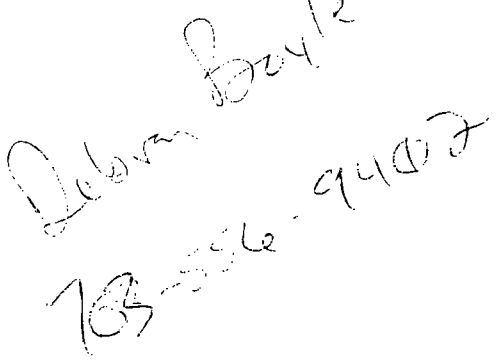


PHOTOCOPY
PRESERVATION

cy: SW/LC/CE/SU/RH
orig: KF

Department of Health and Human Services

Management & Budget Review

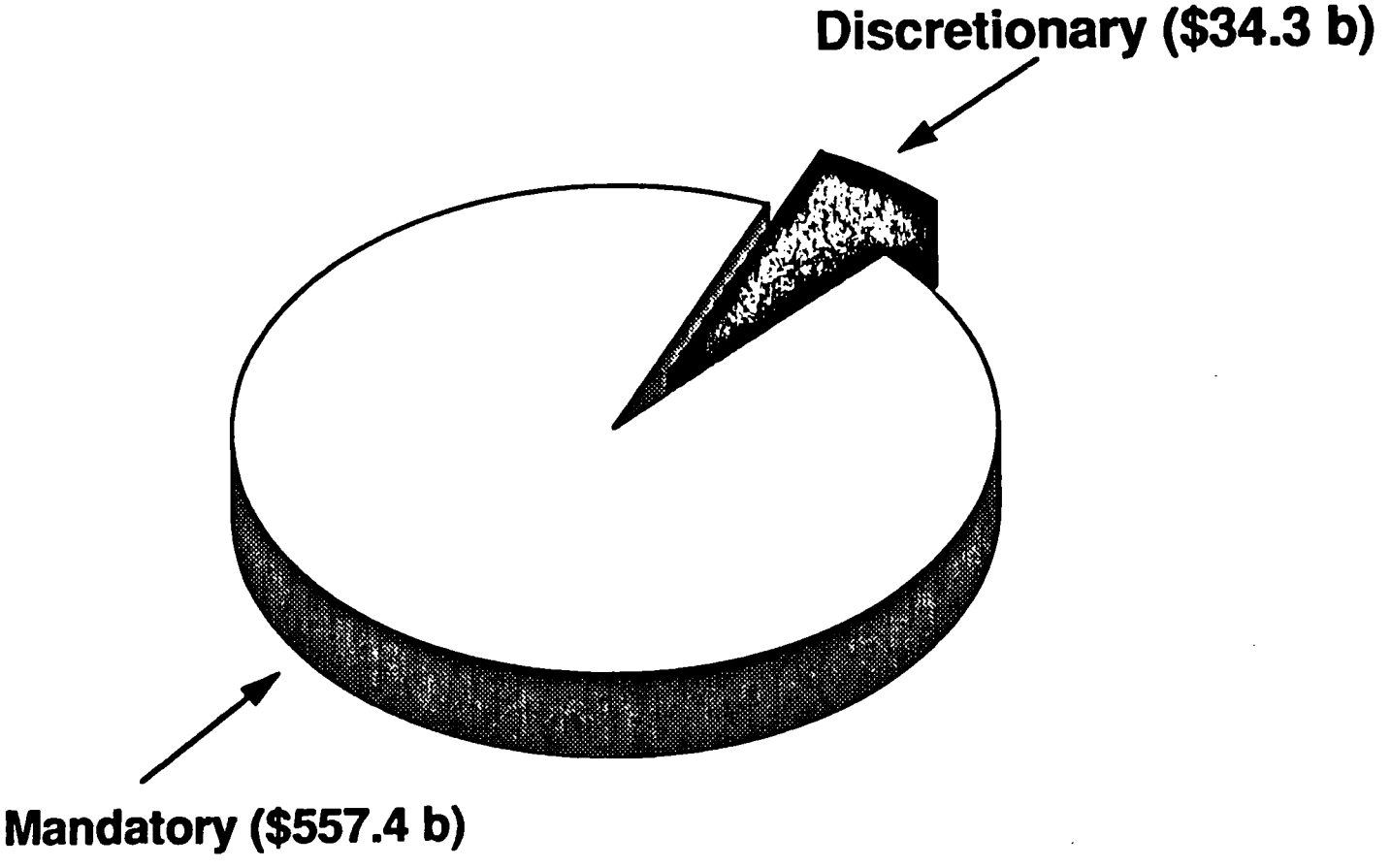
HHS Briefing Overview

- General HHS Facts
- Issues HHS is Likely To Raise
- Three Options:
  - Protect Investments and Use HHS Standard Reductions
  - Moderate Investment Growth
  - Reinvent HHS Using President's Themes
- Management Issues
- Administration on Children and Families
- Social Security Administration
- Public Health Service

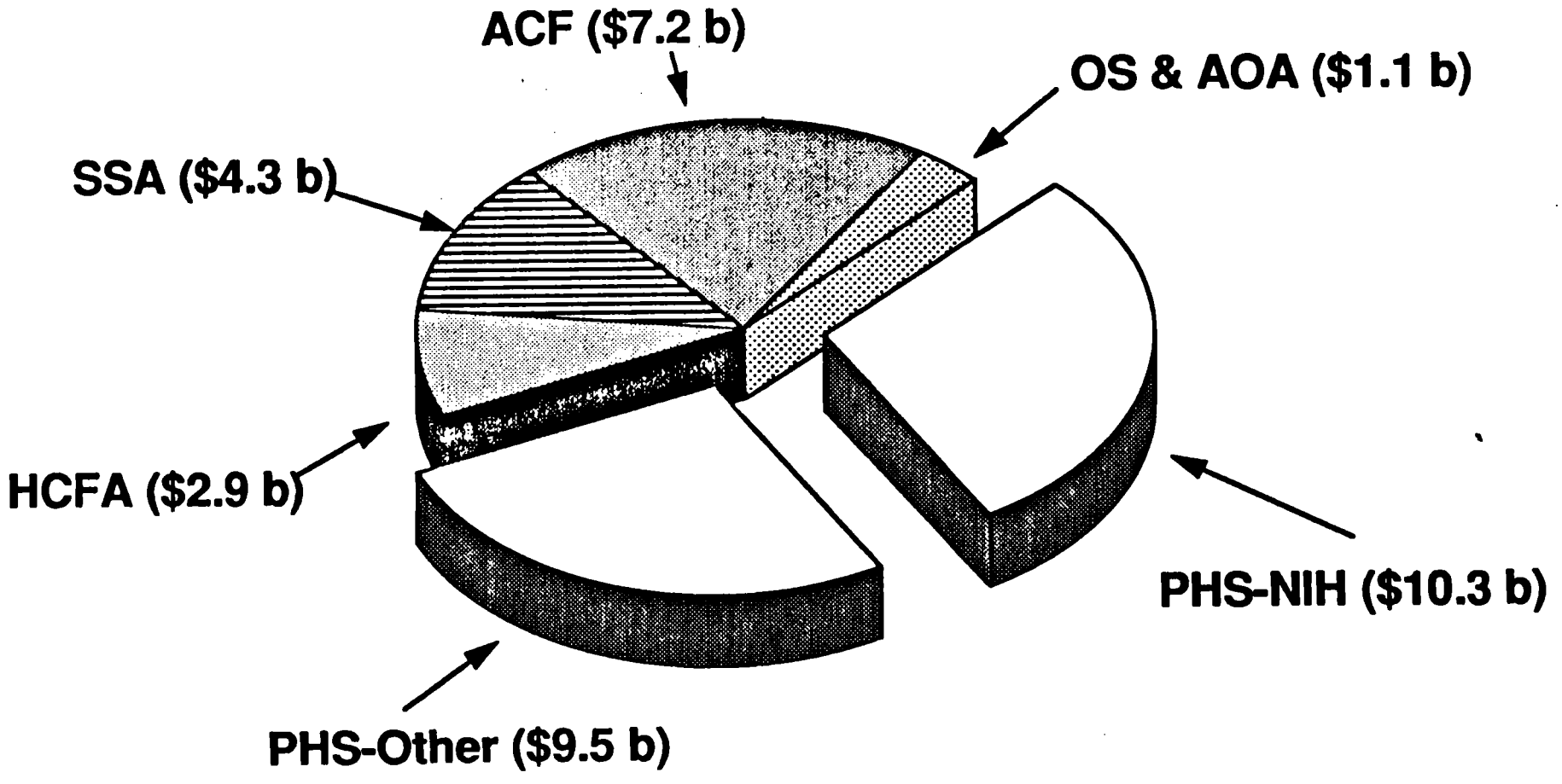
HHS is Composed of 6 Operating Divisions

ACF	Administration for Children and Families
AOA	Administration on Aging
HCFA	Health Care Financing Administration
PHS	Public Health Service
OS	Office of the Secretary
SSA	Social Security Administration

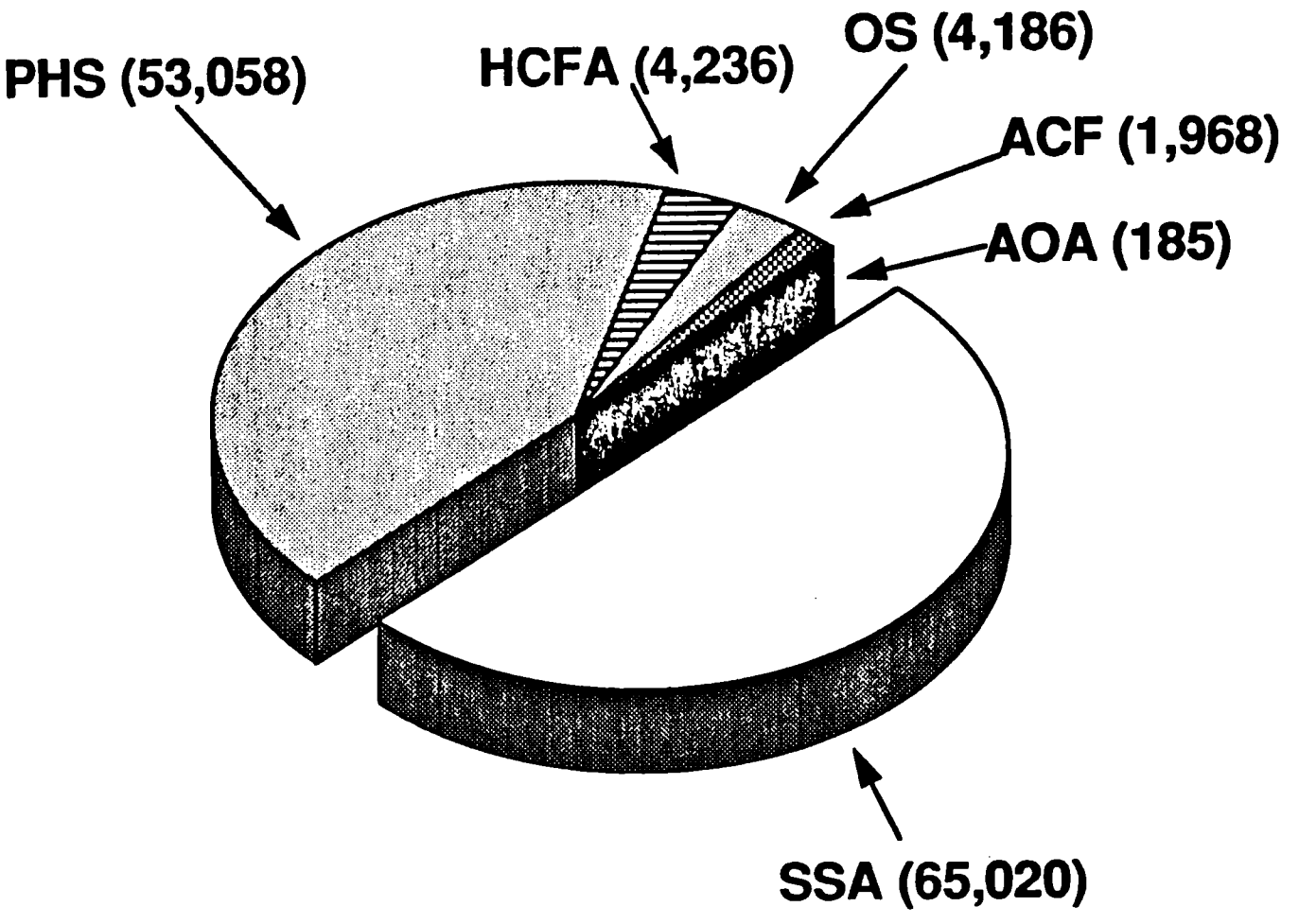
6% of HHS' Budget Is For Discretionary Programs



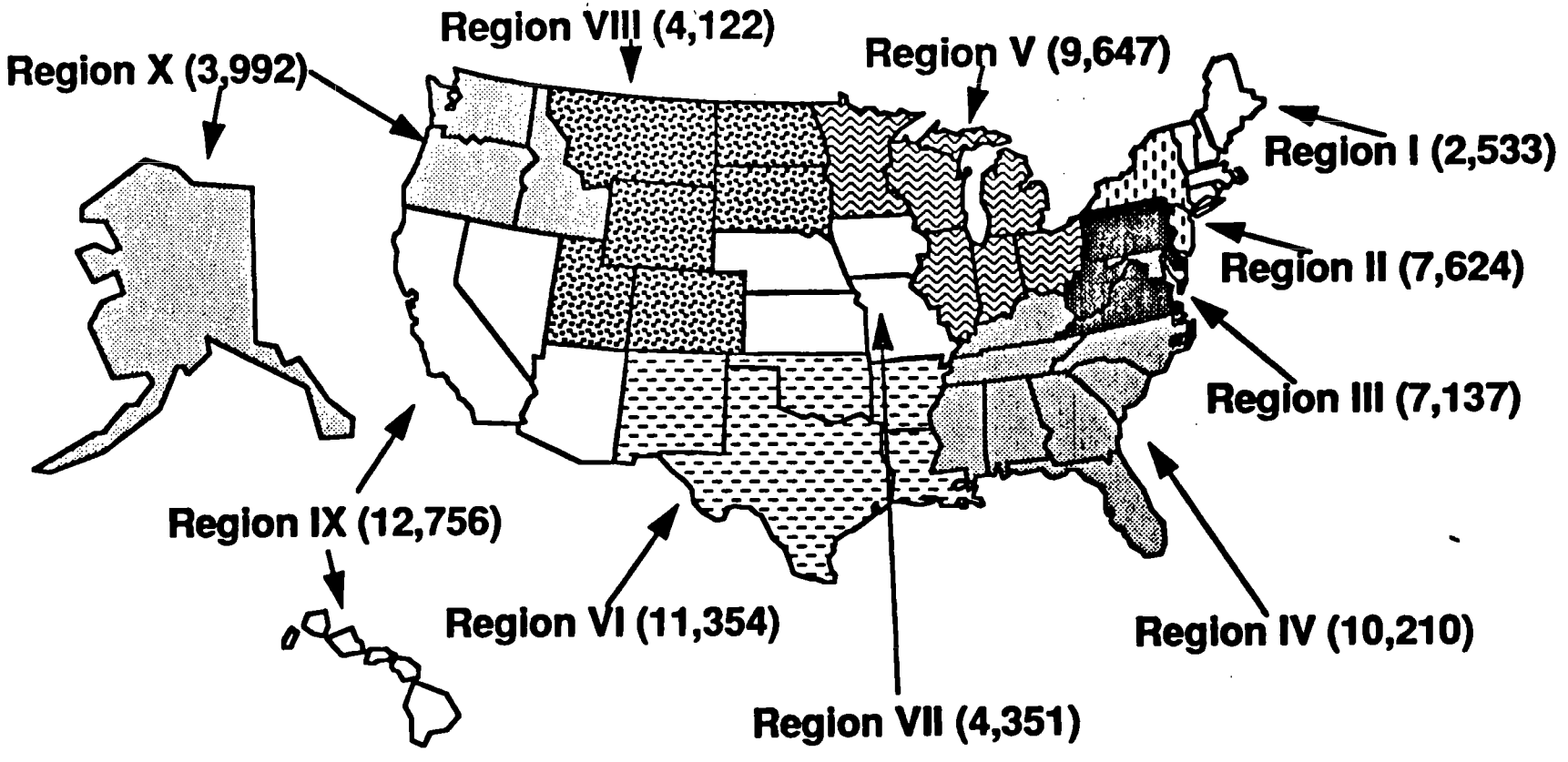
Over 55% of HHS' FY93 Discretionary Funds Go For PHS



SSA and PHS Account for Over 90% of HHS' 128,653 FTE



57% of HHS Staff Are Located Outside of Headquarters



HHS Headquarters Staff = 57,219

FY 1995 Budget Targets

- Reduce FY 1995 Non-Investment Outlays by 10%

- BRD's Calculated HHS' Reduction is $963 Million in Outlays and $1.4 Billion in Budget Authority (using standard spendout rates)

Expected HHS Priorities

- Immunizations
  - Building Public Health Infrastructure
  - Cost of vaccine and Federal purchasing role
- Head Start
  - discussed below
- Welfare Reform
  - discussed below
- Health Care Reform
  - Public Health Service Role and Expansion

HHS Will Likely Request Added Resources

- **Added FTEs**
  - **FDA User Fees and Mammography Quality Standards**
  - **PHS Investment Activities such as Immunizations, HIV/AIDS**
  - **PHS Activities Associated with Health Reform and Anticipated PHS Program Expansions such as National Health Service Corps**
  - **SSA Disability Activities**
  - **Office of the General Counsel**

HHS Will Likely Request Added Resources (cont.)

- **Added Budget Resources**
  - PHS Investment Activities Including Immunization, HIV/AIDS
  - SSA Disability Activities Including Continuing Disability Reviews (CDRs)
  - Welfare Reform Activities
  - Health Reform Activities

HHS' Reinvention Ideas Not Yet Shared

- Currently, Secretary Shalala is Reviewing HHS' Operating Division FY95 Budget Requests
- To Date, There Has Been a Greater HHS Focus on High Priority Investment Initiatives — Reinvention Ideas Have Been Slower to Surface
- HHS Will Likely Suggest That HHS Priorities Could Be Funded From Reductions in Other Agency's Budgets

Some Basic Choices Must Be Made

- **Option 1: Totally Protect Investment (and Investment Base); Meet Budget Goals Using HHS' Standard Reductions**

- **Option 2: Moderate Investment Growth**

- **Option 3: Reinvent HHS Using the President's Themes (Health and Welfare Reform) To Effect Reductions**

Protect Investments — Use Standard HHS Reductions To Meet Budget Target

Standard Discretionary Reductions — HHS' List

- **HHS Has Drawn Upon the Same Programs.**

FY 1995
(BA in millions)

– Electronic Media Claims	200
– Health Professions *	200

* FY95 Investments

Standard Discretionary Reductions — HHS' List (cont.)

