URGENT!

TO: The Mayor

FROM: John J. Gunther
Executive Director

John Gunther

DATE: December 17, 1981

SUBJECT: Legislative Update

Before adjourning for the holidays, the Congress gave swift approval to a continuing appropriations bill to keep federal programs operating through March 1982. The bill has been sent to the President for his signature.

The continuing resolution makes additional cuts of about $4 billion in domestic spending -- a 4 percent across-the-board cut in most urban programs. Under the bill's provisions, OMB will have authority to cut up to 6 percent in any individual program or project, as long as spending cuts in any one account do not exceed 6 percent.

Urban programs have been cut significantly since President Reagan took office in FY82. The FY83 budget, which will be proposed by the Administration in January or early February, seems certain to make major additional cuts.

Given this threat, it is important that you contact your Members of Congress over the recess and urge them to resist further reductions in urban programs. Fully 65 percent of the cuts made in the FY82 budget were in state and local programs, which has resulted in massive adjustment problems at the local level. (See the Conference of Mayors survey, The FY82 Budget and the Cities.)

Over the holidays, it might be a good idea to sit down with your Members of Congress or take them on a tour of the city to dramatize and detail the impact of the budget cuts on your area.

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URBAN ECONOMIC POLICY

General Revenue Sharing: In the continuing resolution, the revenue sharing program is exempt from any cut. Thus, the program will continue at the current annual level of $4.6 billion. Next year there will be a keen fight over renewal of this program which expires at the end of FY83.

Enterprise Zones: The President is expected to make a decision soon on an enterprise zone program. The Department of HUD has recommended a small demonstration program along the lines of the Kemp-Garcia bill. However, the HUD program drops the refundable feature of the employment tax credit, increases the investment tax credit for firms doing business in the zone and "recommends" various regulatory and tax changes which could be made by state and local government as part of their commitment to the zone. The Kemp-Garcia bill leaves local governments complete flexibility in designing their commitment to the zone.

Revenue Bonds: A proposal to restrict the use of composite small issue industrial revenue bonds was included in the new version of the continuing resolution. The provision would limit composite bonds to those firms with capital investments below $25 million over the prior three years and prevent the issuance of small issue IDBs to subsidize private sports facilities and massage parlors.

Attempts to restrict all small issue industrial revenue bonds can be expected next year. Within both the House Ways and Means Committee and Senate Finance Committee there is considerable sentiment to restrict the use of the bonds. In addition, Treasury staff continue to press for some restrictions.

The Senate has drafted amendments to the mortgage revenue bond law which would lift the "arbitrage" ceiling, thereby making it more attractive for banks to handle mortgage revenue bond deals, and modify the restrictions on multi-family housing. The multi-family amendments would define low- and moderate-income individuals as those whose incomes are 80 percent of the area median or below and would change the contract period, during which the 20 percent requirement applies, to one-half the term of the bonds (usually 15 years), but no less than 10 years. Currently, the requirement is 20 years. The Senate bill (S.4717), a miscellaneous tax bill, will go to conference with a House bill early next year. While Senator Dole is pushing for the change in mortgage revenue bond law, Congressman Rostenkowski is resisting.

COMMUNITY DEVELOPMENT, HOUSING AND ECONOMIC DEVELOPMENT

Community Development and Housing: On December 10, the House passed an amended version of H.R.4034, the HUD appropriation for FY82, previously approved by the Senate, and sent it to President Reagan for signature. As of December 16, the President had not acted on the bill. The appropriation measure provides for the following base figures:

- Community Development Block Grants:
  $3.60 billion;
- Urban Development Action Grants:
  $458 million;
- Assisted housing programs:
  $17.3 billion, for an estimated 135,000 units; and
- Public housing operating subsidies:
  $1.156 billion in FY82, and a $142 million supplemental appropriation for FY81.

Both the CDBG and UDAG appropriations are subject to a further 4 percent reduction at the President's discretion. If enacted, this further reduction would leave CDBG with $3.456 billion and UDAG with $439 million. Public housing operating subsidies were exempted from further cuts, and other assisted housing appropriations are below the levels requested by Reagan in September, and therefore also exempt from a further cut under the appropriation bill's provisions.

Early in December, the Office of Management and Budget sent HUD its final recommendations on HUD's FY83 budget prior to Presidential reviews. OMB proposed a further 30 percent reduction in FY82 for CDBG and UDAG from the H.R.4034 levels, 50 percent less than that in FY83, and total elimination of the programs in FY84. The OMB also proposed ending all new housing assistance obligations in FY83, along with a rescission of almost all FY82 authority. HUD Secretary Samuel R. Pierce, Jr., responded to these proposals publicly, vowing to oppose them all. Final appeals to President Reagan were scheduled for December 17 on HUD's budget, and the outcome of these negotiations were unclear.

