As of September 30, 1980, the Primary and Secondary Reserves totaled \$6,149 million, or 1.26% of total savings. Based upon current projection, it is estimated that the total of the Primary and Secondary Reserves will reach \$7,385 million by September 30, 1982 or 1.24% of total savings.

Section 110(d) of Public Law 89-117, effective August 10, 1965, enables the Corporation to obtain additional liquidity, if necessary, by calling upon insured institutions to make deposits in the Corporation up to one percent of their withdrawable savings. The Board has not found it necessary to use this authority to date.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

INSURANCE LIABILITY

The following table shows the potential liability of the Corporation as of the dates indicated:

<u>Fiscal Year-End</u>	<u>Potential Liability in Billions</u> ^{1/}	<u>Fiscal Year-End</u>	<u>Potential Liability in Billions</u> ^{1/}
1950	\$ 10.5	1976	\$296.2
1955	27.4	1977	369.3
1960	54.7	1978	392.0
1965	102.5	1979	429.6
1970	131.9	1980	482.5
1975	256.9	1981*	533.6
		1982*	585.0

*Estimate

^{1/} Creditor obligations included prior to 1969

The potential liability of the Corporation increased from \$429.6 billion at September 30, 1979 to \$482.5 billion at September 30, 1980, an increase of 12.3%. It is expected to be \$533.6 billion by September 30, 1981, and \$585.0 billion by September 30, 1982, an increase of 21.2% in the 24-month period.

INSURANCE CLAIMS

Since its inception through September 30, 1980, the Insurance Corporation has had a total of 133 settlement cases; 55 of these are current while 69 have been closed. Nine new cases were added in fiscal 1980. Losses, including provision for losses have amounted to \$404.5 million. Actual losses sustained at September 30, 1980 totaled \$295.0 million.

<u>Method of Settlement</u>	<u>Number</u>	<u>Number of Investors Protected</u>	<u>Actual Losses Sustained and Provisions for Losses</u>
Acquisition of Assets.....	13	75,782	\$ 21,264,244
Acquisition of Assets and Contributions.....	18	119,925	70,954,040
Contribution.....	72	659,319	150,495,491
Contribution and Loan.....	5	44,054	6,007,569
Contribution, Loan, and Acquisition of Assets.....	2	40,752	15,341,369
Purchase and Assumption.....	5	100,844	122,973,800
Loan.....	4	137,383	2,134,709
Loan and Acquisition of Assets.....	1	26,137	3,683,682
Receivership and Acquisition of Assets.....	3	40,107	11,323,636
Receivership.....	10	50,467	309,557
Total.....	133	1,294,770	404,488,097

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

As indicated, contributions were made to 97 institutions; 13 institutions were placed in receivership and liquidated, and in 37 cases the Corporation purchased assets. The losses, including provision for losses, represent approximately 5.57% of cumulative gross income through September 30, 1980.

BORROWING POSITION

Under Public Law 576, approved June 27, 1950, the Corporation is authorized to borrow from the United States Treasury such funds, not exceeding \$750 million outstanding at any one time, as in the judgment of the Federal Home Loan Bank Board are required for insurance purposes. This authority has never been used.

RETIREMENT OF CAPITAL STOCK

Pursuant to Section 5(h) of Public Law 576, approved June 27, 1950, the Corporation on July 1, 1958, completed the retirement of its entire capital stock.

Retirement of the stock, amounting to \$100 million, began in fiscal year 1951. The amount of the capital stock retired each year was equal to 50% of the Corporation's net income for the fiscal year.

During the life of the stock, the Corporation paid out in the form of a return in lieu of dividends \$42,976,000; almost the entire amount was paid to the Secretary of the Treasury.

OFFICE OF FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION

FUNCTIONS AND RESPONSIBILITIES

The Office of Federal Savings and Loan Insurance Corporation operates under the general direction and supervision of the Federal Home Loan Bank Board. Its mission is to protect, at the least cost, savings of up to \$100,000 per insured member of those insured institutions which are in default or are in danger of default. It advises the Board on all Corporation affairs and it works in close liaison with other offices of the Board on Corporation matters. It manages assets of the Corporation resulting from default and prevention-of-default actions. It represents the Corporation to savers in savings and loan associations, to the savings and loan industry, and the public generally, particularly with reference to matters relating to insurance coverage. It also develops policy guidelines for use by the Board and its staff in the disposition of matters affecting insurance interests.

The Corporation, pursuant to authority under the law, takes steps necessary to prevent default in an insured institution and to restore an insured institution to normal operations; if an insured institution is in default (i.e., when a receiver is legally appointed for the purpose of liquidation) it moves promptly to pay insurance in accordance with the Corporation's statutory responsibility. The Board, in circumstances where an accountholder is otherwise unable to withdraw his savings, may authorize the Corporation to pay insured accounts.

Following is a discussion of the responsibility of the four major divisions of the Office of FSLIC.

Asset Management Division

This Division is entrusted with the management and disposition of assets acquired in discharging its insurance functions.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Purchase of Assets

One of the determinants of the number of personnel needed by the Asset Management Division is the volume of assets acquired by the Corporation in the resolution of problem cases. The volume is a useful criterion in identifying the magnitude of the management and disposition problems of the Division. The table below reflects at various fiscal year endings, the volume of such assets.

<u>Fiscal Year-End</u>	<u>Assets Managed (\$ in Millions)</u>	<u>Fiscal Year-End</u>	<u>Assets Managed (\$ in Millions)</u>
1967	\$ 129.7	1974	\$ 56.7
1968	127.9	1975	83.6
1969	136.8	1976	70.0
1970	224.6	1977	32.1
1971	161.3	1978	38.0
1972	124.2	1979	52.6
1973	83.9	1980	1,163.6

Financial Assistance Division

The Financial Assistance Division has the responsibility for administering and supervising the assistance agreements. The Corporation, under standby contribution agreements, has the right of first refusal over asset sales. Thus, the Division personnel must be prepared on short notice to determine whether the best interest of the Corporation dictates a decision to exercise that right. At September 30, 1979, the right is applicable to assets aggregating \$1 billion on which losses are estimated to be \$32.9 million.

Additional responsibilities of the Financial Assistance and Problem and Rehabilitation Divisions include an administrative function over \$181.9 million in loans representing past rehabilitation actions to aid ten threatened institutions.

Problem and Rehabilitation Division

The Problem and Rehabilitation Division is directly concerned with insured savings and loan associations which present unusual and difficult risk situations, the resolution of which may involve financial assistance by FSLIC.

The problems may relate to such matters as unsafe and unsound appraisal and lending policies and practices, conflicts of interest of self-dealing by officers and director, serious violations of Insurance Regulations or other imprudent business practices, any one or combination of which could threaten the viability of the institutions concerned and the financial stability of the FSLIC.

During fiscal year 1980, the Corporation executed six standby contribution agreements on behalf of those problem associations which ceased to be viable. Two of these agreements were effected after the appointment of a Receiver by the State Court. One of these actions resulted in a merger with a viable institution while the other involved a bulk purchase of assets and assumption of all liabilities by a viable institution.

Under the provisions of FIRICA of 1978, the Corporation entered into three purchase and assumption transactions to prevent the liquidation of three defaulted institutions. This resulted in the transfer of all savings deposit liabilities

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

totaling \$445.3 million to three viable institutions. The FSLIC, in turn, acquired assets amounting to \$549.0 million and assumed the remaining liabilities of \$163.5 million. In addition the FSLIC assumed commitments of approximately \$619.2 million. For these transactions the FSLIC received premiums totaling \$48.1 million.

Quantitative Analysis Division

The program of problem and rehabilitation in today's economic climate requires continuing analyses by FSLIC personnel to deal with changing conditions and direct involvement in rehabilitative efforts. By a realignment of FSLIC staff, the Quantitative Analysis Division was established with individuals having multi-disciplined skills and experiences to provide indepth analytical support. This Division relies heavily upon sophisticated management science and computer techniques to satisfy the analytical needs of the Corporation.

Insurance Settlement Division

Insurance settlement and dissemination of insurance coverage information as stated above, are the functions of the Insurance Settlement Division. Repeating an earlier observation, the indeterminable number of problem cases deteriorating to the point of receivership for the purpose of liquidation makes it difficult to predict the insurance settlement activity of this Division. Notwithstanding the fact that a specific case of problem proportions may never reach the point of an insurance payout, careful and extensive preparation and detailed planning, difficult to measure in terms of workload, are needed and are devoted to such cases. Such effort is expended to preserve the Corporation's public image as a prompt payer of insurance.

Receiverships - Liquidation

During the period 1965-1971 the Corporation made insurance payments to savers in six savings and loans. In each instance the Corporation was subsequently appointed Receiver and assumed responsibility for the liquidation of the remaining assets. At September 30, 1980 all six receiverships had been terminated.

Receiverships - Purchase and Assumption

During fiscal year 1980, the Corporation was appointed the Receiver for three defaulted institutions. Rather than paying out insured savers, the Corporation found it more cost beneficial to transfer all savings deposit liabilities matched with cash and other assets to institutions with the financial capability to fully service depositors. The receivership, in turn, transferred the assets acquired and remaining liabilities assumed to the FSLIC in its Corporate capacity.

PROGRAMS AND ACTIVITIES

Due to the availability of the facilities of the Federal Home Loan Bank Board, the Corporation functions with a small staff. Following is an outline of the Insurable Interest and Insurance Settlement operations of the Corporation.

INSURABLE INTEREST AND INSURANCE SETTLEMENT OPERATIONS

This joint activity is carried on by the Office of Federal Savings and Loan Insurance Corporation.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance CorporationPROGRAM AND ACTIVITIES (cont'd)Insurable interests

This activity includes the reviewing of all proposed actions directly affecting the interests of the Corporation, advising the Board thereon, and the development of policy guidelines for use by the Board and staff units in the handling of matters affecting insurance interests.

Insurance settlement

This activity calls for steps, authorized by law, to be taken when required, to pay out insurance in event of default, to prevent default and to restore insured institutions to normal operations. The activity also includes directing the liquidation of assets acquired in default-prevention actions, and supervising liquidation of institutions where the Insurance Corporation is named receiver. Steps to be taken fall into the following categories:

Prevention of default

Section 406(f) of the National Housing Act authorizes the Corporation to purchase the assets of, make a contribution to, or make loans to an insured institution in or threatened with default; these functions are summarized below:

- (1) Purchase of assets - To prevent default or to minimize losses, the Corporation may purchase all or a portion of the substandard assets of an impaired institution or one whose viability is threatened. In addition to recommending corrective measures designed to prevent recurrence of financial difficulties, a primary responsibility of the Corporation is the orderly liquidation of the assets acquired.
- (2) Contribution - Whenever an insured institution is impaired, the Corporation may make, or commit itself to make, a cash contribution in an amount sufficient to cure the impairment. Throughout the life of such financial assistance agreements--generally five to seven years--the Corporation maintains close liaison with the institution involved, assisting in its rehabilitation and supervising the liquidation of risk assets.
- (3) Loan - Another statutory power to forestall or minimize losses authorizes the Corporation to make loans to institutions in or threatened with default.
- (4) Merger - When in the best interest of insured savings account-holders involved, and when such action is not in conflict with the best interests of the Corporation, the Corporation may act as sponsor and negotiate the merger of an institution threatened with default with a strong insured institution. Where insured State-chartered associations are involved, the co-operation of State authorities is necessary. Such mergers often involve a purchase of substandard assets by the Corporation and generally involve a contribution to the resulting entity.

Receivership

When prevention of default is neither prudent nor economical and an insured institution is placed in receivership for liquidation, the Corporation, by law, must be appointed sole receiver if the association is operating under Federal charter. Pursuant to legislation enacted July 1, 1968, the Federal Home Loan Bank Board has independent authority to elect to appoint the Corporation as

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

receiver under Federal law in those cases relating to State-chartered insured institutions where the State has appointed a receiver or custodian or the association is closed under State law. In any event, the Corporation must make prompt payment of insurance to savings accountholders in all instances, either in cash or by transferred account in another insured association. The Corporation has full responsibility for all phases of liquidation for which it is receiver and for maintaining vigilant liaison with other receivers for insured institutions in order to minimize the ultimate drain on the Corporation's resources.

ACTIVITY

During fiscal year 1980, the Corporation took financial action to protect depositors in nine associations. The 142,860 depositors involved had savings balances of \$806.8 million. In six of these cases all depositors were protected in full through financial assistance agreements. These agreements permitted the merger and/or purchase of threatened institutions by sound ones. The other three cases were resolved through purchase and assumption transactions.

The future projected insurance protection activity of the Corporation in today's climate is difficult to predict. Clearly, it will be involved from time-to-time in preventing the failure of certain institutions whose mortgage loan portfolios have been adversely affected by the changing economic conditions.

The continued increase in the growth and level of activity of the savings and loan business reflects itself in the workload. The aggregate assets of insured institutions, and the problems associated with a changing industry, all continue to maintain a high level. Insured membership decreased during fiscal 1980 by 24 reaching 4,019. Their assets on the same date aggregated \$598.1 billion, an increase of \$38.7 billion or 6.9%. They are expected to reach \$726.7 billion by September 30, 1982, an increase of \$128.6 billion or 21.5% in the 24-month period. Potential liability increased from \$429.6 billion at September 30, 1979 to \$482.5 billion at September 30, 1980, an increase of \$52.9 billion or 12.3%.

BUDGET SUMMARY

The 1982 estimates of administrative expenses of the Federal Savings and Loan Insurance Corporation, the revised estimates for the current fiscal year, and actual expenses for fiscal 1980 are summarized in the following table:

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

Description	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Positions.....	20	20	20	20	-0-
Work-Years.....	17	20	20	20	-0-
Personnel Compensation.	\$520,832	\$623,000	\$662,000	\$678,000	\$16,000
Personnel Benefits.....	45,356	58,000	56,500	58,500	2,000
Total Personal Services and Benefits.....	566,188	681,000	718,500	736,500	18,000
Contractual Services and Supplies.....	271,085	431,000	329,500	289,500	-40,000
Acquisition of Capital Assets.....	70	3,000	2,000	4,000	2,000
Total Gross Expenses...	837,343	1,115,000	1,050,000	1,030,000	-20,000
Estimated Savings.....	127,657	-0-	-0-	-0-	-0-
Proposed Supplementals due to Increased Pay Costs.....	-0-	-0-	-59,000	-0-	50,000
Actual, Authorization, and Estimate.....	965,000	1,115,000	1,000,000	1,030,000	30,000

As indicated the fiscal year 1981 budget estimate of \$1,115,000 was reduced \$115,000 by the Congress, some of which was applied to compensation and some to contractual services and supplies. We are requesting a 1981 supplemental of \$50,000 to cover increased compensation and benefit costs resulting from the 9.1% October 1980 general pay increase.

The 1982 estimate reflects no change in total authorized positions; it does show a net decrease in funds of \$20,000 from the estimate for the current fiscal year. The net decrease by category of expense, is shown below.

Item	Increased Amount
Personnel Compensation.....	\$16,000
Personel Benefits.....	2,000
Travel and Transportation of Persons.....	2,000
Transportation of Things.....	-0-
Rent, Communications, and Utilities.....	7,000
Other Services.....	-50,000
Supplies and Materials.....	1,000
Acquisition of Capital Assets.....	2,000
Total.....	-20,000

On the following page is a more detailed comparative summary of expenses followed by an explanation and justification of the individual line items.

Federal Home Loan Bank Board
Office of Federal Supervision and Administration Corporation
COMPARATIVE SUMMARY OF ADMINISTRATIVE EXPENSES

	1980 Actual		1981 Estimate	1982 Estimate
	Department of Examinations Washington District Offices (1)	Department of Insurance of Insurance (1)		
Personal Services and Benefits:				
Positions:				
Gross.....	34	919	20	20
Work-Years.....	31.4	881.3	16.7	19.8
PERSONNEL COMPENSATION.....	\$ 868,302	\$21,877,343	\$520,032	\$ 678,000
Personnel Benefits:				
Health Benefits.....	18,685	451,182	7,185	477,032
Life Insurance.....	2,447	67,422	1,522	2,000
Savings and Related Expenses.....	4,037	28,436	-0-	-0-
Retirement.....	63,084	1,499,892	34,876	45,000
Social Security Tax (FICA).....	1,393	3,829	1,173	300
TOTAL PERSONNEL BENEFITS.....	89,646	2,052,981	45,156	56,500
TOTAL PERSONAL SERVICES AND BENEFITS.....	1,057,953	23,930,324	569,188	736,500
Contractual Services and Supplies:				
Travel and Transportation of Persons.....	42,865	5,346,411	36,861	48,000
Transportation of Things.....	13,487	31,408	2,970	2,000
Rent, Communications and Utilities.....	29,569	1,447,273	49,468	168,000
Printing and Reproduction.....	400	1,345	1,854	1,000
Other Services.....	12,693	330,525	74,085	126,500
Supplies and Materials.....	9,057	93,498	3,043	4,000
TOTAL CONTRACTUAL SERVICES AND SUPPLIES.....	108,171	7,232,460	271,085	329,500
Acquisition of Capital Assets:				
Equipment.....	1,466	309,309	70	2,000
TOTAL EXPENSES.....	1,167,590	31,283,293	837,343	1,030,000
Estimated Savings.....	59,410	-9,293	127,637	-0-
Proposed Supplemental Due to Increased Pay Costs.....	-0-	-0-	-0-	-0-
ACTUAL, AUTORIZATION, AND ESTIMATE.....	1,227,000	31,274,000	965,000	1,030,000

(1) In FY 1981 the Office of Examinations and Supervision was reconstituted as a separate office under the Bank Board as it was in FY 1979. Therefore, the related positions and funds for the OES Washington Office are consolidated under the Bank Board total expense limitation and the related positions and funds for the OES District Offices are covered under the Bank Board Nonadministrative Expense Limitation. (See comparative expense summaries on pages E-8 and E-7.)

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

PERSONNEL COMPENSATION

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Positions.....	20	20	20	20	-0-
Work-Years.....	17	20	20	20	-0-
Net-Salary.....	\$520,832	\$623,000	\$662,000	\$678,000	\$16,000

The 1982 estimate of \$678,000 provides for the insurance activities to be continued at approximately the same level as 1981. The increase of \$16,000 covers cost of within-grade increases, annualization of the 1980 pay raise, and other pay adjustments.

PERSONNEL BENEFITS

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Health.....	\$ 7,185	\$10,500	\$ 9,000	\$10,000	\$1,000
Life Insurance.....	1,522	3,000	2,000	2,000	-0-
Retirement.....	34,876	44,000	45,000	46,000	1,000
Social Security Taxes (FICA).....	1,773	500	500	500	-0-
Total.....	45,356	58,000	56,500	58,500	2,000

HEALTH BENEFITS

The 1982 estimate of \$10,000 provides for the Corporation's (Employer) share of the cost of the Federal Employees' Health Benefits Act of 1959 (Public Law 86-382).

LIFE INSURANCE

The 1982 estimate of \$2,000 represents the Corporation's (Employer) portion of the premiums payable under the Federal Employees' Group Life Insurance Act of 1954; it is based upon the number of employees expected to be on the payroll in fiscal 1982.

RETIREMENT

The 1982 estimate of \$46,000 provides for the Corporation's (Employer) share of mandatory contributions to the Civil Service Retirement and Disability Fund pursuant to Section 102(A) of Public Law 91-93, approved October 20, 1969; it is at the rate of 7% of employees' basic salaries. The figure is based upon the number of employees expected to be on the payroll in fiscal 1982.

SOCIAL SECURITY TAXES

The 1982 estimate of \$500 provides for the payment of the Corporation's (Employer) share of contributions under the Federal Insurance Contribution Act. Payment is made for all employees who do not contribute to the Civil Service Retirement and Disability Fund.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

TRAVEL AND TRANSPORTATION OF PERSONS

1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
	<u>Budget Estimate</u>	<u>Current Estimate</u>		
\$36,861	\$28,000	\$28,000	\$30,000	\$2,000

The estimate provides for attendance at conferences of savings and loan leagues, meeting with State savings and loan supervisors, directors, and officers of the Federal Home Loan Banks, and savings and loan associations. There is a continuing need to acquaint these groups as well as the savings public with more and better information about insurance coverage. The estimate will provide the Director and his top supervisors with sufficient travel funds to discharge this responsibility. The increase of \$2,000 over the current year provides for increased transportation costs in 1982.

TRANSPORTATION OF THINGS

1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
	<u>Budget Estimate</u>	<u>Current Estimate</u>		
\$2,973	\$-0-	\$2,000	\$2,000	\$-0-

This item provides for the cost of shipment of supplies and equipment to and from the Corporation.

RENT, COMMUNICATIONS, AND UTILITIES

	1980 <u>Actual</u>	1981		1982 <u>Estimate</u>	Increase or Decrease (-)
		<u>Budget Estimate</u>	<u>Current Estimate</u>		
<u>Rent and Utilities:</u>					
Office Space.....	\$124,812	\$113,000	\$125,000	\$125,000	\$ -0-
Equipment.....	-134	5,000	5,000	5,000	-0-
Sub-total.....	<u>124,678</u>	<u>118,000</u>	<u>130,000</u>	<u>130,000</u>	<u>-0-</u>
<u>Communications:</u>					
Fixed Telephone					
Charges.....	5,594	13,000	10,000	11,000	1,000
Long Distance Calls...	17,999	22,000	23,000	28,000	5,000
Teletype and					
Telgrams.....	-0-	1,000	1,000	1,000	-0-
Postage.....	4,000	3,500	4,000	5,000	1,000
Sub-total.....	<u>27,593</u>	<u>39,500</u>	<u>38,000</u>	<u>45,000</u>	<u>7,000</u>
GRAND-TOTAL.....	<u>152,271</u>	<u>157,500</u>	<u>168,000</u>	<u>175,000</u>	<u>7,000</u>

RENT AND UTILITIES

The 1981 and 1982 estimates of \$125,000 for office space provides for 8,058 square feet of office space in the new Federal Home Loan Bank Board Building at an average cost of \$15.50 per square foot.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

RENT AND UTILITIES (cont'd)

Equipment rental costs of \$5,000 provides for the rental of copying equipment used by the Corporation.

COMMUNICATIONS

The 1982 estimate shows an increase of \$7,000 over the current year estimate primarily attributable to higher telephone (FTS) rates in 1982 furnished to us by GSA.

PRINTING AND REPRODUCTION

1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
	Budget Estimate	Current Estimate		
\$1,854	\$1,000	\$1,000	\$1,000	\$-0-

The 1982 estimate of \$1,000 provides for the cost of contractual printing and reproduction.

OTHER SERVICES

	1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
		Budget Estimate	Current Estimate		
Special Studies.....	\$29,615	\$175,000	\$ 72,000	\$ -0-	\$-72,000
Fidelity Bond.....	2,027	3,000	2,000	2,000	-0-
Repairs to Furniture, Fixtures, and Equipment.	-0-	1,000	500	500	-0-
Training Program.....	10,657	10,000	10,000	12,000	2,000
Portfolio Mgmt Services...	13,066	20,000	20,000	40,000	20,000
Health Program.....	-0-	3,000	2,000	2,000	-0-
GAO Audit.....	18,720	25,000	18,000	18,000	-0-
Security Investigations...	-0-	1,000	1,000	1,000	-0-
Other.....	-0-	1,500	1,000	1,000	-0-
Total.....	74,085	239,500	126,500	76,500	-50,000

SUPPLIES AND MATERIALS

1980 Actual	1981		1982 Estimate	Increase or Decrease (-)
	Budget Estimate	Current Estimate		
\$3,041	\$5,000	\$4,000	\$5,000	\$1,000

The estimate provides for the cost of office supplies, books, binders, and expendable equipment.

Federal Home Loan Bank Board
Federal Savings and Loan Insurance Corporation

ACQUISITION OF CAPITAL ASSETS

<u>1980</u> <u>Actual</u>	<u>1981</u>		<u>1982</u> <u>Estimate</u>	<u>Increase or</u> <u>Decrease (-)</u>
	<u>Budget</u> <u>Estimate</u>	<u>Current</u> <u>Estimate</u>		
\$70	\$3,000	\$2,000	\$4,000	\$2,000

Provision is made in this item for non-capitalized items of furniture, fixtures, and equipment.

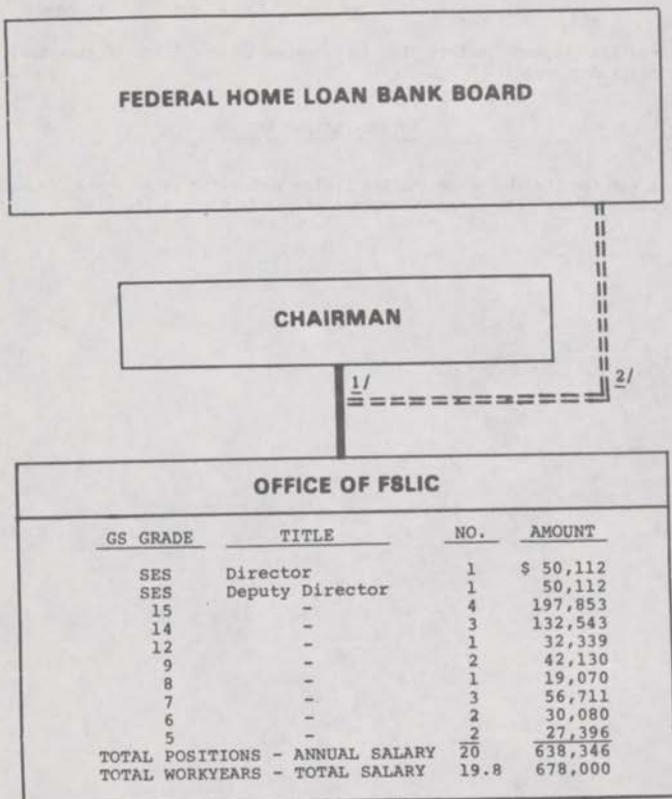
AUTHORIZATION LANGUAGE

Except for the change in the limitation amount for 1982, there are no differences between the current language and that proposed for 1982.

Federal Home Loan Bank Board

Federal Savings and Loan Insurance Corporation

PERSONAL SERVICES DATA BY ORGANIZATIONAL UNIT - FISCAL YEAR 1982



1/ ————— Administrative Direction and Coordination

2/ ===== Substantive Responsibilities

Federal Home Loan Bank Board
Interest Adjustment Payments

The Housing Opportunity Allowance Program (HOAP) was initially designed in fiscal year 1971 to help middle-income families, with incomes insufficient to qualify them for conventional mortgage loans but in excess of the income limit for home ownership assistance under Section 235 of the National Housing Act, to attain home ownership. Under this Program, an eligible prospective home buyer was provided with a direct monthly allowance of \$20 for a maximum period of 60 months of the term of his mortgage.

In March 1972, the U.S. District Court of the District of Columbia ruled that no U.S. Treasury funds could be disbursed for HOAP loans because low-income families were not eligible for such loans. Upon receipt of the court injunction the Program was suspended by the Federal Home Loan Bank Board. At that time, about 9,000 families, with incomes in the range of \$7,000-\$12,000 had obtained HOAP loans.

The Board reactivated HOAP in June 1972 to include both low and middle-income families in response to the court injunction. The new Program called HOAP I/II, continued the original Program for middle-income families and also provided for larger mortgage subsidy payments to families with incomes below \$7,000; subsidies as high as \$70 per month were permitted, depending on family income. The Program required reevaluation of the borrower's income after the first five years of subsidy payments and a lowering of subsidy payments for the second five-year period if the family income had increased. The extent of subsidy for low-income families was determined by a FHLBB formula based on Department of Housing and Urban Development criteria for public housing (42 U.S.C. 1401) and housing obtained under Section 235 and 236 of the National Housing Act, as amended (12 U.S.C. 17152 and 17152-1).

Title I of the Emergency Home Finance Act of 1970, Public Law 91-351, authorized an appropriation without fiscal year limitation, of \$250,000,000 to be used by the Federal Home Loan Bank Board for disbursement to the Federal Home Loan Banks to adjust the effective interest rate charged by each bank on lending to member savings and loan associations to promote an orderly flow of funds into residential construction.

The HOAP Program was initiated with an appropriation of \$85 million. An additional \$62.5 million was appropriated in 1972 bringing total appropriations available to the Board to \$147.5 million. Cumulative obligations against these appropriations at September 30, 1980 amounted to \$12.5 million. Actual disbursements made through September 30, 1980 amounted to \$12.4 million, leaving \$0.1 million available for future disbursement. Of this balance, we estimate that \$0.05 million will have been disbursed by the end of fiscal year 1981 with the remaining \$0.05 million disbursed during fiscal year 1982.

Federal Home Loan Bank Board
Federal Home Loan Mortgage Corporation

The Federal Home Loan Mortgage Corporation (a federally-chartered corporation) was organized on July 24, 1970, under the Emergency Home Finance Act of 1970. The Corporation is under the direction of a Board of Directors composed of the members of the Federal Home Loan Bank Board. The Corporation purchases, sells, and otherwise deals in mortgages on residential properties. The Act exempts the Corporation from all taxation by the United States or by any State, county, municipality, or local taxing authority, except for real property taxes. The Corporation's capital stock was issued, at par, to the Federal Home Loan Banks; the stock is nonvoting and nontransferable, and its ownership is restricted to the Federal Home Loan Banks. A statement of Condition as of September 30, 1980, is presented on page H-2, and a statement of income and retained earnings for the fiscal years 1980 and 1979 is presented on page H-3.

Federal Home Loan Bank Board
FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF CONDITION AS OF DATES INDICATED
(In Thousands)

	9/30/80	9/30/79	Increase (Decrease)
CASH	\$ 390	\$ 678	\$ (288)
Investments			
U.S. Securities	---	35,000	(35,000)
Other Securities	305,259	261,862	43,397
Total Investments	<u>305,259</u>	<u>296,862</u>	<u>8,397</u>
MORTGAGE LOANS			
Insured or Guaranteed by FHA or VA	1,107,735	1,188,600	(80,865)
Participation in Conventional Mortgage Loans	2,862,628	2,273,171	589,457
Conventional Mortgage Loans	563,288	285,596	277,692
Subtotal	<u>4,533,651</u>	<u>3,747,367</u>	<u>786,284</u>
Less: Unamortized Discount and Allowance for Losses	<u>(58,139)</u>	<u>(58,828)</u>	<u>689</u>
Total Mortgage Loans	<u>4,475,512</u>	<u>3,688,539</u>	<u>786,973</u>
ACCOUNTS RECEIVABLE	160,125	122,775	37,350
OTHER ASSETS	247,343	251,350	(4,007)
Total Assets	<u>5,188,629</u>	<u>4,360,204</u>	<u>828,425</u>
ACCOUNT PAYABLE AND ACCRUED LIABILITIES	416,401	309,290	107,111
BORROWINGS FROM THE PUBLIC			
Mortgage-Backed Bonds	363,386	577,579	(214,193)
Other	4,196,650	3,242,527	954,123
Total Borrowings	<u>4,560,036</u>	<u>3,820,106</u>	<u>739,930</u>
CONTINGENCIES			
Mortgage Participation Certificates	14,650,741	12,243,934	2,406,807
Guaranteed Mortgage Certificates	2,177,000	2,244,000	(67,000)
Less: Underlying Mortgage Loans Sold In- cluding Principal Col- lections Held in Trust	<u>(16,827,741)</u>	<u>(14,487,934)</u>	<u>(2,339,807)</u>
STOCKHOLDERS' EQUITY	---	---	---
Capital Stock	100,000	100,000	---
Capital in Excess of Par Value	100,000	100,000	---
Retained Earnings	12,192	30,808	(18,616)
Total Stockholders' Equity	<u>212,192</u>	<u>230,808</u>	<u>(18,616)</u>
Total Liabilities and Capital	<u>5,188,629</u>	<u>4,360,204</u>	<u>828,425</u>

Federal Home Loan Bank Board
FEDERAL HOME LOAN MORTGAGE CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE 12 MONTHS ENDING SEPTEMBER 30, 1980 AND SEPTEMBER 30, 1979

	<u>9/30/80</u>	<u>9/30/79</u>
INCOME		
Interest and Discounts on Mortgage Loans	\$430,462	\$310,017
Interest on Investments	34,528	39,792
Other Income	<u>4,906</u>	<u>3,967</u>
Total Income	<u>469,896</u>	<u>353,776</u>
EXPENSES		
Interest on Borrowings and Related Costs	390,185	281,589
Provision for Uninsured Principal	23,179	18,124
Administrative Expenses	<u>25,148</u>	<u>17,321</u>
Total Expenses	<u>438,512</u>	<u>317,034</u>
NET INCOME	31,384	36,742
RETAINED EARNINGS, BEGINNING OF YEAR	30,808	19,066
TRANSFER TO CAPITAL IN EXCESS OF PAR VALUE	---	---
DIVIDENDS PAID	<u>(50,000)</u>	<u>(25,000)</u>
RETAINED EARNINGS, END OF YEAR	<u>12,192</u>	<u>30,808</u>

FEBRUARY 5, 1981.