- HHS Has Proposed Mandatory Cuts (Enacted By the Appropriations Committees) — Most Notably SLIAG and User Fees (Survey and Certification, FDA)

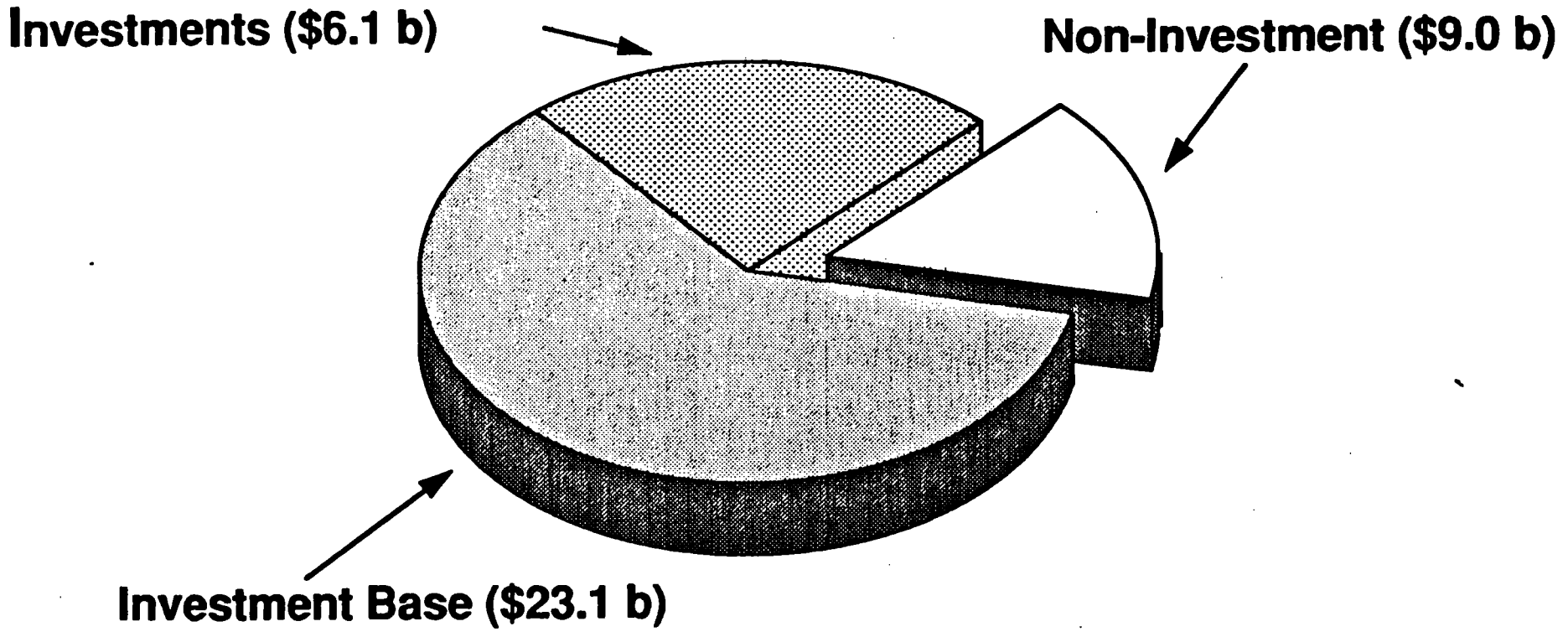
- HHS Has Also Proposed BEA Changes For Payment Integrity Activities (Payments Safeguards Revolving Fund)

Standard HHS Reductions

- Health Professions
  - Public funding of Health Professions activities is now primarily done through Medicare (96% of total)
- Electronic Media Claims
  - Create Incentives to Submit Claims Electronically and Avoid the Cost of Processing Paper Claims

Moderate Investment Growth

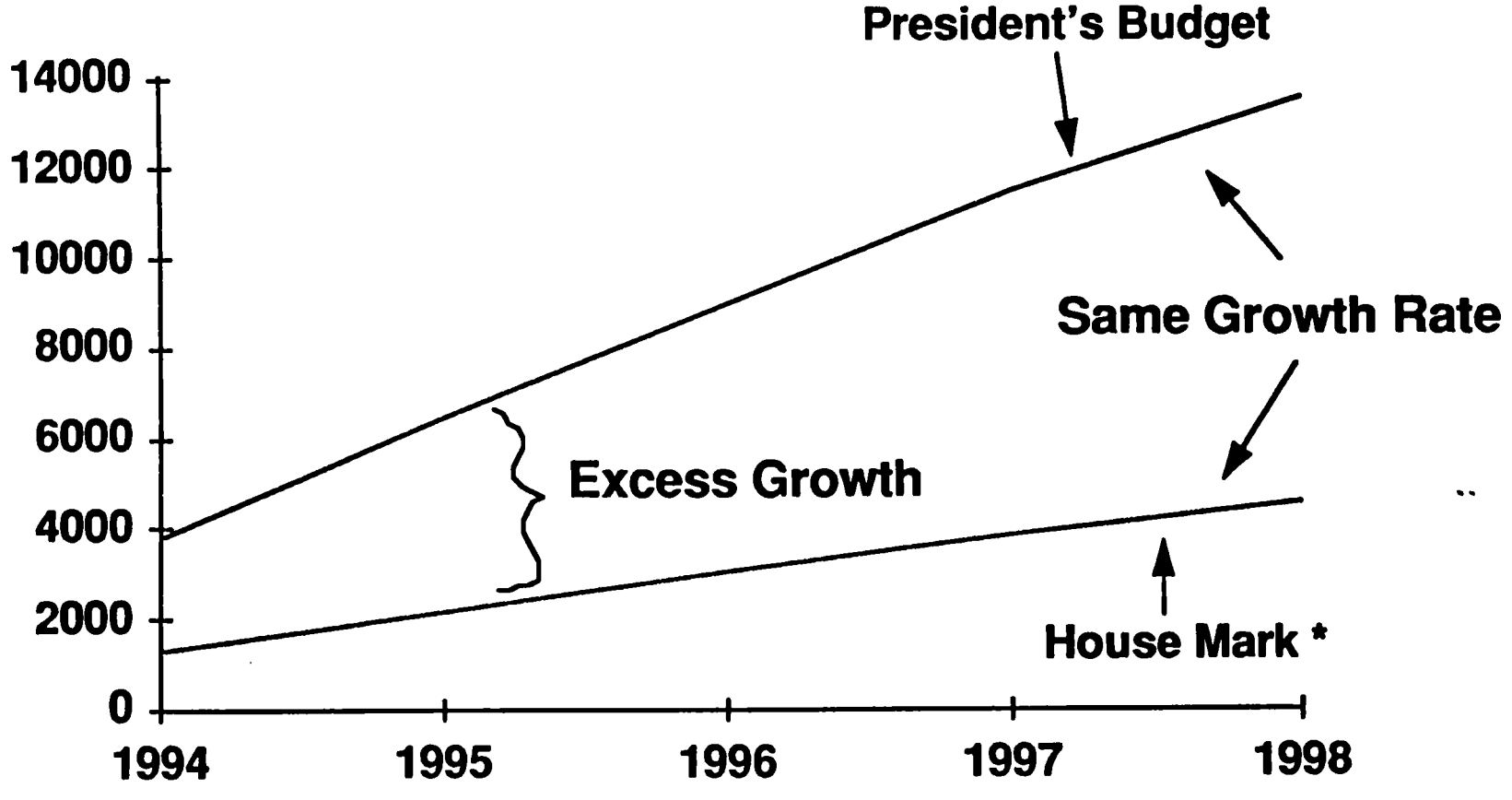
75% of HHS' FY95 Discretionary Funds Go For Investment and Investment Base



Reexamining HHS Investments

- Most HHS Investments Were Assumed to Start with Stimulus Funding — HHS Elements Weren't Enacted
- Most FY94 HHS Investments (except Head Start) Were Reduced 40% at the Last Moment — Their Out Year Funding Was Not
- The House Funded Only about 20% of the President's FY94 HHS Investments

"Excess" Investment Growth Could Be Cut



* Out year estimated using Budget growth rate

Reinvent HHS

HEALTH TOPICS

HIGH RISK AREAS

Are there other Health issues that should be added to the High Risk List?

In 1992, HHS management, HHS OIG, and OMB had a series of discussions on areas that could be added to the high risk list. Decisions on these items were postponed until after the transition. PHS items under discussion included: scientific integrity, grants management, NIH internal controls/financial systems. The most important HCFA item discussed was controlling Medicare payments for Durable Medical Equipment.

INDIAN HEALTH SERVICE

HHS's 1992 FMFIA Report states that they will propose deleting management of the Indian Health Service from the High Risk List in 1993. What measurable program improvements can IHS demonstrate from the management changes it has implemented? Can sufficient progress be demonstrated to justify removing this item from the High Risk List?

Problem: Insufficient financial controls and attention to management resulted in several weaknesses in IHS programs, including: inability to identify and correct material weaknesses; high default rates and failure to appropriately process collections on defaults in the IHS Scholarship program; inability to assure quality of care; paying higher than Medicare rates for contract health services; and failure to bill and collect when beneficiaries have other insurance. New material weaknesses continue to be identified.

Progress: Overall progress has been good. However, new problems continue to be identified and there has been no centralized review of the impact these improvements are having on overall program performance. The IG is currently conducting 7 reviews in this area to validate some of the results reported by IHS. This area will require senior management attention to determine if program performance has reached acceptable levels. The following describes IHS progress on specific management weaknesses.

Management Controls: Identified and began correction on new material weaknesses in cash advances, the Alcoholism program, and Inventory Controls. 1993 work focussing on correction of newly identified weaknesses, including development of appropriate performance measures.

IHS Scholarships and Debt Management: Eliminated the backlog of default cases. 1992 default rate is 1.2%, lowest in history of program.

Contract Health Services: Pricing alternatives data routinely provided to IHS physicians. Testing a rate quote concept in pilot sites. 72% of the high volume providers (together these providers account for 71% of referrals) now offer IHS services at Medicare or better rates. This area is the major focus of 1993 IHS efforts. IHS will expand pilot rate quote test,

implement new software systems with better case management and Diagnostic Referral Group computations, and issue rate quote method manual.

Accreditation: At the end of third quarter FY 1992, 98% of IHS hospitals and 100% of IHS Health centers were accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO). 1993 goal is to achieve JCAHO accreditation for the one IHS hospital which is not yet so accredited.

Collecting from Other Insurers: Established business offices in all 76 IHS operated service units. Began using automated billing software. Expanded the Fiscal Intermediaries edit procedures to flag potential third-party payers. In 1988 other insurers paid some portion of billed charges in 25% of IHS claims. In 1992, other insurers paid some portion of billed charges in 41% of IHS claims. 1993 plan is to continue implementation of business office plan.

THIRD PARTY LIABILITY

Is HHS adequately addressing the issue of mistaken or overpayments in its Medicare and Indian Health Service programs?

The Federal government pays an estimated $1.5 billion a year for health care that should be paid for by others, such as private insurance companies. HHS makes over $1 billion of such payments through its Health Care Financing Administration (HCFA) and Indian Health Service (IHS). The Office of Federal Financial Management is leading a contract development effort to allow HHS (as well as Defense and VA) to contract for Third Party Liability (Medicare Secondary Payer) activities, including collection of mistaken or over-payments.

Will HHS commit to using this contract to its fullest extent in both its Medicare and IHS programs in order to correct its problems with overpayments? (This issue is related to both the Medicare Secondary Payer and Indian Health Service High Risk Areas.)

MEDICAID MANAGEMENT SYSTEMS

With concerted effort, can HHS complete sufficient improvements to Medicaid Management Systems to justify deleting this item from the High Risk List in FY 1993?

Problem: Medicaid management systems could not predict Medicaid costs. Misestimates have been as high as 10 percent of outlays. Progress: HCFA has developed the spDATA System, a current, on-line system which is updated as State plan amendments are received at HCFA regional offices. HCFA has also developed the automated Budget Pressures Reporting System (BPRS). BPRS provides information on issues that will effect Medicaid budgets, such as court cases, proposed State legislation and policies, and a schedule for reporting selected Medicaid reimbursement rates. Medicaid actuaries are developing a Medicaid Budget Forecasting System to provide State level Medicaid budget estimates for key States, if successful program will be expanded to other States.

Remaining Issues: Are spDATA and BPRS fully operational? Are they providing the information needed? Is the improved data now available enabling HCFA to better predict Medicaid costs?

OTHER AREAS OF CONCERN

HRSA DEBT MANAGEMENT

What plans does HHS's Health Resources and Services Administration have to report debts in its Health Professional Graduate Student Loan Program to CAIVRS?

CAIVRS (Credit Alert Interactive Voice Response System) was implemented in 1987 by the Department of Housing and Urban Development to screen new loan applicants for delinquencies and defaults on loans previously issued or guaranteed by the Department. Because of the success of CAIVRS in screening HUD loans, there has been a major effort during the last year to expand the system by: (1) adding the delinquent debtor files of other credit agencies to the CAIVRS data base accessed by HUD and its lenders for screening of loan applicants; and (2) making the CAIVRS system (with the expanded data base) available to other agencies and their lenders for the screening of loan applicants.

In addition to the HUD data, the CAIVRS data base now includes delinquent debt information from the Departments of Education, Veterans Affairs, and Agriculture as well as the Small Business Administration. VA began using CAIVRS to screen applicants for its housing loans. Agriculture will begin screening its loans later in 1993.

The expanded CAIVRS system has resulted in significant cost avoidance from not making new loans to individuals already delinquent/in default on debts to the Federal Government. **As part of the CAIVRS expansion effort, HRSA delinquent loans, currently totalling $184 million, could be included in the CAIVRS data base.** Agencies using the CAIVRS data base for screening would not provide additional loans to those applicants who were delinquent on a HRSA loan. In addition, HRSA could also use CAIVRS to screen its loan applicants and deny loans to those delinquent on other debts owed to the Federal Government.

Through an agreement with the Federal Credit Policy Working Group, HUD paid both one-time developmental costs and 1993 operating costs for other agencies participating in CAIVRS. Agencies will reimburse HUD for operating costs starting in 1994. The cost to participating agencies is .17 cents per record updated per month, .05 cents per record stored per month, and .15 cents per inquiry.

MAJOR IG CRITICISMS

See attached materials from HHS OIG.

HHS OIG Cost Saver Recommendations

(Administrative Recommendations; little or no management actions)

HEALTH CARE FINANCING ADMINISTRATION

Reduce Monitored Anesthesia Care (MAC) Payments - Medicare currently pays the same amount for anesthesia services regardless of whether the patient is under general or monitored anesthesia care (local anesthesia with attendant services). We recommended that HCFA require carriers to develop and implement a claims review process to apply existing MAC coverage instructions; strengthen MAC coverage guidelines; and study the appropriateness of paying the same amount for MAC and general anesthesia. We estimated annual savings of $28 million. HCFA agreed with the claims review and coverage guidelines recommendations but has not implemented them. HCFA did not agree with our recommendation to study the appropriateness of paying the same for MAC and general anesthesia.

Review Admissions for Hospital Stays for Selected Diagnoses - We found that 18 percent of hospital admissions we reviewed were shot-term hospitalizations, with 20 percent of the short term stays unnecessary. We recommend Peer Review Organization studies of admissions for those diagnosis related groups most associated with short stays to deny unnecessary hospitalization reimbursement. We estimate savings of $183 million/year. HCFA has not implemented OIG's 1989 recommendations.

Establish Mandatory Prepayment Edit Screens for Medicare and Medicaid - Our reviews (and investigations) have shown that physicians may be unbundling procedure codes (i.e., billing multiple procedures codes instead of a single comprehensive code or billing mutually exclusive procedures). We recommended HCFA move swiftly to establish mandatory prepayment edit screens for Medicare and Medicaid to save an estimated $12.9 million/year. HCFA disagreed because they believed this approach did not consider the carriers' responsibility to establish Medicare coverage and payment policy when no national HCFA policy exists.

Eliminate Fragmented Physician Claims - Our claims sample for six procedure codes identified more than $12 million/year in overpayments for fragmented procedure code billing. We recommended HCFA require carriers to adjust or deny payment for exploratory surgery performed incidentally to procedures separately billed; biopsies performed in the course of major surgery in the same body cavity; separate procedures billed with another procedure; mutually exclusive procedures; and claims by assistants for procedures denied when billed. HCFA concurred with the first four areas but has not implemented them. . .

SOCIAL SECURITY ADMINISTRATION

Report Admissions of Supplemental Security Income Recipients to Nursing Homes - SSI payments are limited to $30/month for recipients who are in nursing homes where the cost of care is funded at least 50 percent by Medicaid. We recommended that nursing homes be

required to report to SSA admissions of SSI recipients within 1 day after admission. We estimated $22 million/year savings. SSA concurred but believed HCFA should modify its regulations. HCFA did not concur since it did not believe the recommendation should be done via a Medicaid regulation. The OIG, SSA and HCFA are attempting to reach consensus.

Recover SSI Benefits Through Income Tax Refund Offset - The Deficit Reduction Act of 1984 provided certain Federal programs, including SSA, with the ability to recover debts through income tax refund offset. We estimate that SSI could recover $58.5 million in the first year and an additional $6 million annually thereafter by using this method. The SSA has deferred negotiations with IRS to administratively implement the SSI refund because of resource limitations.

Highlight Presumptive Disability Reversal Rates in Measuring State DDS Performance - In the SSI Disability program, immediate payments can be made to SSI applicants who are presumed disabled or blind. If the State Disability Determination Service subsequently reverses the presumptive decision they made, the payments are not recoverable overpayments. We recommended that SSA highlight those State DDS' with high reversal rates in their management information reports and monitoring of State DDS performance. We estimated $4.3 million in savings from improved performance. SSA is considering our recommendations.

DEPARTMENTWIDE

Disallow Interest Charges on Unfunded Liabilities of Government Pension Plans - Interest associated with unfunded actuarial liabilities of State and local government pension plans is charged to federally funded programs. OMB Circular A-87 states that interest is not an allowable charge. We recommend that OMB revise A-87 limiting Federal sharing of actuarially determined pension costs. We estimate savings of $100 million/year. The OMB initiative to revise A-87 has taken considerable effort in working with State and local groups to gain consensus. [See note below.]

Disallow State Sales Tax Charged to Federal Programs - OMB cost principles are silent as to the allowability of States self-assessing sales taxes and charging the amounts to Federal programs. Six States require their own agencies to pay sales taxes. We recommend A-87 be revised to disallow payment of self-assessed States sales taxes charged to Federal programs. See status above.

[Note: The above two items are some of the problems prompting the A-87 initiative/reinventing State/local administrative costs we are advocating.]

Accelerate Federal Grantees' Deposits of Payroll Taxes - We recommend that Federal grantees be required to deposit payroll taxes on the same day Federal funds are drawn down to meet payroll needs. We estimate $103.4 million/year in savings. Our recommendations are being considered by OMB in the initiative to develop cost containment proposals. Corrective action is pending implementation of the Cash Management Reform Act.

HHS Office of Inspector General

Cost Saving Ideas (1993 Red Book)

HEALTH CARE FINANCING ADMINISTRATION

Apply 190-Day Lifetime Limit for Medicare Inpatient Psychiatric Care - We found that over 82 percent of the $1.36 billion in program payments for inpatient psychiatric care is paid to general hospitals where the lifetime limit does not apply. We recommend applying this lifetime limit and a 60-day annual limit to all inpatient psychiatric services. Recurring savings are $47.6 annually. HHS considered an FY 1993 legislative proposal, but it was not included in the FY 1993 budget.

Expand MSP Provisions - We recommend extending Medicare Secondary Payer provisions to include End-Stage Renal Disease (ESRD) beneficiaries beyond the current 18-month limit. We also recommend making Medicare secondary payer for all retirees of State/local government agencies exempt from mandatory Medicare coverage. We estimate annual savings of over $500 million (for ESRD) and over $1.5 billion for State/local coverage. The 102nd Congress considered but did not pass the ESRD extension. The State/local provision has been in previous Presidential budgets, but not enacted.

Reduce Capital Costs - Prospective payment system (PPS) rates for reimbursing hospitals are based on historical costs that are inflated because excess capacity caused more capital costs to be incurred and inappropriate elements (e.g., charges for depreciation on federally funded assets) are included. We recommend legislation to continue mandated reductions in capital payments beyond FY 1995 for savings of $800 million annually. The Health Care Financing Administration (HCFA) did not agree to seek legislation at this time.

Reduce PPS Adjustment Factor for Indirect Medical Education Costs - Indirect medical education (IME) payments for teaching hospitals were designed to alleviate the adverse effect of PPS on such hospitals. While previous legislation has reduced the IME adjustment factor, we recommend further legislative reduction because our extensive analyses showed that teaching hospitals were making excessive profits. Savings would be over $1 billion/year. While the past administration sponsored several legislative proposals, none were enacted.

Modify Payment Policy for Medicare Bad Debts - Our review of hospital costs information showed that Medicare bad debts increased from $159 million during FY 1985 to $398 million during FY 1988 while hospitals earned significant profits during the same period. We recommend legislation to modify the bad debt payment policy, with options ranging from elimination of a separate payment for bad debts to inclusion of a bad debt factor in the diagnosis related group (DRG) payment rates. We estimate savings of $400 million/year. While HCFA supports our recommendation, it has not sought legislation.

Reduce Payments for Hospital Outpatient Services - We recommend legislation to reduce the current payments for hospital outpatient department services to bring them more in line with

ambulatory surgical center (ASC) approved payments. We recommend paying the outpatient departments the ASC approved rate or adjusting hospital payments by a uniform percentage. We estimate increasing annual savings (from $90 million in year 1 to $175 million in year 5). Proposed legislation was in the FY 1992 budget but did not pass. The HCFA believes this proposal will not pass in future.

Roll Lab Reimbursements into Physician Office Charges - Medicare lab reimbursements grew 18 percent per year to $2.4 billion in 1989. Clinical lab claims account for 25 percent of items in Medicare bills. We recommend that HCFA consider rolling lab reimbursements into physician office charge payments to eliminate incentives for inappropriate lab tests. We estimate savings of over $1 billion/year. HCFA does not concur. Alternatively, we recommend seeking legislation to set lab fee schedules at amounts comparable to what physicians are paying labs for the same tests - savings $426/year. The FY 1993 budget contained a proposal to reduce the cap for lab tests to 76 percent, but the proposal was not enacted.

Control Medicaid Payments to Institutions for Mentally Retarded - Medicaid reimbursement rates for large intermediate care facilities for the mentally retarded (ICF/MRs) are more than five times greater in some States than in others. This variation is due to lack of effective controls rather than severity of illness, quality of service, facility characteristics or resident demographics. We recommend HCFA administratively encourage States to adopt cost controls and seek legislation, such as mandatory costs controls, per capita limitations, etc. to control ICF/MR reimbursements. Savings are estimated at $683/year. The HCFA did not agree, citing the States' authority to set its own payment rates and the potential correction of the problem through health care reform.

SOCIAL SECURITY ADMINISTRATION

Accelerate FICA Deposits [A-12-88-00110 not in Red Book; update report pending] - Employers collect most taxes by payroll deductions, but are not required to forward these taxes to the Government for several days after disbursement of wages. We recommend requiring employers' deposits of payroll taxes on the same day disbursed to save the Government significant funds over $100 million without increasing taxes or creating excessive administrative burdens for the employers. OMB is considering this as part of cost containment proposals. Corrective action is pending implementation of the Cash Management Reform Act.

Close FICA Loopholes (Cafeteria Plans) - The Internal Revenue Code authorizes salary reduction agreements (also know as cafeteria plans) through which employees forego a portion of pay in return for compensation in the form of fringe benefits or flexible spending accounts to fund health care, child care and other costs. These salary reductions are excluded from FICA and income taxes. We recommend that coverage of salary reduction

agreements be included as FICA wages and estimate from $1.25 billion (year 1) to $2.6 billion (year 5) in additional revenue for the Trust Funds. Although we were only concerned with FICA, we believe the Treasury could lose revenues of about $7.3 billion between 1993 and 1997. SSA agrees, but did not believe it was appropriate to seek legislation at this time.