Economic Development Administration: The Continuing Resolution passed by Congress in December provided a total of $253 million for the Economic Development Administration (EDA) of the Department of Commerce. Included in the total are:

- $130 million for Title I public works grants;
- $ 30 million for direct loans to businesses;
- $ 33 million under Title IX economic adjustment programs;
- $ 8 million for technical assistance; and
- $ 25 million for salaries and expenses.

TRANSPORTATION

Transit: The FY82 Transportation Appropriations bill has been completed apart from the continuing resolution and is on its way to the President for signature.

The total level for public transportation is $3.7 billion, including $1.7 for capital and $1.4 for operating. This level represents a 6 percent decrease from the public transportation budget proposed by the President in March.

Preliminary figures forecast a steep reduction in the proposed budget for FY83. The Office of Management and Budget has proposed a level of $2.9 billion for FY83, which is being appealed by the Department of Transportation. If this OMB figure is sustained, it would mean an additional cut for public transportation of more than 20 percent.

The UMTA program will be subject to reauthorization next year with major focus on various "block grant proposals."

However, Transportation Secretary Drew Lewis is proposing within the Administration that the gasoline tax be increased four to six cents, with at least one cent of that increase allocated to urban transportation. This proposal could mean an additional $1 billion for public transportation.

During the next several weeks, Mayors should indicate to their Representatives and Senators the financial problems of public transportation and the consideable help that a dedicated portion of the federal gas tax could provide.

Highways: House and Senate transportation leaders were unable to resolve their differences on approaches to reauthorization of the highway program, but were able to provide a one-year extension at the last minute. Reauthorization of the highway program will become a major transportation item in the next session of the Congress.

Airports: In the absence of a go-ahead from the Ways and Means Committee, the Aviation Trust Fund was not reauthorized and therefore the Airport Development Aid Program (ADAP) reauthorization could not be completed. This will become a major agenda item in the next several months as airport construction and development efforts face a growing backlog.

Cable TV: The Chairman of the House Telecommunications Subcommittee, Representative Tim Wirth, has introduced legislation to restructure telecommunications policy with no cable television provisions affecting municipal regulation. The Conference will be working with Rep. Wirth next year to ensure that no cable provisions are added during the forthcoming Spring mark-up.

In a related area, Senator Arlen Specter of Pennsylvania has introduced legislation which would remove from the Federal Communications Commission the ability to regulate franchise fees levied by municipalities on cable TV renenues.

ENERGY AND ENVIRONMENT

Environment: The House and Senate have passed a compromise version of reauthorization of the Wastewater Treatment Construction Grant Program and have sent it to the President's desk. As of this writing, there is no indication yet as to whether the President will sign it or not. The compromise measure accomplishes most of what the Administration sought, including a shrinkage of the dollar size of the program to $2.4 billion and a narrowing of the scope of the program.

The Conference attempted to get the President to intervene in time to include 2.4 billion in the continuing appropriation -- to no avail. FY82 funding is now contingent on a supplemental appropriations request which would have to be forthcoming from the President in January.

For FY83, there is considerable concern about the level of the program. OMB is proposing about $1 billion, far less than the Administration's previous pledges.

With no funding for the wastewater program, more than 30 states will be forced to shut down their programs soon.

Energy: The FY82 energy conservation budget, including weatherization, was drastically reduced from previous levels and is slated for extinction by the Administration in the FY83 preliminary proposals. Significantly, while the Department of Energy is appealing a broad range of other cuts proposed in its budget, there is no evidence of appeals on the conservation and renewable resource front. The entire FY82 energy conservation budget is less than $400 million, down from almost $1 billion in FY81. The proposed level for FY83 is $19 million, barely sufficient to affect a program closeout. Similarly, energy conservation and renewable resource tax credits are on the chopping block.

Hazardous Materials Transportation. The Danforth Amendment, which would have effectively preempted local governments' ability to deal with hazardous materials transportation, has been withdrawn as a result of strenuous lobbying by state, local and environmental organizations.

Air Quality: The Clean Air Act will be on the table when Congress reconvenes in January. The Senate Environment and Public Works Committee made considerable efforts to pass a bill before the recess but lacked the consensus to do so.