NATIONAL CREDIT UNION ADMINISTRATION

WITNESSES

LAWRENCE CONNELL, CHAIRMAN, NATIONAL CREDIT UNION ADMINISTRATION

LEONARD LAPIDUS, PRESIDENT, CENTRAL LIQUIDITY FACILITY

JOHN SANDER, BUDGET OFFICER, NATIONAL CREDIT UNION ADMINISTRATION

Mr. SABO. The Committee will come to order. We are pleased to have you and your people before us again this year, and we appreciate your comments. Welcome.

GENERAL STATEMENT

Mr. CONNELL. Thank you, Mr. Chairman, Members of the Subcommittee.

The CLF, as you know, is modeled on the Federal Reserve discount window to be strictly a liquidity lender with no authority to lend to credit unions to expand their portfolios. It was established as a government corporation capitalized on a voluntary basis by those credit unions recognizing their need for a "lender of last resort." Thus, for the Facility to be successful in meeting its statutory purpose, it had to gain the confidence of the credit union community, and it had to be operated efficiently enough to provide a reasonable rate of return for the credit unions' committed capital.

In fact, the facility was successful in both respects. The CLF opened for business on October 1, 1979, and by the end of fiscal year 1980, the facility was serving some 6,300 credit unions, 29 percent of all credit unions, representing 55 percent of the assets of all credit unions. Credit unions had committed \$72 million of paid-in capital and the facility had outstanding at the end of the fiscal year over \$85 million in loans. (At the end of the calendar year the loan portfolio had grown to \$93 million.)

During the course of the year the facility granted 78 short-term adjustment credit advances amounting to about \$115 million, and eight protracted adjustment credit advances amounting to about \$85 million. The short term advances, made largely in the last calendar quarter of 1979 and in April 1980, helped many credit unions through the difficult periods of disintermediation that occurred during those months. All of those loans were repaid and at the end of the fiscal year, the facility's loan portfolio was predominantly for protracted adjustment purposes. The protracted adjustment credit advances were made to credit unions, otherwise creditworthy, which faced capital losses or severe earnings problems in having to sell or carry low yield, long term Federal agency

securities in a high interest rate environment. The program was coordinated with the National Credit Union Share Insurance Fund and has been instrumental in maintaining the viability of fundamentally sound credit unions which need an extended period of time to get back on their feet.

The CLF earned \$3,200,000 in fiscal year 1980, equivalent to 10.1 percent on paid-in capital, and paid out \$2,900,000 in dividends. The CLF paid dividends of ten percent in the first two quarters of the fiscal year and nine percent in the last two quarters (and ten percent for the quarter ended on December 31, 1980). The good first year earnings came about not only as a result of the lending activity and attractive yields on CLF investments, but also reflected firm management control of administrative expenses. Although the facility was originally allocated 20 positions, only 13 had been filled through the end of September. Additional positions will be filled only as membership and loan volume warrant. The NCUA Board also decided that despite statutory authority under the Depository Institution Deregulation and Monetary Control Act of 1980, the CLF would not act as a pass-through correspondent for monetary reserves. The Board wishes to avoid increased CLF costs and was also convinced that the private sector could handle such tasks efficiently as far as we can see at this point. We do not want to build a kingdom for the sake of building a kingdom. I think that demonstrates it.

In the current fiscal year the CLF expects to expand its membership and loan services and to improve its earnings. CLF's target for membership is 75 percent of credit union assets by the end of fiscal year 1983. This increase in membership will broaden CLF's service by one-third, increasing potential loan demand. In addition, during fiscal year 1981 and fiscal year 1982 agent members are likely to become more active in making CLF qualified loans. Finally, CLF plans to develop further its protracted adjustment credit program and to initiate a seasonal loan program. In fiscal year 1982 as a result of expanded membership and loan development programs, CLF expects that its loan outstandings will rise to \$600 million, \$300 million in short term and seasonal credit and \$300 million in protracted adjustment credit.

The CLF has funded the loan demand of its members through the Federal Financing Bank (FFB). Because CLF was a new entity without a record of successful operation, access to the FFB was of significant importance in fulfilling its mission. However, it was always an objective of the NCUA to end one day the reliance of the CLF on public funds. We hope in fiscal year 1982 to begin to borrow in private markets as a first step toward establishing CLF as privately capitalized for its debt as well as for its equity.

I would be pleased to answer any questions you, Mr. Chairman, or other Members of the Subcommittee may have.

Mr. SABO. Thank you, Mr. Connell.

DEREGULATION

The general move toward deregulation is creating greater competition among financial institutions—banks, savings and loan associations, and credit unions. What is the future for credit unions?

Mr. CONNELL. The key to success for a credit union is to emphasize its basic cooperative principle, which is personal service to members. By the time the Depository Institutions Deregulation Committee does its business, everybody will be able to pay the same rates, by law, on deposits. All institutions will be able to offer similar consumer services so the distinguishing feature will be how well the services are rendered.

I think that personal attention will be a factor. For example, when there are excesses in earnings, by returning it to the borrowers in the form of an interest refund, this type of attention will provide the features that will cause credit unions to prosper.

Mr. GREEN. There is a wide variety in the level of sophistication of management. Some credit union managements are very capable and can hold their own with anyone. Others are amateur, part-time operations. What will happen to the smaller, less sophisticated credit unions in the environment the Chairman has described?

Mr. CONNELL. They can continue with simple services, not offering the broad range of services but offering the small loan that the factory or city worker needs to get by until payday in order to handle an emergency situation or personal matter.

We have credit unions ranging in size from \$50,000 to almost \$800 million. We will have some attrition and then the difficulty will be in moving from one level to another.

We expect to have a large number of liquidations, and mergers. I believe that broader authority in this area as proposed in the Emergency Banking Act is going to be very important.

What is of the most concern to us in the years ahead is the structural obsolescence of plants in this country. This will mean that factories will close down. When that happens, the CU is in real jeopardy. So we have very real concerns. We have published for our staff and other interested persons a long-range plan which deals with the credit union environment and NCUA's mission, goals, and objectives. If you would like a copy we will be pleased to provide it.

Mr. SABO. To what degree are you involved in giving advice to the small, less sophisticated credit union which may think it has more of an obligation to its members who want to borrow than to its members who deposit?

Mr. CONNELL. We are continually in that function as examiners go from one to another. Of course, in our statements, we have to be careful not to substitute our judgment but be sure as cooperatives, they balance that.

One of the greatest disciplines in this is the membership itself. If they feel the loan policies are not as good as they would like, we try to encourage them to run for the Board of Directors and change then, if necessary. So, the first line is the membership itself. They should be making those choices and it should be balanced on cooperative principles.

If the CU has a high proportion of retired persons, they are interested in the savings aspect, more so than the younger population. It swings back and forth.

Mr. SABO. Are you still guided by the 15 percent interest rate ceiling?

Mr. CONNELL. The law provides 15 percent, but we can raise it. The Board did raise it to 21 percent during the height of the interest rate escalation a few months ago. We found that very few CU's are actually charging 21 percent, a miniscule proportion. Most are under 18, usually between 15 and 18. That was a very difficult and controversial decision. We made it but we think it is defensible.

PRESIDENTIAL BUDGET LIMITATIONS

Mr. SABO. Is the CLF affected by the Administration's hiring freeze and reductions in travel, consultants or equipment?

Mr. CONNELL. We are affected by the hiring freeze, reductions in the travel area and the freeze on equipment. We are not affected by the consulting cost reduction.

Mr. SABO. You want to make sure none of your 13 quit?

Mr. CONNELL. That is a particular problem to us.

Mr. SABO. The new Administration has indicated that it will be reducing the 1982 budget requests for some agencies. I realize that Congress does not appropriate funds for the CLF, rather it limits the use of funds. Still, does the CLF have any reason to believe that its 1982 budget request will be changed?

Mr. CONNELL. We have not had any communications to us saying that it will. We would argue that we would hope there would be some recognition that an agency whose responsibilities have grown and whose industry has grown, should be given some consideration in that area. We are very much concerned. We have had four hiring freezes in four years.

CLF MEMBERSHIP

Mr. SABO. On page two of your statement you indicated that CLF's target for membership is 75 percent of credit union assets by the end of fiscal year 1983. The facility was serving some 6,300 credit unions (29 percent of all credit unions) representing 55 percent of the assets of all credit unions at the end of fiscal 1980. How many credit unions would be involved in the 75 percent figure?

Mr. CONNELL. It would be a greater proportion of numbers than right now.

Mr. LAPIDUS. My guess would be 12,000. What happens is the larger CU's, those with a more sophisticated clientele and therefore those more likely to experience liquidity problems, came in first. So, we expect that further growth in membership will pick up many more smaller credit unions; I would guess about 12,000 from a total of 22,000.

Mr. SABO. Why set a target at 75 percent of the assets of all credit unions? Why not 90 percent or 60 percent?

Mr. CONNELL. I think that was a breaking point when the Federal Reserve expressed concern in terms of having access to a good proportion. We felt at that time, 12,000.

We had a very tragic occurrence in the Chicago area. A very well-run CU which had not had a delinquent loan since 1934, because it was well-run and had good people who saved and paid their loans on time.

The plant closed. The credit union had a short run on shares and they did not belong to the CLF. Because of the liquidity need there was not enough time to convert to a community CU and we could not get a merger. So, we closed it up and liquidated it. It was very sad. I wish we could have assisted instead.

The numbers of credit unions that are liquidating are really up there. We have a continuous education job on the CLF to do. Again, because of the problem in the heavy industry area, I feel we have to make headway there if we are to have stable credit unions particularly throughout the midwest.

ADMINISTRATIVE EXPENSES

Mr. SABO. Last year, CLF estimated needing only \$1,300,000 of its 1980 administrative expense limitation of \$1,756,000. Page 11 of the justification indicates that administrative expenses totalled \$721,000 in 1980. I am not advocating that money be spent unnecessarily, but what happened to your 1980 estimate?

Mr. CONNELL. The estimate for 1980 was developed almost a year and a half earlier. We expected greater volume.

Mr. SANDER. There is a little bit of misunderstanding as to the numbers in here. On page 11 are the corporate records of the CLF. Page 15 will indicate the proper comparison if you were to compare the total expenditures or obligations covered by the limitation. It comes up to \$1,500,000 through the supplies and materials line; \$1,500,000 versus the overall limitation of \$1,756,000.

The reason that differs is because of the organizational expenses which are amortized over a period of five years.

Mr. SABO. So, we cannot commend you for saving this money?

Mr. SANDER. We saved \$250,000.

Mr. SABO. How accurate is the 1981 administrative expense estimate of \$1,936,000?

Mr. SANDER. We will come in approximately \$300,000 to \$400,000 under the limitation. Those estimates were developed nearly 18 months ago. We will come in under in almost all categories.

Mr. CONNELL. We have to pay a market dividend and even though we have appropriation authority to spend, if we spent that money and only declared a dividend of six percent, we would have trouble with membership. We could have elected to be a pass through for reserves. However, it would cost so much we weren't interested. We just felt it was not cost effective.

Mr. SABO. The object classifications for "travel and transportation of things," "rent, communications and utilities," "printing and reproduction" and "supplies" increase in 1981 over 1980 but fall in 1982. What causes this rise and fall in the aforementioned object classifications?

Mr. CONNELL. In the area of rent, communications and utilities, we estimated \$248,000. We are actually going to spend approximately \$90,000. We spent \$86,000 the year before and the projection for fiscal year 1982 is \$98,000.

Mr. SANDER. If you were to take the actual that we anticipate for 1981 and compare those numbers to the fiscal year 1982 projections, then there would not be the disparity that presently exists. We will come in below the fiscal year 1981 limitation by three to four hundred thousand.

For instance in the rent, communications and utilities area, we estimate we will spend \$90,000 compared to the projection of \$98,000 for fiscal year 1982. Also, we expect to spend \$39,000 for printing in fiscal year 1981 compared to \$42,000 in fiscal year 1982. The printing estimate was derived when we had no anticipation at the time how many CU's would join CLF directly. We planned to print manuals for about six or seven thousand CU's. Actual membership however turned out to be through the agents thereby reducing the number of publications necessary.

Mr. LAPIDUS. Let me make a general statement: Those estimates were made before CLF opened its doors for business. We have a loan processing system that we were going to make available to agent corporate CU's and pay for processing and storage costs. Instead, we negotiated with the industry people to accept the data, with some modification, from their data processing system, so the dispersion of this network was not necessary.

Mr. SABO. The reason you are asking for less in 1982 is because you will spend less in 1981.

Do you expect the \$1,641,000 is a little high?

Mr. LAPIDUS. It is high in at least one regard. Personal expense and benefits reflect the number of positions that were allocated. But in fact, we have an internal staffing control to maintain the number of positions we have now unless we need to fill more positions. So, we will probably save \$100,000 or more in that area. Unless we get a change in the loan volume or the character of our business, we will not have to expand.

Mr. SABO. Your estimate anticipates 19 positions and you only have 13 filled?

Mr. SANDER. Yes, we will not have to come in for a supplemental in fiscal year 1982 for comparability increases, since some of the money available from vacant positions, will be used to offset the additional expense.

Mr. SABO. Are you planning to expand the number of positions?

Mr. CONNELL. If we have the sudden turn in the economy and there was credit stringency and people started calling in for loans, then we would have to gear-up as quickly as we can. Much of this depends on the economy; at the same time our outstanding loans depend on the economy, also.

BORROWING AUTHORITY

Mr. SABO. In 1980, your limitation on borrowing authority was \$300,000,000. The 1982 limitation on borrowing authority request is the same as the 1981 request. How much borrowing actually took place in 1980?

Mr. LAPIDUS. At the end of fiscal year 1980, \$85,000,000.

Mr. CONNELL. We were up to \$115,000,000.

Mr. LAPIDUS. No, those were gross extensions. The most we had outstanding was \$85,000,000. Right now it is approximately \$90,000,000.

Mr. SABO. Why was it so substantially less than the \$300,000,000?

Mr. LAPIDUS. Well, partly because the credit unions were able, in general, as an industry, to negotiate the problems of tight money and disintermediation in fiscal 1980.

In October and November 1979, when the Federal Reserve changed its method of operation, there was a very sharp requirement for funds. We opened for business on October first, and were lending money in October, November, and December. That is when we put out most of the \$115,000,000 in short-term credit.

The credit unions became very careful after that. Lending was cut off in most CU's. The result, since their loan portfolio has a maturity of about 20 months, they run to cash at about five percent a month. So, by January they managed pretty well. They pay dividends at the end of December. No one expected interest rates to rise but they did. Then we had another short term period of borrowing in April. When rates rose again, after June, which would normally have led to another crisis, by that time, lending had been turned off for a period of eight to nine months. The credit unions were heavy with cash and were effectively able to handle any loans or outflows.

Mr. CONNELL. By that time, the automobile loans had fallen off considerably. For those reasons, the liquidity is good right now and from that standpoint, we do not have any problem, today.

Mr. SABO. During last year's hearing there was some mention of the potential of additional lending authority in 1980, fortunately, that was not needed. Do you assume the \$600,000,000, cumulative borrowing authority for 1982 is sufficient?

Mr. CONNELL. Yes, barring some terrible adversity. Last year, had the usury law not been lifted and the share draft legislation not been enacted, we would have had a difficult time. Fortunately, things worked out.

Mr. SABO. Has any action been taken to reduce the need for CLF borrowing authority—like increasing the liquidity reserve requirement?

Mr. CONNELL. When we were preparing for the opening of the CLF, we put into place a requirement for the very purpose of making sure that they would not all be at the window on October first when we had a \$300,000,000 authorization. We do not have anything further at this time. If we had to, we would. We would not hesitate to use our regulatory process to supplement the window. I think it is best to recognize this is a regulatory tool as much as it is a financial assistance vehicle and both have to be used together. It would be a matter of judgment on the overall viability and impact on CU's at the time.

CREDIT LIMITATION

Mr. SABO. Last year, Mr. Connell, you indicated some reservations about the \$4,400,000,000 loan limitation. How is the limitation working out? I realize you only have four months experience with the loan limitation. Do you still believe the "cap" is not sensible? If so, should it be deleted from the appropriation language? Explain.

Mr. CONNELL. We have not been constrained by it at all. That formula is essentially \$600,000,000 multiplied by a 40-day turnover formula. It does not make any sense to me. I have not figured out why that limitation was in there.

Mr. SABO. My next question was going to be, do you think it is sensible?

Mr. CONNELL. I am not sure it is that worthwhile. I presume it had something to do with other agencies' entry into the market. I do not, quite frankly, understand the purpose it serves. I just do not know.

Mr. LAPIDUS. Just to expand on that: our extensions of credit at any one time are absolutely limited by the borrowing authority plus our capital. We cannot lend more than that. To put on top of that a limit on gross extensions has an effect only on the turnover we are allowed to have. That is, if you lend a dollar for 365 days in one loan then it is an extension of one dollar. If you turn that loan over every day, then it becomes \$365 of gross extensions. The fact of the matter is in each case the outstanding over the whole period is one dollar. So, it does not make any sense to have gross extensions control if there is a borrowing limitation controlling the total you can have outstanding at any one time.

Mr. SABO. The table on page 12 of the justification shows estimated gross obligations in 1982 of \$3,650,000,000. Why are you requesting a 1982 loan limitation of \$4,400,000,000?

I take it you prefer to have none?

Mr. CONNELL. We prefer to have none.

Mr. SABO. If there is one, is that a reasonable one?

Mr. CONNELL. Yes.

EMERGENCY BORROWING

Mr. SABO. On page five of the justification there is mention of the authorization for a \$500,000,000 appropriation for an emergency line of credit. I realize you are not requesting the \$500,000,000 at this time. Notwithstanding, how beneficial would it be to the CLF to have the \$500,000,000 appropriation? Explain who would benefit and how.

Mr. CONNELL. The principle for having that standby appropriation is to enable us to go to the private market and to leave the protection of the Federal Financing Bank. The underwriters usually require the new government agency to have Treasury backup authority for the first several years. Since we only have a year or two of experience, we do not have the experience that the underwriters would require. That is the reason for it.

Mr. SABO. Mr. Green.

FEDERAL FINANCING BANK

Mr. GREEN. It is no secret that the new Administration is concerned about the activities of the Federal Financing Bank. What kind of timetable do you project for entering the public credit markets so you will not be dependent on the Federal Financing Bank?

Mr. CONNELL. What the investment house would look for would be a predictability of behavior. They would look for security. If you do not have a pattern of borrowing where they do not see borrowing in June and paying off in August and they can go to their underwriter and say this has been the pattern for X number of years, if they do not have that—they need security. The best security is a back-up line with Treasury in case something should

happen and they did not perform. This has been the usual practice over the years.

Then when you establish the pattern of going to the market and they understand it and feel comfortable with it, then they do not require it.

Mr. GREEN. You are saying, that for the next several years you need a back-up line with Treasury until you are able to establish that seasonal pattern?

Mr. CONNELL. Right.

Mr. SABO. The Central Liquidity Facility charges a lower interest rate on protracted credit. Is that correct?

Mr. CONNELL. Yes.

Mr. SABO. What would be the difference on interest rates between protracted and short-term or seasonal credit?

Mr. CONNELL. Currently, around 17½ percent on short term.

Mr. LAPIDUS. Probably around 14 for protracted credit.

Mr. CONNELL. The difference being we tie the protracted credit to the four-year Treasury security. The short-term credit, we raise so that we will not undercut the private sector. We could undercut the corporate central, but then we would not be acting as a back-up, we would be acting as a substitute. So we price it slightly above so the credit unions have to come to us last as a lender of last resort.

Mr. SABO. Do other Members have any further questions?

Mr. GREEN. No questions.

Mr. SABO. Mrs. Boggs?

Mrs. BOGGS. No questions.

Mr. SABO. Thank you very much. We will place the Credit Union's budget justification in the record at this time.

[The justification follows:]

[The revised justification begins on page 341.]

NATIONAL CREDIT UNION ADMINISTRATION

CENTRAL LIQUIDITY FACILITY

The National Credit Union Administration Central Liquidity Facility is the central bank for the Nation's credit unions. It serves as a lender of last resort, providing funds to credit unions to meet liquidity needs when funds are not available from traditional sources of credit. The Facility lends only to meet specified types of liquidity needs, and does not lend funds merely to enable credit unions to expand their loan portfolios.

Although the Facility has only been operating for a little more than a year, the concept of a central bank for credit unions is not new. Legislative attempts to create such a central bank began with the introduction of the Federal Credit Union Act in 1934, and continued through 1978, when Congress finally passed P.L. 95-630, which established the Central Liquidity Facility within the National Credit Union Administration.

Several market trends bearing on credit union liquidity led to the establishment of the Facility. These trends include longer consumer loan maturities, longer term second mortgage loans, increased unsecured lines of credit, credit card activity, and the passage of P.L. 95-22 which granted credit unions the authority to make long-term mortgage loans. Other factors include an increase in credit union holdings of longer-term Government securities and a dramatic increase in large, interest sensitive accounts in credit unions.

Indeed, in the relatively short time since Congress created the Facility, new market trends have evolved which also bear on credit union liquidity and which suggest that liquidity pressures are likely to increase in the next decade.

The public is becoming increasingly sensitive to alternative investment and savings vehicles, and these vehicles are being structured to appeal to savers of small means:

- Money market mutual funds are becoming increasingly available to small savers. Some money market funds require as little as \$500 to open an account and even less to maintain such accounts.
- Depository institutions offer money market certificates in \$10,000 denominations, and many offer "loophole certificates," an investment/borrowing arrangement which requires as little as a \$3,000 investment to enjoy net returns well above regular share account and longer term certificate accounts.

- The bank, thrift, and credit union regulatory authorities have recently authorized certificates with maturities as short as 14 days; also, certificates with maturities as long as 30 months with rates tied to the rates on Government securities of comparable maturities have been authorized. These instruments are not regulated as to minimum denominations and, typically depository institutions are issuing them for \$500, with some going as low as \$100.

With the trend toward greater competition among financial institutions fostered by P.L. 96-221 and the general move toward deregulation, the range of options available to savers, both large and small alike, will continue to expand, increasing liquidity and competitive pressures on credit unions.

With the exception of the past year, there has been a steady erosion of credit union liquidity. The ratio of liquid assets to total shares declined steadily from 15.8 percent in 1971 to 8 percent through the end of 1978 and 1979. This liquidity decline was halted in 1980, but this was largely due to the following factors:

- In late 1979, NCUA established a liquidity reserve requirement for federally insured credit unions to provide a liquidity float to help credit unions withstand liquidity stocks.
- The 12% usury ceiling applicable to all federal and many state chartered credit unions (raised to 15% in late March 1980) coupled with the high cost of funds, caused credit unions to curtail lending during the latter part of 1979 and the first quarter of 1980. Funds normally lent to members were invested in short-term Government securities.
- Although the loan rate ceiling was increased to 15% in late March 1980, the increase occurred at nearly the same time that the recession and the Federal Reserve Credit Restraint Program caused consumer loan demand to decline.

The coincidence of these factors account for the increase in credit union liquidity in 1980, and suggests that the increase is more likely an isolated occurrence rather than a reversal of the trend toward declining liquidity. NCUA's liquidity reserve requirement does help, but given the market trends indicating heightened vulnerability of credit unions to liquidity pressures, there is a growing need for the Central Liquidity Facility.

This need is reflected in the dramatic growth in CLF membership in FY 1980, the Facility's first year of operation. Although membership is voluntary, by the end of December 1980, over 6,300 credit unions representing \$38.4 billion in assets, 55 percent of the assets of the entire credit union movement, had access to the Facility. Over 5,600 of these credit

unions were served by the 12 corporate credit unions affiliated with the CLF as Agent members.

Member borrowings outstanding at calendar year-end 1980 totalled \$93 million, with an additional \$13 million in protracted loans approved and expected to be disbursed in February 1981. Total assets amounted to just over \$170 million, with paid in capital of nearly \$75 million.

Facility earnings over the first five quarters totalled approximately \$4.9 million. Earnings were limited over much of this period because of limited loan demand (caused by the economic slowdown, high interest rates, and the general increase in credit union liquidity) in combination with the fact that a large share of the loan demand that did materialize was for protracted assistance on which CLF earns a very small spread. * Nevertheless, the Facility declared four quarterly dividends 10%, 10%, 9% and 9%, with the fifth quarter dividend expected to be 10%.

The Facility's good dividend record was due, in part, to high yields on CLF investments. Also contributing to the good dividend record was management's tight control on administrative expenditures. Although the Facility was originally allocated 20 positions, only 13 had been filled through December 31, 1980; additional positions will be filled only as membership and loan volume warrant. Also, cost increases were avoided because the NCUA Board decided that despite statutory authority, the CLF would not act as a pass-through correspondent for the collection of credit union reserves under the Monetary Control Act due to the costs involved and the Board's determination that this function can be handled more efficiently by the private sector.

In FY 1982, loan demand, in general, and particularly demand for short-term adjustment credit, will depend on economic conditions. The prospect of a 1982 economy slowed by continued inflation and high interest rates suggests that credit unions will likely continue to be faced with liquidity pressures. Several factors indicate increased demand over that of FY 1980 for CLF assistance:

1. By FY 1982, CLF membership should increase substantially, particularly if liquidity pressures continue. The membership program undertaken in FY 1981 will result in increased membership, and the prospects appear good that CLF will achieve its goal of representing 75% of the assets of the industry. This would mean nearly a 50% increase over the amount of assets represented at year-end 1980.

* This is because protracted credit is generally not available to credit unions through the private sector. Therefore, as a matter of policy, the spread is not as large on protracted credit as on other forms of CLF credit where the CLF rate is set above market rates to encourage the use of traditional private sources of credit consistent with the CLF's role as a lender of last resort.

2. Development and implementation of a seasonal lending program, scheduled to be undertaken in FY 1981, will result in increased loan demand.
3. Earnings pressures arising from investments in low-yielding, long-term Government securities in the mid 1970's will continue to surface if interest rates remain above the levels of early 1973, as seems certain. These problems began to appear in late 1979, but will be more prevalent the longer interest rate pressures continue. Demand for protracted adjustment credit will be stimulated by these conditions.
4. The effects of the recession have not yet been felt. Typically, the effects of a recession lag rather than appear simultaneously with the recession, and it can be expected that the problems associated with the present recession will begin manifesting themselves in FY 1981 and carry into FY 1982.
5. With the recovery of the economy from the 1980 recession, loan demand at natural person credit unions will revive and credit union liquidity will decline. By the middle of FY 1982, the credit union community may become once more vulnerable to liquidity pressures beyond the capacity of their own liquid resources.
6. The enactment of the Depository Institutions Deregulation Act of 1980 has ushered in an era of unprecedented competition. Commercial banks, thrift institutions and credit unions are offering the same or similar services in the consumer financial markets and with the phase-out of Regulation Q, credit unions will not be sheltered from rate competition, as they were in the past. This sharpened competition will inevitably result in greater distress among the competitors, especially among credit unions which have had to surrender competitive advantages. In FY 1982 and increasingly through the decade, as the market adjusts to the heightened competition, credit unions under stress will need short-term adjustment and protracted adjustment credit.

Thus, it is anticipated that demand for loans from CLF in FY 1982 will increase significantly over that of FY 1980. Expectations are that short-term and seasonal borrowing will range as high as \$300 million in FY 1982, and that an additional \$300 million will be needed to accommodate credit unions' needs for long-term emergency assistance. Thus, the total requested borrowing authority for FY 1982 is \$600 million, the same as was approved for FY 1981.

The statute provides for a \$500 million emergency line of credit from Treasury, if appropriated; no request for an appropriation has been made. Nonetheless, the difficulty of predicting liquidity needs and the need to provide funds very quickly to credit unions when emergencies arise suggest that consideration for such an appropriation should not be abandoned. In the event that credit unions should face a generalized abrupt liquidity emergency of the kind that developed in FY 1980, a supplemental budget authorization might not be timely.

Appropriation of the emergency line of credit would serve another important function in addition to enabling the Facility to meet its responsibilities in the event of an economic crisis. In FY 1982, the Facility intends to begin financing its activities in the private markets and begin to end its dependence on public funding through the Federal Financing Bank. By FY 1982, the Facility will have been in operation for two years and will have established an earnings record on which its creditworthiness can be judged. The amount and timing of its funding needs will be more predictable, enabling the Facility to enter the market on a regular basis and establish a consistent market presence. This will enhance the acceptability of the Facility's debt issues, and will allow it to compete with other similar Agency issues without the Facility's having to pay a premium price. The clear availability of the \$500 million draw on Treasury, particularly in CLF's first ventures in the debt markets, would significantly enhance the marketability of CLF securities, and would reduce the price that CLF will pay for the funds it needs to meet its public policy goals.

Administrative Expenditures for FY '82

The emphasis for the FY 1982 administrative expenditure budget is on continuation and maintenance of present programs, membership, and development of a program to finance CLF activities through the private market. The major areas in which administrative expenditures will be made include the following:

- (1) Membership. In FY 1981, the CLF began a two-year program aimed at increasing membership, with the goal of extending CLF protection to 75% of the assets of the credit union movement by the end of FY 1982. This program, which will focus on corporate (for Agent membership) and large (over \$50 million in assets) credit unions, is expected to increase paid-in capital to \$100-\$115 million. The program will rely heavily on personal staff contacts with credit union representatives, as well as the development and mailing of promotional literature.
- (2) Private Market Financing Program. For the first two years of operations, the Facility will have financed the bulk of its lending through the Federal Financing Bank. However, in FY 1982, the Facility intends to begin to end its dependence on public financing and begin funding its activities by issuing its own debt securities in the private market.

This effort will involve developmental and marketing efforts by CLF staff. Also, due to the complexities of this effort and the serious problems that can arise if it is not handled properly, significant expenditures for consultation with legal and financial experts are anticipated. Once developed, the program may involve hiring an additional staff person to manage an investment portfolio.

This program will accomplish two important goals: (1) the Facility will end its dependence on public financing, and (2) funds raised from the private sector will enable the Facility to establish an investment portfolio to provide a source of earnings when loan demand is low; this is important because CLF membership is voluntary and it is essential for CLF to have earnings to pay dividends and maintain membership even when loan demand is soft. CLF management recognizes that it is inappropriate to use low interest public funds from the FFB to maintain an investment portfolio even when the Facility is under pressure to supplement earnings, and private financing would eliminate this problem.

- (3) Seasonal Loan Program. During FY 1981 and carrying into FY 1982, the CLF will implement its seasonal lending program. Unlike other forms of CLF assistance, seasonal lending is to meet liquidity needs which are recurring and predictable, and does not involve emergency situations. Seasonal lending will provide a source of loan demand and CLF income even when demand for emergency credit is low.

Unlike emergency credit, seasonal credit requires preparatory analytical work in establishing seasonal patterns several months in advance of the need for funds, and establishment of lines of credit which can be drawn down as the liquidity need arises and, thus, requires different policies and procedures. It is anticipated that these and other differences will mean that development and implementation of this program will require a large amount of staff time devoted to training (itself and CLF Agents), promotional work, and administration of the program.

- (4) Agent Training. Corporate credit unions affiliated with CLF as Agent members act as loan officers in making CLF loans to their member credit unions. The CLF provides training sessions in its offices in Washington to assure that Agents are familiar with CLF policies and procedures and administer the CLF lending programs consistently and uniformly. In addition to the need to keep present Agents informed of new or revised policies, procedures, and programs, new Agent members and new staff of present Agents must be trained. It is anticipated that the CLF membership program will result in several new Agent members. This, together with the advent of new programs such as the seasonal lending program, mean that Agent training will be a very important part of CLF activities through FY 1982.
- (5) NCUA Staff Support. Since CLF staff and operations are relatively small at present, much of its support functions are carried out by other NCUA offices, and CLF reimburses NCUA for time spent on CLF activities. This enables CLF to maintain a small staff and still execute its responsibilities in an efficient manner.

Support services provided by NCUA include internal audit, legal work, economic research, personnel, procurement, examination of Agents, and other similar administrative support.

- (6) Continuation and Maintenance of Present Programs. CLF short-term and protracted emergency credit programs will continue in FY 1982. If loan demand picks up in FY 81-82 as is expected, the CLF might have to hire additional staff to handle the volume, although this will depend, to a large degree, on whether most of the demand arises from Regular members or through Agents. It is also anticipated that there will be a need to revise current programs as more of the Facility's lending begins originating through Agents. To date, the vast majority of CLF lending has been direct to Regular members, and it is expected that as experience is gained in lending through Agents, new problems and needs will be encountered which will require revisions in the CLF lending programs.

National Credit Union AdministrationCentral Liquidity FacilityExplanation of Obligations by Object Class

Personnel Compensation \$550,000. Represents the estimated salary costs for 19 permanent full-time employees on duty during FY 1982.

Personnel Benefits \$60,000. Includes health benefits, government life insurance, miscellaneous cash awards and change of station real estate differential.