Extend Tip Reporting Requirements to Other Service Activities - Legislation in 1982 required large food and beverage establishments to report tip-related information to the Internal Revenue Service (IRS). IRS data showed an additional $1 billion (increase of 108 percent) in tip income reported after 1982. We recommend expanding the requirements for mandatory tip income reporting to include other service businesses, such as beauty/barber shops and taxi drivers. We estimate annual savings of over $130 million to the Social Security and Medicare Trust Funds and the U.S. Treasury. Although SSA supports this recommendation, it believes this is in IRS' jurisdiction. IRS has not supported this proposal.

FICA Coverage for Lodging Compensation - We recommend that permanent lodging compensation be included for FICA coverage. Savings are estimated at $221 million per year. The SSA does not support the recommendations, believing it difficult to administer.

PUBLIC HEALTH SERVICE

Expand FDA User Fees - The Food and Drug Administration (FDA) currently imposes user fees for several activities, including color certification, reconditioning of products and imported tea inspections and will begin collecting fees for prescription drug approval applications in 1993. We recommend extending user fees to FDA activities including premarket review and approvals for devices, inspections of additional manufacturing facilities and inspections of food processors and establishments. We estimate savings of $200 million/year. Various legislative proposals have been considered.

ADMINISTRATION FOR CHILDREN AND FAMILIES

Modify Formula for Federal Share of AFDC, Foster Care & Adoption Assistance (FMAP) - The Federal Medical Assistance Percentage (FMAP) determines the Federal share of costs for Medicaid, AFDC, Foster Care and Adoption Assistance programs. The FMAP formula does not fully reflect the congressional intent of distributing Federal funds according to a State's ability to share in program costs as measured by State per-capita income. We recommend that the Administration for Children and Families consult with Congress on options for changing the FMAP formula which would result in distributions more closely reflecting per-capita income relationships. We estimate savings of $1.1 billion/year. ACF disagrees because of concern that opening the AFDC statute could "result in unwanted changes in the program."

Reduce and Base Child Support Incentive Payments on States' Performance - The Child Support Enforcement (CSE) program provides States with a Federal cost share of 66 percent for CSE administrative costs. States also receive 6 to 10 percent of collections from absent parents and additional credit for their share of collections recovered for AFDC families. Our review showed that incentive payments were used primarily to fund the State/local agencies' share of CSE costs rather than expanding coverage. Also, some of the incentive payments were used for general funds or to provide State/local share of public assistance costs. We recommend basing incentive payments on the States' demonstrated ability to meet Federal CSE requirement and performance objectives and reducing financial incentives to result in a more equitable cost sharing with the Federal Government. Savings are estimated at $277 million/year. ACF proposed legislative for a new incentive plan but has not agreed with the OIG recommended options.

Limit Federal Participation in Foster Care Administrative Costs - Federal payments for Foster Care include costs for providing care and maintenance of foster children, as well as administrative costs which include training and placement activities costs. Current "open ended" legislation has allowed administrative costs to increase from $400 million in FY 1988 to an estimated $1.1 billion in FY 1993. We recommend limiting Federal participation in Foster Care administrative costs through either several options: limiting future increases to 10 percent/year, funding these costs through block grant, limiting them to a percentage of maintenance payments, or restricting the filing period for retroactive claims. We also recommend separating costs for child placement services from traditional overhead for more effective monitoring. We estimate annual savings of $247 million (year 1) to $461 million (year 5). The 102nd Congress did not act on ACF's legislative proposal.

INCOME MAINTENANCE TOPICS

ELECTRONIC BENEFIT TRANSFER (EBT)

What level of continued financial support is being provided to HHS for participation in EBT? Based on statements by the Vice President, the Deputy Director for Management, and staff on the NPR, EBT is likely to become an Administration initiative. HHS should be planning to participate. The next step will be a meeting of senior officials from USDA, HHS, Treasury, and OMB to discuss re-constitution of the EBT Steering Committee. HHS will probably want to include representatives from the Administration on Children and Families, Social Security Administration, and Assistant Secretary for Planning and Evaluation in the meeting. A number of policy and operational issues remain to be resolved, most notably a determination of costs and benefits and an equitable structure for funding, where necessary, that distributes costs among public and private sector participants.

SOCIAL SECURITY ADMINISTRATION OVERPAYMENTS

What plans does the Social Security Administration (SSA) have to fully implement the Income Tax Refund Offset program to collect SSA benefit overpayments?

The SSA's use of the income tax refund offset program to collect SSA overpayments has been very successful, resulting in collections of over $48 million either through offset or voluntary repayment. Although SSA uses this program only for its Title II overpayments, it is also available to recover Supplemental Security Income (SSI) overpayments.

The 1993 HHS Inspector General's Red Book estimates over $58 million in recoveries in the first year if Internal Revenue Service (IRS) offset were used to recover debts owed by former beneficiaries of SSI payments. Continuing annual recoveries are estimated at $6 million. Based on SSA's current success using IRS offset in its Title II program, SSI debts appear to be a logical area for refund offset.

What are SSA's plans are concerning implementation of the IG recommendation on use of IRS offset for the SSI program?

HIGH RISK AREAS

Are there income maintenance issues that should be added to the High Risk List?

In 1992, HHS management, HHS OIG, and OMB had a series of discussions on areas that could be added to the high risk list. Decisions on these items were postponed until after the Presidential transition. Income maintenance items under discussion included: grants monitoring, SSA financial systems, SSA debt management, monitoring States' AFDC overpayments, and SSA disability determinations.

MAJOR IG CRITICISMS

See attached materials from HHS OIG.

HHS OIG Cost Saver Recommendations

(Administrative Recommendations; little or no management actions)

HEALTH CARE FINANCING ADMINISTRATION

Reduce Monitored Anesthesia Care (MAC) Payments - Medicare currently pays the same amount for anesthesia services regardless of whether the patient is under general or monitored anesthesia care (local anesthesia with attendant services). We recommended that HCFA require carriers to develop and implement a claims review process to apply existing MAC coverage instructions; strengthen MAC coverage guidelines; and study the appropriateness of paying the same amount for MAC and general anesthesia. We estimated annual savings of $28 million. HCFA agreed with the claims review and coverage guidelines recommendations but has not implemented them. HCFA did not agree with our recommendation to study the appropriateness of paying the same for MAC and general anesthesia.

Review Admissions for Hospital Stays for Selected Diagnoses - We found that 18 percent of hospital admissions we reviewed were shot-term hospitalizations, with 20 percent of the short term stays unnecessary. We recommend Peer Review Organization studies of admissions for those diagnosis related groups most associated with short stays to deny unnecessary hospitalization reimbursement. We estimate savings of $183 million/year. HCFA has not implemented OIG's 1989 recommendations.

Establish Mandatory Prepayment Edit Screens for Medicare and Medicaid - Our reviews (and investigations) have shown that physicians may be unbundling procedure codes (i.e., billing multiple procedures codes instead of a single comprehensive code or billing mutually exclusive procedures). We recommended HCFA move swiftly to establish mandatory prepayment edit screens for Medicare and Medicaid to save an estimated $12.9 million/year. HCFA disagreed because they believed this approach did not consider the carriers' responsibility to establish Medicare coverage and payment policy when no national HCFA policy exists.

Eliminate Fragmented Physician Claims - Our claims sample for six procedure codes identified more than $12 million/year in overpayments for fragmented procedure code billing. We recommended HCFA require carriers to adjust or deny payment for exploratory surgery performed incidentally to procedures separately billed; biopsies performed in the course of major surgery in the same body cavity; separate procedures billed with another procedure; mutually exclusive procedures; and claims by assistants for procedures denied when billed. HCFA concurred with the first four areas but has not implemented them. . .

SOCIAL SECURITY ADMINISTRATION

Report Admissions of Supplemental Security Income Recipients to Nursing Homes - SSI payments are limited to $30/month for recipients who are in nursing homes where the cost of care is funded at least 50 percent by Medicaid. We recommended that nursing homes be

required to report to SSA admissions of SSI recipients within 1 day after admission. We estimated $22 million/year savings. SSA concurred but believed HCFA should modify its regulations. HCFA did not concur since it did not believe the recommendation should be done via a Medicaid regulation. The OIG, SSA and HCFA are attempting to reach consensus.

Recover SSI Benefits Through Income Tax Refund Offset - The Deficit Reduction Act of 1984 provided certain Federal programs, including SSA, with the ability to recover debts through income tax refund offset. We estimate that SSI could recover $58.5 million in the first year and an additional $6 million annually thereafter by using this method. The SSA has deferred negotiations with IRS to administratively implement the SSI refund because of resource limitations.

Highlight Presumptive Disability Reversal Rates in Measuring State DDS Performance - In the SSI Disability program, immediate payments can be made to SSI applicants who are presumed disabled or blind. If the State Disability Determination Service subsequently reverses the presumptive decision they made, the payments are not recoverable overpayments. We recommended that SSA highlight those State DDS' with high reversal rates in their management information reports and monitoring of State DDS performance. We estimated $4.3 million in savings from improved performance. SSA is considering our recommendations.

DEPARTMENTWIDE

Disallow Interest Charges on Unfunded Liabilities of Government Pension Plans - Interest associated with unfunded actuarial liabilities of State and local government pension plans is charged to federally funded programs. OMB Circular A-87 states that interest is not an allowable charge. We recommend that OMB revise A-87 limiting Federal sharing of actuarially determined pension costs. We estimate savings of $100 million/year. The OMB initiative to revise A-87 has taken considerable effort in working with State and local groups to gain consensus. [See note below.]

Disallow State Sales Tax Charged to Federal Programs - OMB cost principles are silent as to the allowability of States self-assessing sales taxes and charging the amounts to Federal programs. Six States require their own agencies to pay sales taxes. We recommend A-87 be revised to disallow payment of self-assessed States sales taxes charged to Federal programs. See status above.

[Note: The above two items are some of the problems prompting the A-87 initiative/reinventing State/local administrative costs we are advocating.]

Accelerate Federal Grantees' Deposits of Payroll Taxes - We recommend that Federal grantees be required to deposit payroll taxes on the same day Federal funds are drawn down to meet payroll needs. We estimate $103.4 million/year in savings. Our recommendations are being considered by OMB in the initiative to develop cost containment proposals. Corrective action is pending implementation of the Cash Management Reform Act.

MANAGEMENT AND BUDGET REVIEW
DEPARTMENT OF HEALTH AND HUMAN SERVICES

FOOD AND DRUG ADMINISTRATION: SIGNIFICANT DELAYS IN ITS MEDICAL DEVICE APPROVAL PROCESS

QUESTION -- How and when will FDA improve its processing of pending medical device applications?

Many medical devices must be reviewed and approved by the Food and Drug Administration (FDA) prior to marketing; others must be registered with the FDA prior to sale. Owing to internal reorganization, passage of two new laws, and external scrutiny, FDA has fallen far behind in reviewing both pre-market approvals and registration applications.

Prior to the passage of the Safe Medical Devices Act in 1990, manufacturers could begin to sell demonstrated technologies if it did not receive a decision from FDA within 90 days. In March 1992, only eighteen device approval applications had been pending at FDA for more than 90 days. One year later, that number had jumped to 1,401, dragging the average review time up from 93 days to 158 days. These delays are not ascribable to a sudden surge in new applications. While the number of submissions has fallen slightly over the past year, the number of pending approvals has doubled, from 1700 to almost 3500.

Delays are harmful for several reasons. They prevent the widespread use of numerous beneficial devices as well as experimental devices undergoing testing. More importantly, delays cause higher priced devices that push up health care costs and create investment and hiring uncertainty for device manufacturing firms. Many devices not yet available in this country are already in use in European countries, harming U.S. industrial competitiveness. Finally, since many new devices are portable units (such as heart monitors and oxygen systems) that allow patients to be treated at home or in clinical settings, delays thwart a trend away from higher priced hospital care.

Concern about these delays has been expressed by physicians, medical device manufacturers, and Congress. The House Energy and Commerce oversight and investigations subcommittee released a report on June 1 critical of the slow approval pace for beneficial devices and of FDA's poor management of the approval process. The report noted that more than 1,100 applications were pending at FDA. The Chairman of the Committee, John Dingell, wrote to FDA almost a year ago to protest the sudden surge in approval backlogs and calling "the paralysis unconscionable" and of "crisis proportions." Commissioner Kessler repeatedly has

acknowledged the problem and committed last year to an as yet unannounced plan to improve the approval process. However, no changes or improvements have appeared.

FDA must commit to completing this plan and circulating it for comment among the affected parties.

HEALTH CARE FINANCING ADMINISTRATION (HCFA): SHORTCOMINGS IN MANAGEMENT OF MEDICARE SURVEY AND CERTIFICATION SYSTEMS AND INFORMATION

QUESTIONS: CAN HCFA (1) REDESIGN THE SURVEY AND CERTIFICATION DATA BASES ACROSS PROVIDER GROUPS SO THAT SURVEYS CAN BE BETTER COORDINATED AND FREQUENCIES CAN VARY BASED ON PATIENT RISK AND PROVIDER COMPLIANCE HISTORY (2) DESIGN THE SOFTWARE TO BETTER MANAGE AND MONITOR DEEMED PRIVATE ACCREDITING ORGANIZATIONS AND EXEMPTED STATE PERFORMANCE, AS WELL AS FEDERAL "LOOK BEHIND" SURVEYS AND (3) IMPROVE THE QUALITY OF PROVIDER PERFORMANCE AND SANCTION DATA SO THAT IT CAN BE DISSEMINATED TO THE PUBLIC.

Pursuant to the Social Security Act, HCFA surveys and certifies health care entities receiving Medicare and Medicaid reimbursement, i.e. hospitals, nursing homes, home health agencies, etc. State survey agencies function as contractors for HCFA, and perform all validation surveys and routine surveys of entities, unless the entity is covered by a private accrediting group with Medicare deemed status, e.g. the Joint Commission on Accreditation of Health Organizations.

HCFA manages the survey and certification process through an information system entitled the Online Survey Certification and Reporting (OSCAR) System. The system has been refined over the past few years, and has undergone significant enhancements recently to implement the Clinical Laboratory Improvement Amendments of 1988.

To date, however, it is unclear whether HCFA has used the historical compliance data in the OSCAR System to better understand the relationship between compliance with Medicare statutory and regulatory quality standards and patient risk and outcomes. Using the survey data in this way, and linking it with other available data, such as claims data and mortality statistics, would allow HCFA to make recommendations for management, regulatory, and statutory reform that would relate survey quality, frequency and intensity to historical compliance and patient outcomes. If sophisticated enough, this approach to managing the survey process would provide incentives for superior rather than mediocre performance in health care delivery, and at the same time would reduce Federal unit costs and administrative burdens and hassle on the private sector. For example, many providers at a minimum are surveyed annually, with each survey demanding overall provider participation for a week or more, and in the case of home health agencies, concentrated commitment of at least one staff member for two full work days.

Most important, thoughtful compilation and dissemination of survey compliance data alone or linked to patient outcomes, would enhance consumer choice between health care providers and settings. Dissemination of this data would be a good beginning step in the direction of the information infrastructure envisioned in Health Care Reform.

ISSUES IN HEAD START

- How can Head Start be improved? What are the measures of quality, and how accurate are they?
- What are the gains made by children in Head Start, and how long do these gains last? How can these gains be extended or enhanced?
- How can the Federal government ensure that Head Start grantees comply with requirements? How many grantees are out of compliance? Should some of these grantees be replaced?
- How fast can Head Start grow effectively? How will large funding increases affect enrollment and service delivery?
- What should Head Start look like in the future? Should it remain primarily a 9-month, half-day program? Should it become full day or full year? Given available resources, how will these programmatic choices affect program quality and enrollment?

ISSUES IN WELFARE REFORM

- What does a transitional welfare program look like? Who gets exempted from the time limit?
- What kinds of post-transitional support/jobs should be available and for how long?
- What can/should be done to prevent welfare use in the first place?
- Assuming limited budgetary resources for welfare reform, how much emphasis should be devoted to a) prevention, b) transitional support, and c) post-transitional support?
- What is the scope of welfare reform? How many existing programs (e.g., food stamps, housing assistance) should be reassessed as part of this effort?
- How much flexibility should be allowed the States in answering all the above questions?
- How quickly should the new system be phased in (or who should it apply to)?

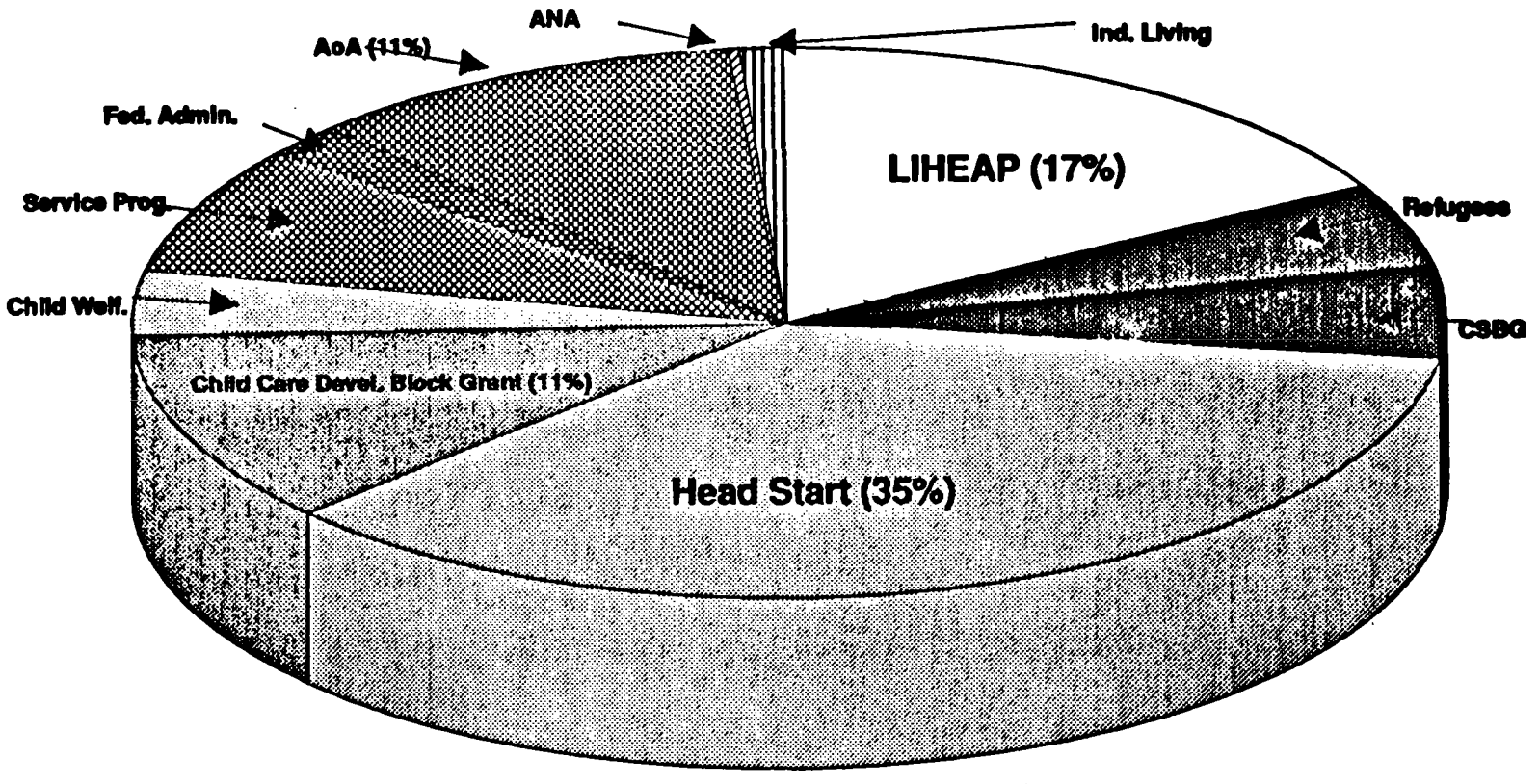
OVERVIEW OF ADMINISTRATION FOR CHILDREN AND FAMILIES (ACF)

- 3/4 OF ACF SPENDING IS MANDATORY

- UNDER THE FY94 BUDGET, 2/3 OF ACF'S DISCRETIONARY DOLLARS WOULD BE SPENT IN FY95 ON TWO PROGRAMS--LIHEAP AND HEAD START.

- THE REST OF THE DISCRETIONARY FUNDS GO TO MANY SMALL PROGRAMS SERVING VARIOUS POPULATIONS--ABANDONED BABIES, AMERICAN NATIVES, RUNAWAY YOUTH, ETC. 20 OF THESE PROGRAMS ARE $25 MILLION OR LESS. THEIR FUNDING HAS GENERALLY STAYED LEVEL.

LIHEAP AND HEAD START ARE OVER HALF OF ACF'S DISC. SPENDING (FY93 BA=$7.8 B)



* The Administration on Aging, not technically in ACF, is grouped with ACF for convenience.