HEALTH, EDUCATION, EMPLOYMENT AND HUMAN SERVICES

Block Grants: The continuing resolution finally set FY82 funding levels for the block grants. Below is a comparison of the FY81 level for the programs consolidated into the block grants, the funding level contained in the Reconciliation Bill, and the amount contained in the continuing resolution:

	FY81	Reconciliation	Continuing Resolution
		(in millions of dollars)	
Alcohol, Drug Abuse & Mental Health	548.7	491.0	432.0
Community Services	472.7	389.4	348.0
Maternal & Child Health	475.1	373.0	347.5
Peventive Health	99.3	95.0	81.6
Social Services	2,991.0	2,400.0	2,400.0
Low Income Energy Assistance	1,850.0	1,875.0	1,752.0
Primary Care Centers	325.0	284.0	248.4
Education	525.3	589.4	470.4

It should be noted that the education block grant and its predecessor programs are forward funded for July distribution. The FY80 appropriation level, which is the base level for FY81 operations, was $805.2 million.

Social Security: Congress restored the $122 minimum monthly benefit for three million current recipients of Social Security and for those people who will become eligible before January 1, 1982. After that date, it will be denied to newly eligible recipients. The President had proposed cutting the minimum benefit in his March budget revisions and Congress approved the measure. Opposition was so strong, however, that many members of Congress and the President later called for reinstating the benefit for current recipients and Congress has now agreed to that. The benefit is a minimum payment that goes to recipients regardless of how little they have contributed to the system. The cost for restoration of the benefit will be made up in part by a provision to tax the first six months of sick pay, beginning January 1, 1982. In addition, the legislation passed provides a one-year bailout for the old age and survivors trust fund by permitting borrowing from the system's disability and medicare funds through 1982.

In a related move, the President announced a new 15 member commission to recommend fiscal reforms for the Social Security System. The National Commission on Social Security will be headed by Alan Greenspan, an Administration economic adviser, and will submit its report at the end of 1982.

Food Stamps: The food stamp program was reauthorized for one year in the Farm Bill which just passed the Congress. The program is capped at $11.3 billion for FY82, which is expected to be almost enough to fund the program fully and thus avoid across-the-board reductions. The reauthorization includes a number of changes in the program governing cost of living adjustments in the Thrifty Food Plan (which determines the benefit level), the exclusion of energy assistance payments from the determination of income, and the imposition of work requirements.

Older Americans Act: Conferees have agreed on a three year extension of the Older Americans Act (OAA) and their report has been adopted by the Senate, but must wait for House action until after the Christmas recess. In the report, the Older Americans Act is maintained as a separate categorical program, authorized at $715 million, for FY82, $765 million in FY83, and $819 million in FY84. A separate authorization provides $277.1 million for the Older Workers Program in FY82, intended to provide 54,200 part-time jobs. The continuing resolution provides $664 million for OAA programs, which could be less when final decisions on the cuts are made. Within the Act separate authorizations for congregate and home-delivered nutrition programs and for social services are maintained, but the states are allowed to transfer up to 20 percent of the funds between the two programs. The legislation provides greater flexibility at the state and local level through the removal of the 50 percent requirement for national priority programs and by permitting multi-year planning. USDA's food commodities program is not transferred to the Administration on Aging, as was proposed by the President, and is not capped.

CETA: There are now two proposals that have been circulated on the Hill that would replace the CETA program. Senator Quayle's proposal would give broad discretionary authority to governors to designate service delivery areas, determine the grant administrator, and provide for private sector-oriented planning councils. The Labor Department's proposal for a Business-Labor Training Program (BLT) would substantially revamp and drastically reduce funding for local employment and training services. In formulating the FY83 budget, OMB has reduced funding for CETA to $200 million, a phaseout of the entire program. The Labor Department is appealing the decision to the President.

Allocations received by prime sponsors were made on the basis of the President's proposed 12 percent cut in funding. Since the Congress approved only a 4 percent cut, it is unlikely that allocations will be reduced further.

ARTS, CULTURE AND RECREATION

Representative John Seiberling of Ohio, Chairman of the Subcommittee on Public Lands and National Parks of the House Interior and Insular Affairs Committee has introduced legislation with bipartisan support which would use unemployed youth to undertake urban parks and environmental projects, historic preservation, arts and culture, in a program similar to the Civilian Conservation Corps. The work undertaken would be funded with a percentage of the fees paid to the federal government from various energy and environmental leasing projects. The Conference is working with Rep. Seiberling to refine those approaches in a fashion most suitable to urban interests.

4. S-697

Comm. from Mayor Francis H. Duehay transmitting comm. from John J. Gunther, Exec. Director, Federal City Reporter re: federal budget cuts.

In City Council,

December 28, 1981

12/28/1981

Placed on File -

Copies to Library

and School Dept

Copies sent to Ms. Sakey Library Dept. and John McCarthy, Prov. Sec. to School Committee 12/28/81 mh