Travel and Transportation \$90,000. Represents travel for CLF staff as well as CLF Agents, state supervisors and state insurance corporations involved with CLF development. Since CLF membership is voluntary, and CLF operations are centralized, a significant amount of promotional and educational travel is anticipated.

Transportation of Things \$27,000. The bulk of these funds represent anticipated change-of-station expenses for new staff in the lending and finance functions.

Communications, Utilities and Other Rent \$98,000. Represents estimated rental charges for space as well as computer terminals and EDP equipment usage.

Printing and Reproduction \$42,000. Represents costs primarily associated with promotional/educational materials regarding loan, membership, and financing programs. In addition to the above items, it will also include basic forms, staff manuals and general circulars to members.

Other Services \$763,000. Primarily represents costs associated with consulting and data processing services for membership, loan and accounting systems and corporate examination, Agent and NCUA reimbursement.

Supplies and Materials \$11,000. Represents computer paper, visual aids, educational supplies and miscellaneous supplies for CLF, Agents and sponsors of training seminars.

Equipment \$5,000. These funds represent office equipment.

Investments and Loans \$3,760,000,000. This amount represents the cumulative total of short-term seasonal and protracted credit provided credit unions during FY 1982. It also includes obligations for investments made during FY 1982.

Interest and Dividends \$72,771,000. These funds represent the cost of capital (borrowings from the Federal Financing Bank) and dividends paid to members of the Facility.

Central Liquidity FacilityAppropriations Language

The amount which may be borrowed, from the public or any other source except the Secretary of the Treasury, by the Central Liquidity Facility as authorized by the National Credit Union Central Liquidity Facility Act (12 U.S.C. 1795), shall not exceed \$600,000,000: Provided, That administrative expenses of the Central Liquidity Facility in fiscal year ~~1981~~ 1982 shall not exceed ~~\$1,936,000~~ \$1,641,000. During ~~1981~~ 1982, within the resources and authority available, gross obligations for the principal amount of direct loans shall not exceed \$4,400,000,000. (Department of Housing and Urban Development -- Independent Agencies Appropriation Act, 1981.)

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Financial Condition
 (in thousand of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
<u>Assets:</u>			
Current Assets			
Cash	\$	10	10
Investments (PAR)	55,730	83,018	200,000
Loans Receivable	85,467	300,000	500,000
Accounts Receivable	25,260	20,781	16,847
Interest Receivable	<u>3,163</u>	<u>4,600</u>	<u>6,079</u>
Total Current Assets	169,628	408,409	722,936
Fixed Assets			
Equipment	25	125	180
Other Assets	<u>1,385</u>	<u>1,500</u>	<u>1,500</u>
Total Fixed Assets	<u>1,410</u>	<u>1,625</u>	<u>1,680</u>
Total Assets	<u>171,038</u>	<u>410,034</u>	<u>724,616</u>
<u>Liabilities:</u>			
Borrowings			
Accounts Payable	89,932	300,000	600,000
	<u>2,028</u>	<u>21,517</u>	<u>19,566</u>
Total Liabilities	91,960	321,517	619,566
<u>Government Equity:</u>			
Capital Stock	78,794	84,453	98,462
Net Income	284	4,064	6,588
Total Equity	<u>79,078</u>	<u>88,517</u>	<u>105,050</u>
Total Liability and Equity	<u>171,038</u>	<u>410,034</u>	<u>724,616</u>

NATIONAL CREDIT UNION ADMINISTRATION
Central Liquidity Facility
Income and Expense
(in thousand of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
Income:			
Interest on Investments	3,258	22,800	30,780
Interest on Loans	<u>5,284</u>	<u>37,200</u>	<u>50,220</u>
Total Income	<u>8,542</u>	<u>60,000</u>	<u>81,000</u>
Expenses:			
Administrative Expenses:			
Personnel Compensation	314	571	550
Personnel Benefits	31	57	60
Travel and Transportation of Persons	31	85	90
Travel and Transportation of Things	5	90	27
Rent Communications and Utilities	86	248	98
Printing and Reproduction	13	200	42
Other Services	233	565	763
Supplies	<u>8</u>	<u>120</u>	<u>11</u>
Total Administrative Expenses	721	1,936	1,641
Interest on Borrowing, from Federal Financing Bank	4,606	45,000	63,000
Dividends on Stock Subscriptions	<u>2,931</u>	<u>9,000</u>	<u>9,771</u>
Sub Total	<u>7,537</u>	<u>54,000</u>	<u>72,771</u>
Total Expenses	<u>8,258</u>	<u>55,936</u>	<u>74,412</u>
Net Income	<u>284</u>	<u>4,064</u>	<u>6,588</u>

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Status of Direct Loans
 (in thousands of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
Position with respect to limitation on obligations:			
Limitation on Obligations	---	4,400,000	4,400,000
Obligations Exempt from Limitation	310,345	---	---
Obligations Incurred, Gross	-310,345	-2,208,000	-3,650,000
Cumulative balance of direct loans outstanding:			
Outstanding start of year.	---	85,467	300,000
New loans: Disbursements for direct Loans	200,732	2,224,533	3,650,000
Recoveries: Repayments and prepayments	-115,265	-2,010,000	3,450,000
Outstanding, End of year	85,467	300,000	500,000

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Program and Financing
 (in thousands of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
<u>Program by Activities:</u>			
1. Administrative Expense	1,511	1,936	1,641
2. Interest on Securities	4,606	45,000	62,871
3. Dividends on Capital Stock	<u>2,931</u>	<u>9,000</u>	<u>9,900</u>
Total Operating Costs Funded	<u>9,048</u>	<u>55,936</u>	<u>74,412</u>
<u>Capital Investment:</u>			
1. Investment in Equipment	26	100	5
Loans to Credit Unions	<u>310,345</u>	<u>2,208,000</u>	<u>3,760,000</u>
Total Capital Investment, Funded	<u>310,371</u>	<u>2,208,100</u>	<u>3,760,005</u>
10:00 Total Program Costs, Funded- Obligations	<u>319,419</u>	<u>2,264,036</u>	<u>3,834,417</u>

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Financing and Outlays
 (in thousands of dollars)

	1980 <u>Actual</u>	1981 <u>Estimates</u>	1982 <u>Estimates</u>
10.00 Total Program Costs, Funded-Obligations	319,419	2,264,036	3,834,417
Financing:			
Offsetting collections from:			
14.00 Non-Federal sources:			
Interest on Loans	-8,542	-60,000	-81,000
Capital Stock	-78,794	- 7,000	-10,000
Loan Repayments	-115,265	-2,010,000	-3,450,000
Unobligated balance, start of year:			
21.47 Authority to Borrow	---	-1,005,015	---
21.98 Fund Balance	---	-78,167	-88,517
Unobligated balance available, end of year:			
24.47 Authority to borrow	1,005,015	---	---
24.98 Fund Balance	78,167	88,517	105,050
32.47 Balance of Authority to Borrow Withdrawn	---	1,005,015	---
47.10 Budget Authority (Authority to Borrow, Public Law 95-630)	<u>1,200,000</u>	<u>197,386</u>	<u>309,950</u>
Relation of Obligations to Outlays:			
71.00 Obligations incurred, net	116,818	187,036	293,417
72.00 Obligated balance, start of year	---	26,894	3,864
74.10 Obligated balance, end of year:	<u>-26,894</u>	<u>-3,864</u>	<u>2,719</u>
90.00 Outlays	89,924	210,066	300,000

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Object Classification
 (in thousands of dollars)

	<u>1980</u> <u>Actual</u>	<u>1981</u> <u>Estimate</u>	<u>1982</u> <u>Estimate</u>
Personnel compensation:			
11.1 Permanent positions	314	571	550
Total personnel compensation	<u>314</u>	<u>571</u>	<u>550</u>
Personnel benefits:			
12.1 Civilian	31	57	60
21.0 Travel and transportation of persons	54	85	90
22.0 Transportation of things	5	90	27
23.0 Rent, Communications, and utilities	106	248	98
24.0 Printing and reproduction	28	200	42
25.0 Other services	965	565	763
26.0 Supplies and materials	8	120	11
31.0 Equipment	26	100	5
33.0 Investments and loans	310,345	2,208,000	3,760,000
43.0 Interest and dividends	<u>7,537</u>	<u>54,000</u>	<u>72,771</u>
99.0 Total obligations	319,419	2,264,036	3,834,417

APPENDIX B

National Credit Union AdministrationCentral Liquidity Facility

The National Credit Union Administration Central Liquidity Facility (the "Facility") was created by the National Credit Union Central Liquidity Facility Act. (Public Law 95-630, Title XVIII, 12 USC 1795 et seq.). The Facility is a mixed-ownership Government corporation within the National Credit Union Administration. It is managed by the National Credit Union Administration Board and is owned by its member credit unions. The Facility became operational on October 1, 1979.

The purpose of the Facility is to improve the general financial stability of credit unions by meeting their liquidity needs and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy. To accomplish this purpose, member credit unions invest in the capital stock of the Facility, and the Facility uses the proceeds of such investments and the proceeds of borrowed funds to meet the liquidity needs of credit unions primarily serving natural persons. The Facility serves mainly as a secondary source of liquidity after other sources of liquidity have been utilized.

Membership in the Facility is available to Federal and state-chartered credit unions. There are two types of membership, Regular membership and Agent membership. A natural person credit union may become a Regular member or may gain access to the Facility through an Agent member. When a central credit union becomes an Agent member or part of a group which is an Agent member, all of its member natural person credit unions gain access to the Facility through its Agent membership. An application for membership must include a subscription to the capital stock of the Facility.

A Regular member may apply to the Facility for an extension of credit to meet its liquidity needs. An Agent member may apply to the Facility for an extension of credit to meet the liquidity needs of its member natural person credit unions. The Facility may advance funds to meet such liquidity needs after giving due consideration to creditworthiness.

The Facility may advance funds to meet three types of liquidity needs:

- o Short-term adjustment credit (sometimes known as "short-term emergency credit") available to assist in meeting temporary requirements for funds or to cushion more persistent outflows of funds pending an orderly adjustment of credit union assets and liabilities. The maximum maturity will ordinarily be six months or the term of the projected need for such credit, whichever is less.
- o Seasonal credit available to assist in meeting seasonal needs for funds arising from a combination of expected patterns of movement in share and deposit accounts and loans. The maximum maturity will ordinarily be nine months.

- o Protracted adjustment credit (sometimes known as "long-term emergency credit") available in the event of unusual or emergency circumstances of a longer term nature resulting from national, regional or local difficulties.

All such advances must be secured in accordance with the requirements set forth in the regulations of the Facility. Interest rates on such advances will be set by the Facility and will be available on a daily basis at the Facility. Ordinarily, it will be the policy of the Facility to set national interest rates at levels that will encourage the use of normal sources of liquidity, including borrowing from central credit unions, whenever those sources of liquidity are readily available.

The advances to credit unions and other CLF investments may be funded by capital contributions, advances from the Federal Financing Bank, the capital markets and, in an emergency, the Secretary of the Treasury to a maximum of \$500,000,000, if appropriated. At present, the Federal Financing Bank is the preferred source for external financing credit union loans.

The capital stock of the Facility is divided into non-voting shares having a par value of \$50 each. Shares are issued solely to credit unions which are Regular or Agent members of the Facility. If an Agent member consists of a group of central credit unions, shares are issued to one of the central credit unions in the group.

Whole and fractional shares are issued by the Facility. The ownership of shares is entered solely on the records of the Facility in share accounts similar to credit union share accounts, and no certificates or other evidences of ownership are issued. Shares may not be transferred or hypothecated except to the Facility, and there are no voting rights.

Dividends are paid on the capital stock of the Facility at such times and rates as are determined by the National Credit Union Administration Board (the NCUA Board.) Dividends are paid by crediting the share accounts of members. The first four quarterly dividends paid by the CLF were 10%, 10%, 9%, 9%, and the fifth quarter dividend is expected to be 10%.

APPENDIX C

National Credit Union AdministrationHistorical Background

The National Credit Union Administration is an independent financial regulatory Agency and is responsible for the chartering, supervising, examining, and insuring of all Federal credit unions. Additionally, it insures the accounts of those state credit unions which choose the option, or are required by state law, to become federally insured. Currently there are approximately 12,750 Federal credit unions and 5,000 state chartered credit unions being served by this Agency.

The National Credit Union Administration was established in 1970 by Public Law 91-206. Its central office is located in Washington, D.C., and there are six regional offices located in Boston, Massachusetts; Harrisburg, Pennsylvania; Atlanta, Georgia; Toledo, Ohio; Austin, Texas; and San Francisco, California. As of December 31, 1979, the National Credit Union Administration staff consisted of 675 full time employees. The Agency receives no appropriations and operates on the fees it receives from credit unions. As a result of P.L. 95-630, the administration of the Agency has been invested in a three member board. Their terms of office are as follows: Chairman, 6 years; Board Member, 4 years; and another Board Member, 2 years.

Essentially, the Agency administers the functions of the Federal Credit Union Act of 1934 which provided for the establishment of "a Federal Credit Union System, to establish a further market for securities of the United States and to make more available to people of small means credit for provident purposes through a national system of cooperative credit..."

Prior to 1934, credit unions were chartered under state laws. The first credit union in the United States was organized in New Hampshire in 1908. By 1934, there were 2,028 state-chartered credit unions in operation in 38 states and the District of Columbia.

Growth in U.S. credit unions accelerated rapidly after the end of World War II. During the decade of the 1950's, the number of operating credit unions in the U.S. doubled. Membership increased by 2-1/2 times and assets by six-fold. In the 1960's, growth continued to be vigorous with membership nearly doubling to 21,629,000, and assets more than tripling to almost \$16 billion. With the establishment of the National Credit Union Administration and with the passage of Federal share insurance legislation in late 1970 (P.L. 91-468), growth in credit union resources accelerated rapidly. Since yearend 1970, total assets of Federal credit unions have quadrupled. By the end of 1980, some 21,990 credit unions with 45.5 million members and total resources of almost \$72 billion, were in operation in the United States.

Credit unions are somewhat unique institutions. Like traditional corporations, credit unions have shareholders who supply capital and receive voting rights. Unlike the traditional corporation, however, shareholders (credit union members) have only one vote. This is because credit unions are cooperatives whose principles of organization differ from those of traditional corporations. Credit unions function as depository financial intermediaries along with commercial banks, mutual savings banks, and savings and loans. Credit unions, however, are generally limited by statute to serving the consumer credit and savings market. Additionally, they are further constrained from doing business with the general public by charters which restrict their field of membership to groups having a common bond of occupation, association, or residence.

Credit unions are managed by a board of directors and committees made up of members of the credit union. No director, committee member, or other officer except the treasurer of a Federal credit union, may be compensated. After expenses and legal reserve requirements are met, most of the earnings of a credit union are returned to the members in the form of dividends on share holdings.

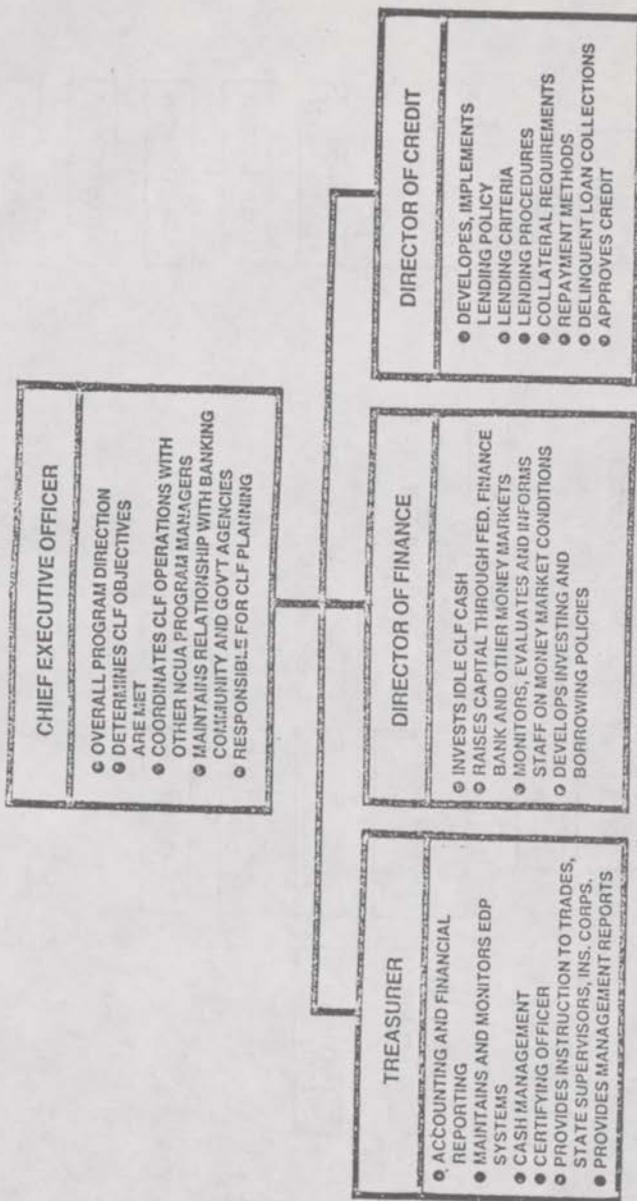
The Federal Credit Union Act of 1934 placed the supervisory authority over Federal credit unions within the Farm Credit Administration. This was done after objections from Treasury and the Federal Reserve to the Senate passed version of this bill which provided that the authority would rest with the Comptroller of the Currency. Credit unions remained with the Farm Credit Administration until May 16, 1942, when the First War Powers Act of 1941 was used to transfer them to the Federal Deposit Insurance Corporation.

The journey continued in 1948 when the FDIC was faced with the need to request appropriations for its credit union responsibilities. Rather than enter the appropriations process, the then Bureau of Federal Credit Unions was transferred by the Act of June 29, 1948, 62 Stat. 1091, to the Federal Security Agency, the predecessor of the Social Security Agency.

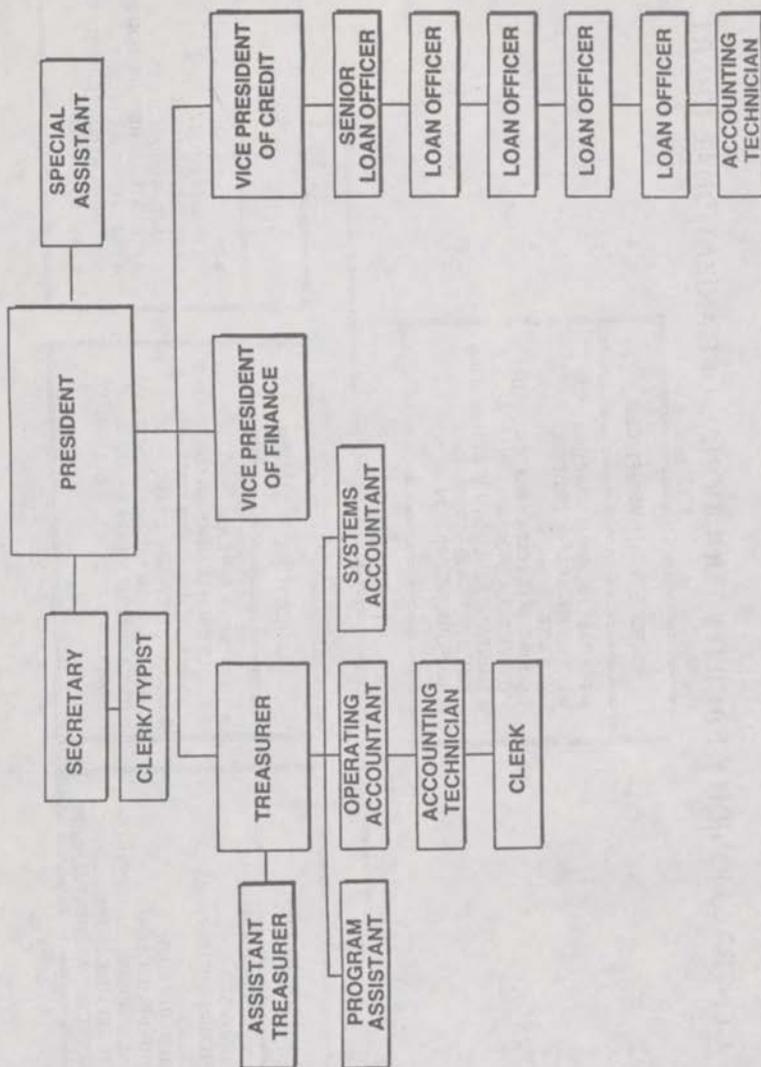
Reorganization Plan No. 1 of 1953 abolished the Federal Security Agency and transferred the Bureau of Federal Credit Unions, together with other agencies of the Federal Security Agency, to the Department of Health, Education and Welfare.

The establishment of the National Credit Union Administration in 1970 placed the supervision of Federal credit unions under an independent agency. Later in 1970, under Public Law 91-468 (October 19, 1970), an additional responsibility was given to the agency: The administration of the National Credit Union Share Insurance Fund. This fund insures member accounts up to \$40,000 in all federally chartered credit unions as well as those in state credit unions which apply and qualify for such insurance. Title XIV of P.L. 95-630 increased this insurance for IRA and Keogh accounts to \$100,000. The Share Insurance Fund was established with a \$100 million draw on Treasury for emergency purposes.

CENTRAL LIQUIDITY FACILITY FUNCTIONAL ORGANIZATIONAL CHART



CENTRAL LIQUIDITY FACILITY ORGANIZATION CHART



REVISED JUSTIFICATIONS

CENTRAL LIQUIDITY FACILITY REVISED BUDGET ESTIMATES FY 1982

Statutory Borrowing Authority

The cumulative borrowing authority from any source remains at \$600,000,000 for fiscal year 1982. This amount is the same as the limitation for fiscal year 1981.

Emergency Borrowing Authority

Appropriation of the emergency borrowing authority from the Treasury in the amount of \$100,000,000 is requested for fiscal year 1982 to remain available without fiscal year limitation. The CLF statute provides emergency borrowing authority up to \$500,000,000 subject to appropriation by the Congress. Appropriation of \$100,000,000 of this authority is requested in order to facilitate borrowing in the private market through the issuance of CLF debt instruments. The emergency line with the Treasury is essential in order to gain market acceptance and confidence with CLF issues. It also will reduce the costs of issuing securities in the market.

This authority was not previously requested in the previous administration's budget submitted to the Congress. It reflects the current administration's position to accelerate entry into the private market and to no longer use the facilities of the Federal Financing Bank (FFB) to fund loans of the Facility to its member credit unions.

Entry into the private market will not begin until fiscal year 1982. In the meantime, the FFB will continue to provide financing for loans for the remainder of fiscal year 1981.

Cumulative Lending Authority

The requested limitation on cumulative direct obligations for loans during fiscal year 1982 of \$4.4 billion remains the same as presented in the January budget submission to the Congress.

Administrative Expense Limitation

The limitation on CLF administrative expenses for fiscal year 1982 has not been revised and remains at \$1,641,000.

Revised Schedules

Attached are revised schedules that reflect the changes to the fiscal year 1982 estimates approved by the new administration. They are: appropriation language, statement of financing and outlays, statement of financial condition, and status of direct loans.

Attachments

National Credit Union Administration

1982 Budget Appendix Page	Heading	1982 Budget Request Pending	1982 Proposed Amendment	1982 Revised Request
I-V93	Central Liquidity Facility	\$309,950,000	-\$59,950,000	\$250,000,000

(In the appropriation language under the above heading insert the following immediately after "\$4,400,000,000.":)

For emergency lending to the Central Liquidity Facility by the Secretary of the Treasury in the event of insufficient funds to meet liquidity needs to credit unions as authorized by the Act of November 10, 1978 (Public Law 95-630), \$100,000,000, to remain available without fiscal year limitation.

This amendment would provide the emergency lending to the Central Liquidity Facility needed to go into the private market in fiscal year 1982 for capital funding. This action would not effect 1982 outlays.

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Financing and Outlays
 (in thousands of dollars)

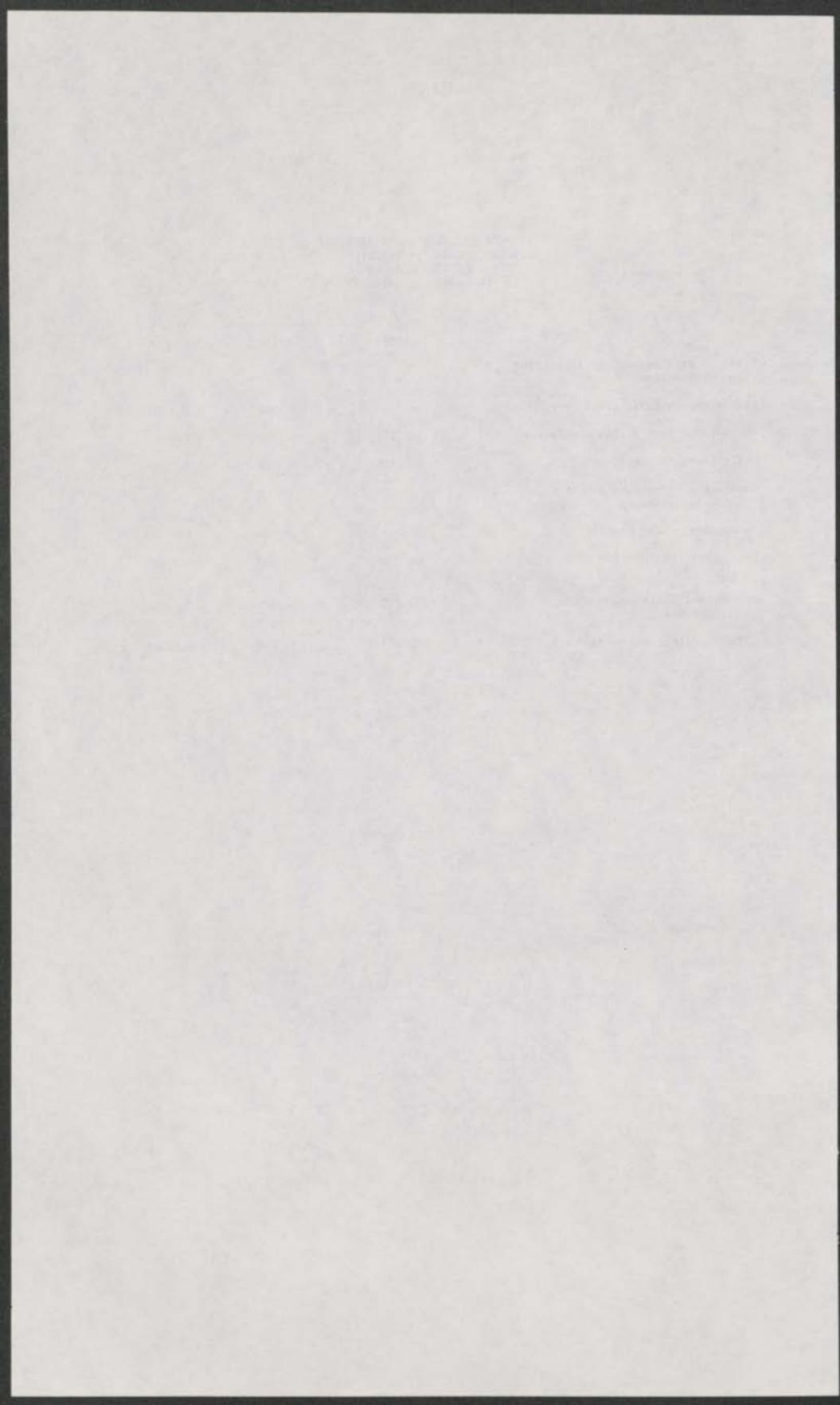
	1980 <u>Actual</u>	1981 <u>Estimates</u>	1982 <u>Estimates</u>
10.0			
Total Program Costs, Funded-Obligations	319,419	2,264,036	3,834,417
Financing:			
Offsetting collections from:			
14.00			
Non-Federal sources:			
Interest on Loans	-8,542	-60,000	-81,000
Capital Stock	-78,794	-7,000	-10,000
Loan Repayments	-115,265	-2,062,000	-3,510,000
Unobligated balance, start of year:			
21.47			
Authority to Borrow	---	-1,005,015	-859,629
21.98			
Fund Balance	---	-78,167	-88,517
Unobligated balance available, end of year:			
24.47			
Authority to Borrow	1,005,015	859,629	---
24.98			
Fund Balance	78,167	88,517	105,050
32.47			
Balance of Authority to Borrow Withdrawn	---	---	859,629
Budget Authority:	<u>1,200,000</u>	<u>---</u>	<u>249,950</u>
Budget Authority:			
47.00			
Authority to Borrow (appropriations)	---	---	100,000
47.10			
Authority to Borrow (Public Law 95-630)	1,200,000	---	149,950
Relation of Obligations to Outlays:			
71.00			
Obligations incurred, net	116,818	135,036	133,417
72.00			
Obligated balance, start of year	---	26,894	110,648
74.10			
Obligated balance, end of year:	<u>-26,894</u>	<u>-110,648</u>	<u>-94,065</u>
90.00			
Outlays	89,924	51,282	150,000

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Financial Condition
 (in thousands of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
<u>Assets:</u>			
Current Assets			
Cash	8	10	10
Investments (PAR)	55,730	83,018	100,000
Loans Receivable	85,467	136,749	286,749
Accounts Receivable	25,260	20,781	16,847
Interest Receivable	<u>3,163</u>	<u>4,600</u>	<u>6,079</u>
Total Current Assets	169,628	245,158	409,685
Fixed Assets			
Equipment	25	125	180
Other Assets	<u>1,385</u>	<u>1,500</u>	<u>1,500</u>
Total Fixed Assets	<u>1,410</u>	<u>1,625</u>	<u>1,680</u>
Total Assets	<u>171,038</u>	<u>246,783</u>	<u>411,365</u>
<u>Liabilities:</u>			
Borrowings	89,932	141,214	291,214
Accounts Payable	<u>2,028</u>	<u>17,052</u>	<u>15,101</u>
Total Liabilities	91,960	158,266	306,315
<u>Government Equity:</u>			
Capital Stock	78,794	84,453	98,462
Net Income	<u>284</u>	<u>4,064</u>	<u>6,588</u>
Total Equity	79,078	88,517	105,050
Total Liability and Equity	<u>171,038</u>	<u>246,783</u>	<u>411,365</u>

NATIONAL CREDIT UNION ADMINISTRATION
 Central Liquidity Facility
 Status of Direct Loans
 (in thousands of dollars)

	1980 <u>Actual</u>	1981 <u>Estimate</u>	1982 <u>Estimate</u>
Position with respect to limitation on obligations			
Limitation on Obligations	---	4,400,000	4,400,000
Obligations Exempt from limitation	310,345	---	---
Obligations Incurred, Gross	-310,345	-2,208,000	3,760,000
Cumulative balance of direct loans outstanding:			
Outstanding start of year	---	85,467	136,749
New loans: Disbursement for direct loans	200,732	2,113,282	3,660,000
Recoveries: Repayments and prepayments	-115,265	-2,062,000	-3,510,000
Outstanding, End of year	85,467	136,749	286,749



WEDNESDAY, MARCH 4, 1981.

OFFICE OF REVENUE SHARING

WITNESSES

JOSE PEPE LUCERO, DIRECTOR,

ROBERT W. RAFUSE, JR., DEPUTY ASSISTANT SECRETARY FOR STATE
AND LOCAL FINANCE

DR. KENT A. PETERSON, DEPUTY DIRECTOR, ADMINISTRATION AND OP-
ERATIONS

JUDITH A. DENNY, DEPUTY DIRECTOR, POLICY AND COMPLIANCE

WANDA P. STINESS, ASSISTANT DIRECTOR, FINANCIAL MANAGEMENT
DIVISION, OFFICE OF THE SECRETARY

Mr. BOLAND The Committee will come to order. Today we will be considering the fiscal year 1982 budget request of the Office of Revenue Sharing. We are pleased to have with us Jose Pepe Lucero, the Director, who is new to this Committee, as is Judith Denny, Deputy Director of Policy and Compliance. We welcome Robert Rafuse, Jr., Deputy Assistant Secretary for State and Local Finance, Dr. Kent Peterson, Deputy Director of Administration and Operations, and Wanda Stiness, Assistant Director of Financial Management, who have been here before.

We will place the biographies of Mr. Lucero and Ms. Denny in the record at this point.

[The biographical sketches follow:]

JOSE PEPE LUCERO

Mr. Jose Pepe Lucero joined the U.S. Department of Treasury in June, 1980 as Director of the Office of Revenue Sharing.

Mr. Lucero is a general partner of Plaza Nacional Group, Ltd.—the owners and developers of the Four Seasons Plaza Nacional Hotel in San Antonio, Texas. He has been active in various civic organizations in South Texas, particularly in economic development projects. He has been President of the Southwest Program Development Corporation, a San Antonio-based organization of professional program planners, since 1971 and for the past fifteen years has been professionally involved with various Federal, State, county and city governmental policy planning and program operations. He is a former Executive Director of the Community Action Agency in San Antonio and Bexar County, Texas.