Administration for Children and Families (ACF): Possible Discretionary Savings Options

(BA in millions of $)

	FY94	FY95	FY96	FY97	FY98	FY95-98
Total HHS Savings Target: 15.9% in BA*		1,438	1,091	727	1,505	4,761
ACF's Portion of Savings Target**		367	277	182	376	1,202

I. RETHINKING INITIATIVES

LIHEAP

REDUCING THE INVESTMENT PORTION OF LIHEAP IS LESS SENSITIVE THAN REDUCING THE PROGRAM BASE. RECONCILIATION MAY DROP THE BTU TAX. ELIMINATING THE FY95 $333 MILLION LIHEAP INVESTMENT--INTENDED TO OFFSET THE EFFECTS OF THE BTU TAX ON HOME HEATING COSTS--WOULD ROUGHLY MEET ACF'S SAVINGS TARGET.

Straightline FY94 House mark appropriation level to FY95	0	-40	-77	-114	-153	-384
Remove investment portion of LIHEAP	0	-333	-667	-1,000	-1,000	-3,000
Remove investment and scale back LIHEAP baseline by10% each year (variant of 1992 CBO option DOM-48)	0	-481	-818	-1,155	-1,159	-3,613

Administration for Children and Families (ACF): Possible Discretionary Savings Options

(BA in millions of $)

	FY94	FY95	FY96	FY97	FY98	FY95-98
HEAD START						
• ADVOCATES WILL OBJECT TO REDUCTIONS IN HEAD START INVESTMENT. HOWEVER, THE HOUSE FUNDED ONLY $425 M OF A PROPOSED $1.3 B INVESTMENT IN FY94.						
Repropose FY 1994 Head Start investment stream in FY 1995	0	--799	-800	-799	-796	-3,194
II. OTHER REDUCTION OPTIONS						
REFUGEE RESETTLEMENT						
Pay 3 months of cash and medical assistance	0	-144	-144	-144	-144	-576
Eliminate payments to States for cash and medical assistance benefits	0	-231	-231	-231	-231	-924
COMMUNITY SERVICES BLOCK GRANT						
No longer fund discretionary grants in CSBG	0	-49	-49	-49	-49	-196
Consolidate selected ACF and AoA programs (1993 CBO option DOM-41)	0	-270	-270	-270	-270	-1,080

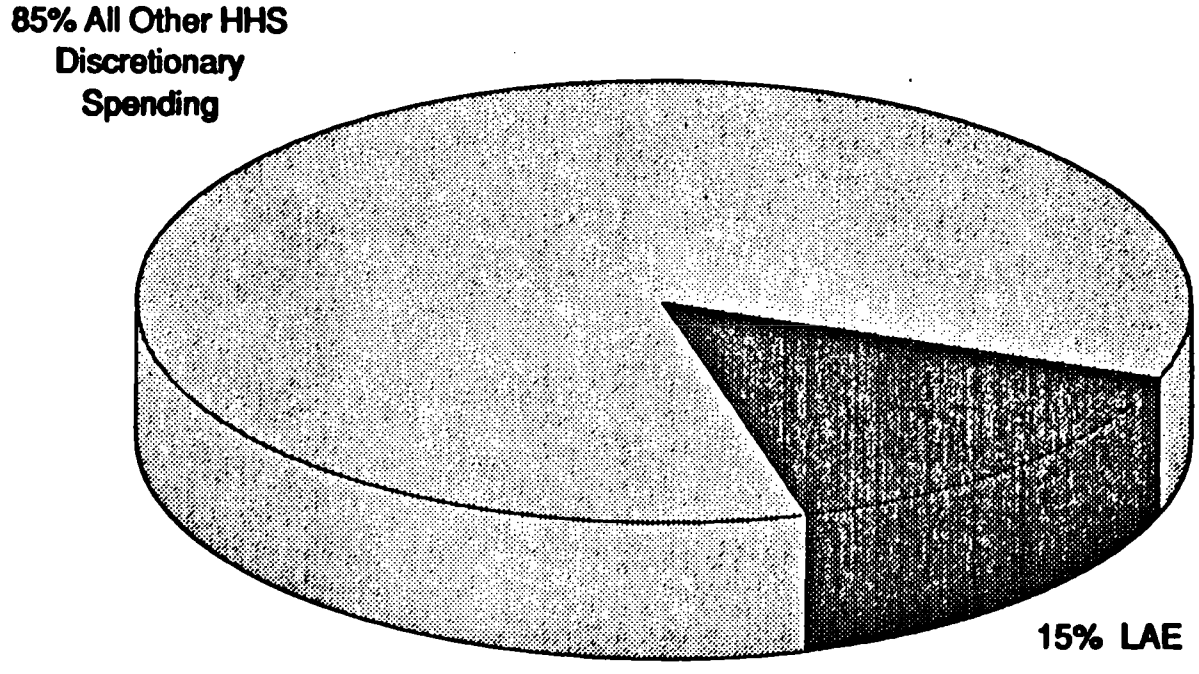
Administration for Children and Families (ACF): Possible Discretionary Savings Options

(BA in millions of $)

	FY94	FY95	FY96	FY97	FY98	FY95-98
ADMINISTRATION ON AGING						
Reduce AoA Budget Authority by 10%	0	-84	-84	-84	-84	-336
CHILD CARE DEVELOPMENT						
Repropose FY94 CCDBG investment in FY95	0	-75	-45	-55	-50	-225
No investment funding	0	-115	-160	-215	-265	-755

* Based on central calculations made by BRD
** Excludes investment and investment program baselines (LIHEAP, Head Start, Child Welfare, CCDBG)

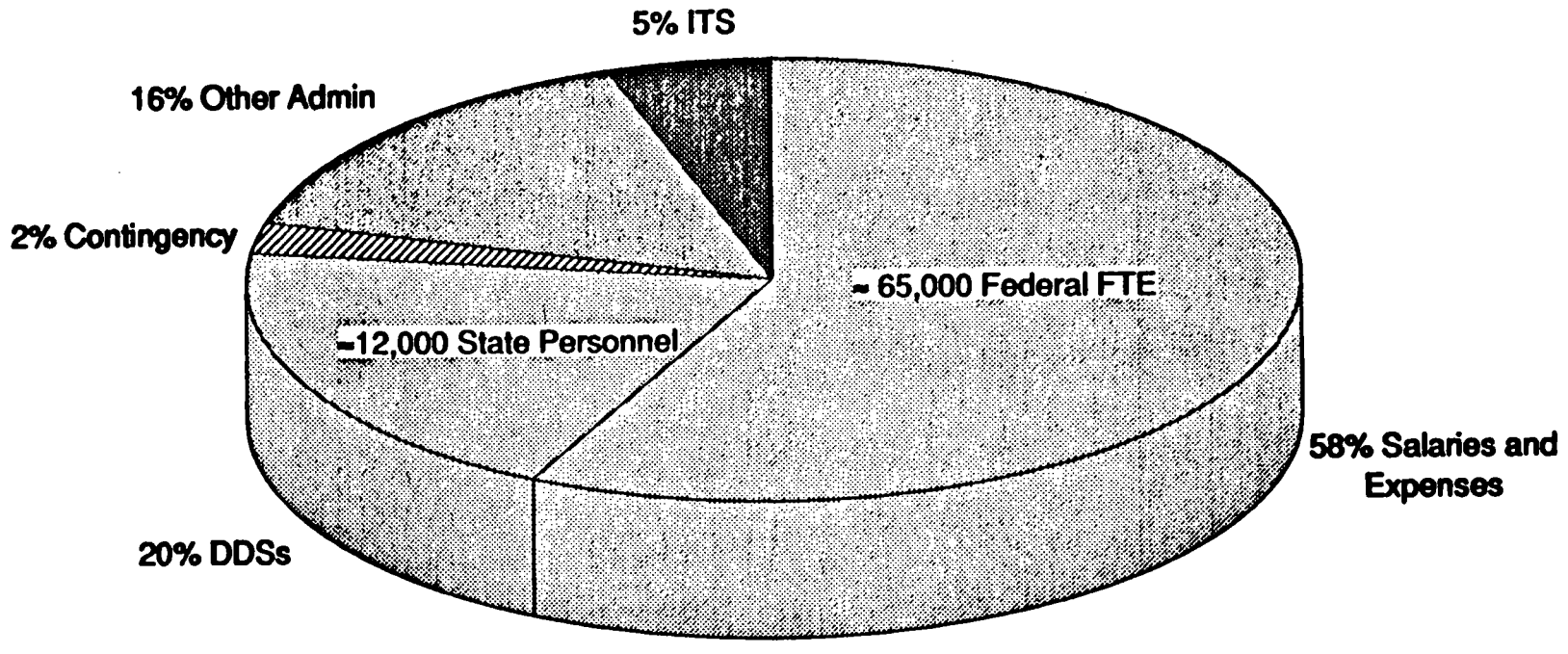
Social Security Admin is 15% of HHS Discretionary Spending in FY93*



* BRD runs assume the SSA base is protected from the 10% cut.

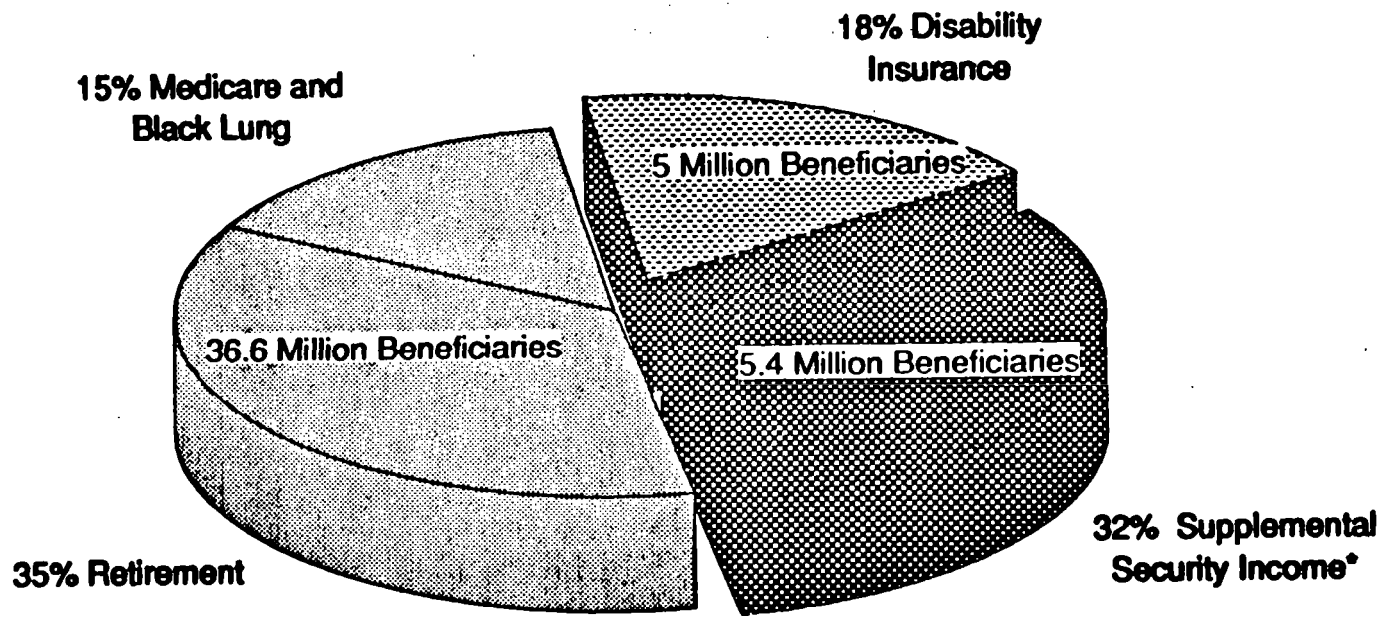
SSA Is A Personnel Based Agency

FY93 SSA Admin Operating Expenses: $4.8 Billion



About One-Half of SSA's Workload is Disability

FY93 SSA Admin Expenditures by Program



A small portion of SSI Workload is for the elderly population.

SSA M&B DISCUSSIONS

WE ANTICIPATE THE DEPARTMENT WILL FOCUS ON TWO ISSUES WITH REGARDS TO SSA:

- **The difficulty SSA is experiencing with the increasing disability workload in the context of tight fiscal and FTE constraints.**
  - The current "backlog" of unprocessed disability applications nationwide is over 700,000.
  - SSA does not know what specifically is causing the explosion in disability applications.
- **The need to ensure that Continuing Disability Reviews (CDRs) are performed in order to maintain the integrity of both the Social Security Disability Insurance Trust Fund and the general fund.**
  - GAO estimates 30,000 ineligible individuals may still be receiving disability benefits due to SSA's failure to perform CDRs.
  - SSA actuaries estimate that during FY 1990-1993 the DI trust fund will have lost $1.4 billion due to SSA's failure to perform CDRs.

OMB RESPONSE

- **Long Term Initiatives**
  - SSA must make a dramatic effort to increase the efficiency of its operations in order to avert a crisis with the growing "baby boomer" workload. Implementing significant managment initiatives like check cycling and automated disability processing are critical.
- **Disability Workload**
  - How much would it cost to buy down the disability backlog? How long would it take?
  - What is SSA's long term plan to improve its ability to process disability workloads and to improve service to claimants? How will SSA's FY95 request fit into this goal?
- **Increase the Number of CDRs Performed**
  - Unlike Medicare Payment Safeguards, this activity is cannot be financed as a revolving fund.
  - Although this activity seems a high enough priority to warrant a separate allocation, HHS is concerned a separate earmark for CDRs will be offset from their total allocation.

SUMMARY

- **SSA should be encouraged to reevaluate how their current resources could be better utilized.**

  As the Director encouraged them, SSA has room to reprogram staff and resources within the agency to meet current and future demands on the agency workloads, e.g. Central Office to the Field.

- **Conversations with SSA regarding their disability workload should be pursued in the context of their long range agency goals for handling disability processing.**

  SSA's strategic plan outlines broad goals for disability, but SSA has not provided a specific tactical plan to bridge the agency from the present to their goals.

Public Health Service

Management and Budget Review

Table of Contents

Public Health Service Discretionary Programs --Overview--

PHS is composed of eight agencies, including FDA, CDC, and NIH.

Total PHS Discretionary Funding:

$21 billion in FY94, $23 billion in FY95

Total PHS Investments in President's Economic Plan:

$1.5 billion in FY94, $3.4 billion in FY95

Total House-Passed PHS Funding Includes:

$21 billion in FY94, $.8 billion for Investments

Use Policy Themes to Direct Reallocations

If we can agree on policy themes, they can be used to identify programs for reassessment.

Once the policy themes are defined, staff can mechanically generate lists of programs that meet the definitions.

Programs identified as low priorities can be phased out and the funds reallocated to higher priorities.

Candidate Themes

1. Inconsistent with Health Care Reform
2. Small Size
3. Out of Date
4. No Federal Role -- New Partnerships Required
5. Programs that Don't Work
6. Subsidies to Uneconomic Activities
7. Administrative Streamlining

The next set of slides provides sample theme descriptions and program lists.

THEME #1:
Inconsistent with Health Care Reform

- Universal coverage means no more uninsured

  √ PHS programs designed to serve uncovered populations need to be reassessed

- An inclusive benefits package means needed services are covered, including mental health, substance abuse treatment, immunizations, tuberculosis treatments, etc.

  √ PHS Programs created to provide or help finance these services need to be reassessed.

>>> A list of programs which could be affected by health care reform is attached >>>

HEALTH REFORM THEME LIST
(BA in $ millions)

Program	FY 93 Enacted	FY 94 Budget	Net Savings from FY 93 Enacted				
			Year 1	Year 2	Year 3	Year 4	Year 5
IHS							
IHS Clinical Services	1,251	1,309	250	501	751	1,001	1,251
IHS Preventive health	70	74	14	28	42	56	70
IHS Urban Health Projects	21	22	4	8	13	17	21
IHS Indian Health Professions	26	27	5	10	16	21	26
IHS Tribal Management Training & Self-Governance	7	7	0	0	0	0	0
IHS Federal Administration	49	50	10	19	29	39	49
IHS Contract Support Costs	101	111	20	40	60	80	101
IHS Facilities: construction & repair	167	108	33	67	100	134	167
IHS Sanitation Facilities Construction	85	85	0	0	0	0	0
IHS Facilities & Environmental Health Support	82	86	8	16	25	33	41
CDC							
CDC Immunization Grants	341	668	68	136	205	273	320
CDC Lead Poisoning Screening Grants	30	30	6	12	18	24	30
CDC Breast and Cervical Cancer Screening Grants	72	85	14	29	43	58	72
CDC Sexually Transmitted Diseases Grants	89	103	–	–	–	–	–
(Treatment Estimate)	22	26	4	9	13	18	22
HRSA							
Community Health Centers	559	617	101	201	302	402	503

HEALTH REFORM THEME LIST
(BA in $ millions)

Program	FY 93 Enacted	FY 94 Budget	Net Savings from FY 93 Enacted Year 1	Year 2	Year 3	Year 4	Year 5
Migrant Health Centers*	57	64	6	11	17	23	29
*Pricing assumes that half of MHC users will be eligible for financing under health reform.							
Homeless Health Centers	58	58	9	17	26	35	44
Public Housing Health Service Grants	9	9	2	4	5	7	9
Family Planning	173	208	35	69	104	138	173
Maternal and Child Health Block Grant	665	704	67	133	200	266	333
Healthy Start	79	100	8	16	24	32	40
Ryan White HIV/AIDS - Title I Grants to Cities	185	336	27	55	82	109	137
Ryan White HIV/AIDS - Title II Grants to States	115	234	20	37	55	72	89
Ryan White HIV/AIDS - Title III Early Intervention Grants to CHCs	115	234	20	37	55	72	89
SAMHSA							
Treatment Capacity Expansion Program	15	89	2	4	8	10	15
Mental Health Block Grant	278	278	30	78	140	200	278
Substance Abuse Block Grant	1,131	1,131	100	230	411	660	848
Prevention (25%)	283	283	0	0	0	0	0
Treatment (75%)*	848	848	100	230	411	660	848
*Based on the treatment/prevention split of the drug abuse portion of the substance abuse block grant.							
TOTAL, HCR THEME LIST	*5,852*	*6,853*	*864*	*1,769*	*2,742*	*3,779*	*4,755*

THEME #2:
Small Size

- Consider eliminating separately identifiable programs of less than $25 million because they are too expensive to administer and states/localities/private sector could easily absorb them.

- PHS agencies will award over 75 grants from programs that are less than $25 million during FY93.

>>> A preliminary list of programs that meet this criteria is attached >>>

LIST OF SELECTED SMALL SIZE PROGRAMS

(BA in $ millions)

	FY 1993 Enacted	FY 1994 Budget
HRSA:		
Black Lung Clinics	4.0	4.0
Public Housing Health Service Grants	9.0	9.0
Hansen's Disease Services	18.5	18.5
Payment to Hawaii -- Hansen's Disease	3.0	3.0
Native Hawaiian Health Care	3.5	3.5
Pacific Basin Initiative	0.9	0.9
Alzheimers Demonstration Grants	5.0	5.0
Emergency Medical Services Demonstration	4.8	4.8
Organ Transplantation	2.8	2.7
Trauma Care Demonstration Grants	4.4	4.3
AIDS Education and Training Centers	16.4	16.4
Pediatric AIDS Demonstration Grants	20.9	20.9
(HRSA Health Professions Grants:)		
Grants to Communities with Scholarships	0.5	0.5
Nursing Loan Repayment	2.0	2.0
Exceptional Financial Need Scholarships	10.4	10.4
Centers of Excellence	23.5	24.0
HPSL Recapitalization	8.0	8.0
Minority Scholarships	17.1	17.1
Faculty Loan Repayment	1.0	1.0
Public Health and Preventive Medicine	7.3	10.7
Health Administration Traineeships	1.5	1.0
General Dentistry	3.7	2.5
General Internal Medicine and Pediatrics	16.8	20.1
Physicians Assistants Grants	4.9	8.9
Pacific Basin Medical Officer Training	1.7	0.0
Allied Health	3.5	2.3
Area Health Education Centers	19.8	13.2
Boarder Health Education Centers	2.8	0.0
Geriatric Training and Research	10.0	6.7
Interdisciplinary Traineeships	4.0	0.0
Health Professions Data System	0.6	3.6
Health Professions Research	1.1	2.6
Podiatric Medicine	0.6	0.0
Advanced Nurse Education	12.3	8.2
Nurse Practitioner/Midwife	15.4	19.6
Nursing Special Projects	10.4	10.5
Professional Nurse Traineeships	14.0	19.6
Nurse Disadvantaged Assistance	3.7	5.2
Nurse Anesthetists	2.7	1.8
IHS:		
Urban Health Projects	21.0	22.0
Tribal Management Training	5.2	5.3
Self-Governance	1.9	2.0
Youth Treatment Centers	7.9	0.0
Joint Venture Projects	1.1	0.0
CDC:		
Prevention Centers	5.5	5.5
Global Polio Eradication Grants	19.8	19.8
NIOSH Training Grants	11.1	11.1
NIH:		
Senior International Fellowships	1.2	0.4
International Research Fellowships	3.8	1.9
Scholars-in-Residence Awards	0.6	0.6
AIDS International Training and Research	5.2	8.0
Other Fogarty International Center	9.0	9.1

	FY 1993 Enacted	FY 1994 Budget
Academic Research Enhancement Awards	12.9	13.3
Research Centers in Minority Institutions	23.4	23.8
Biomedical Research Support	18.3	18.4
AIDS Loan Repayment	1.0	1.0
SAMHSA:		
Community Support Demonstration Program	24.4	24.4
Children's Services Demonstration Program	4.9	4.9
Homeless Demonstrations	21.4	21.4
Protection and Advocacy	20.8	20.8
Mental Health Clinical Training	5.9	5.9
Substance Abuse Prevention Training	14.5	14.5
Campus Project	18.4	9.4
Substance Abuse/AIDS Programs	21.2	21.2
OASH:		
Adolescent Family Life	7.6	7.6
Disease Prevention/Health Promotion	4.8	4.8
Physical Fitness and Sports	1.5	1.5
Minority Health	20.4	25.4
National Vaccine Program Office	2.7	8.7
Office of Research Integrity	0.0	6.0
Office of Women's Health	0.0	1.0
Emergency Preparedness	0.0	3.0
Health Care Reform Data Analysis	0.0	5.0
National AIDS Program Office	2.9	2.9

THEME # 3: Out of Date

Consider eliminating all grants started before 1974 on the assumption that the problems addressed must either be solved by now or be insoluble.