Mr. Lucero holds B.A. and M.A. degrees in government and political science respectively from St. Mary's University in San Antonio. He is married and is a resident of Washington Metropolitan area.

JUDITH A. DENNY

Ms. Judith Denny joined the Office of Revenue Sharing in October of 1980, as the Deputy Director for Policy and Compliance. Ms. Denny came to this Office from the Department of Education where she had served as the Acting Assistant Inspector General for Investigations. Her career in the Federal service spans 12 years in the U.S. Senate and as a trial attorney and Assistant Special Watergate Prosecutor with the Department of Justice.

Ms. Denny's bachelor's degree was earned at Louisiana Tech University in Political Science. Her J.D. was earned at George Washington University School of Law. Ms. Denny has responsibility for reviewing with the Director the operations of the

Intergovernmental Relations, Public Affairs, and Civil Rights Divisions of the Office of Revenue Sharing.

Mr. BOLAND. This year, you are requesting \$7,186,000 in the Salaries and Expenses account. That is an increase of \$409,000 over the fiscal year 1981 estimate of \$6,777,000 which includes a supplemental appropriation request of \$293,000 for increased pay costs and a \$34,000 reduction pursuant to the 1981 Appropriation Act.

We are pleased to have you here. Please proceed with any statement that you have, Mr. Director.

Mr. LUCERO. You have a copy of the statement. I would like to highlight it. You have already introduced those appearing with me today.

GENERAL STATEMENT

The primary tasks of ORS are: general fiscal assistance, distributed by a statutory formula, to over 39,000 general purpose local governments. The funds are available to the recipients to use for any purpose permissible under their own laws. However, recipients must adhere to certain non-discrimination, audit, and public participation requirements specified in the legislation.

The resources of the Office of Revenue Sharing are primarily devoted to two major tasks: making payments and ensuring compliance with the nondiscrimination, audit, and public participation standards. The first involves obtaining and reviewing the data used in the allocation formula, computing allocations, making payments, accounting for payments, and providing for the collection and control of required forms.

The second task involves responding to citizen complaints and judicial or administrative holdings of discrimination, resolution of cases in which public hearing and notice requirements may not have been met, and ensuring that recipient governments receiving payments of more than \$25,000 per year have the required audits and that all recipients meet minimum standards of financial accountability.

The Office of Revenue Sharing is now in the process of implementing the second extension of the program. The allocation and payment system, as well as formula data, have been and continue to be updated; current information for recipients and the public reflecting statutory changes is being prepared; the necessary revisions to the regulations are being drafted; and the minor changes in the auditing requirements in the new law are being implemented.

During the past year, the Office has continued its efforts to increase administrative effectiveness, especially in executing the compliance requirements.

REVIEW OF AUDIT REPORTS

Mr. Chairman, last year in our statement to this Subcommittee we reported on the status of the efforts of the Office to meet its responsibilities for the auditing requirements of the 1976 amendments to the Revenue Sharing Act. At that time, we were in the process of reviewing the thousands of audit reports required of 10,946 recipient governments. I am happy to report to you that we

are now essentially current in our review of these reports and that almost 9,000—that is, 82 percent of the governments subject to the auditing requirement—are in full compliance.

Since last July, we have followed a rigorous policy of delaying payments to governments that are delinquent in reporting or that have failed to take corrective actions relating to submitted audit reports that are not fully acceptable. For example, the January 1980 payments of nearly 500 governments were delayed because of pay-holds attributable to audit-compliance matters. It is interesting to note that—as of February 13, 1981—only 295 jurisdictions remain on the pay-hold list because of problems with audit-compliance. The Office is working with these governments to resolve their problems so that they will be off the pay-hold list by the time of the April payment.

APPROPRIATION REQUEST

Today we appear before you, Mr. Chairman to request for fiscal year 1982, \$7,186,000 and 158 permanent positions for the Salaries and Expenses appropriation. This submission represents a net increase of \$409,000 over fiscal year 1981. No additional positions are being requested. The number of permanent positions requested is the same as that authorized in fiscal year 1980, and is fewer than the number authorized for fiscal year 1979. Since fiscal year 1979, all funding increases requested have been for increases in pay and other costs associated with the maintenance of current levels of activity.

The President's fiscal year 1982 budget calls for \$4,569,949,000 for revenue sharing payments, the amount authorized by Title I of the State and Local Fiscal Assistance Act as amended in 1980, for distribution to approximately 39,000 units of local government. As I noted earlier, the amendments authorize the distribution of an additional \$2.3 billion to state governments in fiscal year 1982. This budget does not include a request for such an appropriation.

Further, our submission also seeks a supplemental appropriation for fiscal year 1981 of \$293,000 for the pay increase for the Office of Revenue Sharing authorized by the Pay Act, effective last October.

My colleagues and I would be happy to respond to any questions you may have.

[The written statement follows:]

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A.M.
Wednesday, March 4, 1981

STATEMENT OF JOSE PEPE LUCERO,
DIRECTOR, OFFICE OF REVENUE SHARING
BEFORE THE HOUSE SUBCOMMITTEE ON HUD - INDEPENDENT
AGENCIES OF THE HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman and Members of the Subcommittee, I am pleased to appear before you today to discuss the appropriation request for Fiscal Year 1982 of the Treasury Department's Office of Revenue Sharing.

Appearing with me are:

Robert W. Rafuse, Jr., Deputy Assistant Secretary
(State & Local Finance)

Kent A. Peterson, Deputy Director for Administration
and Operations, Office of Revenue
Sharing

Judith A. Denny, Deputy Director for Policy and
Compliance, Office of Revenue Sharing

Wanda Stiness, Assistant Director (Financial Management)

In addition, I have with me several key members of staff of the Office of Revenue Sharing upon whom I will call for information when appropriate.

Program Mission and Responsibilities

The Office of Revenue Sharing is a unit within the Office of the Secretary of the Treasury, established to administer the Revenue Sharing Program. The Program was established by the State and Local Fiscal Assistance Act of 1972. It was extended in 1976 and again in 1980. The current authorization expires at the end of FY 1983. The Revenue Sharing Program provides general fiscal assistance, distributed by a statutory formula, to over 39,000 general-purpose local governments. The funds are available to the recipients to use for any purpose permissible under their own

laws. However, recipients must adhere to certain non-discrimination, audit, and public-participation requirements specified in the legislation.

The resources of the Office of Revenue Sharing are primarily devoted to two major tasks: making payments and ensuring compliance with the nondiscrimination, audit, and public-participation standards. The first involves obtaining and reviewing the data used in the allocation formula, computing allocations, making payments, accounting for payments, and providing for the collection and control of required forms.

The second task involves responding to citizen complaints and judicial or administrative holdings of discrimination, resolution of cases in which public hearing and notice requirements may not have been met, and ensuring that recipient governments receiving payments of more than \$25,000 per year have the required audits and that all recipients meet minimum standards of financial accountability.

The Office also carries on, with minimal resources, a program of technical assistance and information to assist recipient governments and the public in understanding their responsibilities and rights under the Program.

Recent Activities

During fiscal years 1980 and 1981, the Office of Revenue Sharing undertook additional, non-operational responsibilities in cooperation with the Office of State and Local Finance relating to consideration of the future of the Revenue Sharing Program and the possible establishment of Targeted and Antirecession Fiscal Assistance programs. Most significant among these activities were the production of computer trials of possible allocation-formula options and the provision of legal assistance in the drafting of legislation. Approximately 60 computer trials, as well as numerous special analyses and reports, were produced by our Systems Division during this period in response to requests from the Congress, the Office of the Secretary, the White House, and the Office of Management and Budget.

As you know, the Revenue Sharing Program was extended for three years by P.L. 96-604 in December 1980. The Program authorized by the 1980 Amendments is essentially an extension of that authorized in 1976. The principal changes relate to payments to State governments. Although no payments to the States are authorized in FY 1981, payments of \$2.3 billion per year, dependent upon Congressional appropriation action, are authorized in FY 1982 and FY 1983.

The Office of Revenue Sharing is now in the process of implementing this second extension of the Program. The allocation and payment system, as well as formula data, have been and continue to be updated; current information for recipients and the public reflecting statutory changes is being prepared; the necessary revisions to the regulations are being drafted; and the minor changes in the auditing requirements in the new law are being implemented.

It is important to note that, should the Congress appropriate funds for payments to State governments in FY 1982 or FY 1983, it will be necessary to promulgate regulations implementing the new statutory requirement that State governments decline or return amounts of categorical aid to the Federal government equal to any Revenue Sharing payments they receive. In cooperation with the Office of State and Local Finance, we have been researching the matter so that the necessary regulations could be drafted in the event that funds are appropriated for State payments.

During the past year, the Office has continued its efforts to increase administrative effectiveness, especially in executing the compliance responsibilities. The activities initiated or completed during this period include:

- ° Development of regulations mandated by Section 504 of the Rehabilitation Act of 1973, relating to discrimination on the basis of handicap, and regulations mandated by the Age Discrimination Act of 1975, relating to discrimination on the basis of age.
- ° Continued efforts to update and improve case- and report-processing procedures in the civil-rights and audit areas.
- ° Initiation of a more extensive training program for investigators in the Civil Rights Division.
- ° Increased efforts to cooperate with other Federal agencies in processing discrimination cases.
- ° Increased monitoring of closed civil-rights compliance cases.
- ° Implementation of an improved format for compliance agreements.
- ° Development of a new processing system for referrals from compliance audits of possible violations of the public-participation requirements.
- ° Continued development and application of computerized control and information systems to all three compliance functions and to the operation of the Office in general.

Mr. Chairman, last year in our statement to this Subcommittee we reported on the status of the efforts of the Office to meet its responsibilities for the auditing requirements of the 1976 amendments to the Revenue Sharing Act. At that time, we were in the process of reviewing the thousands of audit reports required of 10,946 recipient governments. I am happy to report to you that we are now essentially current in our review of these reports and that almost 9,000 (82 percent) of the governments subject to the auditing requirement are in full compliance.

Since last July, we have followed a rigorous policy of delaying payments to governments that are delinquent in reporting or that have failed to take corrective actions relating to submitted audit reports that are not fully acceptable. For example, the January-1980 payments of nearly 500 governments were delayed because of pay-holds attributable to audit-compliance matters. It is interesting to note that--as of February 13, 1981--only 295 jurisdictions remain on the pay-hold list because of problems with audit compliance. The Office is working with these governments to resolve their problems so that they will be off the pay-hold list by the time of the April payment.

ORS Salaries and Expenses

Today we appear before you, Mr. Chairman, to request for FY 1982 \$7,186,000 and 158 permanent positions for "Salaries and Expenses." This submission represents a net increase of \$409,000 over FY 1981. No additional positions are being requested. The number of permanent positions requested is the same as that authorized in FY 1980, and is fewer than the number authorized for FY 1979. Since FY 1979, all funding increases requested have been for increases in pay and other costs associated with the maintenance of current levels of activity.

The President's FY 1982 budget calls for \$4.6 billion for Revenue Sharing payments, the amount authorized by Title I of the State and Local Fiscal Assistance Act as amended in 1980, for distribution to approximately 39,000 units of local government. As I have noted earlier, the amendments authorize the distribution of an additional \$2.3 billion to State governments in FY 1982. This budget does not include a request for such an appropriation.

Our submission also seeks a supplemental appropriation for FY 1981 of \$293,000 for the pay increase for the Office of Revenue Sharing authorized by the Pay Act, effective last October.

My colleagues and I would be happy to respond to any questions you may have.

REDUCTIONS TO GENERAL REVENUE SHARING

Mr. BOLAND. As you are aware, there has been a great deal of discussion about budget reductions during the past few weeks. As I understand it, the General Revenue Sharing program has not been reduced.

Is that correct?

Mr. RAFUSE. There effectively has been a one-third reduction as far as 1981 is concerned and, potentially, for 1982 and 1983. I think the judgment of the Administration is that that represented a fair level of the program and no further cuts at this time are desirable.

Mr. BOLAND. There is no provision in this budget for the State Share of the General Revenue Sharing program?

Mr. RAFUSE. That is correct.

LEVITAS AMENDMENT

Mr. BOLAND. I assume then, that the 1983 budget also will not include funds for the State share. Do you agree?

Mr. RAFUSE. Mr. Chairman, you are familiar with the provisions of the so-called Levitas amendment, which provides that the States, in order to receive a dollar of revenue sharing, must forego a dollar of categorical grants. That process is provided for in the 1980 amendments. This means any appropriation for State governments won't have an effect on the aggregate budget total but, in the context of overall budget considerations could provide a reasonable basis for an appropriation.

Mr. BOLAND. How do you think that program is going to work, since outlays can only be made to States that return an equal amount of categorical grant funding?

Mr. RAFUSE. That issue is being intensively studied at this point. We have reached no firm conclusions and no judgments have been made by the Administration.

Mr. BOLAND. So you have no idea about which programs will be affected?

Mr. RAFUSE. There has not been a decision.

Mr. BOLAND. Does the Administration support this kind of provision?

Mr. RAFUSE. There has been no formal judgment of approval or disapproval at this point.

ADDITIONAL FUNDING REQUESTS

Mr. BOLAND. On page three of Tab A, the justification states that the administration of this process of returning categorical funds would require additional funding and positions for the Office.

Do you have any idea how much money and how large a staff would be required?

Mr. LUCERO. Not at the moment, sir, because again as the study is being made on how we will administer the Levitas amendment, we just simply don't know at the moment how many people we will need to gear up.

REVISED RULES AND REGULATIONS

Mr. BOLAND. The 1980 Amendments to the State and Local Fiscal Assistance Act were signed into law on December 28, 1980. Have all the revised rules and regulations have been issued?

Mr. LUCERO. They are being drafted now. They have not been issued yet.

Mr. BOLAND. When do you expect that they will be issued?

Ms. DENNY. We expect a draft on April 15, an internal draft; then we will hopefully have a proposed rule in early June.

APPROPRIATION FOR GENERAL REVENUE SHARING

Mr. BOLAND. Let's look at the appropriation for General Revenue Sharing.

The 1981 appropriation and the 1982 request for General Revenue Sharing is \$4,569,949,000. The authorizing legislation is \$4,566,700,000, a difference of \$3,249,000. What accounts for the difference?

Mr. PETERSON. For 1981 there was a difference between the amount of the authorizing legislation and the appropriations legislation. I think it was about that amount. There was confusion over whether there would be funding for Hawaii, for the non-contiguous adjustment.

That extra amount of money is not usable by us.

Mr. LUCERO. Mr. Chairman, we have initiated action on our part to have it returned.

AUDIT REQUIREMENTS

Mr. BOLAND. Last year, we had a discussion about audit requirements. All governments, except in unusual circumstances, were to submit audit reports by September 1, 1980.

Were any exceptions to the audit requirement granted?

Mr. LUCERO. Yes, some of them, including some that were un-auditable. It is a small number, less than 20. Some have come into compliance and in some cases we had to give extensions, particularly where the local units of government were being audited by the State. We have had 82 percent compliance. The remainder are all on track. We have dates on when we will receive reports on them.

Mr. BOLAND. All of them will meet that requirement, in some way.

Mr. LUCERO. Yes, indeed.

PUBLIC PARTICIPATION REQUIREMENTS

Mr. BOLAND. Last year we had a discussion on the public participation requirement. The Revenue Sharing Act was amended in 1976 to require jurisdictions receiving revenue sharing funds to hold two separate public hearings: (1) an initial public hearing covering proposed uses of revenue sharing funds only; and (2) a subsequent public hearing on the proposed uses of revenue sharing funds in relation to the entire budget, before the final budget is enacted into law.

A GAO report entitled "Compliance with Requirements to Hold Public Hearings on the Use of Revenue Sharing Funds" questioned whether the first meeting was meaningful because of the fungibility of funds. An ORS-commissioned study by Peat, Marwick, Mitchell and Company recommended eliminating the first hearing requirement, and mentioned that these hearings were not well attended.

What is this Administration's position regarding the first public hearing requirement?

Mr. RAFUSE. The requirement was not modified in the 1980 amendments and was not an issue in the discussions last year. Our position, therefore, I suppose it is reasonable to say, is that it is statutorily required that there be two hearings, and we will administer that requirement.

Mr. BOLAND. Would you recommend eliminating the first hearing?

Mr. RAFUSE. I believe Mr. Altman last year indicated that he was personally skeptical about the usefulness of that hearing. There are grounds for skepticism but there are jurisdictions where that hearing provides a useful opportunity for the public to be involved in the budgetary process.

The issue will be one of those which will be reviewed by the Administration in anticipation of the 1983 debate on the program. But at the present time, the statute provides for two hearings and that requirement will have to be administered.

Mr. LUCERO. It is one we examined in fiscal year 1980. There were 200 complaints in that area. We were able to investigate approximately 199 of those. I contend it is still a good tool for strengthening the local citizen participation, allowing them to participate in determining how the money is to be spent.

Mr. BOLAND. But they are not participating. If you don't have anybody at those hearings, what is the sense in requiring them? I understand that these hearings are required by law, as you have indicated, but last year Mr. Altman clearly articulated his belief that this requirement serves no useful purpose.

Mr. PETERSON. Our enforcement is only with regard to complaints, as Mr. Lucero pointed out.

REAGAN BUDGET CUTS

Mr. BOLAND. Turn to Salaries and Expenses, Tab A. The Carter Budget request for 1982 is \$7,186,000, an increase of \$409,000 above 1981. The number of permanent positions remains at 158 in both 1981 and 1982. The average employment is 156 in both 1981 and 1982. Do you anticipate that the Salaries and Expenses appropriation will be reduced in the March 10 message?

Mr. LUCERO. I don't know, sir.

Mr. BOLAND. Mr. Rafuse, do you know?

Mr. RAFUSE. Mr. Chairman, this is kind of a sensitive issue. I understand there will be a reduction but the final dimensions of that have not been formally determined.

Mr. BOLAND. I understand.

UNOBLIGATED LAPSING BALANCE

Mr. BOLAND. The Office of Revenue Sharing requested a 1980 supplemental appropriation of \$177,000 due to increased pay costs. That request was denied. In addition, ORS lapsed \$109,000 at the end of fiscal year 1980. There is nothing wrong with returning unneeded funds to the Treasury. In fact, it sometimes indicates good management. I must say, ORS did display good management in disbursing the funds to over 39,000 units of government. Still, What caused ORS to lapse \$109,000 at the end of fiscal year 1980?

Mr. PETERSON. I think our financial advisors would think that if we were going under that amount, we would be getting too close to the line.

Ms. STINESS. We can never estimate our actual obligations that close to our total appropriation. I don't know exactly where we incurred savings of \$109,000, but we could provide that for the record.

[The information follows:]

FISCAL YEAR 1980 UNOBLIGATED BALANCE

During fiscal year 1980, the Office of Revenue Sharing spent 98.3 percent of its available resources and had an unobligated balance of \$109,000. The balance can be broken down as follows:

FISCAL YEAR 1980 APPROPRIATION VERSUS ACTUAL

[In thousands of dollars]

Object class	Fiscal year 1980 appropri- ations ¹	Fiscal year 1980 actual	Difference
Personnel compensation:			
Permanent positions.....	\$3,455	\$3,593	-\$138
Positions other than permanent.....	143	123	+20
Other personnel compensation.....	20	8	+12
Total personnel compensation.....	3,618	3,724	-106
Personnel benefits.....	309	338	-29
Travel.....	255	140	+115
Transportation of things.....	4	3	+1
Rents, communications and utilities.....	602	624	-22
Printing.....	200	137	+63
Other services.....	1,154	1,107	+47
Supplies and materials.....	35	51	-16
Equipment.....	60	4	+56
Total obligations.....	6,237	6,128	+109

¹ Authorized level fiscal year 1980 column from the fiscal year 1981 congressional submission adjusted to remove \$177,000 requested for pay supplemental but disallowed.

Mr. PETERSON. Some of the funds were saved purposely from travel, printing, other services and equipment, so we could plan to fund the Pay Act increases. As you know, throughout the year we didn't know if we would receive the supplemental or not. So we had to make some decisions to make savings to deal with that.

Mr. BOLAND. How have the hiring limitations affected ORS?

Mr. LUCERO. They have not affected the delivery of our services. We honored and lived by those hiring freezes. If there is a further

reduction we may be in trouble in the civil rights and auditing areas.

CURRENT EMPLOYMENT

Mr. BOLAND. What is the current employment—both permanent and all other employment?

Ms. STINESS. We currently have 152 permanent employees and ten other than permanent employees on board.

NUMBER OF SES POSITIONS

Mr. BOLAND. Last year, of the 158 permanent positions in ORS for 1980 and 1981, three were listed as Senior Executive Service (SES) positions. This year, the schedule indicates four SES positions in 1981 and 1982. Why has the number of SES positions increased?

Mr. LUCERO. One of them is the Director himself, sir, me. When I came on board, Mr. Peterson had been working in this classification. He fills one of the SES positions and the other is filled by Ms. Denny. Those are the two additions, the Chief Counsel is the fourth one.

Mr. BOLAND. So all of the SES positions are currently filled?

Mr. LUCERO. That is correct, sir.

SES BONUSES

Mr. BOLAND. On page ORS-2, you are requesting an increase of \$33,000 for the SES pay raises and the GS/GM merit pay. How much was spent on employee bonuses in 1980, and how much was the largest bonus?

Ms. STINESS. We didn't have any SES bonuses.

Mr. LUCERO. On line two, none are for SES bonuses; all are for merit pay increases.

TRAVEL COSTS

Mr. BOLAND. Last year, you estimated that travel costs in 1980 would be \$255,000. The object classification schedule on page ORS-4 shows \$140,000 spent for travel in 1980. We recognize that government travel was restricted and funds should not be spent unnecessarily, but what caused the 1980 travel estimate to be off by so much?

Mr. PETERSON. I think one of the reasons was that in some of our areas where travel is heavy, such as civil rights and audit, we were short in personnel. Also, towards the end of the program, usually we find that our travel levels are not as high as they are at the beginning of the program.

Another reason was again as a part of our plan to deal with the possible non-funding of the Pay Act costs, that is one of the areas where we had surplus funds.

Mr. BOLAND. Did the reduced travel have any adverse effects on ORS operations in 1980?

Mr. PETERSON. I don't think so.

Mr. BOLAND. How much of the \$250,000 budgeted for travel in 1981 has been obligated in the first four months of this fiscal year?

You may supply that for the record if you wish.

Ms. STINESS. We will do that.
[The information follows:]

ORS TRAVEL OBLIGATIONS

During the first four months of fiscal year 1981, the Office of Revenue Sharing had travel obligations of \$54,738.

NON-FEDERAL OTHER SERVICES

Mr. BOLAND. On ORS-4, the request for "Other Services", (non-Federal services) increases from \$283,000 in 1981 to \$315,000 in 1982?

What type of other services will be obtained with the \$315,000?

Mr. PETERSON. Some of this would be accounted for in research costs and preparing for the next renewal of the program. As you recall, the program was only renewed for three years. We have built in some additional possible costs for backup for computer services. There are some funds for non-Federal services related to moving and maintenance, housekeeping services and things like that. So I think that is the main use.

Mr. BOLAND. Provide for the record a list of what the \$315,000 request for other services will be used for, and a brief description of the necessity of each item.

[The information follows:]

Other Services Request

Our request of \$315,000 is intended to provide resources for the following:

<i>Non-Federal services: Mailing transportation and guard services</i>	\$60,000
(a) For mailing correspondence on payments, data, adjustments, audits and offer technical information to 39,000 recipients of revenue sharing funds.	
(b) For transporting documents and moving articles and equipment.	
(c) For sharing of expenses with other building occupants to secure and safeguard building and Federal property.	
<i>Repairs and maintenance services</i>	17,000
For repairing and maintaining office equipment and furniture.	
<i>Data Processing Contracts</i>	90,000
For providing back-up data processing support in performing trial allocations associated with revenue sharing renewal proposals.	
<i>Research Contracts</i>	140,000
For responding to various requests for information related to program evaluation and analyses of renewal alternatives.	
Miscellaneous.....	8,000
Total	315,000

ABSORPTION OF PAY INCREASE

Mr. BOLAND. The legend on page ORS-5, under "Personal Services" states: "the principal factor affecting costs in this budget year is an increase for the return of the absorbed pay act funding in the current fiscal year." Please explain that statement.

Ms. STINESS. In 1981 we absorbed 30 percent of our pay costs—\$126,000. We are asking for the \$126,000 to be restored on the program level for 1982. It is required to make our program whole, in order to fund our 156 positions.

Mr. BOLAND. Why can't you do the same thing in 1982?

Ms. STINESS. In 1981 we cut our travel and cut back in other areas. In 1982 we feel we need the money to cover expenses and our personnel time.

EFFECTS OF ADMINISTRATION'S FREEZES AND REDUCTIONS

Mr. BOLAND. Let me ask you again about the Administration's hiring freeze and its recommendations to make reductions in travel, consultants, equipment and other costs.

What will the effect of these actions be on the 1981 and 1982 budgets? You may detail that for the record, if you will.

[The information follows:]

Effect of Administration's Actions on Budgets

The Administration's hiring freeze resulted in the cancellation of two recruitment actions in the Audit and Civil Rights activities. At the time the freeze took effect, there were altogether eight vacancies. Not filling these vacancies in fiscal year 1981 will provide the Office with flexibility in adjusting to the budget cuts in our fiscal year 1981 budget.

In response to the travel and equipment reductions our fiscal year 1981 budget was reduced by \$25,000 and \$2,000 respectively. No resources were requested for consulting services in fiscal year 1981.

These reductions have been carried over and are reflected in our fiscal year 1982 budget.

Mr. BOLAND. Apparently the hiring freeze is not affecting you?

Mr. LUCERO. It is not. There are two areas where the flow of business is not controlled by us, that is the number of civil rights cases that come from the outside and also the non-compliance complaints that might arise through our audit. If those increase and we stay at the same level, then we might have to reduce our services. But currently we can keep up with the demand. In the audit area, we know how many audits will be coming in but the others are uncontrollable.

Mr. BOLAND. Mr. Green.

DELETION OF STATE'S SHARE

Mr. GREEN. In terms of dollars in the program, you say there has been no one-third drop, but I would have thought following the amount of money that went to the States, this would have involved some number of personnel and I am startled to hear you say it stayed essentially the same despite the one-third decline.

Mr. LUCERO. In dealing with those governments, it is easy to deal with them as one unit, so actually the load comes from the smaller governments.

Mr. PETERSON. To some degree, the States help us in the audit and civil rights areas in carrying out the compliance requirements. The States' elimination has a down side for us.

Mr. GREEN. Do you expect many of the States will no longer be supplying those services with respect to local governments?

Mr. PETERSON. We think most will continue to do that. There have been a couple where there has been a reaction.

Mr. LUCERO. Especially in the audit areas, sir.

Mr. GREEN. That is all I have, sir.

Mr. BOLAND. Mr. Traxler.

COSTS OF AUDIT REQUIREMENT

Mr. TRAXLER. There is a particular problem that exists in my State, and perhaps other States, relative to the audit. The responsibility for this problem rests with the Congress. It is a particularly troublesome problem in some areas because, of course, my State is in financial trouble. We don't expect the situation will change too soon in the future. The audits are extremely costly, and while our State constitution says the State will perform local audits, the State has neither the personnel resources nor the money to meet its obligation.

In the legislation enacted last year, there was a provision for a special waiver to deal with this issue. Are you familiar with the problem?

Mr. LUCERO. Yes sir.

Mr. TRAXLER. Let me put it this way. In your rules and regulations, are you taking into account, the waiver that was provided for in the legislation; and what do you see in terms of your audit requirements for the local units of government in my State? What is going to be happening with these waiver requests?

Mr. LUCERO. The requests for waiver are coming; we are honoring those. We appreciate the efforts of a State where it has taken an active role. The legislation says those governments that get over \$25,000 are supposed to be audited at least once every three years, and we have to ask for that audit. If a State cannot provide funds for this, the local governments will have to appropriate the cost out of their own funds.

Mr. TRAXLER. What do you require to be audited?

Mr. LUCERO. A full financial audit, sir.

Mr. TRAXLER. All their accounts, not merely the revenue expenditures?

Mr. LUCERO. Yes.

Mr. PETERSON. That is in the law, too. This is a little more comprehensive and radical departure than the Congressman may have realized.

WAIVERS TO AUDIT REQUIREMENT

Mr. TRAXLER. Where does that leave us in terms of the amendment dealing with a waiver? What did that do for us? Is that retrospective or prospective in terms of this application?

Mr. RAFUSE. My recollection of the waiver is that it applies only to the requirement for the first three-year period that was authorized in 1976, the first time the audit amendment was applied. The situation with regard to Michigan county governments was that the ORS would be authorized to waive their fulfillment of the once-every-three-year audit retrospectively, but the county governments—as all other governments required to submit audits—would be required to submit the once-every-three-year audits in the future. In other words, the county governments would be subject to submitting a full financial audit at least once during the 1980, 1981, 1982 cycle, in order to comply with the law.

I might add, that the ORS has worked very closely with those governments and is aware of the counties' problem, as Mr. Lucero said.

Mr. TRAXLER. I recognize the reason for this difficulty rests not with your office but with the enacted legislation itself. If it doesn't entail a great deal of work on your part, and if I provided you with a list of the counties in my congressional district, could you provide me with a printout of the revenue funds paid within my district?

Mr. LUCERO. Only the counties?

Mr. TRAXLER. The units of government. If you have to assign extra personnel to do that, don't do it.

Mr. LUCERO. We will provide it for you.

Mr. BOLAND. Mr. Stokes.

CIVIL RIGHTS ENFORCEMENT RESPONSIBILITIES

Mr. STOKES. Thank you, Mr. Chairman.

I have a few questions with respect to your civil rights enforcement responsibilities. Last year your budget justification cited a "significant increase in (discrimination) complaints." In response to a question I submitted for the record, it was indicated that:

The present staff is not sufficient to eliminate existing workload, and with the increased numbers of complaints, curtail growth of existing workload. For this reason, management improvement measures are being sought and implemented in an effort to deal with this obvious problem. These measures will only partially deal with the workload problem. As of April 1, 1980, there were 929 active complaints.

MANAGEMENT INITIATIVES

My first question would be, what management initiatives were implemented to deal with this problem?

Mr. LUCERO. The first management initiative that the Office has undertaken was to create the new Deputy Director of Policy and Compliance. Ms. Denny is in that position. Since she has been there, we have been streamlining our process for conducting case investigations and clearing up old cases. I would like her to comment on that.

Ms. DENNY. We have done a number of things. The GAO report last year was helpful and we have responded to that.

One, we are increasing our monitoring efforts when a case is closed and an agreement is made with a jurisdiction. We monitor the agreement to make sure compliance continues.

Two, we are working on compressing our time frame for investigating cases. We are not presently able to live within the 90-day constraint required to produce a finding, but we are working to reduce the time it takes to process a case.

Three, we are working on training, with other agencies, and working on training programs of our own.

Four, we are currently working on a system of setting priorities to speed up the case processing.

At the moment, we are working on cleaning up a number of old cases that have been active for several years and during various reorganizations have not been closed. Once we finish that particular project, we are going to be setting priorities for the new cases that come in.

It is very difficult. Sometimes when you do a very good job in processing civil rights cases, you tend to increase your workload. We are not confident that we will always keep current, but we are

confident we will make an impact with the limited number of resources.

Mr. LUCERO. In the last eight months of 1980, we received 26 percent of our total cases that had ever been filed. I think the word is out in the communities that ORS is one place to bring a complaint. We cannot stop it. There is no way for us to stop the flow, nor are we discouraging it. The problem is if it overflows, we will come back to you and say that we got caught up, but we have more cases than anticipated, and we are behind again.

CIVIL RIGHTS DIVISION STAFF LEVEL

Mr. STOKES. That leads me to my next question.

Given what both of you have said, obviously your management initiatives don't fully deal with the entire problem. Even though it certainly has been a help and has aided and assisted you in the good job you have tried to do, when I consider what you say, doing a good job brings you additional cases, yet that is an area where you have requested no additional staff. If I understand you correctly, you have 50 employees who have to monitor noncompliance over 39,000 jurisdictions?

Ms. DENNY. It is 45 employees.

Mr. STOKES. Their responsibility extends to 39,000 communities and jurisdictions?

Ms. DENNY. Yes sir. I think you might find that ratio in other agencies which have civil rights responsibilities.

Mr. STOKES. Doesn't it stand to reason that that number of people cannot sufficiently monitor those jurisdictions?

Ms. DENNY. We have recently designed a new compliance agreement, another initiative which I did not mention. It is more legally enforceable. We are finding that it is going to assist in terms of resolving the cases.

Mr. STOKES. If we were talking about adequate staff, for instance, what would be an adequate staff to realistically deal with the problem?

Ms. DENNY. That is difficult to estimate. One thing we are interested in is making the staff we have more efficient before we ask for new resources. Sometimes numbers are not as helpful as increasing efficiency. The training we are working on, plus producing compliance manuals with details of how to process cases can increase the efficiency of our investigators which is our top priority.