For many PHS programs, the definition of "success" has changed. For example, STD grants were intended in the 1950's to reduce wide-spread syphilis and gonorrhea. STD rates have fallen dramatically since then, so the current goal of STD grants is to further reduce STD incidence. Sometimes this "shifting the goal-posts" makes sense and sometimes this is a matter of bureaucrat and grantee survival.

On the other hand, some programs begun prior to 1974 are still needed today. For example, current NIH research is needed to pursue the forefront of <u>today's</u> knowledge.

>>> A preliminary list of programs which meet this criteria is attached* >>>

* Some of the programs are also listed under other themes.

Selected Programs Started Before 1974

(BA in $ Millions)

	FY 1993 Enacted	FY 1994 Budget	Date Started
HRSA:			
Community Health Centers	558.8	617.3	1969
Migrant Health Centers	57.3	63.8	1969
Health Professions Grants (see previous slide for listing)	266.3	290.2	Origins in 1965. Grants added periodically since then.
MCH Block Grant	664.5	704.5	Previously existing activities -- some dating back to the 1930's -- consolidated in 1981.
Black Lung Clinics	4.0	4.0	
National Health Service Corps	118.6	138.7	1972
Hansen's Disease (Carville, LA)	18.6	18.5	1921
Payment to Hawaii -- Hansen's Disease	3.0	3.0	1921
Family Planning	173.4	208.4	1971
IHS	1,858.0	1,880.0	Origins date back to the 1850's.
CDC:			
Preventive Health Block Grant	148.7	148.7	Previously existing activities consolidated in 1981.
Sexually Transmitted Diseases	89.6	103.6	Origins date back to the 1940's.
Immunizations	623.9	667.6	Early 1960's.
TB Grants	78.8	128.8	Origins before 1964.
NIOSH	112.3	122.3	1970
Infectious Diseases	40.3	40.3	Origins in 1948.
Epidemic Services	73.5	73.5	1951
Health Statistics	51.5	59.5	Origins date back to 1960.
NIH:	10,326.0	10,668.0	Origins date back to the 1930's.
SAMHSA:			
Block Grants	1,408.4	1,408.4	Previously existing activities consolidated in 1981.
OASH:			
President's Council on Physical Fitness	1.5	1.5	1950s.

THEME #4:
No Federal Role -- Foster New Partnerships

- Consider eliminating all grants for which it is hard to make a case that the problem requires a Federal solution. This would eliminate programs whose benefits are primarily local or within the state and do not spill over into other jurisdictions.

- <u>Redefine Federal-State Responsibility:</u>

  Historically, States had primary responsibility for health, safety, and education. Since the 1930's, the Federal government has increasingly assumed this role, either through direct assumption of duties or through providing Federal funds. Many activities could be returned to States.

>>>continued on next slide>>>

Theme #4:No Federal Role (continued)

- Redefine Federal-Local Responsibility:

  It is not clear the Federal Government should remain so involved in local issues. National issues which only the Federal Government can address are more than enough to challenge the Federal Government. Further, direct Federal assistance to grantees within States can frustrate state-level coordination, rather than empower States.

- Redefine Federal-Individual Responsibility:

  Programs providing services or funds directly to individuals should 1) address existing problems which require Federal involvement and 2) work on a *quid pro quo* basis, where the benefits are provided in *exchange* for something, be it obligations for later service or expectations of individual responsibility.

>>> A preliminary list of programs that meet this criteria is attached>>>

LIST OF SELECTED PROGRAMS LACKING CLEAR FEDERAL ROLES

(BA in $ millions)

	FY 1993 Enacted	FY 1994 Budget
HRSA		
Health Professions Grants	266	290
Hansen's Disease Services	19	19
Payment to Hawaii -- Hansen's Disease	3	3
Native Hawaiian Health Care	4	4
Pediatric EMS	5	5
Trauma Care Demonstration Grants	4	4
Alzheimer's Demonstration Grants	5	5
Healthy Start	79	100
MCH Block Grant	665	705
Black Lung Clinics	4	4
Family Planning	173	208
CDC		
Lead screening	30	30
Cancer screening	72	85
Diabetes screening	10	10
Preventive Health Block Grant	149	149
Occup. Safety & Health Training	11	11
Health Hazard Evaluations	11	11
SAMHSA		
(Substance abuse treatment activities)		
Target cities	35	35
Campus projects	18	9
Critical populations	45	45
Community treatment program	17	27
Capacity expansion	15	89
Substance Abuse block grant	1,131	1,131
(Mental health service activities)		
Community support demonstrations	24	24
Children's services demonstrations	5	5
Protection and advocacy	21	21
Mental Health block grant	278	278

Theme #5:
Programs That Don't Work

- Consider eliminating programs for which evaluations, done by organizations such as CBO, GAO, and agency IGs, have shown little or no success or in which major implementation problems have persisted.

- Assessments and evaluations of PHS activities rarely conclude that programs "don't work." Rather, assessments usually suggest marginal improvements that could enable programs to run better. Since CBO is one of the few organizations that recommends eliminations, the attached list relies heavily on their suggestions.

>>>

LIST OF SELECTED PROGRAMS THAT DON'T WORK

	FY 1993 Enacted	FY 1994 Budget
IHS -- Urban Health Projects	21	22
Cited in a review of HHS Inspector General Reports		
HRSA -- Health Professions Grants	266	290
Note: This includes more than 30 separate grant programs (many of which are listed under "small size").		
Cited in CBO Deficit Reduction book as cut option		
HRSA & CDC -- Block Grants (Maternal & Child Health; Preventive Health & Health Services)	813	853
Cited in CBO Deficit Reduction book as cut option		

Theme #6:
Subsidies to Uneconomic Activities

- Consider eliminating or phasing out subsidies (whether the subsidy is a grant, an artificial price, a tax break, or cheap credit) that perpetuate activities that do not meet a market test and find a way to help the former recipients make a living some other way.

>>> A preliminary list of programs which meet this criteria is attached >>>

List of Selected Subsidies to Uneconomic Activities

HRSA -- Health Professions 266 290

Subsidizing the cost of training health professionals that are in short supply, if successful, expands the number of those professionals. However, an expanded supply can result in a relative decrease in income for those in shortage professions, thus discouraging people from entering shortage professions.

NIH -- Research Training 349 355

The Federal government funds about one in five grant applications from current researchers. Subsidizing the training of additional researchers when there is limited funding for research does not make economic sense and generates "back pressure" for research grant appropriations in the future.

THEME #7:
Administrative Streamlining

- Many options are available for streamlining administrative operations with a limited effect on services. A very rough estimate of the total savings for the options described below is $200-250 million.
- Options might include:

  -- postpone most staff training one year;

  -- restrict most staff training for those within four years of retirement;

  -- reduce administrative travel by 50%, including senior executive travel;

  -- allow 2 hires for every 3 employee departures (or 3 for 4...);

>>> continued on next slide >>>

THEME #7:
Administrative Streamlining(continued)

-- trim publication and printing expenses by 50% (less glossy publications, smaller print runs, restrict periodical subscriptions, reduce contracts for graphics and outlays);

-- hire only at the entry grade level when hiring from outside the government;

-- prune existing staff by:

a) eliminating deputies and special assistants

b) reducing agency Executive Secretariat staff;

-- eliminate/consolidate regional offices;

--reduce portion of grants and contracts used for administrative expenses.

>>> continued on next slide >>>

THEME #7:
Administrative Streamlining (continued)

- **Concerns About PHS Conference Spending** -- The House and Senate L/HHS Appropriations Subcommittees have been increasingly concerned about the portion of PHS administrative expenditures for conferences.

  The FY94 House L/HHS Committee report states that:

  The Committee is concerned about the number of conferences of one kind or another that are being funded by agencies of the PHS. The amount of money involved here could be substantial. The Committee needs to have useful information on this matter. Therefore, the Department is directed to submit to the Committee by December 31, 1993 a full report on the amounts spent on conferences by the PHS agencies for fiscal years 1991, 1992, and 1993. The amounts are to be broken down by agency and institute. In addition, information on the purposes of the conferences being funded should be included, as well as an assessment of the adverse impact, if any, of not holding some of these conferences. (emphasis added)

  An assessment of PHS conference spending could produce some additional administrative savings.

Overall, Administrative costs are a small percentage of PHS spending...

L/HHS Public Health Service Administrative Costs in FY94
(BA in $ millions)

	Admin	Non-Admin	Total	Admin %	Non-Admin %
HRSA	223	2,872	3,095	7%	93%
CDC	403	1,760	2,163	19%	81%
NIH					
Cancer	492	1,650	2,142	23%	77%
Heart	150	1,048	1,198	13%	87%
Dental	40	123	163	25%	75%
Diabetes	103	574	677	15%	85%
Neurology	99	491	590	17%	83%
Allergy	181	885	1,066	17%	83%
General Medical	27	806	833	3%	97%
Child Health	97	445	542	18%	82%
Eye	40	232	272	15%	85%
Environmental	73	188	261	28%	72%
Aging	56	338	394	14%	86%
Arthritis	27	184	210	13%	87%
Deafness	12	141	153	8%	92%
Mental Health	141	435	576	24%	76%
Drug Abuse	51	356	407	12%	88%
Alcohol	32	141	174	19%	81%
Research Resources	14	314	328	4%	96%
Nursing	6	43	49	12%	88%
Human Genome	28	107	135	20%	80%
Fogarty	7	13	20	36%	64%
Library of Medicine	95	39	133	71%	29%
Office of the Director	232	3	235	99%	1%
Buildings & Facilities	0	109	109	0%	100%
Subtotal, NIH	2,003	8,665	10,668	19%	81%
SAMHSA	160	1,993	2,153	7%	93%
AHCPR	20	125	145	14%	86%
OASH	67	20	87	77%	23%
TOTAL, L/HHS PHS	2,876	15,435	18,311	16%	84%

Sources: p. 93 of FY94 House L/HHS Appropriations Subcommittee Report; FY94 Budget

POTENTIAL FUTURE FUNDING DEMANDS

- Three out-year funding issues that might be considered when discussing plans for PHS budgets include:

1) Vaccine Compensation -- The 1986 law creating a no-fault vaccine compensation program does not authorize funds quickly enough to meet the one-time claims bulge for injuries related to vaccines administered prior to 1988. This mandatory program may face over $1 billion in claims while the annually authorized level remains at $80 million. If policy officials seek a faster payoff for adjudicated claims, long term financing issues may need to be addressed during the FY95 budget development process.

POTENTIAL FUTURE FUNDING DEMANDS (continued)

2) Consolidating FDA Facilities: In the previous Administration, FDA worked with GSA, HHS, and OMB for two years to develop a $423 million proposal to consolidate FDA's Washington-area operations into enclaves in Montgomery and Prince George's Counties in Maryland. FDA and HHS have apparently reneged on a deal worked out with the last Administration and the appropriators and Senator Mikulski in hopes that they can get a larger set of facilities (approaching $1 billion) instead. $200 million has already been appropriated to GSA in FY93 and $73 million was included in GSA's FY94 Budget for the $423 million project. The final scope of the project needs to be decided during the FY95 Budget development process.

POTENTIAL FUTURE FUNDING DEMANDS (continued)

3) NIH Clinical Center Replacement -- NIH's 3 million square-foot research hospital is 30 years old and deteriorating. NIH has examined options ranging from floor-to-ceiling renovation (circa $1 billion) to replacement (circa $2 billion). Secretary Shalala is expected to decide between these and other options (including a scaled-back facility, reflecting changing times) and present a sizeable funding request to OMB in her FY95 Budget request. The opportunity cost in terms of extramural research grants foregone under each construction budget option will need to be considered. Decisions on the future scale of NIH"s intramural research activities and their space requirements in the form of a replacement for the Clinical Center may be addressed during the FY95 Budget development process.

PHS Full-Time Equivalent

The Public Health Service employs a total of 50,674 FTE in FY 1993.

The attached table displays PHS FTE by bureau from FY 1985 to the FY 1994 President's Budget.

PHS FTEs have increased 19 percent from FY 1985 to FY 1993.

PUBLIC HEALTH SERVICE
FULL-TIME EQUIVALENT EMPLOYMENT, FY 1985-FY 1994

	FY 1985 Actual	FY 1986 Actual	FY 1987 Actual	FY 1988 Actual	FY 1989 Actual	FY 1990 Actual	FY 1991 Actual	FY 1992 Actual	FY 1993 Enacted	FY 1994 Budget
FDA	7,190	7,001	6,961	7,210	7,398	7,815	8,450	8,984	8,905	8,744
HRSA	3,414	2,948	2,399	2,250	2,181	2,216	2,246	2,320	2,341	2,291
IHS	11,554	11,538	11,616	11,878	12,359	12,713	13,321	14,325	14,951	14,436
CDC	4,161	4,150	4,504	4,416	4,710	4,980	5,247	5,871	5,866	5,752
NIH	14,336	13,723	13,978	14,615	14,599	14,966	15,902	16,769	16,577	16,232
SAMHSA	327	313	328	335	348	430	514	584	646	636
AHCPR	–	–	–	–	133	158	202	253	282	277
OASH	1,473	1,465	913	916	856	843	933	1,010	1,106	1,083
TOTAL, PHS	42,455	41,138	40,699	41,620	42,584	44,121	46,815	50,116	50,674	49,451

16-Jul-93

Expected PHS Requests for FTE Increases

- PHS is likely to seek additional FTE for any investment-related activities, such as immunizations, HIV/AIDS activities.

- HHS has sought additional FTEs for FDA user fees activities and Mammography Quality Standards in FY 1993 and FY 1994. If granted, these FTE will continue into FY 1995 and beyond.

- PHS is likely to seek large FTE increases associated with Health Reform and anticipated PHS program expansions, such as NHSC.

- PHS is likely to seek additional FTEs for IHS, associated with new hospitals and clinics.

Potential PHS FTE Savings

- FTEs, like program funding, can be reallocated from low to high priority programs.

- Numerous options for achieving this exist, such as:

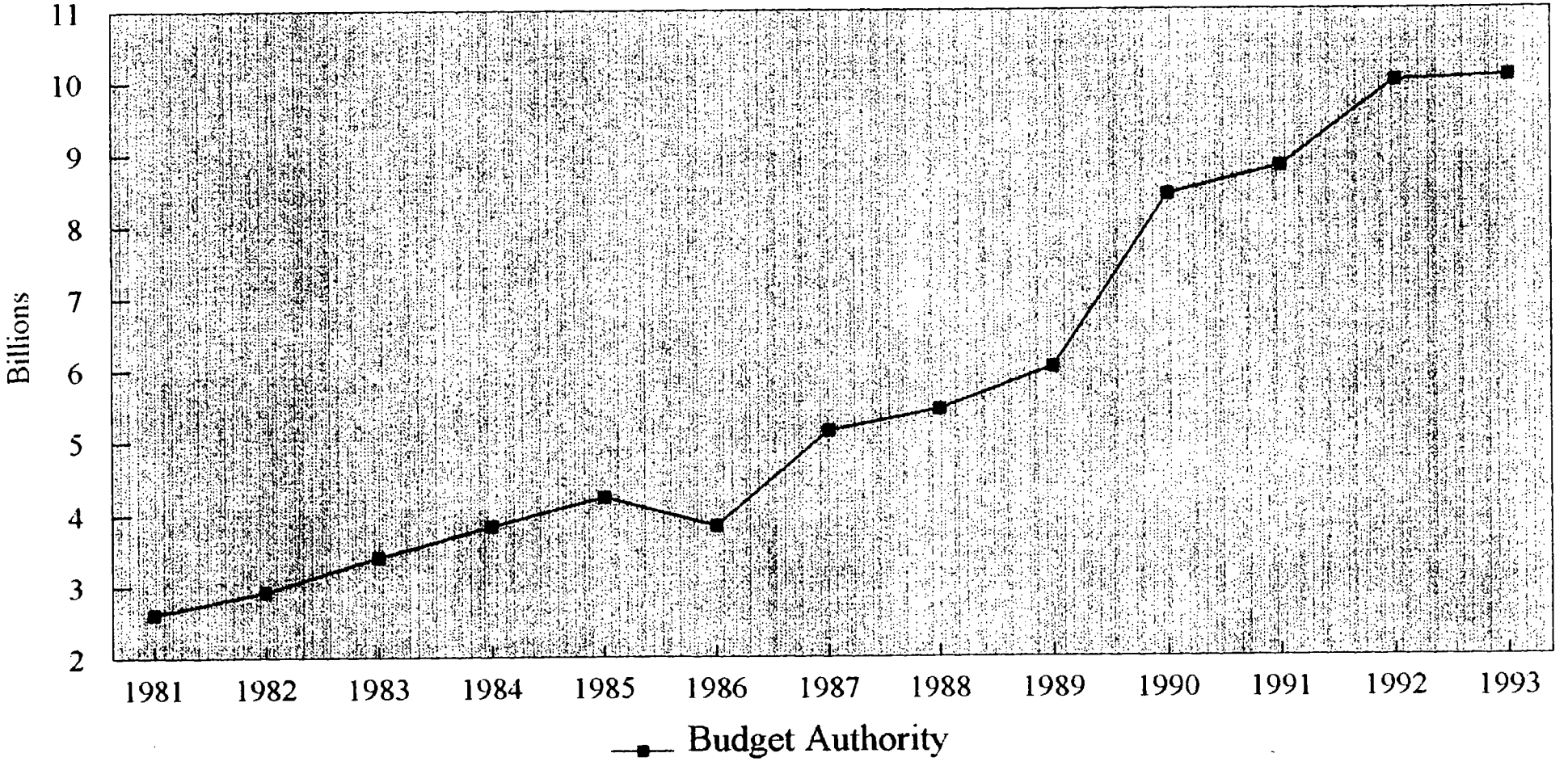
  -- reallocate non-investment FTE by some percentage.

  -- since the House appropriated only about 50 percent of the President's Investment package for PHS, investment associated FTE can be lowered by roughly one-half.

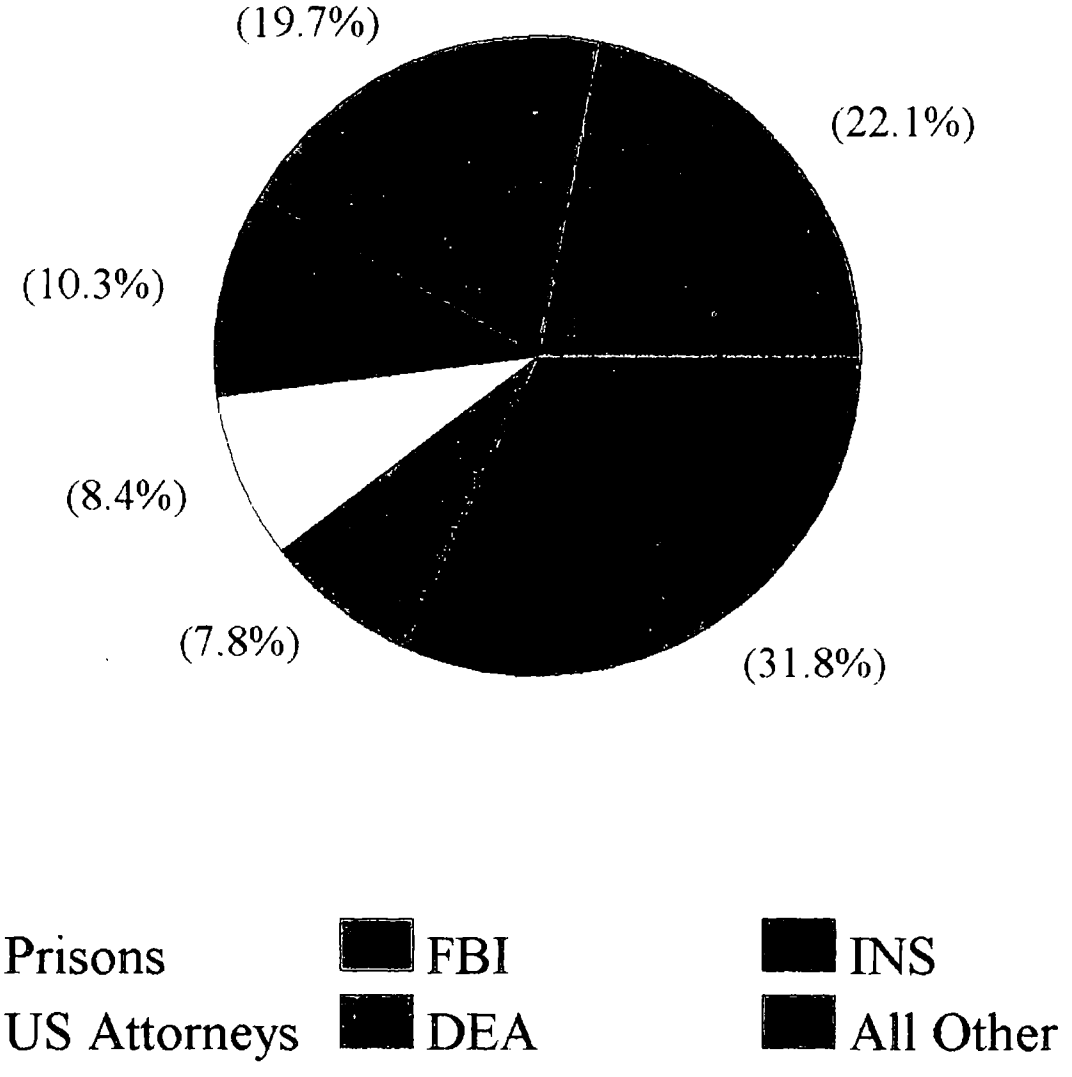
  -- reallocate FTE liberated by any of the thematic reallocations enumerated earlier. For example, administrative streamlining could free 368 FTE in PHS.