DETAILS FROM OTHER AGENCIES

Mr. STOKES. Do you have staff from other agencies detailed to you to work in this area?

Ms. DENNY. No, we don't. We have been working with EEOC and talking about an agreement where we might ask them to do some of our cases as our agent with our having final say as to the closure of the case. That has been going rather slowly but we are working on that.

Mr. STOKES. So nothing has been formulated under that?

Ms. DENNY. No, we are still living under an old agreement which provides for sharing information. We will continue that and also work on sharing resources.

REAGAN BUDGET CUTS

Mr. STOKES. Do you anticipate that your budget submission will be reduced on the 10th, when the President submits his final submission?

Mr. LUCERO. I don't know, sir. The question has been asked previously. I suspect it might, but I don't know.

Mr. STOKES. Thank you very much, Mr. Chairman.

Mr. BOLAND. Mr. Lucero, thank you very much.

Thank you, Dr. Peterson, Ms. Denny, Mr. Rafuse, and Ms. Stiness. Again let me congratulate you on performing a difficult job well—when you have 39,000 local units to which you dispense this revenue sharing, in my judgment, you have done a fine job. We will insert the budget justifications in the record here.

[The justifications follow.]

DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Invenue Sharing

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(dollars in thousands)

	Permanent Positions	Average Positions	Amount
1981 Appropriation Enacted by Congress	158	158	\$6,518
Reduction pursuant to Public Law 96-526			-31
FY 1981 Appropriation (adjusted)	158	158	\$6,487
Adjustments:			
Proposed Pay Supplemental:			
A. Total Pay Supplemental			\$19
B. Program Adjustments			-126
Net Pay Supplemental			293
Proposed Authorized Level for FY 1981	158	156	\$6,777
Estimate, FY 1982	158	156	\$7,195

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1982

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Total Changes		Increase (+) or Decrease (-) for 1982	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Program Changes	Net Changes
1. Legal and Support Services	23	\$ 846	23	\$ 915	23	\$ 974		\$ 59		\$ 59
2. Operations & Technical Assistance	53	2,998	52	2,757	52	2,887		130		130
3. Monitoring and Enforcement	81	2,284	81	3,105	81	3,325		220		220
Unobligated balance		109								
Total appropriation authorized level, and budget estimate	157	\$6,237	156	\$6,777	156	\$7,186		\$ 409		\$ 409
Permanent positions established	(158)		(158)		(158)		(---)		(---)	(---)

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1982
(Dollars in thousands)

	Activity 1		Activity 2		Activity 3		Total	
	Pos.	Amnt.	Pos.	Amnt.	Pos.	Amnt.	Pos.	Amnt.
Program Changes:	---	\$ ---	---	\$ ---	---	\$ ---	---	\$ ---
Other Changes:	---	\$ ---	---	\$ ---	---	\$ ---	---	\$ ---
Increases necessary to maintain current levels:								
1. Net cost of within-grade salaries increases	---	---	---	---	---	---	---	34
2. SES/serif pay	---	5	---	---	---	---	---	33
3. Increased reimbursement to the Working Capital Fund	---	5	---	---	---	---	---	5
4. Increased cost of travel	---	1	---	---	---	---	---	27
5. Increased cost of FS & other communication	---	6	---	---	---	---	---	43
6. Pay Annualization and Exploration:	---	---	---	---	---	---	---	---
a. To provide needed research of civilian pay	---	---	---	---	---	---	---	---
b. Reduction authorized for part of FY 1981	---	18	---	---	---	---	---	126
7. Increased payment to OSI for space & related charges	---	1	---	---	---	---	---	10
8. Increased printing costs	---	1	---	---	---	---	---	5
9. Increased cost of subscriptions	---	---	---	---	---	---	---	2
10. Increased cost of equipment rental	---	3	---	---	---	---	---	21
11. Increased training cost	---	---	---	---	---	---	---	2
12. Increased cost of support services	---	14	---	---	---	---	---	96
Subtotal Other Increases	---	59	---	130	---	---	---	409
Reduction, nonrecurring costs and savings	---	---	---	---	---	---	---	---
Total Other Changes	---	\$ 59	---	\$ 130	---	\$ 220	---	\$ 409
Total Increases or Decreases 1982 Compared with Proposed Authorized Level	---	\$ 59	---	\$ 130	---	\$ 220	---	\$ 409

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES

General Statement

Title I of the State and Local Fiscal Assistance Act of 1972 as amended by the State and Local Fiscal Assistance Act Amendments of 1976 and 1980 provides for the distribution of funds not to exceed \$4.6 billion in FY 1981 to approximately 39,000 units of local governments and authorizes the distribution of \$6.9 billion to State and local governments during 1982 and 1983. However, \$2.3 billion of the authorization designated for payments to State governments in 1982 and 1983 is contingent upon a decision by the Congress to appropriate the necessary funds. This budget does not include a request for such an appropriation; moreover, if the funds were to be appropriated for return to the States, the outlays could be made only to States that have received a categorical grant funding. The administration of this process would require additional funding and positions for the Office. Allocations for each year using updated data, and entitlement payments are distributed quarterly to each eligible government unit.

The fiscal year 1982 request consists of 156 average positions and \$7,186,000. It is presented in the following three activities to which Executive Direction has been spread to permit a more representative presentation as to the actual cost of each.

1. Legal and Support Services - This activity provides extensive counseling and representation on multiple compliance and data requirements; interpreting the new requirements of the 1980 amendments; promulgating regulations relative to these amendments; providing financial, budget and general administrative support; and disseminating information to public, media, citizens' groups, Congress, etc. These new provisions related to State governments will entail additional legal and support services, if funds are appropriated for payments to the States.

This activity is composed of the following divisions and resources:

	Authorized Positions		Increase/decrease over 1981
	1981 Pos.	1982 Pos.	
Chief Counsel	11	11	---
Administrative Division	8	8	---
Public Affairs Division	2	2	---
Total Authorized Positions	21	21	---
Total Average Positions	23	23	---
Total Dollars (\$000)	\$935	\$974	\$ 59

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES
(Continued)

The FY 1982 increase consists of \$59,000 to maintain FY 1981 levels.

2. Operations and Technical Assistance - This activity provides for the acquisition of current and accurate data for use in computing allocations of funds and all of the accounting associated with the administration of the Trust Fund. Approximately 39,000 units of State and local governments are provided with their data factors for review and offered the opportunity to propose corrections prior to the allocation. This activity is also involved in the collection of information pertaining to the use of Revenue Sharing by State and local governments. The Office reimburses the Bureau of the Census to collect this data. The procurement of data and analysis of proposals for revision of the Revenue Sharing formula for 1983 are also part of this activity.

The activity further provides for information and technical assistance to elected and appointed officials of recipient State and local governments to promote voluntary compliance with requirements of the Revenue Sharing Act and the Amendments of 1976 and 1980. Turnover of recipient government officials results in continuing requests for information and assistance. In addition to direct contact through

correspondence and telephone, a network of liaison is maintained in agencies at State and local levels already providing other assistance services to recipient government officials. A series of publications explaining the Revenue Sharing Program in non-technical language also have been prepared by personnel in this activity and some of these will require revision to reflect the 1980 Amendments.

Resources have been dedicated to the development and maintenance of interactive computer systems to aid in the internal operation of the Office of Revenue Sharing. These systems are used to reduce requests for hard copy reports and make replies to Congressional and recipient government inquiries more expeditious.

A. Recipient Information Summary System (RISS) - This system provides immediate response to standardized inquiries concerning all active data bases for General Revenue Sharing.

B. Correspondence Control System (CCS) - This system uses demand terminals to track and control all congressional and other important correspondence sent to the Office of Revenue Sharing from receipt through the mailing of the reply. The system prepares and prints standard replies in a selected type of correspondence as well as control reports showing the status of all active correspondence by type and responsible division.

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES
(continued)

problems in meeting the audit requirements of the 1976 Amendments. Firms of independent public accountants are sampled based upon quantity of recipients audited, geographic location and other appropriate factors.

It is anticipated that these practice reviews, the processing of non-compliance cases, and the review by Audit Division personnel of audit reports submitted by recipient governments will create a workload which will remain heavy for the Division throughout the year.

This activity further is responsible for the monitoring of compliance by recipient governments with the public participation requirements of the Revenue Sharing Act as amended and for technical advice and assistance to recipients relative to these requirements.

To aid in the processing, control and reporting of workload in Civil Rights, Audit and Public Participation compliance, interactive computer systems are utilized as indicated below:

A. Civil Rights Compliance Tracking System (CRCTS) - This system provides through demand terminals automatic scheduling, tracking, and control of all Civil Rights compliance cases under investigation by the Office of Revenue Sharing. In addition, various management information is made readily available by CRCTS through demand terminals.

B. Audit Reporting System (ARS) - This system maintains the status of the "External Reports" required from some recipient governments. The ARS also provides immediate information on these governments through the demand terminal.

C. IOR Compliance Control System (IORCCS) - This system provides through demand terminals automatic scheduling, tracking, and control of all Public Participation compliance cases under investigation by the Office of Revenue Sharing.

This activity is composed of the following divisions and resources:

	Authorized Positions	
	1981 Pos.	1982 Increase/Decrease over 1981
Civil Rights Division	50	50
Audit Division	27	27
Intergovernmental Relation/ Public Participation Division	7	7
Total Authorized Positions	84	84
Total Average Positions	81	81
Total Dollars (\$1000)	\$3,105	\$3,355
	\$280	\$220

The FY 1982 increase consists of \$220,000 to maintain FY 1981 levels.

January 15, 1981

OFFICE OF REVENUE SHARING

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Office of Revenue Sharing, including hire of passenger motor vehicles, [\$6,518,000] \$7,186,000. (H. U.S.C. 1224(a); Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.)

EXPLANATION OF LANGUAGE CHANGES: None

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual		Estimated		Changes for 1982		Other
	1980	1981	1981	1982	Total	TRACOM Changes	
Accountants/Auditors	18	19	19	19	—	—	—
Attorneys	6	6	6	6	—	—	—
Computer Specialists	19	19	19	19	—	—	—
Data Processing Technicians	3	3	3	3	—	—	—
Economist	1	1	1	1	—	—	—
Equal Opportunity Specialists	38	35	35	35	—	—	—
Management/Administrative Staff	27	27	27	27	—	—	—
Program Analysts	23	22	22	22	—	—	—
Secretarial/Clerical Staff	56	27	27	27	—	—	—
Statistician	1	1	1	1	—	—	—
Technical Assistance Specialists	6	6	6	6	—	—	—
Research Assistants	2	2	2	2	—	—	—
Subtotal	146	150	150	150	—	—	—
Part-time and temporary average positions	11	6	6	6	—	—	—
Total average positions	157	156	156	156	—	—	—

January 15, 1981

DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Revenue Sharing

Explanation of Program and Other Changes for Fiscal Year 1982

I - Program Changes

No program increases are requested for FY 1982.

The Office of Revenue Sharing was established in 1972 to implement the General Revenue Sharing Program, as authorized by the State and Local Fiscal Assistance Act of 1972 and renewed December 1980, by enactment of the State and Local Fiscal Assistance Amendments of 1980. Note that this request assumed that no funds are appropriated for payments to State governments in 1982, and hence that the administration of the trade-off process for categorical grants will not be required.

According to the Act of 1972, the responsibilities of the Secretary of the Treasury included: (1) formulating and implementing regulations and rules for the conduct of the General Revenue Sharing Program; (2) calculating allocations for over 39,000 State and local governments in each entitlement period and making payments to those governments in the correct amount; (3) maintaining accounting records for each of the State and local governments relative to the State and local government fiscal assistance trust fund; (4) providing guidance to the State and local governments in connection with the Fiscal Assistance Act as amended; (5) insuring compliance with the requirements of the Act, the Age Discrimination Act of 1975, the Rehabilitation Act of 1973 (section 504), and the Civil Rights Acts of 1964 and 1968; and (6) reporting to Congress, recipient governments and the general public at regular intervals on the Revenue Sharing Program.

January 15, 1981

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Salaries and Expenses, Office of Revenue Sharing

II - Other Changes

	<u>Average Positions</u>	<u>Amount</u>
Total increases necessary to maintain the current FY 1983 level in FY 1982	—	\$409,000
1. Net cost of within-grade salary increases	—	34,000
<p>The adjustment provides for the net cost associated with the periodic statutory within-grade increases for civil service personnel. A position-by-position analysis of on-board-personnel, vacancies in FY 1980, and historical trends in the Department including a lapse factor reflect a total requirement for within-grade increases in FY 1982 of \$34,000.</p>		
2. SES pay/merit pay	—	33,000
<p>This adjustment is necessary to provide the Senior Executive Service participants with pay raises and GS/GM employees with merit pay, as specified in the Civil Service Reform Act.</p>		
3. Increases reimbursement to the Working Capital Fund	—	5,000
<p>This adjustment provides for an increase in costs associated with the centralized services provided by the Working Capital Fund. This requirement is due to the cost increases experienced by the Fund in the areas of supplies, utilities, communications, rent and wages.</p>		
4. Increased cost of travel	—	27,000
<p>This adjustment is necessary to help offset price increases. Petroleum prices have continued to increase and current shortages in the crude oil supply markets are expected to continue. Rates for air travel have increased over 25% in 1980, and there is no indication that the rate of these increases will level off by FY 1982.</p>		
5. Increased cost of FTS (Federal Telecommunications Systems) and other communications	—	43,000
<p>This adjustment is necessary to provide for the projected increases in local communications, postage, and FTS services.</p>		

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

II - Other Changes (continued)

	Average Positions	Amount
6. Pay Annualization and Restoration	—	131,000
<p>This adjustment provides funds to cover full year costs of the 1980 pay raise as authorized by Executive Order 12248 dated October 16, 1980. The increase was derived as follows:</p>		
a. To provide for full-year costs of civilian pay increases authorized for part of FY 1981 -(\$45,000)		
b. Restoration of FY 1981 reduction -(\$126,000)		
7. Increased payment to GSA for space and related charges	—	10,000
<p>This adjustment is necessary because of increasing utility costs which GSA has projected.</p>		
8. Increased printing costs	—	5,000
<p>This adjustment is based on increased printing charges resulting from increasing labor, paper, and commercial procurement prices.</p>		
9. Increased cost of subscriptions	—	2,000
<p>This adjustment is based on increased subscription charges for FY 1981 over FY 1980.</p>		
10. Increased cost of equipment rental	—	21,000
<p>This adjustment is necessary to provide for projected increases in the costs of equipment rentals; it does not provide for any increases in the amount of equipment rented.</p>		
11. Increased training costs	—	2,000
<p>This adjustment is based upon increased tuition and training rates.</p>		
12. Increased cost of support services	—	96,000
<p>This adjustment will accommodate increases based on historical data for (1) data processing costs and (2) guard services provided by GSA.</p>		

January 15, 1981

DEPARTMENT OF THE TREASURY
Salaries and Expenses, Office of Revenue Sharing
Standard Classification Schedule
(Direct Obligations Only)

Object Classification	(Dollars in thousands)			
	Actual 1980	Budget Estimate 1981	Authorized Level 1982	1982 Increase over 1981
Total number of permanent positions	158	158	158	---
Average paid employment	157	158	156	---
Object Classification				
Personnel Compensation:				
Permanent positions	\$3,593	\$3,698	\$3,575	\$126
Positions other than permanent	123	165	135	---
Other personnel compensation	8	21	0	---
Total personnel compensation	\$3,724	\$3,884	\$3,710	\$174
Personnel benefits, civilian employees	338	336	364	26
Travel and transportation of persons	180	293	250	-43
Transportation of things	3	4	4	---
Standard level user charges	278	280	280	---
Other rents, communications & utilities	346	346	346	---
Printing and reproduction	137	214	230	16
Other services:	195	419	283	-116
Federal services	952	757	839	87
Sub-total (Other services)	1,107	1,176	1,122	69
Supplies and materials	51	37	51	14
Equipment	4	0	0	---
Total obligations	\$6,128	\$6,618	\$6,777	\$149
Unobligated balance	109	\$6,618	\$6,777	\$159
Total Appropriation, Authorized Level, and Budget Estimate	\$6,237	\$6,618	\$6,777	\$159

January 15, 1981

DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS

	Actual 1980	Budget Estimate 1981	(Dollars in thousands) Authorized Level 1981	Estimate 1982	1982 Increase over 1981
<u>PERSONAL SERVICES</u>					
Personnel compensation:					
Permanent positions	\$3,593	\$3,698	\$3,975	\$4,126	\$ 151
Positions other than permanent	123	165	135	135	—
Other personnel compensation	8	21	10	10	—
Personnel benefits	338	336	364	376	12
Total personnel services	\$4,062	\$4,220	\$4,484	\$4,647	\$ 163

Personal services costs include all salaries and personal benefits which are paid to the Office of Revenue Sharing employees. These include health and life insurance, the Government's contribution to employee retirement plans, accrued leave, and salary and overtime payments. Such costs, are affected by various factors including pay increases, the number of work days in the fiscal year and within-grade increases. The principal factor affecting costs in this budget year is an increase for the return of the absorbed pay act funding in the current year. This factor is discussed below:

1. Changes in the proposed Authorized Level 1981 from the Budget Estimate 1981. Increase primarily reflects the October 1980 pay increase.
2. Changes since the proposed Authorized Level 1981. Increase related to (1) return of the absorbed pay act funding and (2) various changes related to maintaining the current level (net cost of within-grade salary increases, merit pay increases, etc.)

TRAVEL AND TRANSPORTATION OF PERSONS

Travel	\$140	\$293	\$250	\$277	\$27
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The proposed Authorized Level for 1981 is \$250,000, a reduction of \$43,000 compared with the 1981 Budget Estimate of \$293,000. This decrease results from a congressional reduction and a reprogramming of funds to address projected short falls in other object classes.

The estimate for 1982 reflects increased airfare costs.

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

(Dollars in thousands)
Actual Budget Estimate Authorized Level Estimate 1982 Increase
1980 1981 1981 1982 over 1981

TRANSPORTATION OF THINGS

Actual vs. Estimates \$ 3 \$ 4 \$ 4 \$ 4 \$ 4
The 1980 actual is related to the need to move the household effects of new employees. The 1981 and 1982 estimates reflect a normal level of projected obligations for this object class.

RENTS, COMMUNICATIONS AND UTILITIES

Standard level user charges \$ 478 \$ 478 \$ 280 \$ 280 \$ 420 \$ 40
These funds are required for anticipated billings by the General Services Administration (GSA) for the rent and maintenance of leased space by the Office of Revenue Sharing at Columbia Plaza.

Other rents, communications and utilities \$ 346 \$ 336 \$ 346 \$ 420 \$ 74
These resources provide equipment rental, copy machine rental, communication services, mail services, telephone charges, etc. The increase in the proposed authorized level for 1981 compared to the Budget Estimate 1981 primarily reflects greater rental rate increase than anticipated.

The 1982 estimate reflects an increase related to: (1) increased costs of the Federal Telecommunications System (FTS) payments; (2) increased costs of equipment rental, and (3) increased payment to GSA for utility charges.

PRINTING AND REPRODUCTION

Actual vs. Estimates \$ 137 \$ 214 \$ 230 \$ 240 \$ 10
This category includes the estimated cost of printing and reproduction provided by or through the Departmental printing plant. This consists of the printing of new and revised handbooks, regulations, assurances, forms, etc. Funds are also included for printing provided by commercial firms under Government Printing Office (GPO) contracts and by other government agency facilities.

The 1982 estimate reflects an increase consisting of: (1) inflationary increase and (2) increase payments to the Working Capital Fund associated with printing.

January 15, 1981

Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

		(Dollars in thousands)	
		1981	1982 Increase over 1981
Actual Budget Estimate	Authorized Level		

OTHER SERVICES

Actual vs. Estimates \$1,107 \$1,176 \$1,122 \$1,255 \$133

These resources provide for such services as health units, training enrollments, inter/intra agency agreements, data processing, and special contracts for the administrative operations of the program.

The 1982 estimate reflects an increase of \$133,000 for return of absorbed pay net funding related to relaborable programs and inflationary increases for support services.

SUPPLIES AND MATERIALS

Actual vs. Estimates \$51 \$37 \$51 \$53 \$ 2

This represents the estimated cost of expendable office supplies purchased through the General Services Administrative Federal Supply Schedule Sources at local GSA self-service stores and purchasing subscriptions to newspapers and periodicals. The authorized level for 1981 compared to the 1981 budget estimate reflects a reprogramming to address short falls in this object class.

The estimate for 1982 reflects an increase associated with increased subscription costs.

EQUIPMENT

Actual vs. Estimates \$4 \$60 \$10 \$10 \$--

These resources are required for the replacement of office equipment, such as typewriters, desk top, calculators, and old, worn broken furniture.

The 1981 proposed authorized level, as compared to the 1981 Budget Estimate reflects a decrease of \$50,000 due to (1) the anticipated level of equipment purchases and (2) a reprogramming to cover short falls in other object classes.

January 15, 1981

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DEPARTMENT OF THE TREASURY
 OFFICE OF REVENUE SHARING
 Numbers of Civilian Personnel

	Number of Employees at End of Year					
	1980 Actual		1981 Estimate		1982 Estimate	
	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total
Office of Revenue Sharing						
Salaries and Expenses	146	160	153	150	153	159
Total	146	160	153	150	153	159

Payments to State and Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
1981 Appropriation Enacted by Congress	—	—	\$4,569,949
Authorized Level for FY 1981	—	—	\$4,569,949
Estimate, FY 1982	—	—	\$4,569,949

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1982

	Appropriation FY 1980		Auth. Level FY 1981		Budget Estimate FY 1982	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
General revenue sharing payments	—	\$6,854,924	—	\$4,569,949	—	\$4,569,949
Total appropriation, authorized level, and budget estimate	—	\$6,854,924	—	\$4,569,949	—	\$4,569,949

Payments to State and Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing
 SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES

General Statement

In accordance with the State and Local Fiscal Assistance Amendment of 1980 entitlement funds are appropriated to Federal Fund. These funds are then deposited in the State and Local Government Fiscal Assistance Trust Fund. It is from this trust fund that funds are made available to units of general government below the State level.

The program, which formerly included allocations to State governments, was first passed in 1972 as a means of:

- raising funds from the relatively more productive and more equitable Federal tax system;
- redistributing funds to reduce disparities in State and local fiscal capacities; and
- reducing red tape and increasing State and local control over the expenditure of Federal aid;

Since the inception of revenue sharing in 1972, intergovernmental fiscal conditions have changed. The revenue-generating ability of State and local tax systems, in the aggregate, has grown rapidly. In addition, State and local tax systems have become less regressive.

Despite these improvements, general-purpose fiscal assistance remains necessary to provide aid to jurisdictions less able to meet their service obligations. Disparities in the revenue-raising capacities of localities are still substantial enough to warrant continued Federal efforts to redistribute resources.

Revenue sharing provides funds to virtually every unit of general government below the State level through 1983. These outlays are estimated to decrease from \$6.8 billion in 1980 to \$4.6 billion in 1982. Until 1980, State governments received annual revenue sharing payments of \$2.3 billion. Under the 1980 legislation, State governments are not eligible for such payments in 1981. Subject to receiving appropriations, the new law permits payments to States of up to \$2.3 billion per year in 1982 and 1983 if States turn back an equivalent amount of funds from categorical grants. The budget, however, does not request funds for such payments.

Revenue sharing has minimal Federal controls. Those that exist are designed primarily to ensure nondiscrimination and public participation in spending decisions. In addition, States that receive \$25,000 or more per year must have a full audit of their financial accounts at least once every three years.

Revenue sharing allocations among States are based on total population, urban population, personal and per capita income, Federal and State income tax collections, and general tax effort. Within the States, the allocations to local governments are based primarily on population, per capita income, and tax effort. The formula results in some targeting to governments with fiscal problems.

The request for FY 1982 is \$4,569,949,000 - the same level as was appropriated for FY 1981.

PAYMENTS TO STATE AND LOCAL GOVERNMENT FISCAL ASSISTANCE
TRUST FUND

For payments to the State and Local Government Fiscal Assistance Trust Fund, as authorized by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 1221-1263), \$4,569,949,000. (*Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.*)

EXPLANATION OF LANGUAGE CHANGES: None

January 15, 1981

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REVISED JUSTIFICATIONS

DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Revenue Sharing

ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(Dollars in thousands)

	Permanent Positions	Average Positions	Amount
1981 Appropriation Enacted by Congress	150	150	\$6,518
Reduction pursuant to Public Law 96-526			-2
FY 1981 Appropriation (adjusted)	150	150	\$6,494
Adjustments:			
Proposed Pay Supplemental:			
A. Total Pay Requirements			819
B. Program Adjustments -- January, 1981 Budget		-2	-124
C. Program Adjustments -- March, 1981 Budget		-2	-77
Net Pay Supplemental		-1	211
Proposed Authorized Level for FY 1981	150	154	\$6,700
Estimate, FY 1982	152	148	\$6,994

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1982

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Increase (+) or Decrease (-) for 1982			
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Total Changes Ave. Pos.	Program Changes Amount	Other Changes Ave. Pos.	
1. Legal and Support Services	23	\$ 846	23	\$ 911	22	\$ 948	-1	\$ 37	-1	\$ 37
2. Operations & Technical Assistance	53	2,998	51	2,723	49	2,813	-2	90	-2	90
3. Monitoring and Enforcement	81	2,284	80	3,066	77	3,225	-3	199	-3	199
Unobligated balance		109								
Total appropriation authorized level, and budget estimate	157	\$6,237	154	\$6,700	148	\$6,986	-6	\$ 286	-6	\$ 286
Permanent positions established	(158)		(158)		(152)		(-6)		(-6)	

March 10, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1982
(Dollars in thousands)

	Activity 1		Activity 2		Activity 3		Total	
	Ferm. Amnt.	Per. Amnt.	Ferm. Amnt.	Per. Amnt.	Ferm. Amnt.	Per. Amnt.	Ferm. Amnt.	Per. Amnt.
<u>Program Changes:</u>	---	---	---	---	---	---	---	---
<u>Other Changes:</u>	---	---	---	---	---	---	---	---
Increases necessary to maintain current levels:								
1. Net cost of within-grade salaries increases	---	---	5	---	---	---	10	---
2. SES/serif pay	---	---	---	11	---	---	---	11
3. Increased reimbursement to the Working Capital Fund	---	---	1	---	---	---	---	1
4. Increased cost of travel	---	---	4	---	---	---	---	4
5. Increased cost of FTS & other communication	---	---	6	---	---	---	---	6
6. Pay Annualization and Restoration:	---	---	---	---	---	---	---	---
a. To provide for full-year costs of civilian pay increases authorized for part of FY 1981	---	---	1	---	---	---	---	1
b. Restoration of FY 1981 reduction	---	---	16	---	---	---	---	16
7. Increased payment to OSA for space & related charges	---	---	---	3	---	---	---	3
8. Increased printing costs	---	---	1	---	---	---	---	1
9. Increased cost of subscriptions	---	---	---	2	---	---	---	2
10. Increased cost of equipment rental	---	---	3	---	---	---	---	3
11. Increased training cost	---	---	---	7	---	---	---	7
12. Increased cost of support services	---	---	14	---	---	---	---	14
Subtotal, Other Increases	---	---	59	---	---	---	---	59
Reduction, nonrecurring costs and savings:								
1. Program reductions -- March, 1981 Budget	-1	-1	-22	-2	-2	-2	-40	-3
Subtotal, Other Decreases	-1	-1	-22	-2	-2	-2	-40	-3
Total, Other Changes	-1	-1	37	-2	-2	-2	90	-3
Total Increases or Decreases 1982 Compared with Proposed Authorized Level	-1	-1	37	-2	-2	-2	90	-3
March 10, 1981	---	---	---	---	---	---	---	---

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES

General Statement

Title I of the State and Local Fiscal Assistance Act of 1972 as amended by the State and Local Fiscal Assistance Act Amendments of 1978 and 1980 provides for the distribution of funds not to exceed \$4.6 billion in FY 1981 to approximately 39,000 units of local governments and authorizes the distribution of \$5.9 billion to State and local governments during 1982 and 1983. However, \$2.3 billion of the authorization designated for payments to State governments in 1982 and 1983 is contingent upon a decision by the Congress to appropriate the necessary funds. This budget does not include a request for such an appropriation; moreover, if the funds were to be appropriated for payments to the States, the outlays could be made only to States that return an equal amount of out-of-grant grant funding. The administration of this process would require additional funding and positions for the Office. Allotments are made each year using special state, and entitlement payments are distributed quarterly to each eligible government unit.

The fiscal year 1982 request consists of 148 average positions and \$6,986,000. It is presented in the following three activities to which Executive Director has been asked to permit a more representative presentation as to the actual cost of each.

1. Legal and Support Services - This activity provides extensive counseling and representation on multiple compliance and data requirements; interpreting the new requirements of the 1980 amendments; promulgating regulations relative to these amendments; providing personnel, budget and general administrative support; and disseminating information to public, media, citizens' groups, Congress, etc. These new provisions related to State governments will entail additional legal and support services, if funds are appropriated for payments to the States.

This activity is composed of the following divisions and resources:

	Authorized Positions		
	1981 Pos.	1982 Pos.	
Chief Counsel	11	11	-
Administrative Division	6	7	-1
Public Affairs Division	2	2	-
Total Authorized Positions	21	20	-1
Total Average Positions	23	22	-1
Total Dollars (\$000)	\$911	\$948	\$ 37

March 10, 1981.

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES
(continued)

The FY 1982 increase consists of \$37,000 to maintain FY 1981 levels.

2. Operations and Technical Assistance - This activity provides for the acquisition of current and accurate data for use in computing allocations of funds and all of the accounting associated with the administration of the Trust Fund. Approximately 39,000 units of State and local governments are provided with their data factors for review and offered the opportunity to propose corrections prior to the information. This activity is also involved in the collection of recipient petitions to the use of Revenue Sharing funds by recipient governments. The Office reimburses the Bureau of the Census to collect this data. The procurement of data and analysis of proposals for revision of the Revenue Sharing formula for 1983 are also part of this activity.

The activity further provides for information and technical assistance to elected and appointed officials of recipient State and local governments to promote voluntary compliance with requirements of the Revenue Sharing Act and the Amendments of 1976 and 1980. Turnover of recipient government officials results in continuing requests for information and assistance. In addition to direct contact through

correspondence and telephone, a network of liaison is maintained in agencies at State and local levels already providing other assistance services to recipient government officials. A series of publications explaining the Revenue Sharing Program in non-technical language also have been prepared by personnel in this activity and some of these will require revision to reflect the 1980 Amendments.

Resources have been dedicated to the development and maintenance of interactive computer systems to aid in the internal operation of the Office of Revenue Sharing. These systems are used to reduce requests for hard copy reports and make replies to Congressional and recipient government inquiries more expeditious:

A. Recipient Information Summary System (RISS) - This system provides immediate response to standardized inquiries concerning all active data bases for General Revenue Sharing.

B. Correspondence Control System (CCS) - This system uses demand terminals to track and control all congressional and other important correspondence sent to the Office of Revenue Sharing from receipt through the mailing of the reply. The system prepares and prints standard replies for pre-selected types of correspondence as well as control reports showing the status of all active correspondence by type and responsible division.

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES
(continued)

C. Data and Demography Remote Entry Systems (DARES) - DARES provides for data element changes to the master data files on a demand basis via remote terminals. This system also provides instant update information concerning a selected government.

This activity is composed of the following divisions and resources:

	Authorized Positions	
	1981 Est.	1982 Est.
Systems and Operations Division . . .	30	28
Data and Demography Division . . .	11	11
Intergovernmental Relations and Technical Assistance Division . . .	12	12
Total Authorized Positions . . .	53	51
Total Average Positions . . .	51	49
Total Dollars (\$000) . . .	\$2,723	\$2,813
		\$90

The FY 1982 increase consists of \$90,000 to maintain FY 1981 levels.

3. Monitoring and Enforcement - This activity provides for ensuring compliance with the non-discrimination provisions of law administered by the Office of Revenue Sharing, conducting investigations of allegations of non-compliance, and revising audits of recipient governments made by State and local government audit agencies and Independent Public Accountants. Since there has been a significant increase in complaints, the Civil Rights Division has been utilizing a Compliance Tracking System (CHCTS) and maintains cooperative relations with other Federal Agencies. These efforts have assisted in investigating and resolving a number of Civil Rights complaints.

The 1980 amendments continued the requirement included in the "State and Local Fiscal Assistance Act Amendments of 1976" that recipient governments receiving \$25,000 or more annually in revenue sharing entitlements must have an independent audit of their financial statements conducted in accordance with generally accepted auditing standards and covering not less than 10 percent of the preceding three years. This requirement applies to approximately 11,000 of the aforementioned 39,000 revenue sharing recipients, accordingly it became necessary for the Office of Revenue Sharing to review the professional practice of certain State audit agencies and independent public accountants. The review of State audit agencies will be centered on those agencies which encountered some

Salaries and Expenses, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES
(continued)

problems in meeting the audit requirements of the 1976 amendments. Firms of independent public accountants are sampled based upon quantity of recipients audited, geographic location and other appropriate factors.