Department of Justice

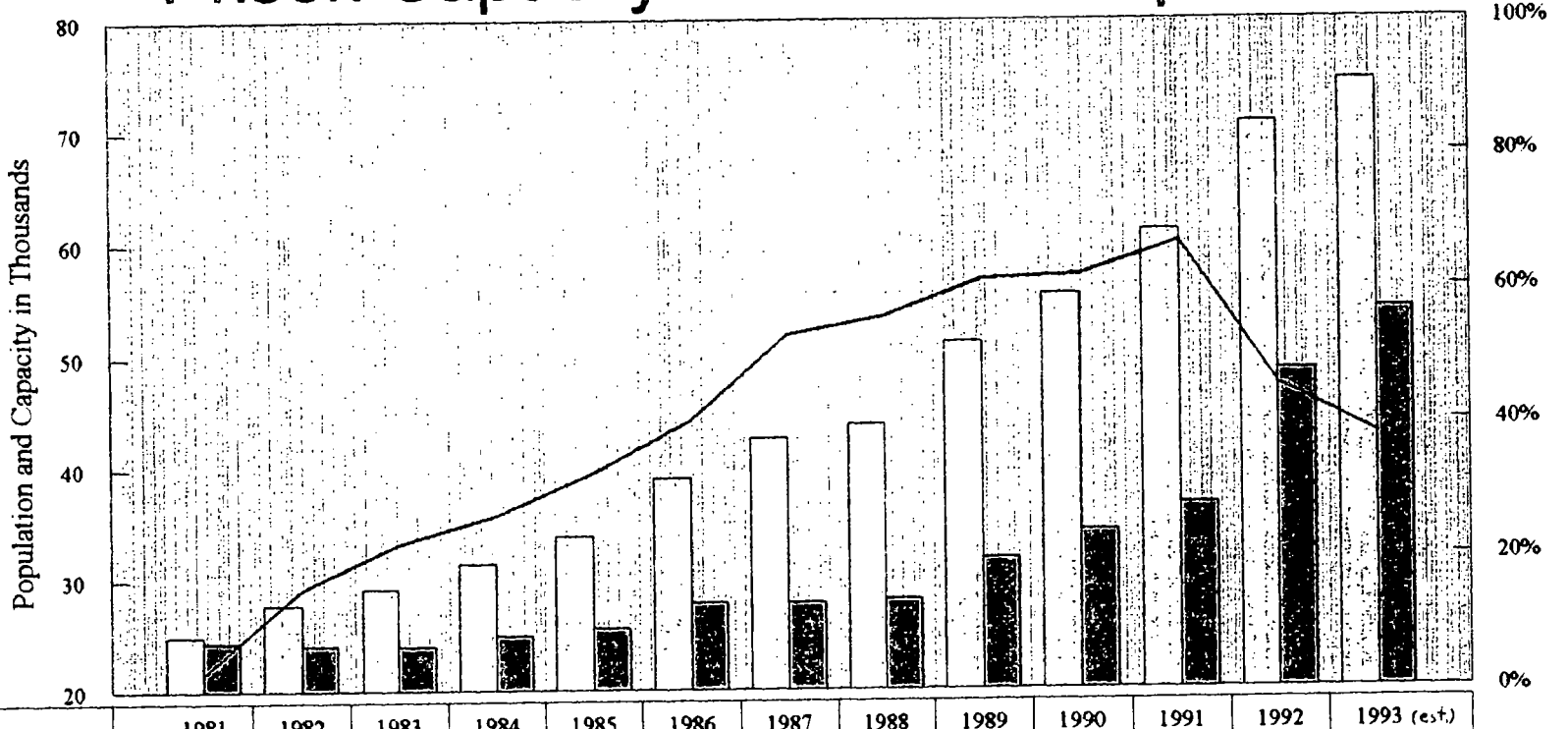
($ in Billions)



DISTRIBUTION OF DEPARTMENT OF JUSTICE BUDGET AUTHORITY



Prison Capacity and Inmate Population

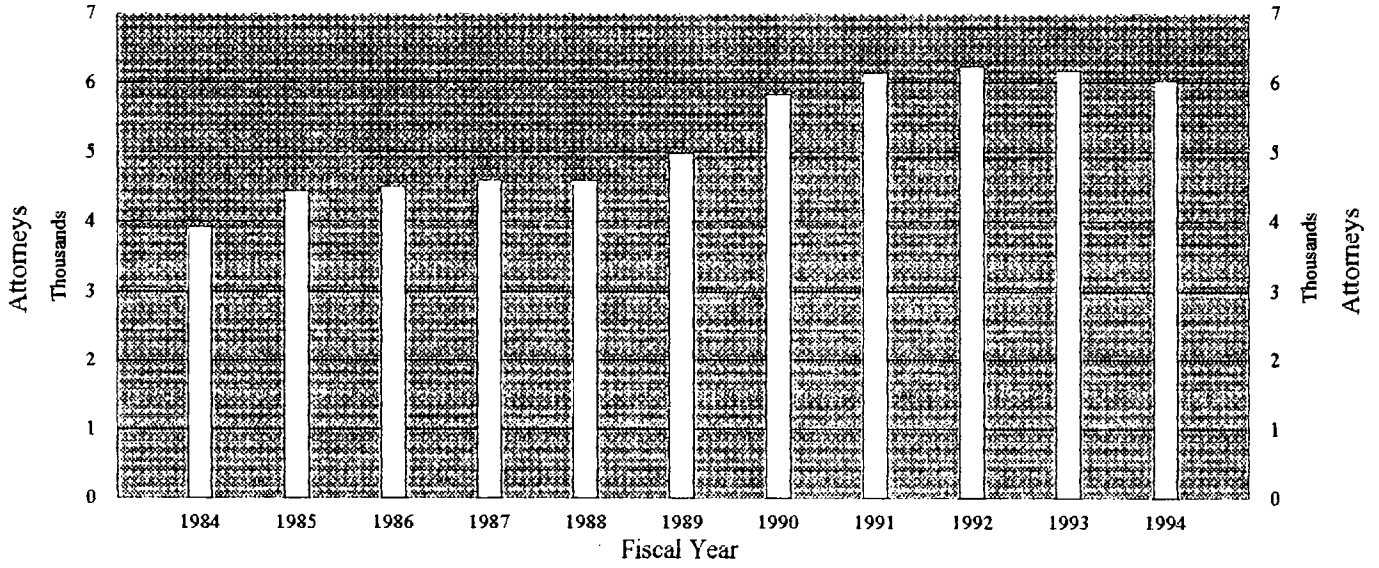


	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 (est.)
Inmate Population	24,932	27,730	29,178	31,394	33,834	39,008	42,627	43,835	51,153	55,407	61,071	70,630	74,460
Prison Capacity	24,311	24,072	23,936	24,874	25,532	27,785	27,854	28,143	31,727	34,239	36,624	48,527	53,946
% Overcrowding	2.6%	15.2%	21.9%	26.2%	32.5%	40.4%	53.0%	55.8%	61.2%	61.8%	66.8%	45.5%	38.0%

Attachment A

Absolute Growth in Justice Department Attorneys

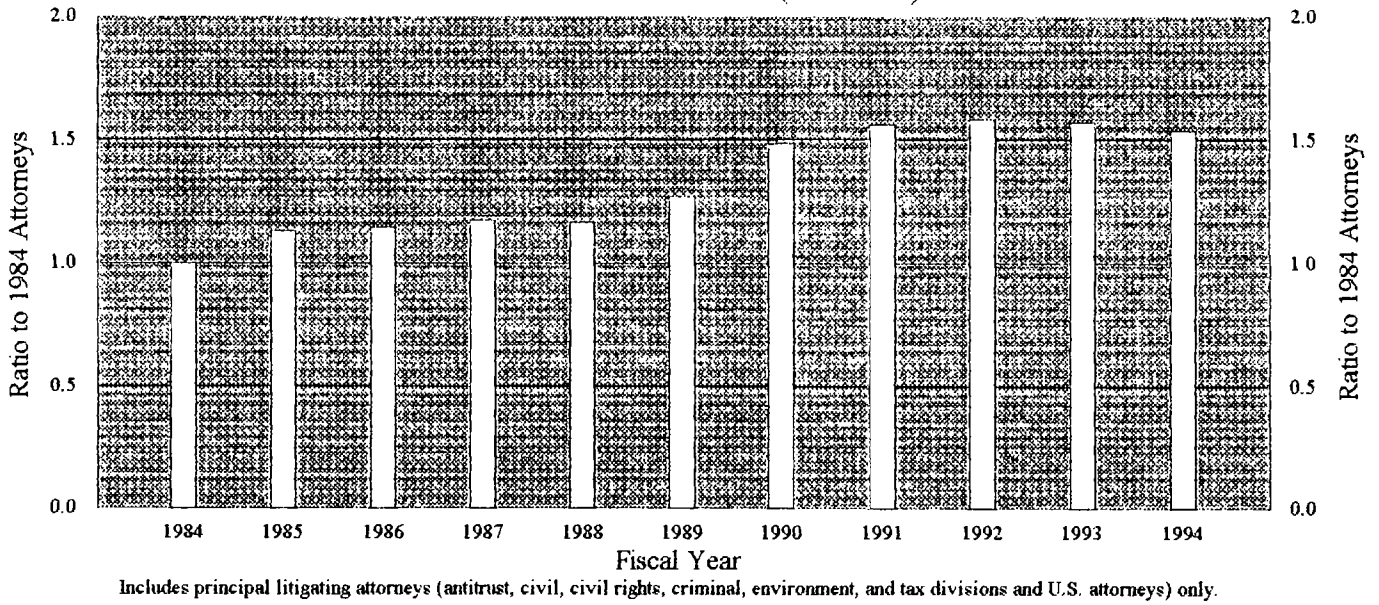
1984 - 1994



Includes principal litigating attorneys (antitrust, civil, civil rights, criminal, environment, and tax divisions and U.S. attorneys) only.

Proportional Growth in Justice Department Attorneys

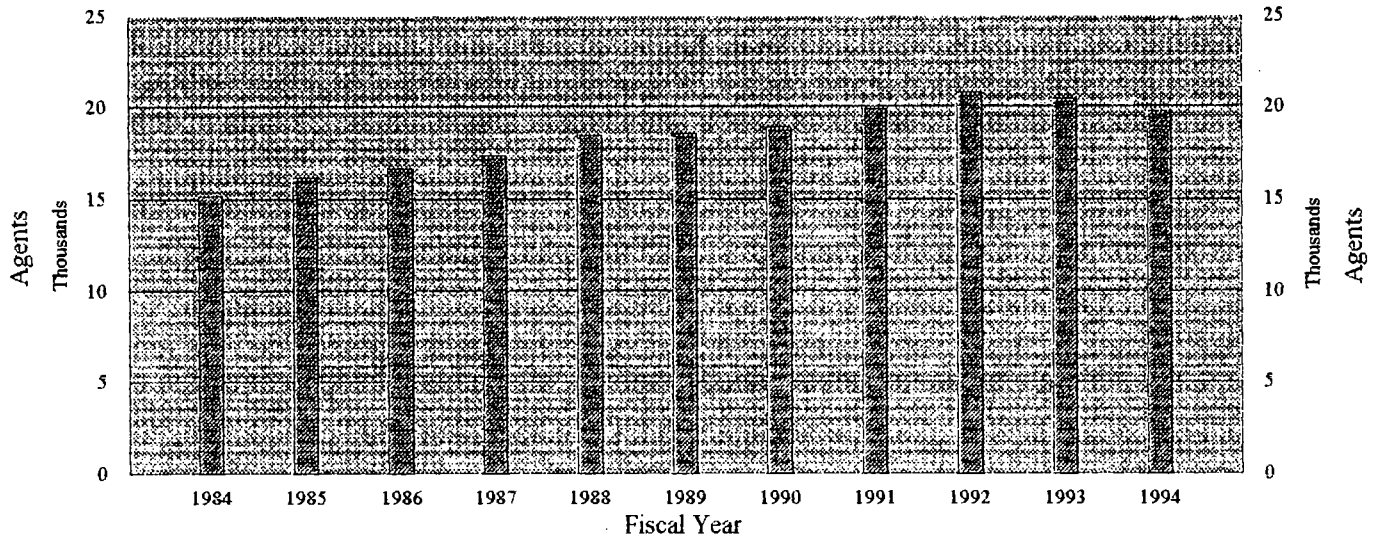
Base Year is Fiscal Year 1984 (1984 = 1.0)



Includes principal litigating attorneys (antitrust, civil, civil rights, criminal, environment, and tax divisions and U.S. attorneys) only.

Absolute Growth in Justice Department Agents

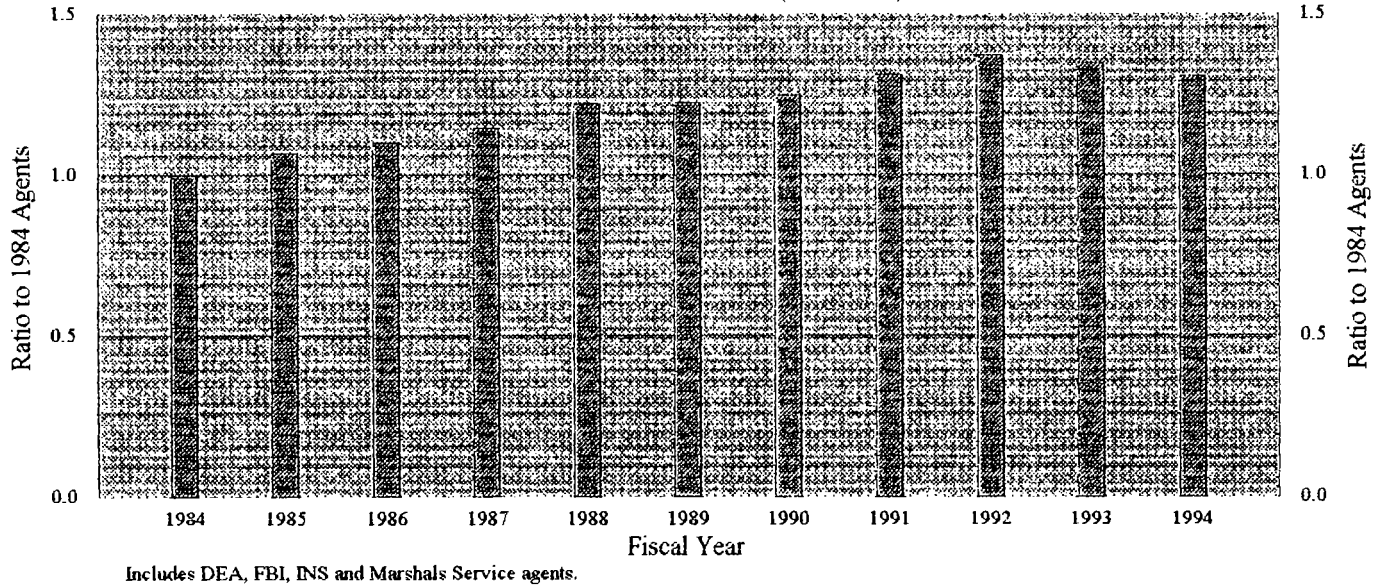
1984 - 1994



Includes DEA, FBI, INS and Marshals Service agents.

Proportional Growth in Justice Departments Agents

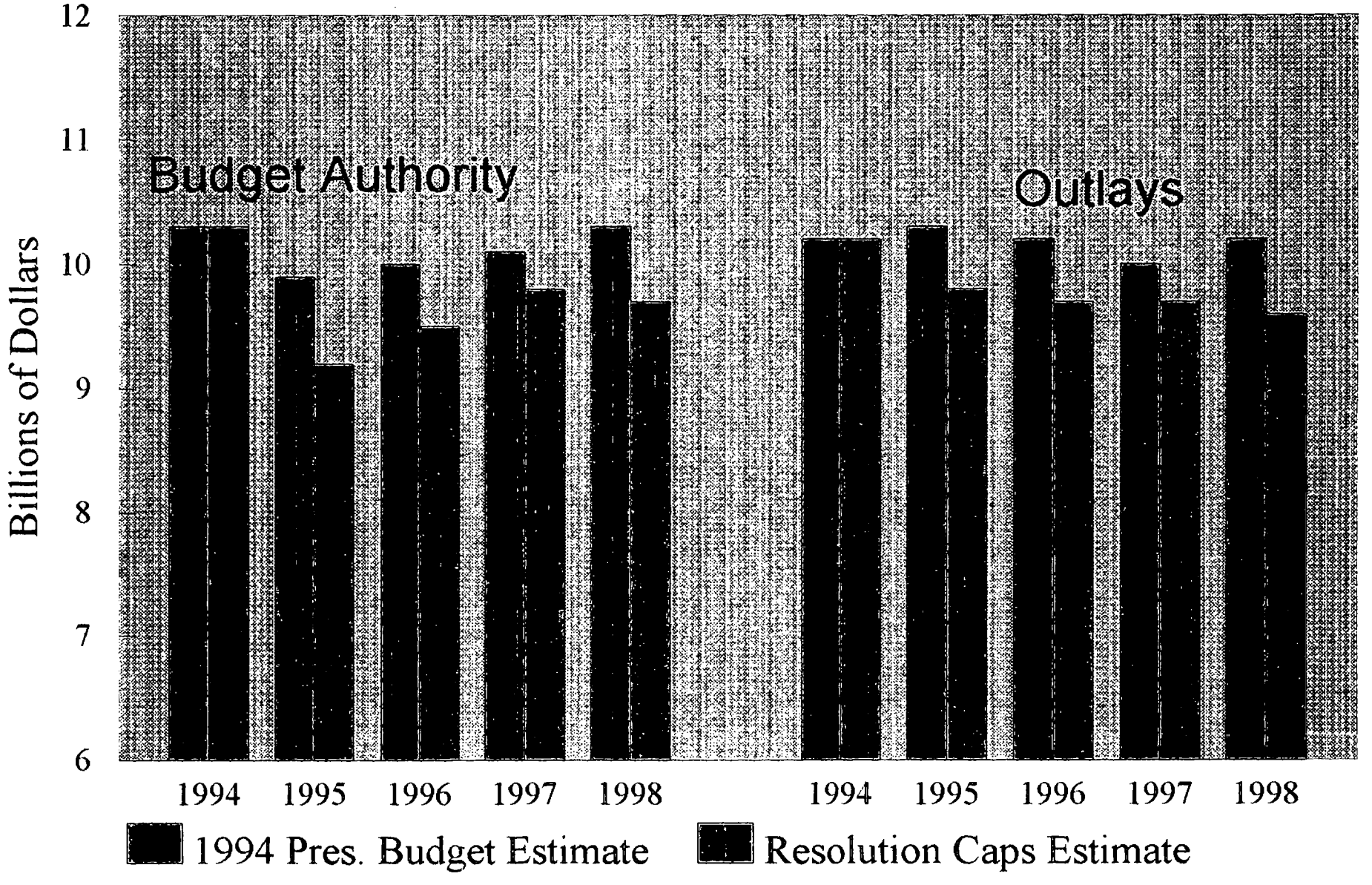
Base Year is Fiscal Year 1984 (1984 = 1.0)



Includes DEA, FBI, INS and Marshals Service agents.

DEPARTMENT OF JUSTICE BA AND OUTLAYS:

1994 Pres. Bud. Estimates vs. Resolution Caps Estimate



DEPARTMENT OF JUSTICE
PRESIDENT'S INVESTMENT PROPOSALS

(Budget Authority, Dollars in Millions)

	1993 Enacted	1994 Request, Total	1994 Investment Portion	1994 House Action, Total	1994 House Investment Portion	1995 Request, Total	1995 Investment Portion
Federal/State Partnerships 1/	0	100	100	25	25	394	394
Community Policing		[50]	[50]	[25]	[25]		
Police Corps		[25]	[25]	[0]	[0]		
Criminal Records Upgrade		[25]	[25]	[0]	[0]		
Community Relations Service	26	35	7	27	0	38	9
Support of U.S. Prisoners	241	357	88	308	39	397	121
FBI	1,998	2,044	19	2,024	0	2,014	26
INS	978	1,019	26	999	0	1,012	35
Prisons: Salaries and Expenses	1,744	2,040	151	1,950	65	2,062	208

1/ Federal/State Partnerships investment was requested as a new budget account. House action earmarked $25 million for community policing under an existing account in the Office of Justice Programs.