It is anticipated that these practice reviews, the processing of non-compliance cases, and the review by Audit Division personnel of audit reports submitted by recipient governments will create a workload which will remain heavy for the Division throughout the year.

This activity further is responsible for the monitoring of compliance by recipient governments with the public participation requirements of the Revenue Sharing Act as amended and for technical advice and assistance to recipients relative to these requirements.

To aid in the processing, control and reporting of workload in Civil Rights, Audit and Public Participation compliance, interactive computer systems are utilized as indicated below:

A. Civil Rights Compliance Tracking System (CRCTS) - This system provides through demand terminals automatic scheduling, tracking, and control of all Civil Rights compliance cases under investigation by the Office of Revenue Sharing. In addition, various management information is made readily available by CRCTS through demand terminals.

B. Audit Reporting System (ARS) - This system maintains the status of the "External Reports" required from some recipient governments. The ARS also provides immediate information on these governments through the demand terminal.

C. IOR Compliance Control System (IORCCS) - This system provides through demand terminals automatic scheduling, tracking, and control of all Public Participation compliance cases under investigation by the Office of Revenue Sharing.

This activity is composed of the following divisions and resources:

	Authorized Positions	
	1981 Est.	1982 Est. over 1981
Civil Rights Division	50	48
Audit Division	27	26
Intergovernmental Relations/ Public Participation Division	1	1
Total Authorized Positions	84	81
Total Average Positions	80	77
Total Dollars (\$000)	\$1,066	\$1,225

The FY 1982 increase consists of \$159,000 to maintain FY 1981 levels.

OFFICE OF REVENUE SHARING

Federal Funds

General and special funds:

SALARIES AND EXPENSES

For necessary expenses of the Office of Revenue Sharing, including hire of passenger motor vehicles, ~~137,186,000~~ **137,186,000** U.S.C. 1224(a); Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.)

 \$6,986,000.

EXPLANATION OF LANGUAGE CHANGES: None

March 10, 1981

Salaries and Expenses, Office of Revenue Sharing

SUMMARY OF EMPLOYMENT
(Number of Average Positions)

Principal Categories	Actual 1980	Estimated		Changes for 1982 Program		Other
		1981	1982	Total	Changes	
Accountants/Auditors	18	19	19	—	—	—
Attorneys	6	6	6	—	—	—
Computer Specialists	19	19	19	—	—	—
Data Processing Technicians	3	3	3	—	—	—
Economist	1	1	1	—	—	—
Equal Opportunity Specialists	38	36	31	-1	—	—
Management/Administrative Staff	9	9	9	—	—	—
Program Analysts	21	22	22	—	—	—
Secretarial/Clerical Staff	26	27	26	-1	—	—
Statistician	1	1	1	—	—	—
Technical Assistances Specialists	6	6	6	—	—	—
Research Assistants	2	2	2	—	—	—
Subtotal	186	150	148	-2	—	-2
Part-time and temporary average positions	11	4	—	-4	—	-1
Total average positions	157	154	148	-6	—	-4

March 10, 1981

DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Revenue Sharing

Explanation of Program and Other Changes for Fiscal Year 1982

I - Program Changes

No program increases are requested for FY 1982.

The Office of Revenue Sharing was established in 1973 to implement the General Revenue Sharing Program, as authorized by the State and Local Fiscal Assistance Act of 1972 and renewed December 1980, by enactment of the State and Local Fiscal Assistance Amendments of 1980. Note that this request assumes that no funds are appropriated for payments to State governments in 1982, and hence that the administration of the trade-off process for categorical grants will not be required.

According to the Act of 1972, the responsibilities of the Secretary of the Treasury included: (1) formulating and implementing regulations and rules for the conduct of the General Revenue Sharing Program; (2) calculating allocations for over 39,000 State and local governments for each entitlement period and making payments to those governments in the correct amount; (3) maintaining accounting records for each of the State and local governments relative to the State and local government fiscal assistance trust fund; (4) providing guidance to the State and local governments in connection with the Fiscal Assistance Act as amended; (5) insuring compliance with the requirements of the Act, the Age Discrimination Act of 1975, the Rehabilitation Act of 1973 (section 504), and the Civil Rights Acts of 1964 and 1968; and (6) reporting to Congress, recipient governments and the general public at regular intervals on the Revenue Sharing Program.

March 10, 1981

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Salaries and Expenses, Office of Revenue Sharing

II - Other Changes

	<u>Average Positions</u>	<u>Amount</u>
Total increases necessary to maintain the current FY 1981 level in FY 1982	—	\$809,000
1. Net cost of within-grade salary increases	—	38,000
<p>The adjustment provides for the net cost associated with the periodic statutory within-grade increases for civil service personnel. A position-by-position analysis of on board-personnel, vacancies in FY 1980, and historical trends in the Department including a lapse factor reflect a total requirement for within-grade increases in FY 1982 of \$39,000.</p>		
2. SES pay/merit pay	—	33,000
<p>This adjustment is necessary to provide the Senior Executive Service participants with pay raises and GS/WH employees with merit pay, as specified in the Civil Service Reform Act.</p>		
3. Increases reimbursement to the Working Capital Fund	—	5,000
<p>This adjustment provides for an increase in costs associated with the centralized services provided by the Working Capital Fund. This requirement is due to the cost increases experienced by the Fund in the areas of supplies, utilities, communications, rent and wages.</p>		
4. Increased cost of travel	—	27,000
<p>This adjustment is necessary to help offset price increases. Petroleum prices have continued to increase and current shortages in the world oil supply markets are expected to continue. Rates for air travel have increased over 25% in 1980, and there is no indication that the rate of these increases will level off by FY 1982.</p>		
5. Increased cost of FTS (Federal Telecommunications Systems) and other communications	—	43,000
<p>This adjustment is necessary to provide for the projected increases in local communications, postage, and FTS services.</p>		

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Salaries and Expenses, Office of Revenue Sharing

II - Other Changes (continued)

	<u>Average Positions</u>	<u>Amount</u>
6. Pay Annualization and Restoration	—	131,000
<p>This adjustment provides funds to cover full year costs of the 1980 pay raise as authorized by Executive Order 12298 dated October 16, 1980. The increase was derived as follows:</p>		
<p>a. To provide for full-year costs of civilian pay increases authorized for part of FY 1981 -(\$5,000)</p>		
<p>b. Restoration of FY 1981 reduction -(\$126,000)</p>		
7. Increased payment to OMA for space and related charges	—	16,000
<p>This adjustment is necessary because of increasing utility costs which OMA has projected.</p>		
8. Increased printing costs	—	5,000
<p>This adjustment is based on increased pricing charges resulting from increasing labor, paper, and commercial procurement prices.</p>		
9. Increased cost of subscriptions	—	2,000
<p>This adjustment is based on increased subscription charges for FY 1981 over FY 1980.</p>		
10. Increased cost of equipment rental	—	21,000
<p>This adjustment is necessary to provide for projected increases in the costs of equipment rentals; it does not provide for any increases in the amount of equipment rented.</p>		
11. Increased training costs	—	2,000
<p>This adjustment is based upon increased tuition and training rates.</p>		
12. Increased cost of support services	—	96,000
<p>This adjustment will accommodate increases based on historical data for (1) data processing costs and (2) guard services provided by OMA.</p>		

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Salaries and Expenses, Office of Revenue Sharing

II. Other Changes (continued)

	Average Positions	Amount
Total cost of reduction, non-recurring costs and savings	-6	\$123,000
1. Program reductions -- March, 1981 Budget	-6	-\$123,000

The President has made the determination to revise the FY 1982 Budget transmitted to Congress on January 15, 1981, so that the objectives and priorities of the new Administration can be more clearly reflected. As a result of these revisions, the above reduction impacts average positions and results in decreases to compensation, benefits and related costs.

March 10, 1981

DEPARTMENT OF THE TREASURY
 Salaries and Expenses, Office of Revenue Sharing
 Standard Classification Schedule
 (Direct Obligations Only)

	(Dollars in thousands)				1982 Change over 1981
	Actual 1980	Budget Estimate 1981	Authorized Level 1981	Estimate 1982	
Total number of permanent positions	158	158	158	152	-6
Average paid employment	157	158	154	148	-6
Object Classification					
Personnel Compensation:					
Permanent positions	\$3,593	\$3,698	\$3,975	\$4,102	\$ 127
Positions other than permanent	123	165	89	---	-89
Other personnel compensation	8	21	10	10	---
Total personnel compensation	\$3,724	\$3,884	\$4,074	\$4,112	\$ 38
Personnel benefits, civilian employees					
Travel and transportation of persons	338	336	360	362	2
Transportation of things	140	293	225	252	27
Standard level user charges	3	4	4	4	---
Other rents, communications & utilities	278	278	280	280	---
Printing and reproduction	346	336	346	420	74
Other services:					
Non-Federal services	155	419	283	315	32
Federal services	952	757	839	940	101
Sub-total (Other services)	1,107	1,176	1,122	1,255	133
Supplies and materials	51	37	51	53	2
Equipment	4	60	8	8	---
Total obligations	\$6,128	\$6,618	\$6,700	\$6,986	286
Unobligated balance	109	---	---	---	---
Total Appropriation, Authorized Level, and Budget Estimate	\$6,237	\$6,618	\$6,700	\$6,986	286

March 10, 1981

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DEPARTMENT OF THE TREASURY

Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS

	Actual 1980	Budget Estimate 1981	(Dollars in thousands) Authorized Level 1981	1982 Estimate	1982 Change over 1981
PERSONAL SERVICES					
Personal compensation:					
Permanent positions	\$3,993	\$3,698	\$3,975	\$4,102	\$ 127
Positions other than permanent	123	165	89	—	-89
Other personal compensation	8	21	10	10	—
Personal benefits	338	336	360	362	2
Total personal services	\$4,062	\$4,220	\$4,434	\$4,474	\$ 40

Personal services costs include all salaries and personal benefits which are paid to the Office of Revenue Sharing employees. These include health and life insurance, the Government's contribution to employee retirement plans, accrued leave, and salary and overtime payments. Such costs are affected by numerous factors including pay increases, the number of work days in the fiscal year and within-grade increases. The principal factors affecting costs in this budget year are: (1) an increase for the return of the absorbed pay set funding in the current year and (2) a decrease in personnel as part of the revised 1982 Budget to reflect the objectives and priorities of the new Administration. This factor is discussed below:

- Changes in the proposed Authorized Level 1981 from the Budget Estimate 1981. Increase primarily reflects the October 1980 pay increase.
- Changes since the proposed Authorized Level 1981. The change is related to (1) return of the absorbed pay set funding, (2) various changes related to maintaining the current level (net cost of within-grade salary increases, merit pay increases, etc.), and (3) a personnel decrease.

TRAVEL AND TRANSPORTATION OF PERSONS

Travel	\$140	\$293	\$225	\$252	\$27
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The proposed Authorized Level for 1981 is \$225,000 a reduction of \$68,000 compared with the 1981 Budget Estimate of \$293,000. This decrease results from a congressional reduction and a reprogramming of funds to address projected short falls in other object classes.

The estimate for 1982 reflects increased airfare costs.

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Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

	(Dollars in thousands)		
	Actual Budget Estimate 1980	Authorized Level 1981	1982 Estimate over 1981

TRANSPORTATION OF THINGS
 Actual vs. Estimates \$ 3 \$ 4 \$ 4 \$ 4 \$—
 The 1980 actual is related to the need to move the household effects of new employees. The 1981 and 1982 estimates reflect a normal level of projected obligations for this object class.

RENTS, COMMUNICATIONS AND UTILITIES

Standard Level User Charges \$278 \$278 \$280 \$280 \$—
 These funds are required for anticipated billings by the General Services Administration (GSA) for the rent and maintenance of leased space by the Office of Revenue Sharing at Columbus Plaza.
 Other rents, communications and utilities \$386 \$336 \$386 \$420 \$ 74
 These resources provide equipment rental, copy machine rental, communication services, mail services, telephone charges, etc. The increase in the proposed authorized level for 1981 compared to the Budget Estimate 1981 primarily reflects greater rental rate increase than anticipated.

The 1982 estimate reflects an increase related to: (1) increased costs of the Federal Telecommunications System (FTS) payments; (2) increased costs of equipment rental, and (3) increased payment to GSA for utility charges.

PRINTING AND REPRODUCTION

Actual vs. Estimates \$137 \$214 \$230 \$240 \$ 10
 This category includes the estimated cost of printing and reproduction provided by or through the Departmental printing plant. This consists of the printing of new and revised handbooks, regulations, assurances, forms, etc. Funds are also included for printing provided by commercial firms under Government Printing Office (GPO) contracts and by other government agency facilities.
 The 1982 estimate reflects an increase consisting of: (1) inflationary increases and (2) increase payments to the Working Capital Fund associated with printing.

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Salaries and Expenses, Office of Revenue Sharing

EXPLANATION OF OBLIGATIONS BY OBJECT CLASS
(continued)

(Dollars in thousands)
Actual Budget Estimate Authorized Level Estimate 1982 Change
1980 1981 1981 1981 1982 over 1981

OTHER SERVICES

Actual vs. Estimates \$1,107 \$1,176 \$1,122 \$1,255 \$133
These resources provide for such services as health units, training enrollments, inter/intra agency agreements, data processing, and special contracts for the administrative operations of the program.
The 1982 estimate reflects an increase of \$133,000 for return of absorbed pay act funding related to reimbursable programs and inflationary increases for support services.

SUPPLIES AND MATERIALS

Actual vs. Estimates \$51 \$37 \$51 \$53 \$ 2
This represents the estimated cost of expendable office supplies purchased through the General Services Administrative Federal Supply Schedule Sources at local GSA self-service stores and purchasing subscriptions to newspapers and periodicals. The authorized level for 1981 compared to the 1981 budget estimate reflects a reprogramming to address short falls in this object class.
The estimate for 1982 reflects an increase associated with increased subscription costs.

EQUIPMENT

Actual vs. Estimates \$4 \$60 \$8 \$8 \$--
These resources are required for the replacement of office equipment, such as typewriters, desk top, calculators, and old, worn broken furniture. The 1981 proposed authorized level as compared to the 1981 Budget Estimate reflects a decrease of \$52,000 due to (1) the anticipated level of equipment purchases and (2) a reprogramming to cover short falls in other object classes.

March 10, 1981

4.

DEPARTMENT OF THE TREASURY
OFFICE OF REVENUE SHARING
Numbers of Civilian Personnel

	Number of Employees at End of Year					
	1980 Actual		1981 Estimate		1982 Estimate	
	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total	Full-time in Permanent Positions	Total
Office of Revenue Sharing						
Salaries and Expenses	186	160	150	152	149	149
Total	186	160	150	152	149	149

March 10, 1981

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Payments to State and Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(dollars in thousands)

	Permanent Positions	Average Positions	Amount
1981 Appropriation Enacted by Congress	----	----	\$4,569,949
Authorized Level for FY 1981	----	----	\$4,569,949
Estimate, FY 1982	----	----	\$4,569,949

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1982

	Appropriation FY 1980		Auth. Level FY 1981		Budget Estimate FY 1982	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount
General revenue sharing payments	---	\$6,854,924	---	\$4,569,949	---	\$4,569,949
Total appropriation, authorized level, and budget estimate	---	\$6,854,924	---	\$4,569,949	---	\$4,569,949

Payments to State and Local Government Fiscal Assistance Trust Fund, Office of Revenue Sharing

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATES

General Statement

In accordance with the State and Local Fiscal Assistance Amendments of 1980 entitlement funds are appropriated to a federal fund. These funds are then deposited in the State and Local Government Fiscal Assistance Trust Fund. It is from this trust fund that funds are made available to units of general government below the State level.

The program, which formerly included allocations to State governments, was first passed in 1972 as a means of:

- raising funds from the relatively more productive and more equitable Federal tax system;
- redistributing funds to reduce disparities in State and local fiscal capacities; and
- reducing red tape and increasing State and local control over the expenditure of Federal aid;

Since the inception of revenue sharing in 1972, intergovernmental fiscal conditions have changed. The revenue-generating ability of State and local tax systems, in the aggregate, has grown rapidly. In addition, State and local tax systems have become less regressive.

Despite these improvements, general-purpose fiscal assistance remains necessary to provide aid to jurisdictions less able to meet their service obligations. Disparities in the revenue-raising capacities of localities are still substantial enough to warrant continued Federal efforts to redistribute resources.

Revenue sharing provides funds to virtually every unit of general government below the State level through 1983. These outlays are estimated to decrease from \$6.8 billion in 1980 to \$4.6 billion in 1982. Until 1980, State governments received annual revenue sharing payments of \$2.3 billion. Under the 1980 legislation, State governments are not eligible for such payments in 1981. Subject to receiving appropriations, the new law permits payments to States of up to \$2.3 billion per year in 1982 and 1983 if States turn back an equivalent amount of funds from categorical grants. The budget, however, does not request funds for such payments.

Revenue sharing has minimal Federal controls. Those that exist are designed primarily to ensure nondiscrimination and public participation in spending decisions. In addition, governments that receive \$25,000 or more per year must have a full audit of their financial accounts at least once every three years.

Revenue sharing allocations among States are based on total population, urban population, personal and per capita income, Federal and State income tax collections, and general tax effort. Within the States, the allocations to local governments are based primarily on population, per capita income, and tax effort. The formula results in some targeting to governments with fiscal problems.

The request for FY 1982 is \$4,569,949,000 - the same level as was appropriated for FY 1981.

PAYMENTS TO STATE AND LOCAL GOVERNMENT FISCAL ASSISTANCE
TRUST FUND

For payments to the State and Local Government Fiscal Assistance Trust Fund, as authorized by the State and Local Fiscal Assistance Act of 1972, as amended (31 U.S.C. 1221-1263), \$4,569,949,000. (*Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.*)

EXPLANATION OF LANGUAGE CHANGES: None

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WEDNESDAY, MARCH 4, 1981.

NEW YORK CITY LOAN GUARANTEE PROGRAM

WITNESSES

JOHN J. McLAUGHLIN, DIRECTOR, OFFICE OF NEW YORK CITY FINANCE

ROBERT W. RAFUSE, JR., DEPUTY ASSISTANT SECRETARY FOR STATE AND LOCAL FINANCE

CHARLES V. McFADDEN, DEPUTY ASSISTANT DIRECTOR, FINANCIAL MANAGEMENT DIVISION, OFFICE OF THE SECRETARY

Mr. BOLAND. The Committee will come to order.

We will now turn to the "I love New York hour." This is the last year in which the Committee will address the budget request for the New York City Loan Guarantee Program.

We wish to welcome John J. McLaughlin, Director of the New York City Finance. How long have you been there?

Mr. McLAUGHLIN. Three years, since initiation of the loan guarantee program.

Mr. BOLAND. We think you have done a fine job for the City of New York, and will be sorry to see you go. I understand the pastures may be greener elsewhere. Is your family getting larger?

Mr. McLAUGHLIN. No, but the calls on the family's pocketbook are.

Mr. BOLAND. You are requesting \$1,044,000 for administrative expenses of the New York City Loan Guarantee Program in fiscal year 1982, an increase of \$110,000 over the 1981 level of \$934,000. This includes a supplemental appropriation request of \$31,000 for increased pay costs and a \$19,000 reduction pursuant to the 1981 Appropriation Act.

Why don't you go ahead with any statement you might have.

Mr. McLAUGHLIN. I would like to have my entire prepared statement placed in the record.

Mr. BOLAND. Without objection, it will be inserted in the record.

GENERAL STATEMENT

Mr. McLAUGHLIN. As you know, the New York City Loan Guarantee Act of 1978 authorizes the Secretary of the Treasury, during the City's fiscal years 1979-1982, to issue up to \$1,650,000,000 of Federal guarantees of city long-term debt. The guarantees are the core of a four-year, \$4.5 billion long-term financing plan aimed at restoring the City's physical plant while it undertakes massive fiscal reform.

To date, \$1,050,000,000 of guarantees has been issued in the first three years of the plan. The remaining guarantees may be issued in the City's fiscal year 1982 if the City demonstrates the need for

such financing and otherwise meets the requirements of the Guarantee Act.

The City's financing plan has been revised several times to adapt to changing financial conditions. Over the past year, the expectations for the City's market reentry in fiscal years 1981 and 1982 have been lowered as a result of the unlikelihood of the major credit-rating agencies giving the City's bonds an investment-grade rating in the near future. These adjustments were built into the latest revision of the financing plan. A further revision will be submitted in May of this year.

THE GUARANTEE ACT

The Guarantee Act requires that the Secretary make a series of determinations prior to the extension of each round of Federal guarantees, the most important of which are that: the City has the capacity to repay the Federally guaranteed indebtedness; the City is unable to obtain credit elsewhere in sufficient amounts and on reasonable terms; a financing plan satisfying the City's short and long-term needs exists and is sound; and the City is making substantial progress toward balancing its budget in accordance with generally accepted accounting principles (GAAP) by its fiscal year 1982.

In the course of this program, we have issued \$1,050,000,000 in loan guarantees. The remaining \$600,000,000 of guarantees are reserved for issuance in fiscal year 1982, which commences June 1 of this year and expires June 30, 1982.

New York City has revised its long-term financing plan, to take into account the changes in financial conditions: what is perceived as a reluctance by the rating agencies to recognize the budgetary improvements that the City has achieved through this program. These revisions were announced last year and we expect a further revision in May, at which time the City is likely to ask for the issuance of the balance of guarantees.

Last Thursday the City financed all its short-term debt for fiscal year 1981 in the public market, the first time since 1974 that it has done this. It has, through efficient management, reduced the need for seasonable borrowing.

In terms of its prospects for issuing long-term bonds, the City expects to sell to the public, for the first time in over six years, an issue of \$50 million of its bonds on March 26th. The City and its underwriters are hard at work in preparing the documents necessary for this. As I mentioned, the budgetary reform has been significant and is well detailed in the findings we present to the Congress upon issuance of the guarantees, and we have done seven sets of these documents.

Finally, I would like to note that the City's planning process has improved dramatically during the last three years in which I have been involved with the program. They are now able to project budget gaps months in advance and come up with plans that are universally thrashed around and agreed upon by the various monitors, in order to handle anticipated budget gaps. This is a long way from the crisis of 1975.

In addition, we monitor an additional piece of legislation, the Pension Fund Act, which also requires a significant amount of time and energy spent by the office.

The office, as it is currently constituted, has sixteen employees, half of whom work the Washington beat, if you will, analyzing Federal aid, being responsive to congressional and Administration requests, and administering the office down here while a field staff works in New York.

In the past three years, we have consistently come in under budget. It may be good management or it may be the reins of the Budget Office pulling us in. But we also intend to continue our philosophy that even though those amounts were appropriated, we will try to save as efficiently as though it were our own money, which it is: the money of all our people.

LOAN GUARANTEE FEES

Finally, we have cut our outside obligations for accounting services. We have developed a fine in-house staff and have cut our needs for those services.

I also would note that the Guarantee Act provides us with a one-half of one percent fee per year on the basis of outstanding indebtedness. So, the fees coming in to date are \$6.03 million. The fees will outweigh the Treasury's administrative expenses in fiscal year 1982.

On a personal note to you and your Subcommittee, last year your support for the 1982 appropriation allowed a meaningful administration of the Act and the guarantees which the city sorely needed. Thank you.

[The written statement follows:]

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 A. M.
MARCH 4, 1981

STATEMENT OF JOHN J. McLAUGHLIN,
DIRECTOR OF THE OFFICE OF NEW YORK FINANCE,
BEFORE THE HOUSE SUBCOMMITTEE ON HUD - INDEPENDENT
AGENCIES OF THE HOUSE APPROPRIATIONS COMMITTEE

Mr. Chairman and Members of this distinguished Subcommittee:

I appear before you today to discuss the administrative expenses of the Treasury Department's Office of New York Finance. My testimony covers three major areas:

- A brief history of the New York City Loan Guarantee Act and Treasury's activities under it;
- A review of Treasury's additional responsibilities imposed by P.L. 95-497 in monitoring the continuing participation of the City and State pension funds in the City's Four-Year Financial Plan; and
- The level of appropriations Treasury believes necessary for the 1982 fiscal year.

The Guarantee Act

The New York City Loan Guarantee Act of 1978 (P.L. 95-339) authorizes the Secretary of the Treasury, during the City's fiscal years 1979-82 (expiring June 30, 1982), to issue up to \$1.65 billion of Federal guarantees of City long-term debt. The guarantees are the core of a four-year, \$4.5-billion, long-term financing plan aimed at restoring the City's physical plant while it undertakes massive fiscal reform.

To date, \$1.05 billion of guarantees has been issued in the first three years of the Plan. The remaining guarantees may be issued in the City's fiscal year 1982 (July 1, 1981 through June 30, 1982) if the City demonstrates the need for such financing and otherwise meets the requirements of the Guarantee Act.

The City's Financing Plan has been revised several times to adapt it to changing financial conditions. Over the past year, the expectations for the City's market reentry in fiscal years 1981 and 1982 have been lowered as a result of the unlikelihood of the major credit-rating agencies giving the City's bonds an investment-grade rating in the near future. These adjustments were built into the latest revision of the Financing Plan. A further revision will be submitted in May of this year.

The Guarantee Act requires that the Secretary make a series of determinations prior to the extension of each round of Federal guarantees, the most important of which are that:

- the City has the capacity to repay the federally guaranteed indebtedness,
- the City is unable to obtain credit elsewhere in sufficient amounts and on reasonable terms,
- a financing plan satisfying the City's short- and long-term needs exists and is sound, and
- the City is making substantial progress toward balancing its budget in accordance with generally accepted accounting principles (GAAP) by its fiscal year 1982.

The Guarantee Act also requires the City to achieve both its short- and long-term financing in the public credit market as soon as practicable. The City has successfully financed most of its shrinking short-term needs in the public market in the past three fiscal years through the sale of revenue-anticipation notes and, most recently, tax-anticipation notes. Fiscal and financing reforms instituted by the City Comptroller and the City's Office of Management and Budget have been instrumental in achieving this cash-management turnaround.

The City expects to complete its first sale of unguaranteed bonds to the public later this month. The City is optimistic that the scheduled sale of \$50 million will be deemed successful, given current market yields, at the premium the City will have to pay. Among the major factors contributing to the City's ability to market bonds has been its success in managing its current operations and its ability to rejuvenate its dormant capital-spending program. A successful public bond sale will be a major milestone in the City's recovery.

New York's budgetary performance in the recent past has consistently exceeded its mandated budget goals. In the past three years, the City's financial statements have been audited by a consortium of independent public accounting firms. Finally, it appears that, in the current fiscal year, the City will achieve a budget balanced under GAAP, one year earlier than required by the Act. It plans to be, and must be, in GAAP balance thereafter.

On January 16, 1981, the City submitted to the Financial Control Board its proposed FY 1982-85 Financial Plan and Program to Eliminate the Gap (PEG). While the City is projecting a budget gap of \$421 million in FY 1982, most observers agree that the PEG actions are adequate and reasonable in light of the current fiscal outlook, and that the major impediments to annual GAAP balance have been resolved in the short term. The emphasis has shifted from the immediate problem of balancing the next annual budget to the longer-term problem of fundamental budgetary reform.

Among other factors, the City's budgetary progress can be attributed to its pattern of underspending and revenue collections that have outdistanced forecasts. Economically sensitive taxes have risen due to inflation and to the better-than-expected performance of the local economy. In addition, the City, as a matter of prudence, does not include non-recurring revenues in its forecasts, even though varying amounts of such revenue occur each year.

Treasury Activities Under the Act in Fiscal Year 1980

Under the Loan Guarantee Act, the Treasury Department's Office of New York Finance is required to monitor New York City's finances. This involves:

- monitoring compliance with the Guarantee Act and the Agreement to Guarantee;
- reviewing and analyzing monthly, quarterly, and annual financial statements and related reports;
- tracking the City's daily cash-flow requirements and assessing the time schedule and amounts required for seasonal and long-term financing;
- studying the effects of legislation enacted by the 96th Congress and proposed to the 97th Congress;
- contact with (1) credit-rating agencies as to the possibility of an investment-grade rating of City securities and (2) the financial community and the City's financial advisor concerning receptivity of the public market to the City's debt;

- meeting with City officials and with agencies assigned to monitor the City, including the Financial Control Board, Office of the Special Deputy Comptroller (State), MAC, and GAO; and
- liaison with New York State officials on the State's commitment of continued support for New York City, along with other cash-flow and budgetary matters.

These monitoring activities are essential in ensuring the City's compliance with the provisions of the Loan Guarantee Act. Prior to each takedown of Federal guarantees, the Office confirms formally for the Secretary that the City is meeting its obligations under the Act. The staff of the Subcommittee has been provided a copy of the determinations prepared in connection with the most recent issuance of \$300 million of Federal guarantees on October 2, 1980.

Treasury intends to continue to meet its commitment, as underlined by the Senate Banking Committee,

. . . to continue to monitor New York City's operations closely in order to ensure continued compliance with all of the conditions of the Act and to protect the Federal Government's financial interest.

Finally, a provision of the Guarantee Act requires the Secretary to prepare reports to the Congress on a regular basis outlining Treasury's activities under the Act. This "Report to Congress" was last transmitted in December 1980 and will be due next in May.

Pension Fund Legislation

The companion legislation to the Guarantee Act, P.L. 95-497, (Pension Fund Act) mandates further findings by Treasury in relation to the purchase of City and MAC indebtedness by certain City and State pension funds. Some \$215 million of MAC placements with the pension funds are scheduled prior to June 30, 1982. The two most significant determinations the Secretary must make under P.L. 95-497 are:

- that the issuance of indebtedness by the City will not jeopardize its ability to make future contributions to the pension funds, and
- that the purchase of City indebtedness will not endanger the ability of the pension funds to pay future pension benefits.

In addition to these requirements, Treasury has continuing monitoring responsibilities under P.L. 95-497. Whenever an acquisition of City or MAC indebtedness is made pursuant to one of the purchase agreements, the Secretary must find that the acquiring fund does not hold more than 50 percent of its assets in City and MAC indebtedness and does not have a negative cash flow, and that the aggregate of City and MAC indebtedness held by the City pension funds does not exceed the percentage limitations contained in the Pension Fund Act.

Furthermore, prior to each acquisition, Treasury must also make certain independent determinations under the Pension Fund Act. During the City's FY 1982, when each acquisition occurs the Secretary must determine that New York City is operating under a GAAP-balanced budget and whether the City's annual audited financial statements reflect that goal. Thus, a determination similar to that made with respect to Section 103(5) of the Guarantee Act at each takedown of guaranteed bonds must be made for each acquisition of MAC or City bonds by the pension funds.

The staff of the Subcommittee has been provided with a copy of the most recent determinations related to the Pension Fund Act.

The Office of New York Finance

Treasury's Office of New York Finance maintains two offices--one in Washington and one in New York City. In addition, the services of an accounting consultant--currently Deloitte Haskins & Sells--are used.

The Washington office has several responsibilities:

- analysis of Federal aid to New York City;
- economic forecasting and analysis of the impacts of national economic trends on the City's economy;
- formal preparation of the Secretary's determinations with respect to the Guarantee Act and P.L. 95-497;
- preparation of testimony and background materials in conjunction with Congressional hearings and other requests; and
- administration of the Office, including budget, contracts, and procurement.

The staff located in New York City have primary responsibility for Treasury's day-to-day dealings with the City and State, and with State agencies monitoring the City's finances. In addition,

the New York Office conducts reviews of the City's budget and programs, audits and verifies the reports received from the City and its monitors, and, if necessary, recommends changes and improvements in the reports. A listing of the major reports the Office of New York Finance must review is attached hereto as Exhibit A. In addition, the Office inspects accounts, books, records, and other financial documents of the City or any financing agency participating in the financing needs of the City.

Administrative Expenses

The anticipated appropriation for administration of the New York City Loan Guarantee Act in fiscal year 1981 is \$934,000. This includes a supplemental appropriation request of \$31,000 to cover the estimated supplemental pay increases. The Administration is requesting an appropriation of \$1,044,000 to fund fiscal year 1982 requirements.

The 1981 budget provides for 20 funded positions, including professional and clerical staff of 17, plus provision for summer and temporary employees. Of the projected \$934,000 FY 1981 appropriation, approximately 62 percent (\$582,000) is allocated for personnel compensation and benefits, \$25,000 for travel, and \$327,000 for rent, utilities, communications, supplies, services provided to the Office by Treasury budget and personnel offices, and the consulting services of the accounting firm, Deloitte Haskins & Sells.

In FY 1981, \$184,000 has been obligated for the accounting services of Deloitte Haskins & Sells. Such services are required for periodic, in-depth budget analyses that must be performed in a short period of time, certain accounting matters that require specialized expertise, and certain City submissions required under the Act that must be independently verified.

Finally, let me note that the Guarantee Act requires the City to pay to the Treasury a guarantee fee of 0.5 percent per annum on the outstanding principal amount of Federally guaranteed City bonds. To date, these payments have totaled \$6.03 million. It is anticipated that at least \$28 million in guarantee fees will be paid by the City to the Federal Government over the life of the bonds. In FY 1982 alone, Treasury should receive at least \$4.5 million in guarantee fees. These fees will more than offset Treasury's administrative expenses in FY 1982. Attached at Exhibit B are estimates of the guarantee fees for Federal fiscal years 1982-86.

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

Exhibit A

From the November 15, 1978 Agreement to Guarantee, the City must regularly submit to the Secretary of the Treasury the following:

1. Four-Year Plans no later than July 1 of each fiscal year in which Guaranteed bonds are outstanding (§3.1.5c)
2. Monthly Certificates no later than the end of each calendar month certifying that there was no material modification in the Financial Plan and no adverse developments in pending litigation (§6.7.1)
3. Monthly Financial Plans no later than the end of each calendar month reporting results of operations of City and Covered Organizations for preceding month (§6.7.3)
4. Quarterly Financial Plan Statements no later than October 31, January 31, and April 30 of each year reporting results of operations of City and Covered Organizations for preceding quarter of fiscal year (§6.7.3)
5. Annual Audit Reports (Comptroller's Reports) no later than October 31 of each year reporting the financial position
6. Economic Reports on March 15 and September 15 of each year evaluating overall economic position of City for preceding half of fiscal year (§6.7.5)
7. Collective Bargaining Agreements upon submission to the FCB along with projections of costs and certificate of consistency with the Financial Plan in effect (§6.7.7)
8. Mayor's Management Reports on January 30 and September 17 of each year reporting management and productivity improvements (§6.7.7)
9. Borrowing Schedules no later than July 1 of each fiscal year laying out the plan of seasonal and MAC borrowing for present year (§6.7.9)
10. Reports of Covered Organizations as soon as possible after end of each organization's fiscal year reporting the financial position and results of operations of the preceding fiscal year, certified by independent certified public accounting firm, and with the opinion of the firm as to compliance with GAAP (§6.7.9)

Exhibit A Continued

11. Publication of Plan Variances no later than December 1, 1979, 1980, and 1981 printed in The City Record and reconciling actual revenues and expenditures in FY 79, FY 80, and FY 81 with projected revenues and expenditures in both the initial Financial Plan for the year and the latest modification (\$6.7.10)
12. Audit Committee Reports completed by the Audit committee in accordance with §103(7)(B) of the Guarantee Act making recommendations for improving the financial accounting and reporting systems of the City (\$6.15)
13. Productivity Council Reports completed by the Productivity Council in accordance with §103(9) of the Guarantee Act making recommendations for enhancing the productivity of the City's labor force and published in The City Record no later than January 1 of each year (\$6.15)

Exhibit BEstimated Receipt of Guarantee Fees
(millions)

<u>Federal Fiscal Year</u>	<u>Amount Due</u>
1982	\$4.5
1983	4.0
1984	3.5
1985	3.1
1986	2.7

PROGRAM'S STAFFING LEVELS

Mr. BOLAND. Thank you, Mr. McLaughlin. I believe that your success is due to good management, rather than the reins of the Office of Management and Budget.

You have two offices. How do you split the personnel?

Mr. McLAUGHLIN. Five professionals and four secretaries in Washington; three professionals in New York with me and two secretaries. So the split is pretty much 50-50. Other support staff, like the person assigned to cover New York matters for the General Counsel's Office, are located in Washington.

Mr. BOLAND. You referred to an action taken last year concerning loan guarantees and the actions of the House and the conferees, which was in line with what the City of New York, the Treasury and the New York office wanted.

During last year's hearing, Mr. Altman said that no further guarantees above the \$750,000,000 would be issued. Mr. Proxmire put a limitation in the Senate version of the 1981 Appropriations Bill. That limitation would have prohibited the use of appropriated funds to administer a loan guarantee program that would permit the use of the guarantee authority for the purpose of permitting MAC to use the proceeds of its borrowings in fiscal year 1981 and 1982 to meet the City's financing needs after 1982. That last issue was resolved in the first Continuing Resolution last fall and the language was dropped from the 1981 Appropriations Bill. Subsequently, the Treasury guaranteed another \$300,000,000 of New York City bonds. That brought the total guaranteed to \$1,050,000,000. The balance of \$600,000,000 in guarantees has not been issued.

What has happened to the \$300,000,000 guaranteed last fall? Is the money in escrow?

Mr. McLAUGHLIN. No, it is not. The proceeds from MAC bond sales are to be placed in escrow. The proceeds from guaranteed bond sales may not be escrowed; they may only be used for true capital spending. There is a process that the City goes through in terms of its capital spending program. It is a very well-refined process. The monies are committed, and approved by the Board of Estimates, in a streamlined fashion, not like the cumbersome fashions of prior Administrations. Once the money is committed, the bonds are issued and the proceeds are put in an account to be rationed out to projects in the pipeline over a three-month period; or, the city advances funds from its general fund and the amounts are repaid from the proceeds from a bond issue.

PLANS FOR REMAINING LOAN GUARANTEES

Mr. BOLAND. What does New York City plan to do with the remaining \$600,000,000 in guarantees issued in 1982?

Mr. McLAUGHLIN. The use of the funds has been committed to capital improvements by the city that are much needed. I am talking primarily about repairing the bridges, the roads, the sewer system, and very little to do with new construction. This is a holding action by the city in maintaining its physical plant. The city has targeted over \$2,000,000,000 for this purpose over the fiscal

year 1979-82 period. If the remaining \$600,000,000 of guarantees are issued, they will only be a part of that capital funding.

Mr. BOLAND. Mr. Green.

NYC BALANCED BUDGET

Mr. GREEN. On page three of the statement, you mention that it appears New York City will achieve a balanced budget according to generally accepted accounting principles (GAAP) this year (1981)—one year earlier than required by law. Paragraph three on that page details some of the factors to which the City's budgetary progress can be attributed: pattern of underspending; revenue collections that outdistanced forecasts; taxes that have risen due to inflation; and better-than-expected performance of the local economy.

A *Wall Street Journal* editorial dated February 23 states that there is strong evidence that the main reason for the economic recovery of New York City and State is tax policy—specifically, reductions in the tax burdens at the State and local level.

A new report on the City by the State Comptroller's Special Deputy attributed the improved outlook to such factors as higher tax revenues, particularly from real estate, and a State takeover in recent years of several costly functions performed by the city.

Have you read the editorial and the report to which I am referring? How accurate do you believe the editorial to be?

Mr. McLAUGHLIN. I have read both reports. Having been in the middle of the New York City process for three years, I don't believe there is any one reason, whether it is the economic-stabilizing and the tax-cutting by Governor Carey, and the freezing of the tax rate by the Mayors—Mayor Beame first and continued by Mayor Koch. This has certainly contributed to an atmosphere of economic re-birth in Lower Manhattan and other areas with which you are familiar.

I think there are a myriad of factors and I don't think any one is a leading factor. I think there is a renewed confidence and a renewed atmosphere for investment in the city. I am told it is driven in part by foreign investors who view New York as a haven for investment, a changing of the City's economy from a light manufacturing base to a service base, which made it recession-proof, if you will, from the last recession, and a myriad of other factors which have created, I think, a strong trend.

Part of it really has to do with the Act itself, with local investors realizing there was a commitment both by the Federal Government as well as the unified action of the savings banks, the insurance companies, the pension funds, and organized labor in particular. They are putting up their money to see that the City is restored and gets back to its prime status.

IMPACT OF FEDERAL BUDGET REDUCTIONS

Mr. GREEN. The new Administration is proposing a number of reductions in both the Federal 1981 and Federal 1982 fiscal year budgets. Do you anticipate that the administrative expenses of the New York City Loan Guarantee Program will be reduced; and if so, by how much?

Mr. McLAUGHLIN. I would expect ours would be decreased and I would think it would be in line with the general overall reduction in consultants, in travel and in administrative overhead.

Mr. GREEN. You mentioned travel. There is now competitive service on the New York to Washington route.

Mr. McLAUGHLIN. In fact, they are lower than Amtrak, at least the current sweeteners of those air fares are.

ELIMINATION OF STATE'S SHARE OF GRS

Mr. GREEN. What do you anticipate will be the impact of eliminating the State's share of General Revenue Sharing?

Mr. McLAUGHLIN. Well, there is an impact, Mr. Green, but as I mentioned in my remarks, the planning process of the City OMB—coming up with what they call "PEG" programs and rolling four-year programs—is part of the apparatus that the fiscal crisis has put on the City. That impact has already been taken into account.

Mr. GREEN. So you feel those are already anticipated.

Mr. McLAUGHLIN. Those are built in. Incidentally, maybe I am anticipating something, but the Control Board has indicated that the receipt of \$100 million of Federal aid is an uncertainty in the City's fiscal year 1982 budget taking into consideration the current climate, to make sure that the City comes in on balance.

Mr. BOLAND. May I ask, what was the State's share of GRS? You may supply that information for the record.

Mr. RAFUSE. It was a bit less than \$250,000,000 in fiscal year 1980.

Mr. BOLAND. Please indicate what the passthrough was as well. [The information follows:]

ELIMINATION OF STATE SHARE OF REVENUE SHARING

The elimination of the state share of revenue sharing after the October 1980 payment resulted in a loss to New York State of one quarterly payment, approximately \$63 million, in its fiscal 1981 budget (ending March 31, 1981). In its fiscal 1982 budget, the loss to the State will equal the total annual entitlement, approximately \$250 million. The loss will be either in categorical aid or unrestricted revenue sharing funds, since the State share of revenue sharing in Federal fiscal year 1982 is qualified by the Levitas amendment that requires trading \$1 of categorical grant funds for \$1 of revenue sharing.

The City had estimated that it received approximately \$80 million per year from the pass-through of the State's share of revenue sharing to the City. The elimination of the State share after the payment in October 1980 resulted in a loss to the City of \$40 million in its fiscal 1981 budget (ending June 30, 1981) and would result in the loss of \$40 million in the first half of its fiscal 1982 budget. The amount of the pass-through that would be restored to the City upon the renewal of the State share in Federal fiscal year 1982 would depend on the State's decision to trade categorical funds for revenue sharing pursuant to the Levitas amendment.

IMPACT OF BUDGETARY REDUCTIONS

Mr. GREEN. What about the total impact on New York City of all the budgetary reductions being proposed?

Mr. McLAUGHLIN. The City's OMB has on its own, cut in half the number of CETA jobs projected to receive funding, and the Control Board, as I said earlier, just indicated that the receipt of \$100 million of Federal aid is an uncertainty in the city's fiscal year 1982 budget, to make the City tighten its belt a little more to come in with a balanced budget in 1982. I know the Mayor is very

hopeful that some relief on the mandates will provide help in balancing the budget.

CAP ON MEDICAID

Mr. GREEN. One of the major areas proposed to balance the budget is to require local governments to pay half the State's share in medicaid. Have you looked at that one proposal to cap medicaid?

Mr. McLAUGHLIN. We are looking at it.

Mr. GREEN. When do you anticipate that your analysis will be complete?

Mr. McLAUGHLIN. We pride ourselves on pretty quick turnaround time, so I would expect it by the 15th of April.

Mr. GREEN. Please make that available to us.

CAPITAL IMPROVEMENTS

Last year, there was some discussion of the City's capital improvements plan to spend \$2.3 billion by 1982.

Is the capital improvements plan on schedule? If not, how much has it slipped and what are the consequences?

Mr. McLAUGHLIN. I am happy to report that it is on schedule. It was not during the first two years of the program, but the Mayor created a solution without cutting any of the checks and balances that the bid processes allow. Now they are on track. It is our judgment they will spend the \$2.3 billion and will put together a credible organization to take care of the City's capital requirements in the years ahead.

FUND RAISING ABILITY

Mr. GREEN. The spending program requires funds in addition to those from the loan guarantees. Are you confident they will be able to raise the money?

Mr. McLAUGHLIN. I am comfortable with the revised financing plan, that calls for a gradual reentry into the market by the City and reasonable annual amounts of MAC debt per year. As part of the plan, last year MAC's statutory borrowing authority was increased by \$1.2 billion and extended to December 31, 1984. With the City gradually moving into the marketplace in 1983, 1984 and 1985, there is a good chance that all the City's needs will be funded, at least through 1985. Then beyond that, they will have built up, I hope, sufficient market confidence to meet all of their financing needs on their own.

TOTAL ACCUMULATED DEFICIT

Mr. GREEN. The total accumulated deficit for New York City was \$7.7 billion in 1978 and \$7.8 billion in 1979. Last year's estimates for 1980 and 1981 were \$6.6 billion and \$5.0 billion, respectively. What was New York City's total accumulated deficit at the end of 1980?

What are the estimates for 1981 and 1982?

Explain any significant variances from estimates for 1980 and 1981.

Mr. McLAUGHLIN. I would like to detail that for the record. When you talk about deficits, you are talking about the cumulative deficits of the operating budgets, much of which have been financed with the issuance of debt. If you add to that the City and MAC debt issued for the capital budget, you get a figure of more than \$12 billion for the City's long-term indebtedness.

I should note, the City has also been reaping some pretty substantial budget surpluses under State law in the last few years, and I hope that continues under GAAP. That certainly can lessen the need for long-term financing, as some capital projects can be on pay-as-you-go basis.

[The information follows:]

GENERAL FUND DEFICIT

New York City's general fund deficit was \$7.8 billion as of June 30, 1979, according to the independent audit of the City's financial statements. The two major items that affected the fund deficit as of June 30, 1980 were the amount of the City's fiscal year 1980 deficit pursuant to generally accepted accounting principles (GAAP) and the redemption of outstanding debt that was issued to finance the annual budget deficits. The fiscal year 1980 GAAP deficit was composed of three items: the amount of capitalized operating expenditures, the amount of pension accrual, and, partially offsetting the sum of the first two items, the amount of the fiscal year 1980 surplus under State law. The sum of the fiscal year 1980 capitalized operating expenses and pension accrual was \$501 million and the fiscal year 1980 surplus under State law was \$145 million, yielding a deficit under GAAP of \$356 million for fiscal year 1980. While there are forecasts of a fiscal year 1981 surplus under GAAP, the following presentation of the change to the general fund balance from June 30, 1980 to June 30, 1981 excluded an estimate of a fiscal year 1981 surplus. Hence, the following projection of the general fund deficits as of June 30, 1981 is conservative. Similarly, the projection of the general fund deficit as of June 30, 1982 is conservative because it is difficult to estimate now the amount of the City's fiscal year 1982 surplus.

Following are the actual general fund deficits as of June 30, 1979 and June 30, 1980 and projections of the City's general fund deficits as of June 30, 1981 and June 30, 1982:

[In thousands of dollars]

Fund balance (deficit) at June 30, 1979.....	(7,796,056)
Fiscal year 1980 GAAP deficit.....	(356,021)
Redemption of debt during fiscal year 1980.....	210,575
<hr/>	
Fund balance (deficit) at June 30, 1980.....	(7,941,502)
Redemption of debt during fiscal year 1981 (estimate).....	184,000
<hr/>	
Fund balance (deficit) at June 30, 1981 (estimate).....	(7,757,502)
Redemption of debt during fiscal year 1982 (estimate).....	212,000
<hr/>	
Fund balance (deficit) at June 30, 1982 (estimate).....	(7,545,502)

The variances from last year's estimates are due to the amount of debt redeemed in fiscal year 1980 and fiscal year 1981.

PENSION COSTS

Mr. GREEN. Earlier this week in a letter that went to the bond rating agencies, it was estimated that pensions were going to take less of the City's budget than had previously been estimated. Obviously, that would be wonderful, if that is true. On the other hand, it may impact on the ability of the pension system to absorb the macro-city paper. Have you seen the statement and do you agree with the predictions?

Mr. McLAUGHLIN. I have seen the statement and we have reviewed it. We received it yesterday. Regarding the capacity of the

pension funds now to take back city paper—and they are only committed for one more fiscal year to take it—they have stated they don't want to be the bankers for the City any longer. In the report there is emphasis on the projection of a substantial drop in the city budget appropriation for pension costs over the next few years. While the general trends may be accurate, certain liberal assumptions were used to make these projections.

So, the earnings from the pension funds' assets would in effect decrease the City's contributions. I am not sure that takes into account the labor unions' legitimate demands for increased wages, as well as their concern for inflation. Nevertheless, I agree generally with Comptroller Goldin's statement, but I think the magnitude of the reduction in the City's contribution is up for grabs.

APPROPRIATION LANGUAGE

Mr. GREEN. On page 6 of Tab C is a copy of the appropriation language in the 1980 HUD-Independent Agencies Appropriation Act, amended for 1982. Last year, the credit limitation language read as follows:

"Total commitments to guarantee loans through June 30, 1982, shall not exceed \$900,000,000 of contingent liability for loan principal."

Why are you proposing that the credit limitation language be amended for 1982?

Mr. McLAUGHLIN. To take into consideration, really, two points. First, we have the capacity or commitments to issue \$600,000,000 of guarantees in fiscal year 1982, which by the statute is a serial type authority. We were not authorized to issue the full amount in 1978; it accumulates. Second, the funny number, the \$755,898,000—that is, the extra \$155 million—represents those amounts of guaranteed bonds which the City will have reduced by June 30, 1982. The City will actually have paid back over \$150 million of the Federally guaranteed bonds.

Now, technically, in the agreement to guarantee which we fashioned in 1978, there was some language that gave the pension funds comfort that the Federal guarantee authority won't be cut back from what was written in the statute.

If you read the statute, the authority is an expanding one, a cumulative one allowing up to \$1.65 billion to be outstanding, taking into account the amounts redeemed.

Mr. GREEN. That was a provision for rolling over amounts—

Mr. McLAUGHLIN. Although in the agreement to guarantee there is no commitment to issue any more than the \$1.65 billion, the provision for the \$155 million that will have been redeemed is to make our attorneys happy.

FISCAL YEAR 1983 ADMINISTRATIVE EXPENSES

Mr. GREEN. The New York City Loan Guarantee Act of 1978 authorizes the Secretary of the Treasury, during the City's fiscal year 1979-82 to issue up to \$1,650,000,000 of Federal guarantees of City long-term debt. Thus, the loan guarantee program expires three-quarters of the way into the Federal fiscal year 1982.

Is 1982 the last year that Treasury intends to request an appropriation for administrative expenses of the New York City Loan Guarantee program?

Mr. McLAUGHLIN. I am really not certain I can answer that question. I don't know that we're far enough in the formulation of what we are going to do. There is some residual liability on the part of the Federal Government to monitor and make sure the city keeps paying back the bonds. In fact, Senators Garn and Proxmire wrote us a letter about being very vigilant and I think the Assistant Secretary Roger Mehle will have thoughts on how to incorporate within the Office of the Secretary some personnel to administer this program. But in terms of an active administration of the program, we essentially function as bankers. Requests come in for the loan guarantees and we have to create a lot of documentation; the crunch work will be taken care of in this year.

Mr. BOLAND. The banks don't fold after they loan all their money out, do they?

Mr. McLAUGHLIN. No, they don't. They pay dividends, I hope.

FUTURE MONITORING EFFORT

Mr. GREEN. So you have not yet decided how much effort will be required to monitor the program after June 30, 1982?

Mr. McLAUGHLIN. There will be a certain residual effort required. While there would be a reduction from the fiscal year 1982 level, the specific percentage reduction is difficult to estimate now.

Mr. GREEN. Do you feel it makes sense to keep the office in New York City open?

Mr. McLAUGHLIN. My personal view is that it is useful to have a presence in New York City.

UNOBLIGATED BALANCE LAPSED-1980

Mr. GREEN. The table on page 1 of Tab C indicates that you lapsed \$179,000 at the end of fiscal year 1980. Now, there is nothing wrong with returning funds that are not needed to the Treasury. It often times is the result of prudent management. Still, what caused the \$179,000 lapse at the end of fiscal year 1980? Did the one-for-two hiring limitation have any effect?

Mr. McLAUGHLIN. Yes, it did. We have not really brought anybody new on board for over a year. The people that we had brought on board were veterans of the fiscal crisis. In fact, one of the two people worked for the City Comptroller in managing the cash flow. Another individual worked for Professor Ray Horton at Columbia University. We were able to hire, very effectively, people who needed no indoctrination in terms of the fiscal crisis.

Frankly, when slots were there, they weren't filled, and we cut back on travel and we are cutting on contracts.

STAFFING LEVELS

Mr. GREEN. In your statement you mention that the 1982 budget provides for 20 funded positions—17 professional and clerical and three summer and temporary employees. Last year, Mr. Altman stated that he had no plans to fill more than 17 positions. Why

would the Office of New York Finance need three summer or temporary employees?

Mr. McLAUGHLIN. Basically, our summer employees were helpful. One was a business student at Columbia Business School and the other was a student at the Kennedy School. They supplemented our staff. And it gives them an opportunity to know what service in the Federal Government might be like. I would like to see that continued. Although it is not essential, it is more a benefit for the individuals and a part of good citizenship to continue the record.

Mr. GREEN. Please provide for the record an object class breakdown of administrative expenses for 1980, 1981, and 1982.

Mr. McLAUGHLIN. We will be happy to.

[The information follows:]

NEW YORK CITY LOAN GUARANTEE PROGRAM, ADMINISTRATIVE EXPENSES, OBLIGATIONS BY OBJECT CLASS

[In thousands of dollars]

Object class	1980 actual	1981 ¹ estimate	1982 estimate
1100 Personnel compensation.....	\$466	\$534	\$557
1200 Personnel benefits.....	37	48	51
Subtotal, compensation and benefits.....	503	582	608
2100 Travel.....	22	25	31
2300 Rents, communications and utilities.....	36	46	64
2400 Printing.....	1	1	1
2500 Other services.....	278	276	336
2600 Supplies and materials.....	3	3	3
3100 Equipment.....		1	1
Total.....	843	934	1,044

¹ Includes pay supplemental request of \$31,000.

Note: All obligations are incurred initially by the Office of the Secretary, Salaries and Expenses account, then reimbursed by the New York City Loan Guarantee Program—Administrative expenses account.

EFFECTS OF BUDGET FREEZES AND REDUCTIONS

Mr. GREEN. The Administration has placed a freeze on hiring and ordered reductions in travel, consultants and equipment. How many of your 17 positions are currently filled?

Mr. McLAUGHLIN. All but one.

Mr. GREEN. What will be the effect of those actions on your 1981 and 1982 budgets? Will there be any savings?

Mr. McLAUGHLIN. I expect there will be savings and I can see several people leaving within the course of the year. However, I don't think their leaving will diminish the effectiveness of our office.

Mr. GREEN. Will you provide us with details for the record?

Mr. McLAUGHLIN. Certainly.

[The information follows:]

EFFECTS OF BUDGET REDUCTIONS

Of the 17 full-time permanent positions in the Office of New York Finance, two are vacant. (A second position became vacant subsequent to March 4.) Additional positions may become vacant. The value of the resulting savings may range, on an annual basis, from two to four staff years.

The President's budget reductions released on March 10 reduced the appropriations for travel by \$6,000, for contractual services (consultants) by \$41,000, and for equipment rental by \$3,000. These reductions from the estimates of the needs of the Office for fiscal year 1982 should not materially adversely affect the operation of the Office.

PAY ACT SUPPLEMENTAL-1981

Mr. GREEN. Last year, you requested a \$29,000 supplemental appropriation for 1980 due to increased pay costs. Subsequently, that request was withdrawn. This year, you are requesting a \$31,000 supplemental appropriation in 1981 due to increased pay costs. Is it likely that request will be withdrawn on March 10?

Mr. McLAUGHLIN. I understand that there will be reductions to this program; however, the specific details have not been formally determined.

LOAN GUARANTEE FEES

Mr. GREEN. Last year in testimony presented at these hearings, the Treasury estimated that New York City would pay \$15 million in loan guarantee fees over the life of the guarantees. This year, your justification indicates that amount will be \$45 million. What has New York City paid so far and which estimate is more accurate for the total estimated payment?

Mr. McLAUGHLIN. It has paid over \$6 million so far. The reason the number jumped was that the financing plan was revised to include the final \$900 million of guarantees. Originally, in 1978 and 1979, the first \$750 million of guarantees were committed and the final \$900 million were standby, with the hope that the City would get back its full fiscal independence by 1981 and 1982.

In 1980 when it became apparent that it would not, the City revised its financing plans, got MAC's borrowing capacity expanded and developed plans to cover its capital needs until it becomes financially independent. In that context, the guarantees came into play, were issued and we are expecting requests for the final \$600 million. If they are issued, then the new, higher estimate for the guarantee fees is the accurate one.

CONTRACTUAL SERVICES

Mr. GREEN. The highest increase in your fiscal year 1982 budget is for contractual services. Can you explain that category in more detail either now or for the record?

Mr. McLAUGHLIN. I will touch on it briefly now, then in more detail for the record.

We have cut down substantially. When I came to this office, the previous accounting consultant was being paid \$500,000. We have been very vigorous in going out for "Requests for Proposals" (RPFs) for contracts. We have eliminated legal services. We intend to be vigilant with the RFP process.

This is not to say we don't have a real need for this service. When the City comes out with a "PEG" program, the program to eliminate the gap in January of each year, we need to have a lot of personnel crunching numbers in order to produce a timely analysis, as well as when the City submits its executive budget in April or May. Again, we need the quick turnaround time.

I can assure you we are monitoring that very efficiently.
[The information follows:]

CONTRACTUAL SERVICES

The President's budget reductions released on March 10 reduced the appropriation for contractual services by \$41,000, bringing the total appropriation for that item in fiscal year 1982 to \$242,000.

Contractual services are required for periodic, in-depth budget analyses that must be performed in a short period of time, certain accounting matters that require specialized expertise, and the review of certain City submissions required under the Loan Guarantee Act and the Pension Fund Act that must be verified independently. For example, \$184,000 has been obligated in fiscal year 1981 for the consulting services of the accounting firm of Deloitte Haskins & Sells. Moreover, \$58,000 remains unobligated but would be used, if necessary, for other specialized services that may be required during fiscal year 1982, including the services of Wharton Econometric Services, which has available a large econometric model of the New York metropolitan area. This model has been used in the past to help in the evaluation of the City's economy to determine the City's budget outlook as well as the prospects of repayment of the guaranteed debt.

Mr. GREEN. As a New Yorker and one who was a member of the Banking Committee when the long term financing plan was initiated, I would like to note that I am pleased to get this independent report on the plan's progress.

Also, as a member from New York who has been concerned very much about this program, I have been very pleased by the way it has been administered by the Treasury, and ask that you remain vigilant. It is important the City not lapse into its former ways.

Thank you, Mr. Chairman.

Mr. BOLAND. New York City, with the help of the Banking, Finance and Urban Affairs Committee, has shown a remarkable recovery, as the history of this program clearly indicates.

Mr. McLaughlin, I want to congratulate you again on the way you have developed this program, and I want to wish you luck in whatever your undertakings will be in the future. I am sure they will be enjoyable.

The hearing is adjourned. We will place the justifications in the record at this point.

[The justifications follow:]

New York City Loan Guarantees Program, Administrative Expenses

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1981
(Dollars in thousands)

	Permanent Positions	Average Position	Amount
FY 1981 Appropriation Enacted by Congress	---	---	\$922
Reduction Pursuant to Public Law 96-526	---	---	-12
FY 1981 Appropriation (adjusted)	---	---	903
Adjustments:			
Proposed Pay Supplemental:			
A. Total Pay Requirement	---	---	45
B. Program Adjustments	---	---	-31
Net, Pay Supplemental	---	---	31
Proposed Authorized Level for FY 1981	---	---	\$ 934
Estimate, FY 1982	---	---	\$1,044

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1982

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Total Changes		Increase (+) or Decrease (-) for 1982	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Program Changes	Other Changes
Administrative Expenses	---	\$ 843	---	\$ 934	---	\$1,044	---	\$ 110	---	\$ 110
Unobligated balance	---	179	---	---	---	---	---	---	---	---
Total appropriation, authorized level and budget estimate	---	\$1,022	---	\$ 934	---	\$1,044	---	\$ 110	---	\$ 110

January 15, 1981

New York City Loan Guarantee Program, Administrative Expenses

SUMMARY EXPLANATION OF CHANGES REQUESTED FOR FISCAL YEAR 1982
(Dollars in thousands)

	Positions	Average Positions	Amount
	---	---	\$
I. <u>Program Changes:</u>			
II. <u>Other Changes:</u>			
Increases necessary to maintain current levels:			
1. Net cost of within-grade salary increases			7
2. Merit pay			5
3. Increased cost of travel			6
4. Increased cost of FTS & other communications			3
5. Full year cost of civilian pay increases of FY 1981:			
a. Amortization of 1981 cut			1
b. Civilian pay of 1981 cut			14
6. Increased payment to CSA for space and related charges			12
7. Increased cost of equipment rental			3
8. Increased cost of support services			18
9. Increased cost of contractual services			41
Subtotal, Other Increases			\$ 110
Reductions, nonrecurring costs and savings:			
Total, Other Changes			\$ 110
Total Increases or Decreases 1982 Compared With Proposed Authorized Level			\$ 110

New York City Loan Guarantee Program, Administrative Expenses

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATE

General Statement

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short-term Federal loans so that essential City government services could be maintained. The Act also authorized the appropriation of funds for the management of the seasonal loan program, which expired on June 30, 1978. Although the City met all the requirements of the Seasonal Financing Act, it was determined that further Federal financial assistance would be necessary to assist in meeting the City's borrowing needs until it would be able to regain access to conventional credit sources. Therefore, in order to ensure the financial solvency of the City, the New York City Loan Guarantee Act of 1978 (P.L. 95-339) was established. This Act authorizes the Secretary of the Treasury to issue four year, June 30, 1982, to maturity bonds in the amount of \$1.65 billion of New York City debt for a period of time not to exceed fifteen years.

It should be noted that, since its inception, the New York City loan program has cost the U.S. Government nothing. Under the Seasonal Financing Act, Treasury was required to charge the City a 1 percent

premium above Government borrowing costs. These seasonal loans were all repaid by the City on or ahead of schedule and the Federal Government netted more than \$30 million. The Guarantee legislation requires Treasury to levy a 0.5 percent per annum guarantee fee on the outstanding principal amount of guaranteed City indebtedness. The guarantee fees (assuming the full amount of authorized guarantees are issued through FY 1982) are estimated to total nearly \$45 million through FY 1989.

January 13, 1981

New York City Loan Guarantee Program, Administrative Expenses

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short-term loans so that essential government services could be financed and maintained. The Act also authorized the appropriation of funds for the management of the seasonal loan program, which expired on June 30, 1978. Although the City met all the requirements of the Seasonal Financing Act, the ultimate goal of financial independence was not achieved. Hence, the New York City Loan Guarantee Program (P.L. 95-339) was established, authorizing the Secretary of the Treasury to guarantee up to \$1.65 billion of New York City debt outstanding June 30, 1982 - to guarantee up to \$1.65 billion of New York City debt outstanding the City additional time to regain access to the public credit markets. Since the conditions of eligibility for the federal guarantees are more extensive than for the seasonal loans, the administering and monitoring requirements involved in the Loan Guarantee Program are more extensive than those mandated through the expired Seasonal Loan Program.

In order to provide my necessary information to the Secretary of the Treasury and to prepare the reports to Congress mandated by the Act, continued monitoring and review efforts will be necessary. Assessing the probable impact of alternative solutions to New York City's financing problems and identifying the future fiscal and financing sources through the States, the Federal Government, and within the City to foster New York

City's solvency would be particularly important in making those determinations required of the Secretary prior to the extension of the Federal guarantees. Further, the Treasury Department is required to monitor closely the implementation of P.L. 95-339 legislation that permits City and State pension funds to purchase large quantities of city indebtedness while maintaining their tax-exempt status. In order to fulfill these commitments, it will be necessary to continue, on a regular basis, to:

1. review and analyze the City's processing of financial data (IFMS system);
2. review New York City's Four Year Financial Plan and modifications thereto, and review and analyze monthly statistics on changes in assets, liabilities, and payroll expenditures to ensure compliance with the "balanced budget" requirements of the Loan Guarantee Act;
3. analyze the fiscal resources and operations of New York State;
4. monitor the City's progress toward accessing the public credit markets; and
5. ensure that financing commitments are "in-place" and maintained.

January 15, 1981

New York City Loan Guarantee Program, Administrative Expenses

Expenses associated with this program will be \$1,048,000 in fiscal year 1982. The Office of the Secretary will perform this work through its reimbursable program.

The Office carefully monitors and analyzes information to assist the Secretary of the Treasury in assessing the extent to which New York City's fiscal and financial problems are being solved, so as to protect the Government's liability in the form of outstanding Federal guarantees. Analytical reports in the form of outstanding Federal guarantees, prepared by the Office, are submitted to the Treasury Department by the City's Secretary, quarterly, and annual basis as well as reports prepared at the specific request of the Financial Control Board and the Secretary, is central to this purpose. To handle this task, the Office is organized along two basic lines.