Department of Justice

FY 1995 Discretionary Budget Estimates

($ in millions)

		B A	Outlays	FTE
1.	Background			
	1994 Request	9,581	9,480	95,912
	1994 House	9,131	9,330	N/A
	1995 Request in '94 Budget	9,863	10,327	N/A
	1995 Provisional Ceiling	9,233	9,790	94,436
2.	Costs to carry out House 1994 in 1995	9,747	10,297	
3.	Investment Proposal			
	• Funded 1994 Investment (non-add)	(129)	(75)	
	• Unfunded 1994	262	139	
	• Planned 1995 Investment Increment	404	378	
4.	Necessary Cost Increases Over Investment Proposals			
	• Prisons - S&E	390	332	800*
	• Meeting the 100,000 Cops Pledge	343	75	10
	• US Marshals	50	45	400
	• INS Border Patrol, Detention, Infrastructure	49	40	500
	• Community Relations	7	6	0
	• Defense of Environmental lawsuits	3	3	50
	Subtotal (Sum of 3 & 4)	1,508	1,018	
5.	Estimated Requirements (Sum of 2, 3, & 4)	11,255	11,315	
6.	Required reduction to reach 1995 Provisional Ceiling	-2,022	-1,525	

* 2000 Positions

Major Issues

- Reaching provisional ceilings requires major realignment and RIFs
- Law Enforcement - Role and scope in context of FTE ceilings and budget reductions.
  - Realign Federal role vs State/local
    - A. Revise Federal Code to streamline # of Federal offenses
    - B. Encourage States and locals to stiffen sentencing, penalties
    - C. Charge States for services (eg. training, lab)
    - D. Downsizing Federal law enforcement presence in conjunction with 100,000 cops initiative
  - Streamline Federal structure
    - A. DEA/FBI merger; Eliminate Organized Crime Drug Enforcement Task Forces
- Federal Prison System
  - Projected Growth/Future Requirements - Now the biggest bureau in DOJ
  - Prison population has increased from about 29,000 in 1983 to 75,000 in 1993.
  - Mandatory Minimum Sentences - Impact
- Law Enforcement Pay - No more enhancements
- Immigration Policy/INS
  - Asylum legislation and streamlining admin. procedures
  - Infrastructure Improvement Needs

- Restructuring

  A. Shift of legal immigration to State Dept.

  B. Shift employer penalties to Labor Dept.

  C. Merge Customs/INS on landborder ports, especially southwest

- US Marshals - Growth and infrastructure requirements
- Office of Justice Programs - State and Local Law Enforcement Assistance/ Juvenile Justice

Management Issues

- Reaching FTE targets
- Improving management debt collection

  A. collection of fines and restitution

  B. collection of debts owed U.S. referred by other agencies

  C. contracting for debt connection

- Improvement of contract administration
- Resolution of responsibilities (jurisdiction) between the Inspector General and the Office of Professional Responsibility.
- Prisons - Correct environmental health and safety issues and provide sufficient resources to reduce overcrowding and inadequate staffing (high risk).

BOLD STRATEGIES TO ACHIEVE 1995 PROVISIONAL CEILING
(dollars in millions)

Code	Agency/Bureau	Brief Description	1995 Base Outlays	Savings: 1995 Proposal BA	Savings: 1995 Proposal OL	Savings: 5 year BA estimate
CROSSCUT PROPOSALS						
	DOJ/STATE/DOD	Shift $200M from DOJ/State/DOD drug "supply" programs to drug "demand" programs.	8,301	N/A	N/A	N/A
	DOC/TREASURY	Consolidate INS and Customs border management responsibilities into one agency. (Savings would be split between Treasury and Justice.) NPR	N/A	(35)	(26)	(175)
	DOC/TREASURY	Consolidate BATF firearms and explosives functions into FBI. (Savings in Treasury and additions to Justice.) NPR	219	20	18	100
ELIMINATION/RESTRUCTURING PROPOSALS						
	Drug Enforcement Administration	Consolidate/Restructure DEA overseas offices. Move to a country office format to regional offices.	723	(40)	(30)	(210)
	Drug Enforcement Administration	Eliminate foreign enforcement operations (i.e., SNOWCAP, CADENCE)	723	(15)	(11)	(75)
	Assts Forfeiture Fund	Reduce state payments for assets forfeiture. Proposal cuts in half the sharing of forfeited assets shared with states. Savings are defered for use until 1996 since the receipts are earmarked and carry over for this and other law enforcement programs. Feds bear most of the cost. Could offset OJP. Crosscut: similar policy for Treasury Asset Forfeiture Program.	245	(123)	(49)	(715)
	Office of Justice Programs	Reduce anti-drug abuse grants by 20%. Would eliminate, for one year, all new grants and enable States "catch up"/ use large obligated balances. Rationale for cut would also be the 100,000 cops initiative.	758	(85)	(19)	(425)
REVENUE/FEE PROPOSALS						
	INS	Introduce INS fees at land border (several forms). Crosscut: Similar policy in Customs	1,012	(17)	(17)	(85)
	FBI	Charge State and local law enforcement agencies for fingerprint/name checks. ($2 per 5.5M checks.) Also charge for FBI State/local training.	1,934	(16)	(12)	(80)

Other Strategies to achieve 1995 Provisional Ceiling

(Dollars in millions)

	BA	OL
A. User Charges/Other Revenues		
• Charge for FBI lab work performed for State and local law enforcement	-5	-3
• Uniformly refer all debt under $1 million to private collectors (results in additional revenues and frees US Attorneys to work other cases)	-3	-3
B. Program Reductions		
• Terminate National Institute of Corrections	-10	-4
• Terminate State and local Overtime	-5	-4
• Scale back IAFIS (Fingerprint ID System - FBI) No 1995 Approp. (Byrd)	-20	-15
• Reduce Foreign Counterintelligence (FBI)	-10	-8
• Eliminate Regional Drug Intell. Squads (OCDE)- NPR	-15	-8
• Eliminate Marijuana Eradication Program (DEA)	-10	-8
• Eliminate Weed and Seed (GA)	-14	-10
C. Investment Reductions Below 95 Level		
• None		
D. Alternative Strategies		
• Shift "legal" immigration to State Department	(-35)	(-35)
• Shift employer sanctions to Labor Department	(-5)	(-4)

• Shift Inspections to Treasury Department - NPR	(-10)	(-8)
• Consolidate drug law enforcement (DEA/FBI) - NPR	-50	-38
• Eliminate OCDE in lieu of FBI/DEA merger - NPR	-385	-193
• Drop local drug investigation role; assume States and localities will pick it up.	-100	-100
Total:	**-627**	**-394**

July 26 — DOJ M+B Review

- Already ongoing
- dedicated to "Reorganization" of FBI + DEA
  - NIR has not looked at down a professional
  - Security issue to fund FBI buyouts to save FBI funds by end of '95.

CB: Extreme problem of turnover in FBI + other federal law enforcement.

⇒ use of existing '94 funds

JR: Investigations on ARA claims do not require FBI
  - new salary range for other investigators

↓ ?

PRISONS

- Came from State where murderers started 5 years before.
- & would like immediately w/ WH support

"I don't have terrible budget problem — you have terrible political problem"

- to build more prisons + to start controlling prison admissions so that not I can argue to

— Thorough memo: said you have to change the whole crime

— "It's there if you can get the WH to quit. sniping at me."

— Also, look at the guidelines at DOJ.

↳ CE: Let's take it to the President

The Start - Quarter

- Cut out Police Corps + Cops on Beat

- Can reduce DOJ by 25%, not all

- DEA/FBI merger — it's a good idea we must do it.

- PRISONS: ① Define non-violent first offenders "Get them out!"
↳ Use fed prisons for dangerous interstate offenders
② Case-by-case basis of resentencing

Phil Gramm + the WSJ have been the ones that have sniped at me most!

(#2) - Can't walk FBI agents

- Beef-up anti trust + civil rights
↳ Criminal we can coordinate + cut

Buy-out + early retirement
↳ people who are "old + tired" + expensive.

Bureau. - ? slow - build-up

OJP - political nightmare
↳ Breakdown - we need to get a handle on that - then can be cuts.

INS - Customs turf battle
↳ Patrons on the Hill.

JR:

- Clear to we Rpt we've a Nat'l Crime strategy
  - ↳ address the dangerous offenders.
  - ↳ Nat'l capability to imprison.

LP: Crime Bill – "Save core bill"

JRB: "I'm working on the minimum mandatories"

CE: Go to President w/ Nat'l Crime + Drugs Strategy.

- We'll have empty prisons in '97 w/out one to start.
- I can tell the USA in Manifesto to take any drug cartel – but if it's not part of a strategy I've got no cover.

– JR: Pass crime bill. W/ some renewable at some level. + then look to future.

JR: Why is there a firewall on DoD $?

- Potential for military + community policing

- Will have mention another $ again until some medieval person in the WH mentions it.

↳ Cops on the Beat

↳ PBB Agents to street + military to the streets

LP: DEA agents - strategy problem

↳ Must all be done in context of National Crime Strategy

Phil Heyman — 1.2 billion in Interdiction

Use just DoD gasoline

DR's Priorities

(1) "Dangerous Offenders" (violent + Major Traffickers) put away for good.

(2) Consolidate law Enf. $ to be effective + cost-effective

(3) Take the OVP money + try to leave them in one package but cuts across agency lines.

CE: Status of 100,000 Copy
- Baseline problem - #350

JR: Told Gergen + Mack - We need strategy now.

LP: - Note Item of 100,000 Ed initiative

JR: AVO - I can't take on myself.
Must be all of us w/clients.
& also count calls

VR: No case management system for USA's.

Civil-side - set-up New Negotiation protocols.

- Talking Cops on ReadBeat & split into
6 FBI & DEA on Streets.

THE WHITE HOUSE

WASHINGTON

July 8, 1993

MEMORANDUM FOR CAROL RASCO

FROM: JOSE CERDA III

SUBJECT: MEETING WITH OMB ON JUSTICE FY 95 BUDGET

With regrets, Carol, I forward this memorandum to you outlining the difficulties that we face in determining next year's budget for DOJ. Not only is the budget picture quite bleak, but -- as characterized by OMB -- DOJ's budget woes are a "worst case scenario" compared to some of the other agencies.

A. The Problem

The largest part of DOJ's budget problem stems from the "federalization" policies pursued by the previous administration and acquiesced to by Congress. Together, Congress and the Bush Administration proposed federal law enforcement policies that gave the federal government jurisdiction over crimes traditionally dealt with at the state and local level -- and created a federal presence in state and local law enforcement that will now be difficult to continue or difficult to reduce.

As a result of these policies, the federal government investigates, prosecutes and incarcerates more criminals today than ever before. And to do this, it has hired more investigators, attorneys and built additional prisons -- more than doubling DOJ's budget between 1986 and 1992 (from $4 billion to $10 billion). Thus, even if we stop the growth in "federalization" (i.e, limit new federal offenses, stop prison construction, etc.), we are still not be able afford current criminal justice expenditures.

To fund the President's requested investments and to meet these rapidly growing criminal justice obligations, DOJ will have to find $2 billion in cuts from its $9 billion base budget -- a near impossible task. To realize such a high percentage of cuts, we are faced with the politically infeasible choices of dramatically scaling back the President's priorities (cops and INS monies), re-sentencing federal prisoners and laying off federal law enforcement officers or gutting other Justice programs by an across-the-board percentage. (NB: At this point, OMB hasn't factored in what DOJ's priorities might be).

Both OMB Director Panetta and Deputy Director Rivlin agreed that DOJ would be unable to find $2 billion in cuts. There is no chance of addressing this problem with a "budget scrub," they concluded. Rather, it looks as though OMB will need to find money elsewhere for DOJ to meet its obligations. Director Panetta did propose, however, that OMB at least be able to suggest some $600 million in cuts and $60 million in fees to DOJ as a starting point.

B. Prisons

The growth in the federal prison population presents the largest and fastest growing part of DOJ's budget -- and its biggest headache. While the Attorney General has repeatedly talked about undoing mandatory minimums and utilizing alternative sanctions, these proposals will only address the long-term trends in our prison costs. Long-term prison construction costs are not the issue here; current prison maintenance costs and hiring the staff required to bring new prisons on line are the problem. To realize immediate savings DOJ would have to reduce the prison population by re-sentencing current federal inmates to shorter terms. This is a serious policy shift that -- particularly if forwarded as a budget decision -- would be political dynamite.

OMB staff also suggested shifting the investigation, prosecution, and incarceration burden of certain crimes to the states. To a certain degree this makes sense on policy grounds and is partially consistent with the President's pro state and local law enforcement views. However, states prisons are more overcrowded than federal prisons. Such a shift would have to be phased in and, thus, would not realize immediate, sizable savings.

B. 100,000 Cops

The President's 100,000 cops pledge was repeatedly put on the table as any easy source of funds. Panetta resisted such cuts, but Rivlin suggested that the AG was not enthusiastic about the 100,000 cops proposal. OMB staff and I argued that (1) the pledge was too important to the President, and that (2) we were actually only asking DOJ to put up the money for 50,000 cops (the remainder coming from a collection of other programs). OMB staff has flagged this proposal, for now, as a "non-optional" and definite presidential priority. (Still, vigilance is our watchword when it comes to money for cops.)

OMB staff also suggested that, in light of the President's commitment to cops, we cut other resources, such as the Byrne Grants ($450 million), to state and local law enforcement. While there may be some room to cut duplicative monies here, I can't imagine that we will be able to increase state and local law enforcement responsibilities and cut their main source of funds (Byrne Grant) at the same time. At best, we are talking tens of millions here, not hundreds of millions.

D. INS and Border Patrol

OMB staff has also classified INS monies as a "non-optional". INS is perhaps the bureau at DOJ with the most significant infrastructure problems. The agency requires new monies simply to function properly, let alone to take any new duties. Also, OMB staff made Panetta and Rivlin aware that the President has "twice" referred to new monies that he has for more border patrol agents -- money we don't actually have. (Although the House did pass a Duncan-Hunter amendment to the appropriations bill to increase the border patrol account by $60 million. No offsetting provision was included.)

Suggestions made at the meeting to help pay for INS expenditures included charging fees at the border, shifting legal immigration to the State Department or shifting employer sanctions-related responsibilities to Labor.

cc: Bruce Reed
Donsia Strong

$1.6 billion
$600 million on low priorities
$600 mill on investments

→ $3 billion in tech. scoring difference

split $500 million from Grassley
50/50 between Defense + Domestic. Discretionary.

→ Investments ~~in $600~~
→ Space Station ~~protected~~
→ Defense

3 protected in mtg w/ Obey + Bond.

Result:

Chuck Walker:

OBEY: Give back to Ag. (Durbin)
" " to Legis Branch
" " to VA-HUD

BYRD: " to Energy + Water
" " to Transportation

Infrastructure

GORDON: ~~Defense down last $600 mil in 00~~

- Did well
- Pay change issue by authorizers
  96 + above outlays
- about $600 mil in mil com pork
  ↳ more than we wanted
- Base closure fully funded
- Foreign Ops

Counter Narcotics need:

Bill Sawhill

Labor HHS — we request. $5 bill ↑ (4.5 mw.)

Smith shouts at 96.5% + added back
w/trade off
↳ Smith thinks we can add maybe 40%
↳ Even if they took all our cuts (1.? bill)
they could only make 60%.
↳ LIHEAP PROBLEM.

Nancy Ann Min

— Prevention package?
↳ HDS, cancer, etc. — HHS/Labor

— Veterans Med Care?

... Restoring VA cuts, problem.

Chris Edley

Transportation — not as enamored of Full Funding of BSTEA
↳ did not like cuts to Mass Transit.

CJS — BA gap is 1.3 bill in BA
+ 1 bill in BO

↳ not as bad in Senate, where VA-HUD is cut in favor of CJS.

— Crim $2.4 bill put on hold until crime bill is finalized. ? wouldn't be sure if
↳ COPS will be slashed? only 60%, Rep prevents

Treasury/Postal:
- Ways + Means won't let Post go
- Tax System Modernization effort
- Pay raise issue.
- Shut-lined Re WH budget

VA HUD
- Rural dev programs, not ours
- not in danger of being shutted by space station, etc.

LP
Ags - very tight
- WIC our priority + it should be close.
- Rural Development — we may lose.
-

V
Energy + Water
- not many priorities
  ↳ downsizing DOE + Corps of Energy.
- House likes water projects
  ↳ canceled 100 new projects for Members.
- In Senate, more energy projects + less water.

VA HUD
- Overall Priority — $ ↑ 2 bill in 04
  ↑ 1.2 bill in 05

$ 27 bil in 05 increases

Interior - Shut Funded

DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE
PERCENT CHANGE - CBO ESTIMATE OF REQUEST VS. 602(b)
(in billions of dollars)

Appropriations Subcommittee	FY 1994 Enacted [1]		CBO Estimate FY 1995 Budget (Adjusted) [2]		FY 1995 House 602(b) Allocation		FY 1995 Senate 602(b) Allocation		Percent Change: FY 1995 CBO Estimate to House FY 1995 602(b)		Percent Change: FY 1995 CBO Estimate to Senate FY 1995 602(b)	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Agriculture and Rural Development	14.686	14.807	13.790	14.008	13.817	13.945	13.817	13.850	0.2%	-0.5%	0.2%	-1.1%
Commerce, Justice, State and the Judiciary	22.988	23.916	27.357	25.818	26.057	24.818	26.850	25.100	-4.8%	-3.9%	-1.9%	-2.8%
Defense	239.433	258.947	244.252	251.054	243.432	250.515	243.432	250.515	-0.3%	-0.2%	-0.3%	-0.2%
District of Columbia	0.700	0.698	0.722	0.724	0.720	0.722	0.720	0.722	-0.3%	-0.2%	-0.3%	-0.2%
Energy and Water Development	21.871	22.590	20.506	20.940	20.373	20.853	20.513	20.943	-0.6%	-0.4%	0.0%	0.0%
Foreign Operations	13.408	14.033	14.006	13.898	13.795	13.736	13.795	13.736	-1.5%	-1.2%	-1.5%	-1.2%
Interior and Related Agencies	13.776	13.516	13.718	14.082	13.525	13.943	13.525	13.867	-1.4%	-1.0%	-1.4%	-1.5%
Labor, HHS, and Education	67.230	69.287	72.294	70.313	69.978	69.819	69.978	69.819	-3.2%	-0.7%	-3.2%	-0.7%
Legislative	2.264	2.325	2.270	2.245	2.468	2.424	2.423	2.384	8.7%	8.0%	6.7%	6.2%
Military Construction	9.464	8.627	8.502	8.529	8.837	8.554	8.837	8.554	3.9%	0.3%	3.9%	0.3%
Transportation and Related Agencies	12.991	35.571	14.011	36.603	13.584	36.445	13.734	36.600	-3.1%	-0.4%	-2.0%	-0.0%
Treasury, Postal Service, and General Government	11.621	12.297	12.461	12.526	11.644	11.855	11.644	11.855	-6.6%	-5.4%	-6.6%	-5.4%
Veterans Affairs, HUD, Independent Agencies	68.347	71.748	69.862	73.361	70.418	72.945	70.418	72.629	0.8%	-0.6%	0.8%	-1.0%
Allowance	---	---	---	---	2.106	---	1.068	---	---	---	---	---
Total discretionary	**498.780**	**548.364**	**513.753**	**544.103**	**510.754**	**540.574**	**510.754**	**540.574**	-0.6%	-0.6%	-0.6%	-0.6%
Discretionary caps			**518.058**	**541.074**	**518.058**	**541.074**	**518.058**	**541.074**				
Total discretionary less caps			**-4.305**	**3.029**	**-7.304**	**-0.500**	**-7.304**	**-0.500**				

[1] FY 1994 Enacted includes transfers and technical re-estimates, and enacted supplementals and rescissions. FY 1995 Proposed includes the outlay effects of enacted supplementals and rescissions.

[2] CBO estimates used for this table do not include the April 22nd budget amendment in its scoring. CBO scoring has been adjusted to include OMB estimates of the April 22nd budget amendment. Amounts have also been adjusted to distribute allowances of $20 million BA and $182 million in outlays for procurement and rent.

[3] FY 1995 excludes $188 million in budget authority and $184 million in outlays for the IRS Compliance Initiative.