First, with regard to Treasury Department personnel, a division located in New York City is responsible for monitoring developments in the City and preparation of budget review and systems analyses. This division audits and verifies the reports received from the City and, if necessary, recommends changes and improvements in the reports. Involved in this is the inspection of accounts, books, records, and other financial documents of the City or any financing agent that could help solve the financial problems of New York City. The division located in Washington, D.C. is charged with the responsibility for providing the Secretary with

up-to-the-minute information with regard to the solvency of New York City and the appropriate role of the Federal government in City financial affairs. To execute its functions, the Office maintains liaison with other Executive agencies, the Congress, the General Accounting Office, the private sector and representatives of the City, State, and other agencies of New York. Responses to inquiries and correspondence, Congressional testimony, briefing papers, other documents and position papers are prepared by this Office to keep all interested parties informed. Both the New York City and Washington, D.C. offices have responsibilities in the preparation of the Treasury Secretary's findings prior to the extension of each round of Federal guarantees. These written findings are used to (1) provide the basis for the Secretary's determination of the City's eligibility for Federal guarantees and (2) closely track the conditions of eligibility outlined in the Guarantee Act.

Second, the utilization of experts in the private sector remains an important part of its organizational structure. It would neither be reasonable nor cost effective to establish within the Treasury Department all the needed expertise to conduct certain activities; therefore, a portion of the funds requested is for contractual services, generally related to accounting and auditing.

NEW YORK CITY LOAN GUARANTEE PROGRAM

For necessary administrative expenses as authorized by the New York City Loan Guarantee Act of 1978 (Public Law 95-415), **[\$922,000]** \$1,044,000. Total commitments issued during 1982 to guarantee principal and interest on loans [through June 30, 1982.] shall not exceed **[\$900,000,000]** \$752,898,000 of contingent liability for loan [principle] principal. (1 U.S.C. 152) and 153; Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.)

EXPLANATION OF LANGUAGE CHANGES:

The changes clarify the language with respect to the credit limitation on the loan guarantee program.

DEPARTMENT OF THE TREASURY

New York City Loan Guarantee Program, Administrative Expenses

EXPLANATION OF PROGRAM AND OTHER CHANGES FOR FISCAL YEAR 1982

I - Program Changes

No program increases are requested for FY 1982.

The Office of New York City Finance was established in 1975 to implement the New York City Seasonal Financing Act and then, in 1978, to carry out the mandate of the New York City Loan Guarantee Act. The New York City Loan Guarantee Program (P.L. 95-339) was established, authorizing the Secretary of the Treasury - in the four years ending June 30, 1982 - to guarantee up to \$1.65 billion of New York City debt, and allowing the City additional time to re-enter the public credit markets. Since the conditions of eligibility for the Federal guarantees are more extensive than for the seasonal loans the administering and monitoring requirements involved in the Loan Guarantee Program are more extensive than those mandated through the expired Seasonal Loan Program.

January 15, 1981

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New York City Loan Guarantee Program, Administrative Expenses

II - Other Changes

	Average Positions	Amount
Total increases necessary to maintain the current FY 1981 level in FY 1982	---	\$110,000
1. Net cost of within-grade salary increases	---	+7,000
<p>The adjustment provides for the net cost associated with the periodic statutory within-grade increases for civil service personnel. A position-by-position analysis of on-board personnel, vacancies in FY 1980, and historical trends of the Department including a lapse factor reflect a total requirement for within-grade increases in FY 1982 of \$7,000.</p>		
2. Merit Pay	---	+5,000
<p>This adjustment is necessary to provide GS/OR employees with merit pay, as specified in the Civil Service Reform Act.</p>		
3. Increased cost of travel	---	+6,000
<p>This adjustment is necessary to help offset price increases. Petroleum prices have continued to increase and current shortages in the crude oil supply markets are expected to continue. Rates for air travel have increased over 25% in 1980, and there is no indication that the rate of these increases will level off by FY 1982.</p>		
4. Increased cost of FTS (Federal Telecommunications Systems) and other communications	---	+3,000
<p>This adjustment is necessary to provide for the projected increases in local communications, postage, and FTS services.</p>		
5. Pay Annualization and Restoration	---	+15,000
<p>This adjustment provides funds to cover full year costs of the 1980 pay raise as authorized by Executive Order 12248 dated October 16, 1980. The increase was derived as follows:</p>		
<p>a. To provide for full-year costs of civilian pay increases authorized for part of FY 1981 -(\$1,000)</p>		
<p>b. Restoration of FY 1981 reduction -(\$14,000)</p>		

January 15, 1981

New York City Loan Guarantee Program, Administrative Expenses

II- OTHER CHANGES (continued)

	Average Positions	Amount
6. Increased payment to GSA for space and related charges	—	+12,000
This adjustment is necessary because of increasing utility and space costs which GSA has projected.		
7. Increased cost of equipment rental	—	+3,000
This adjustment is necessary to provide for projected increases in the costs of equipment rentals; it does not provide for any increase in the amount of equipment rented.		
8. Increased cost of support services	—	+16,000
This adjustment is based upon (1) increased data processing costs (2) increased costs for interagency and intra-agency agreements.		
9. Increased cost of contractual services	—	+11,000
This adjustment will accommodate price increases associated with accounting and legal services that are contracted for by the program.		

January 15, 1981

REVISED JUSTIFICATIONS

New York City Loan Guarantee Program, Administrative Expenses

DEPARTMENT OF THE TREASURY
ANALYSIS OF AUTHORIZED LEVEL FOR FISCAL YEAR 1961
(Dollars in thousands)

	Percent Position	Average Position	Amount
FT 1981 Appropriation Enacted by Congress	---	---	\$922
Reduction Pursuant to Public Law 96-526	---	---	-19
FT 1981 Appropriation (adjusted)	---	---	903
Adjustments:			
Proposed Pay Supplemental:			
A. Total Pay Requirements	---	---	N5
B. Program Adjustments	---	---	-1
Net Pay Supplemental	---	---	31
Proposed Authorized Level for FY 1981	---	---	\$ 934
Estimate, FY 1962	---	---	\$ 934

DIGEST OF BUDGET ESTIMATES BY ACTIVITIES FISCAL YEAR 1962

	Appropriation FY 1980		Authorized Level FY 1981		Budget Estimate FY 1982		Increase (+) or Decrease (-) for 1982	
	Ave. Pos.	Amount	Ave. Pos.	Amount	Ave. Pos.	Amount	Total Changes Ave. Pos.	Net Change Amount
Administrative Expenses	---	\$ 843	---	\$ 934	---	\$ 934	---	\$ 0
Unobligated balances	---	179	---	---	---	---	---	---
Total appropriate, without FY 1981 and budget estimate	---	\$1,022	---	\$ 934	---	\$ 934	---	\$ 0

March 10, 1961

New York City Loan Guarantee Program, Administrative Expenses

SUMMARY JUSTIFICATION OF FY 1982 BUDGET ESTIMATE

General Statement

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short-term Federal loans so that essential City government services could be maintained. The Act also authorized the appropriation of funds for the management of the seasonal loan program, which expired on June 30, 1978. Although the City met all the requirements of the Seasonal Financing Act, it was determined that further Federal financial assistance would be necessary to meet the City's borrowing needs until it would be able to raise funds on conventional credit sources. Therefore, in order to ensure the financial solvency of the City, the New York City Loan Guarantee Act of 1978 (P.L. 95-339) was established. This Act authorizes the Secretary of the Treasury, in the four years ending June 30, 1982, to guarantee up to \$1.65 billion of New York City debt for a period of time not to exceed fifteen years.

It should be noted that, since its inception, the New York City loan program has cost the U.S. Government nothing. Under the Seasonal Financing Act, Treasury was required to charge the City a 1 percent

premium above Government borrowing costs. These seasonal loans were all repaid by the City on or ahead of schedule and the Federal Government netted more than \$30 million. The Guarantee legislation requires Treasury to levy a 0.5 percent per annum guarantee fee on the outstanding principal amount of guaranteed City indebtedness. The guarantee fees (assuming the full amount of authorized guarantees are issued through FY 1982) are estimated to total nearly \$45 million through FY 1989.

March 10, 1981

New York City Loan Guarantee Program, Administrative Expenses

The New York City Seasonal Financing Act of 1975 was passed in response to the need of the City of New York to obtain short-term loans so that essential government services could be financed and maintained. The Act also authorized the appropriation of funds for the management of the seasonal loan program, which expired on June 30, 1978. Although the City set all the requirements of the existing financing law, the ultimate goal of the program was not achieved. Nevertheless, the New York City Outcomes Program (P.L. 95-139) was established, authorizing the Secretary of the Treasury - in the four years ending June 30, 1982 - to guarantee up to \$1.65 billion of New York City debt, and allowing the City additional time to regain access to the public credit markets. Since the conditions of eligibility for the Federal guarantees are more extensive than for the seasonal loans, the administering and monitoring requirements involved in the Loan Guarantee Program are more extensive than those mandated through the expired Seasonal Loan Program.

In order to provide any necessary information to the Secretary of the Treasury and to prepare the reports to Congress mandated by the Act, continued monitoring and review efforts will be necessary. Assessing the combined impact of alternative solutions to New York City's financing problems, and identifying the future fiscal and financing sources through the States, the Federal Government, and within the City to foster New York

City's solvency would be particularly important in making those determinations required of the Secretary prior to the extension of the Federal guarantees. Further, the Treasury Department is required to monitor closely the implementation of P.L. 95-137, the special legislation that permits City and State pension funds to purchase large quantities of Government securities while maintaining their tax-exempt status. In order to fulfill these commitments, it will be necessary to continue, on a regular basis, to:

1. review and analyze the City's processing of financial data (IFPS system);
2. review New York City's Four Year Financial Plan and modifications thereto, and review and analyze monthly statistics on changes in employment levels and payroll expenditures to ensure compliance with the State's debt ceiling; and
3. analyze the fiscal resources and operations of New York State;
4. monitor the City's progress toward accessing the public credit markets; and
5. ensure that financing commitments are "in-place" and maintained.

March 10, 1981

New York City Loan Guarantee Program, Administrative Expenses

Expenses associated with this program will be \$924,000 in fiscal year 1981. The Office of the Secretary will perform this work through its reimbursable program.

The Office carefully monitors and analyzes information to assist the Secretary of the Treasury in assessing the extent to which New York City's fiscal and financial problems are being solved, so as to protect the Government's liability in the form of outstanding Federal guarantees. Analysis of the detailed financial reports submitted to the Treasury is done on a monthly, quarterly, and annual basis as well as reports prepared at the specific request of the Secretary. The Office is organized along two basic lines.

First, with regard to Treasury Department personnel, a division located in New York City is responsible for monitoring developments in the City and preparation of budget review and systems analyses. This division prepares reports forwarded from the City and, if necessary, recommends changes and improvements in the City's financial records. The inspection of accounts, books, records, and other financial documents of the City or any financing agent that could help solve the financial problems of New York City. The division located in Washington, D.C. is charged with the responsibility for providing the Secretary with

up-to-the-minute information with regard to the solvency of New York City and the appropriate role of the Federal Government in City financial affairs. To execute its functions, the Office maintains liaison with other Executive agencies, the Congress, the General Accounting Office, the private sector and representatives of the City, State, and other agencies of New York. Responses to inquiries and correspondence, Congressional testimony, briefing papers, other documents and position papers are prepared by this Office to keep all interested parties informed. Both the preparation of the Treasury Secretary's reports and the monitoring of each round of Federal guarantees. These written findings are used for (1) provide the basis by which the Treasury Secretary determines the City's eligibility for Federal guarantees and (2) closely track the 14 conditions of eligibility outlined in the Guarantee Act.

Second, the utilization of experts in the private sector remains an important component of the Office's efforts to monitor the City's financial condition. A reasonable set of cost effective methods to establish within the Treasury Department all the needed expertise to conduct certain activities; therefore, a portion of the funds requested is for contractual services, generally related to accounting and auditing.

March 10, 1981

NEW YORK CITY LOAN GUARANTEE PROGRAM

For necessary administrative expenses as authorized by the New York City Loan Guarantee Act of 1978 (Public Law 95-415), **[\$922,000]** **[\$1,044,000]** Total commitments issued during 1982 to guarantee principal and interest on loans [through June 30, 1982,] shall not exceed **[\$900,000,000]** \$755,898,000 of contingent liability for loan [principle] principal. (31 U.S.C. 1521 and 1531; Department of Housing and Urban Development—Independent Agencies Appropriation Act, 1981.)

\$934,000.

EXPLANATION OF LANGUAGE CHANGES:

The changes clarify the language with respect to the credit limitation on the loan guarantee program.

March 10, 1981

REVISED JUSTIFICATIONS

Department of Defense - Civil
Cemeterial Expenses, Army

Revision to the FY 1982 Budget

The appropriation language is revised to reflect an appropriation request of \$5,086,000 in lieu of \$7,386,000.

The net reduction of \$2,300,000 from the original request is accounted for as follows:

- a newly identified recovery of \$659,000 of prior year obligations of budget authority.
- a reduction in the authorized employment level from 152 to 139 and a reduction in authorized workyears from 164 to 153 resulting in a savings of \$200,000.
- Deferral of Phase III of the repair and replacement of cemetery roads at a cost of \$1,058,000.
- Deferral of the replacement of motor vehicles (non-passenger) at a cost of \$60,000.
- Deferral in the preliminary and final design of a new warehouse facility at a cost of \$270,000.
- Deferral in the maintenance of lands and structures at a cost of \$53,000.

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised
500-102

DEPARTMENT OF THE ARMY, FISCAL YEAR 1982
SALARIES AND EXPENSES, CEMETERIAL EXPENSES, ARMY
PROGRAM AND FINANCING (in thousands of dollars)

Identification code 21-1805-0-1-705		1982 actual	1982 estimate	1982 estimate
Budget Appendix Page	Heading	Request Pending	Proposed Amendment	Revised Request
I-H1	Program by activities:			
	1. Operation and maintenance -----	5,416	- 950	4,466
	2. Administration -----	322	- 22	300
	3. Construction, Arlington National Cemetery -----	1,648	- 1,328	320
	10.0001 Total Obligations	7,386	- 2,300	5,086
	<u>39.0001 Budget Authority:</u>	7,386	- 2,300	5,086
	40.0001 Appropriation	7,386	- 2,300	5,086
	Relations of obligations to outlays:			
	71.0001 Obligations incurred, net	7,386	- 1,641	5,745
	72.4001 Obligated balance, start of year -----	4,005	400	4,405
	74.4001 Obligated balance, end of year (-) -----	- 4,191	- 708	- 4,899
	90.0001 Outlays excluding pay raise supplement --	7,196	- 1,945	5,251
	91.1001 Outlays WB pay raise supplement -----	3	- 3	
	91.2001 Outlays Civ pay raise supplement -----	1	- 1	
	91.3001 Outlays Mil Pay raise supplement -----			

STANDARD FORM 300
July 1-4, Bureau of the Budget
Circular No. A-11, Revised
300-152

DEPARTMENT OF THE ARMY, FISCAL YEAR 1982

SALARIES AND EXPENSES, CEMETERIAL EXPENSES, ARMY

OBJECT CLASSIFICATION (in thousands of dollars)

Identificatio code	21-1805-0-1-705	19 82 actual	19 82 estimate	19 82 estimate
Budget Appendix Page	Heading	Request Pending	Proposed Amendment	Revised Request
I-H1	Personnel compensation:			
	111.101 Permanent positions	2,678	- 225	2,453
	111.301 Positions other than permanent	180	45	225
	111.501 Other personnel compensation	51		51
	111.801 Special Personal services payments	85		85
	111.901 Total personnel compensation	2,994	- 180	2,814
	Personnel benefits:			
	112.101 Civilian	365	- 20	345
	121.001 Travel and transportation of persons	4		4
	122.001 Transportation of things	4		4
	123.101 Standard level user charges	16		16
	123.201 Communication, utilities and other rent	142		142
	125.001 Other services	1,908	- 270	1,638
	126.001 Supplies and materials	352		352
	131.001 Equipment	203	- 60	143
	132.001 Lands and structures	1,398	-1,111	287
	999.001 Total obligations	7,386	-1,641	5,745

STANDARD FORM 300
July 1963, Bureau of the Budget
Circular No. A-11, Revised.
306-103

DEPARTMENT OF THE ARMY, FISCAL YEAR 1962

SALARIES AND EXPENSES, CEMETERIAL EXPENSES, ARMY

DETAIL OF PERMANENT POSITIONS

Budget Appendix Page	Heading	19 82	19 82	19 82
		actual	estimate	estimate
		Request Pending	Proposed Amendment	Revised Request
III-22	GS/GM-15	1		1
	GS/GM-14	1		1
	GS-12	6		6
	GS-09	5		5
	GS-08	1		1
	GS-07	9		9
	GS-06	3		3
	GS-05	10		10
	GS-04	11		11
	GS-03	2	-1	1
	Ungraded	103	-13	90
	Subtotal	152	-14	138
	Unfilled positions, 30 Sep (-) end of year			
	Total permanent employment	152	-14	138

STANDARD FORM 300
 July 1964, Bureau of the Budget
 Circular No. A-11, Revised
 300-102

DEPARTMENT OF THE ARMY, FISCAL YEAR 1982

SALARIES AND EXPENSES, CEMETERIAL EXPENSES, ARMY

PERSONNEL SUMMARY

Modification code	21-1805-0-1-705	19 82 actual	19 82 estimate	19 82 estimate
Budget Appendix Page	Heading	Request Pending	Proposed Amendment	Revised Request
III-22	Total number of permanent Positions	152	-14	138
	Total compensable work years	164	-11	153
	Full-time equivalent to other positions	(12)	(3)	(15)
	Full-time equivalent of overtime and holiday hours			
	Average GS grade	6.84	.08	6.92
	Average GS salary	\$18,930	\$150	\$19,080
	Average salary of ungraded positions	\$17,600		\$17,600

REVISED JUSTIFICATIONS

CONSUMER INFORMATION CENTER
 FY 1981
Comparison of Budget Adjustments to FY 1981 Funding
 (in 000)

<u>Activity</u>	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Reduction</u>
Consumer Information Center	\$1,425	\$1,331	\$ -94
Appropriation Realized	1,409	1,409	--
Recission-Pursuant to PL. 96-526	- 28	- 28	--
Transfer to O.E., WARS	---	- 50	-50
Total Availability	<u>1,381</u>	<u>1,331</u>	<u>-50</u>
Proposed pay increase supplemental	44	-0-	-44
Revised amount	<u>\$1,425</u>	<u>\$1,331</u>	<u>\$ -94</u>

Explanation of Reduction

Employment	\$ -55
Printing	-39
Total Reduction	<u>\$ -94</u>

CONSUMER INFORMATION CENTER
 FY 1982
Comparison of FY 1982 Initial Budget with Revised FY 1982 Budget
 (in 000)

<u>Activity</u>	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Reduction</u>
Consumer Information Center	\$1,581	\$1,314	\$ -267

Explanation of Reduction

Employment	\$- 98
Travel	- 2
Other Services	-167
Total Reduction	<u>\$-267</u>

CONSUMER INFORMATION CENTER
 FY 1982
 Revised Budget
Comparison with FY 1981 Revised Budget
 (in 000)

<u>Activity</u>	<u>1981 Revised Budget</u>	<u>1982 Revised Budget</u>	<u>Change</u>
Consumer Information Center	\$1,331	\$1,314	\$ -17

Explanation for Change

Employment Reduction (Full year cost of FY 1981 reductions plus additional employment reductions in FY 1982)	- 15
Travel	+ 3
Non-discretionary, common distributables, Other Services	<u>- 5</u>
	<u>\$- 17</u>

CONSUMER INFORMATION CENTER
FY 1981
Workyears
Initial Budget and Revised Budget

<u>Activity</u>	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Reduction</u>
Consumer Information Center	22	19	-3

CONSUMER INFORMATION CENTER
FY 1982
Workyears
FY 1982 Initial Budget and FY 1982 Revised Budget

<u>Activity</u>	<u>Initial Budget</u>	<u>Revised Budget</u>	<u>Reduction</u>
Consumer Information Center	22	17	-5

CONSUMER INFORMATION CENTER
 FY 1982
 Workyears
Comparison with FY 1981 Revised Budget

<u>Activity</u>	<u>1981 Revised Budget</u>	<u>1982 Revised Budget</u>	<u>Change</u>
Consumer Information Center	19	17	-2

Explanation of Change

The FY 1982 level reflects the annualization of the FY 1981 FTE reductions made in accordance with the President's program.

GENERAL SERVICES ADMINISTRATION

1982 Budget Appendix Page	Heading	1982 Budget Request Pending	1982 Proposed Amendment	1982 Revised Request
------------------------------------	---------	--------------------------------------	-------------------------------	----------------------------

I-V70	Consumer Information Center	1,581,000	-267,000	1,314,000
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This amendment reduces the 1982 request for salaries and expenses and would reduce the 1982 outlays by \$267 thousand.

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
500-101

CONSUMER INFORMATION CENTER
Program and Financing (in thousands of dollars)

Identification code	1981	1981	1981
	PRESENTLY AVAILABLE	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Program by activities			
Direct program: Consumer			
Information Services.....	1,425	-94	1,331
Reimbursable program.....	6,170	---	6,170
Total program costs, funded..	7,595	-94	7,501
Change in selected resources			
(undelivered others).....	---	---	---
10.00 Total obligations.....	7,595	-94	7,501
Financing:			
11.00 Offsetting collections from:			
Federal funds.....	-6,170	---	-6,170
25.00 Unobligated balance lapsing....	---	---	---
39.00 Budget authority.....	1,425	-94	1,331
Budget authority:			
40.00 Appropriation.....	1,409	---	1,409
40.00 Reduction pursuant to Public			
Law 96-526.....	-28	---	-28
40.01 Appropriation rescinded (Public			
Law 96-304).....	---	---	---
41.00 Transferred to other accounts..	---	-50	-50
43.00 Appropriation (adjusted).....	1,381	-50	1,331
44.20 Supplemental for civilian			
pay raises	44	-44	---
Relation of obligations to			
outlays:			
71.00 Obligations incurred, net.....	1,425	-94	1,331
72.40 Obligated balance, start of			
year.....	381	---	381
74.40 Obligated balance, end of year.	-381	-13	-394
77.00 Adjustments in expired accounts	---	---	---
90.00 Outlays, excluding pay raise			
supplemental	1,383	-65	1,318
91.20 Outlays from civilian pay			
raise supplemental	42	-42	---

STANDARD FORM 304
May 1969, Bureau of the Budget
Circular No. A-11, Revised
304-103

CONSUMER INFORMATION CENTER

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code	1981	1981	1981
	PRESENTLY AVAILABLE	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Personnel compensation:			
11.1 Permanent positions.....	537	-29	508
11.3 Positions other than permanent.....	33	-22	11
11.5 Other personnel compensation.....			
11.6 Special personal services payments.....			
Total personnel compensation.....	570	-51	519
Personnel benefits:			
12.1 Civilian.....	52	- 4	48
13.0 Benefits for former personnel.....			
21.0 Travel and transportation of persons.....	20	---	20
21.0 Motor Pool.....	1	---	1
22.0 Transportation of things.....	38	---	38
23.1 Standard Level User Charge.....	32	---	32
23.2 Rent, communications, and utilities.....	55	---	55
24.0 Printing and reproduction.....	428	-39	389
25.0 Other services.....	224	---	224
26.0 Supplies and materials.....	5	---	5
31.0 Equipment.....			
32.0 Lands and structures.....			
33.0 Investments and loans.....			
41.0 Grants, subsidies, and contributions.....			
42.0 Insurance claims and indemnities.....			
43.0 Interest and dividends.....			
44.0 Refunds.....			
Total Direct Obligations.....	1,425	-94	1,331
Total Reimbursable Obligations.....	6,170	---	6,170
99.0 Total obligations.....	7,595	-94	7,501

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. 4-11, Revised.
500-101

CONSUMER INFORMATION CENTER
Personnel Summary

Identification code	1981		1981
	PRESENTLY AVAILABLE	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Total number of full-time permanent positions.	19	-	19
Total compensable workyears:			
Full-time equivalent employment.	22	- 3	19
Full-time equivalent of overtime and holiday hours.	(0)	---	(0)
Average GS grade.	11.26	---	11.26
Average GS salary.	\$30,000	-\$1,737	\$28,263

STANDARD FORM 306
July 1964, Bureau of the Budget
Circular No. 4-11, Revised.
500-103

CONSUMER INFORMATION CENTER

DETAIL OF PERMANENT POSITIONS

	1981		1981
	PRESENTLY AVAILABLE	PROPOSED AMENDMENTS	REVISED REQUEST
GS/GM-15.	1	---	1
GS/GM-14.	2	---	2
GS/GM-13.	4	---	4
GS-12.	3	---	3
GS-11.	3	---	3
GS-9.	2	---	2
GS-7.	1	---	1
GS-6.	1	---	1
GS-5.	1	---	1
GS-4.	1	---	1
Total permanent positions.	19	---	19
Unfilled positions, end of year.	--	-2	-2
Total permanent employment, end of year.	19	-2	17

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
500-107

CONSUMER INFORMATION CENTER
Program and Financing (in thousands of dollars)

Identification code	1982	1982	1982
	REQUEST PENDING	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Program by activities			
Direct program: Consumer			
Information Services.....	1,581	-267	1,314
Reimbursable program.....	7,245	-	7,245
Total program costs, funded..	8,826	-267	8,559
Change in selected resources (undelivered others).....	---	---	---
10.00 Total obligations.....	8,826	-267	8,559
Financing:			
11.00 Offsetting collections from:			
Federal funds.....	-7,245	---	-7,245
25.00 Unobligated balance lapsing....	---	---	---
39.00 Budget authority.....	1,581	-267	1,314
Budget authority:			
40.00 Appropriation.....	1,581	-267	1,314
40.00 Reduction pursuant to Public Law 96-526.....	---	---	---
40.01 Appropriation rescinded (Public Law 96-304).....	---	---	---
43.00 Appropriation (adjusted).....	1,581	-267	1,314
Relation of obligations to outlays:			
71.00 Obligations incurred, net.....	1,581	-267	1,314
72.40 Obligated balance, start of year.....	381	+ 13	394
74.40 Obligated balance, end of year.	- 381	- 26	-407
77.00 Adjustments in expired accounts	---	---	---
90.00 Outlays, excluding pay raise supplemental	1,579	-278	1,301
91.20 Outlays for civilian pay raise supplemental	2	-2	-

STANDARD FORM 304
 May 1969, Bureau of the Budget
 Circular No. A-11, Revised
 504-105

CONSUMER INFORMATION CENTER

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code	1982		
	1982	1982	1982
	REQUEST PENDING	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Personnel compensation:			
11.1 Permanent positions.....	563	-59	504
11.3 Positions other than permanent.....	33	-33	---
11.5 Other personnel compensation.....			
11.8 Special personal services payments.....			
Total personnel compensation.....	596	-92	504
Personnel benefits:			
12.1 Civilian.....	54	-6	48
13.0 Benefits for former personnel.....			
21.0 Travel and transportation of persons.....	25	-2	23
21.0 Motor Pool.....	1	---	1
22.0 Transportation of things.....	42	---	42
23.1 Standard Level User Charge.....	32	---	32
23.2 Rent, communications, and utilities.....	61	---	61
24.0 Printing and reproduction.....	487	---	487
25.0 Other services.....	277	-167	110
26.0 Supplies and materials.....	6	---	6
31.0 Equipment.....			
32.0 Lands and structures.....			
33.0 Investments and loans.....			
41.0 Grants, subsidies, and contributions.....			
42.0 Insurance claims and indemnities.....			
43.0 Interest and dividends.....			
44.0 Refunds.....			
Total Direct Obligations.....	1,581	-267	1,314
Total Reimbursable Obligations.....	7,245	---	7,245
99.0 Total obligations.....	8,826	-267	8,559

STANDARD FORM 300
July 1964, Bureau of the Budget
Circular No. A-11, Revised.
500-101

CONSUMER INFORMATION CENTER
Personnel Summary

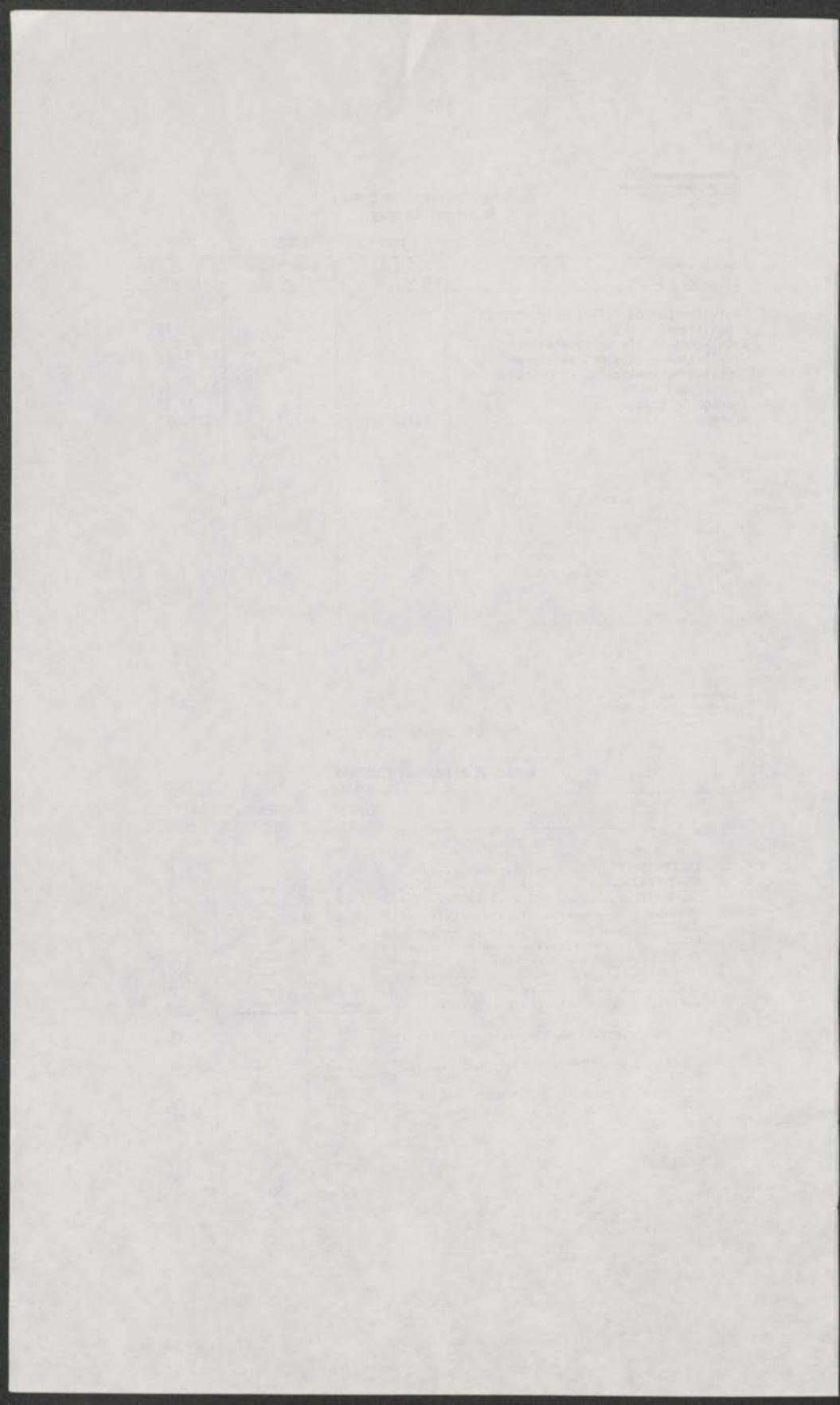
Identification code	1982	1982	1982
	REQUEST PENDING	PROPOSED AMENDMENTS	REVISED REQUEST
47-0104-0-1-376			
Total number of full-time permanent positions.	19	---	19
Total compensable workyears:			
Full-time equivalent employment.	22	- 5	17
Full-time equivalent of overtime and holiday hours.	0	---	(0)
Average GS grade.	11.42	---	11.42
Average GS salary.	\$31,638	\$-2,006	\$29,632

STANDARD FORM 306
July 1968, Bureau of the Budget
Circular No. A-11, Revised.
506-103

CONSUMER INFORMATION CENTER

DETAIL OF PERMANENT POSITIONS

	1982	1982	1982
	REQUEST PENDING	PROPOSED AMENDMENTS	REVISED REQUEST
GS/GM-15.	1	---	1
GS/GM-14.	2	---	2
GS/GM-13.	4	---	4
GS-12.	4	---	4
GS-11.	3	---	3
GS-9.	1	---	1
GS-7.	1	---	1
GS-6.	1	---	1
GS-5.	2	---	2
GS-4.	---	---	---
Total permanent positions.	19	---	19
Unfilled positions, end of year.	---	-3	-3
Total permanent employment, end of year.	19	-3	16



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