26-May-94
10:30 AM
BRB:DPO
95602dk.wk3

DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE
PERCENT CHANGE - ENACTED VS. 602(b)
(in billions of dollars)

Appropriations Subcommittee	FY 1994 Enacted [1]		CBO Estimate FY 1995 Budget (Adjusted) [2]		FY 1995 House 602(b) Allocation		FY 1995 Senate 602(b) Allocation		Percent Change: FY 1994 Enacted to House FY 1995 602(b)		Percent Change: FY 1994 Enacted to Senate FY 1995 602(b)	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Agriculture and Rural Development	14.686	14.807	13.790	14.008	13.817	13.945	13.817	13.850	-5.9%	-5.8%	-5.9%	-6.5%
Commerce, Justice, State and the Judiciary	22.988	23.916	27.357	25.818	26.057	24.818	26.850	25.100	13.4%	3.8%	16.8%	5.0%
Defense	239.433	258.947	244.252	251.054	243.432	250.515	243.432	250.515	1.7%	-3.3%	1.7%	-3.3%
District of Columbia	0.700	0.698	0.722	0.724	0.720	0.722	0.720	0.722	2.9%	3.4%	2.9%	3.4%
Energy and Water Development	21.871	22.590	20.506	20.940	20.373	20.853	20.513	20.943	-6.8%	-7.7%	-6.2%	-7.3%
Foreign Operations	13.408	14.033	14.006	13.898	13.795	13.736	13.795	13.736	2.9%	-2.1%	2.9%	-2.1%
Interior and Related Agencies	13.776	13.516	13.718	14.082	13.525	13.943	13.525	13.867	-1.8%	3.2%	-1.8%	2.6%
Labor, HHS, and Education	67.230	69.287	72.294	70.313	69.978	69.819	69.978	69.819	4.1%	0.8%	4.1%	0.8%
Legislative	2.264	2.325	2.270	2.245	2.468	2.424	2.423	2.384	9.0%	4.3%	7.0%	2.5%
Military Construction	9.464	8.627	8.502	8.529	8.837	8.554	8.837	8.554	-6.6%	-0.8%	-6.6%	-0.8%
Transportation and Related Agencies	12.991	35.571	14.011	36.603	13.584	36.445	13.734	36.600	4.6%	2.5%	5.7%	2.9%
Treasury, Postal Service, and General Government	11.621	12.297	12.461	12.526 [3]	11.644	11.855	11.644	11.855	0.2%	-3.6%	0.2%	-3.6%
Veterans Affairs, HUD, Independent Agencies	68.347	71.748	69.862	73.361	70.418	72.945	70.418	72.629	3.0%	1.7%	3.0%	1.2%
Allowance	---	---	---	---	2.106	---	1.068	---	---	---	---	---
Total discretionary	498.780	548.364	513.753	544.103	510.754	540.574	510.754	540.574	2.4%	-1.4%	2.4%	-1.4%
Discretionary caps			518.058	541.074	518.058	541.074	518.058	541.074				
Total discretionary less caps			-4.305	3.029	-7.304	-0.500	-7.304	-0.500				

[1] FY 1994 Enacted includes transfers and technical re-estimates, and enacted supplementals and rescissions. FY 1995 Proposed includes the outlay effects of enacted supplementals and rescissions.

[2] CBO estimates used for this table do not include the April 22nd budget amendment in its scoring. CBO scoring has been adjusted to include OMB estimates of the April 22nd budget amendment. Amounts have also been adjusted to distribute allowances of $20 million BA and $182 million in outlays for procurement and rent.

[3] FY 1995 excludes $188 million in budget authority and $184 million in outlays for the IRS Compliance Initiative.

26-May-94
10:21 AM
BRB:DPO
95602ck.wk3

DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE
PERCENT CHANGE - CBO ESTIMATE OF REQUEST VS. 602(b)
(in billions of dollars)

Appropriations Subcommittee	FY 1994 Enacted [1]		CBO Estimate FY 1995 Budget (Adjusted) [2]		FY 1995 House 602(b) Allocation		FY 1995 Senate 602(b) Allocation		Percent Change: FY 1995 CBO Estimate to House FY 1995 602(b)		Percent Change: FY 1995 CBO Estimate to Senate FY 1995 602(b)	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Agriculture and Rural Development	14.686	14.807	13.790	14.008	13.817	13.945	13.817	13.850	0.2%	-0.5%	0.2%	-1.1%
Commerce, Justice, State and the Judiciary	22.988	23.916	27.357	25.818	26.057	24.818	26.850	25.100	-4.8%	-3.9%	-1.9%	-2.8%
Defense	239.433	258.947	244.252	251.054	243.432	250.515	243.432	250.515	-0.3%	-0.2%	-0.3%	-0.2%
District of Columbia	0.700	0.698	0.722	0.724	0.720	0.722	0.720	0.722	-0.3%	-0.2%	-0.3%	-0.2%
Energy and Water Development	21.871	22.590	20.506	20.940	20.373	20.853	20.513	20.943	-0.6%	-0.4%	0.0%	0.0%
Foreign Operations	13.408	14.033	14.006	13.898	13.795	13.736	13.795	13.736	-1.5%	-1.2%	-1.5%	-1.2%
Interior and Related Agencies	13.776	13.516	13.718	14.082	13.525	13.943	13.525	13.867	-1.4%	-1.0%	-1.4%	-1.5%
Labor, HHS, and Education	67.230	69.287	72.294	70.313	69.978	69.819	69.978	69.819	-3.2%	-0.7%	-3.2%	-0.7%
Legislative	2.264	2.325	2.270	2.245	2.468	2.424	2.423	2.384	8.7%	8.0%	6.7%	6.2%
Military Construction	9.464	8.627	8.502	8.529	8.837	8.554	8.837	8.554	3.9%	0.3%	3.9%	0.3%
Transportation and Related Agencies	12.991	35.571	14.011	36.603	13.584	36.445	13.734	36.600	-3.1%	-0.4%	-2.0%	-0.0%
Treasury, Postal Service, and General Government	11.621	12.297	12.461	12.526	11.644	11.855	11.644	11.855	-6.6%	-5.4%	-6.6%	-5.4%
Veterans Affairs, HUD, Independent Agencies	68.347	71.748	69.862	73.361	70.418	72.945	70.418	72.629	0.8%	-0.6%	0.8%	-1.0%
Allowance	---	---	---	---	2.106	---	1.068	---	---	---	---	---
Total discretionary	**498.780**	**548.364**	**513.753**	**544.103**	**510.754**	**540.574**	**510.754**	**540.574**	-0.6%	-0.6%	-0.6%	-0.6%
Discretionary caps			**518.058**	**541.074**	**518.058**	**541.074**	**518.058**	**541.074**				
Total discretionary less caps			**-4.305**	**3.029**	**-7.304**	**-0.500**	**-7.304**	**-0.500**				

[1] FY 1994 Enacted includes transfers and technical re-estimates, and enacted supplementals and rescissions. FY 1995 Proposed includes the outlay effects of enacted supplementals and rescissions.

[2] CBO estimates used for this table do not include the April 22nd budget amendment in its scoring. CBO scoring has been adjusted to include OMB estimates of the April 22nd budget amendment. Amounts have also been adjusted to distribute allowances of $20 million BA and $182 million in outlays for procurement and rent.

[3] FY 1995 excludes $188 million in budget authority and $184 million in outlays for the IRS Compliance Initiative.

26-May-94
10:30 AM
BRB:DPO
95602ck.wk3

DISCRETIONARY PROPOSALS BY APPROPRIATIONS SUBCOMMITTEE
PERCENT CHANGE - ENACTED VS. 602(b)
(in billions of dollars)

Appropriations Subcommittee	FY 1994 Enacted [1]		CBO Estimate FY 1995 Budget (Adjusted) [2]		FY 1995 House 602(b) Allocation		FY 1995 Senate 602(b) Allocation		Percent Change: FY 1994 Enacted to House FY 1995 602(b)		Percent Change: FY 1994 Enacted to Senate FY 1995 602(b)	
	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL	BA	OL
Agriculture and Rural Development	14.686	14.807	13.790	14.008	13.817	13.945	13.817	13.850	-5.9%	-5.8%	-5.9%	-6.5%
Commerce, Justice, State and the Judiciary	22.988	23.916	27.357	25.818	26.057	24.818	26.850	25.100	13.4%	3.8%	16.8%	5.0%
Defense	239.433	258.947	244.252	251.054	243.432	250.515	243.432	250.515	1.7%	-3.3%	1.7%	-3.3%
District of Columbia	0.700	0.698	0.722	0.724	0.720	0.722	0.720	0.722	2.9%	3.4%	2.9%	3.4%
Energy and Water Development	21.871	22.590	20.506	20.940	20.373	20.853	20.513	20.943	-6.8%	-7.7%	-6.2%	-7.3%
Foreign Operations	13.408	14.033	14.006	13.898	13.795	13.736	13.795	13.736	2.9%	-2.1%	2.9%	-2.1%
Interior and Related Agencies	13.776	13.516	13.718	14.082	13.525	13.943	13.525	13.867	-1.8%	3.2%	-1.8%	2.6%
Labor, HHS, and Education	67.230	69.287	72.294	70.313	69.978	69.819	69.978	69.819	4.1%	0.8%	4.1%	0.8%
Legislative	2.264	2.325	2.270	2.245	2.468	2.424	2.423	2.384	9.0%	4.3%	7.0%	2.5%
Military Construction	9.464	8.627	8.502	8.529	8.837	8.554	8.837	8.554	-6.6%	-0.8%	-6.6%	-0.8%
Transportation and Related Agencies	12.991	35.571	14.011	36.603	13.584	36.445	13.734	36.600	4.6%	2.5%	5.7%	2.9%
Treasury, Postal Service, and General Government	11.621	12.297	12.461	12.526 [3]	11.644	11.855	11.644	11.855	0.2%	-3.6%	0.2%	-3.6%
Veterans Affairs, HUD, Independent Agencies	68.347	71.748	69.862	73.361	70.418	72.945	70.418	72.629	3.0%	1.7%	3.0%	1.2%
Allowance	---	---	---	---	2.106	---	1.068	---	---	---	---	---
Total discretionary	**498.780**	**548.364**	**513.753**	**544.103**	**510.754**	**540.574**	**510.754**	**540.574**	2.4%	-1.4%	2.4%	-1.4%
Discretionary caps			**518.058**	**541.074**	**518.058**	**541.074**	**518.058**	**541.074**				
Total discretionary less caps			**-4.305**	**3.029**	**-7.304**	**-0.500**	**-7.304**	**-0.500**				

[1] FY 1994 Enacted includes transfers and technical re-estimates, and enacted supplementals and rescissions. FY 1995 Proposed includes the outlay effects of enacted supplementals and rescissions.

[2] CBO estimates used for this table do not include the April 22nd budget amendment in its scoring. CBO scoring has been adjusted to include OMB estimates of the April 22nd budget amendment. Amounts have also been adjusted to distribute allowances of $20 million BA and $182 million in outlays for procurement and rent.

[3] FY 1995 excludes $188 million in budget authority and $184 million in outlays for the IRS Compliance Initiative.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

June 18, 1993

M-93- 12

MEMORANDUM FOR THE HEADS OF AGENCIES

FROM: Leon E. Panetta
Director

SUBJECT: Planning for the President's FY 1995 Budget

Although we are still working intensively with the Congress to bring the FY 1994 budget cycle to a successful conclusion, it is already time to start work on the President's FY 1995 budget. The purpose of this memorandum is to start the process of working together to achieve a FY 1995 budget that embodies the Clinton Administration's program.

Budget Realities

As you know, the Congress in its budget resolution opted for a "hard freeze" on discretionary spending. As a consequence, the FY 1995 discretionary outlay cap implied by the resolution is $13.6 billion below the FY 1995 outlays shown in our economic plan (see table below). The discretionary investments proposed in the plan imply 1995 outlays of about $18 billion. These investments do not include many important initiatives now under development.

ADMINISTRATION DISCRETIONARY PROPOSALS COMPARED TO CAPS
(in billions of dollars)

	FY 1994		FY 1995	
	Budget Authority	Outlays	Budget Authority	Outlays
Caps in the House Reconciliation Bill	501.0	538.7	506.3	541.1
Administration Economic Plan (proposals in the FY 1994 Budget)	508.9	544.1	522.6	554.7
Amount by which proposals exceed caps	7.9	5.4	16.3	13.6

Protecting Investments

The process of cutting $5.4 billion in outlays from our original FY 1994 spending proposals to get to the spending caps will be extremely painful. We will fight hard to protect the highest priority investments, but it appears that some of our investment program may not be funded in FY 1994. Staying under the caps in FY 1995 requires that discretionary spending be cut by two and a half times as much.

To meet the commitment to the crucial investments requires many difficult choices that unfortunately cannot be avoided. It is clear that the Congress will not change the caps. It is equally clear that avoiding the caps by shifting programs to entitlements will require additional revenues that are inconsistent with the economic plan and health care reform. With the adoption of the economic plan, both the Administration and the Congress must be committed to enforcing the deficit reduction targets and to maintaining the credibility of this effort.

The only way, therefore, to protect our investment programs is to cut other federal programs in FY 1995. Another round of nickel and dime cuts -- shaving here, paring there -- will not produce the required savings. Indeed, if we are to preserve the discretionary programs we identified as investments in the President's FY 1994 Budget, OMB estimates that outlays in all other discretionary programs will have to be reduced by about 10 percent. Clearly, preserving the Clinton program and making room for other new priorities will be the major challenge we all face as we work on the budget for FY 1995.

A Major Opportunity

This budgetary reality can have positive benefits if it forces both our Administration and the Congress to rethink and restructure federal activities. We can seize this opportunity, not only to strengthen our investment proposals, but also to reexamine the whole range of government programs. We can identify sets of activities that are no longer high priority, that are of questionable effectiveness, or that other levels of government could perform as well. We can work with the Congress to eliminate these programs or drastically restructure them. The result could be a leaner, more effective, more manageable federal government -- and room in the budget for higher priorities identified by the Administration. The effort could integrate the best ideas of the National Performance Review into the FY 1995 budget process.

Structuring the Budget Decision Process

The traditional federal budget process has been a bottom-up effort that tends to preserve the base and make incremental changes at the margin. Agencies usually submitted their budget requests to OMB in September. These were examined painstakingly by OMB staff. After a series of Director's Reviews in October and November, the OMB Director issued a "passback" in late November. Agencies could appeal to the President in December and final decisions we made shortly thereafter -- usually by Christmas.

For FY 1994 the budget process was both extremely compressed and turned on its head. Because of the shortness of time there were no agency submissions. Instead the President made overall decisions on the main features of the FY 1994-98 economic plan which OMB translated into FY 1994 budget details. The process was essentially top down.

The difficulty of the decisions to be made for FY 1995 -- especially the necessity of cutting deeply into the base -- requires a new kind of budget process.

- The process should be cooperative. Because of the challenges facing the Administration, this must be a team effort. The adversarial relationships that have sometimes developed between the agencies and the OMB (or the White House) must be avoided.

- The process should be interactive. The President should have ample opportunity to think about alternative sets of priorities and to interact with his Cabinet and top staff as the process proceeds.

- The process should be informed. OMB should work with the agencies to lay out options and alternatives so that the President and others can see the big choices as clearly as possible. Cross-cutting issues (such as environmental programs or programs for children) should be highlighted.

- The process should be both a management and a budget review. OMB and the agencies should be working together to find opportunities to use the government's resources more effectively. Reorganization of functions, consolidation of activities and elimination of programs should be seriously examined.

A schedule for budget decisions that reflects this new kind of budget process is attached.

Attachment

FY 1995 BUDGET

PROPOSED SCHEDULE

June/early August	OMB works with agencies to identify major issues that should be considered for FY '95 and to be sure that good analysis of these issues will be available.
September 1	Agencies required to submit complete budget requests for FY 1995.
September/October	OMB, working with the agencies, defines major issues and options for consideration by the President and his staff. These discussions will be organized around major Administration themes and cross-cutting issues. The President, with the assistance of the NEC, provides guidance on fundamental choices and priorities.
October/November	OMB reviews requests in light of Presidential priorities and budget constraints, and discusses any problems with the agencies. Additional discussions held with the President if necessary.
Early December	The President is briefed on the complete set of proposals for the FY 1995 budget. Any final adjustments are made before Christmas.
December - mid-January	FY 1995 Budget is written.
February 7, 1994	FY 1995 Budget is transmitted to Congress.

Jose -
This is a classic.
Bravo!
BR

THE WHITE HOUSE

WASHINGTON

July 27, 1993

MEMORANDUM FOR CAROL RASCO

FROM: JOSE CERDA III

SUBJECT: MEETING WITH OMB & JUSTICE ON FY 95 BUDGET

"You have a real budget problem on your hands at Justice --" Alice Rivlin.

"I don't have a budget problem. You have a terrible political problem." Janet Reno.

At yesterday's M&B review, the Attorney General made the case for her three priorities during the FY 1995 budget cycle. There were:

(1) Making sure that the nation's prison resources are adequate "to put away dangerous offenders for good," including violent criminals and major drug traffickers;

(2) Consolidating federal law enforcement to ensure that it is more cost-effective -- as well as more productive;

(3) Restructuring the Office of Justice Programs (OJP) and "weaving it into one package that cuts across agency lines" to help prevent crime.

The AG made a strong case to both Panetta and Rivlin that she is willing to take politically unpopular courses of action to address Justice's long term budgetary problems -- but only if the White House was behind her. She complained that Phil Gramm and the White House were the only ones "sniping" at her, and that her message has been otherwise well received. If the White House supported her -- perhaps within the context of "National Crime Strategy" -- she would be willing to take the lead in implementing more sensible crime and drug policies that would yield long term savings.

Both Panetta and Rivlin were supportive of the AG and suggested that she go directly to the President within the next month to get the "go ahead" on these policy/budget changes -- and on putting together a National Crime Strategy to politically defend them.

A more detailed discussion follows.

A. Prisons

As outlined in my previous memorandum, prisons remain the single biggest problem for the Justice Department. Despite the fact that the President's budget reduces future prison construction, we will still have a problem funding S & E (salary and expenses) accounts for current and future prisons. OMB's fear is that -- when those prisons that are already funded and currently in the process of being built come on-line -- we will soon have to make a choice between new, empty prisons and other Justice expenditures (i.e., law enforcement, border patrol, etc).

The Attorney General expressed great interest in tackling this problem by (1) specifically defining non-violent, first-time offenders and "getting them out" of the system and into drug treatment, halfway houses, etc., and by (2) changing the Justice Department's prosecutorial guidelines. Currently, based on a memorandum from former AG Dick Thornburgh, Justice's prosecutors must charge a defendant with the most serious crime of which they can be accused. Thus, according AG Reno, "a thirty-five year old electrician who is arrested for helping unload a large cargo of cocaine will be sentenced based on the entire amount of cocaine, and not based on their lessor role."

To be able to pursue such a shift in our sentencing policies, the AG asked Panetta and Rivlin for their help in getting White House support for such changes. These changes would have to be couched in terms of a "National Crime Strategy" that would put a priority on violent offenders and set state and federal goals for incarcerating such offenders. Panetta and Rivlin expressed their desire to help her get such support.

Bruce and I have some concerns about the AG taking the lead on such a strategy, and we'll forward a separate memorandum with some suggestions soon. Also, we dispute some of the AG's claims on mandatory minimums and are doing our own research on the topic. It is not that mandatory minimums are not a problem -- they are -- or that we want to continue the "lock'em up" policy of the previous administration -- we don't. But we are concerned about preliminary proposals developed by the AG's staff that would call for the re-sentencing and early release of up to as many as 40% of the federal prison population.

well put

B. Federal Law Enforcement Consolidation

The AG informed Panetta and Rivlin that she is not satisfied with the National Performance Review's cursory look at consolidating federal law enforcement, and she wants to work with OMB on how to consolidate federal law enforcement. She is particularly concerned about the merging the Federal Bureau of Investigation and the Drug Enforcement Agency, but also the Marshalls, INS and law enforcement branches in other agencies, too. Interestingly, while such a consolidation may cost yield savings in the long run, it is likely to cost more in FY 1995.

The AG believes this consolidation also needs to be addressed within the context of a White-House supported/Justice-run National Crime Strategy.

C. Restructuring the Office of Justice Programs (OJP)

The Attorney General referred to OJP as a "political nightmare" that "we need to get a handle on." She believes that OJP's resources are squandered and can be cut. Moreover, she would like to see these programs focused into one, interagency crime prevention program. No word, however, on exactly what such a program would like -- though one can already imagine the resistance from the Hill and from other agencies.

D. Putting 100,000 New Cops on the Street

The AG did not identify the President's 100,000 new police pledge as a priority. In fact, she is concerned that the 100,000 new police initiative will sap the Justice Department of its base, and she asked Rivlin and Panetta about various other pots of money. First, she inquired about raiding the Department of Defense's budget. Panetta said no that the President had made a commitment to Senator Nunn. She then asked about using DoD's interdiction monies -- even just their gasoline expenses. Panetta said that he didn't think these monies were fungible but maybe. Finally, she asked about using the military to pay for part of the 100,000 cops -- and about using policing monies for new FBI and DEA agents and that could be assigned to some type of "street" duty.

The AG also told Panetta and Rivlin that it would be best if we replaced the President's "100,000 cops" rhetoric with the less numerically specific phrase, "cops on the beat." That is, she said, "until some mid-level, White House staffer tells her otherwise."

NB: Bruce and I will follow-up soon with our suggestion on how to address the AG's request to take the lead on a National Crime Strategy.

cc: Bruce Reed
Donsia Strong

Hill: Huge expectation we've built up to help w/ these programs.

Ken — Executive Justice Problem

↳ A Hatchet will have to be taken to Rest of Justice

↳ RIFs, reduce FTEs, mergers

↳ EXAMPLE OF BORDER PATROL AGENTS

Bonnie, President, said twice but not true.

↳ Hill, however, has given us more border patrol.

— ~~Ken~~ DOJ unprecedented Growth

— Huge infrastructure problems at INS + Marshalls

— BOP largest bureau: will continue to push out rest of initiatives

— Overcrowding bad for foreseeable future

↳ And 100,000 cut directly impacts on ability to hire staff for prisons

— Chart #2 — US Attys ↑ big

— Backlog of cases increasing

NMB — want to know Case Loads

Thurs
2.000

Rivlin: not enthusiastic about Cops proposal

- Cuts are bad – All things important
  - Marshall's – Court Security
  - INS Border
  - Prisons – 800 FTE's needed
  - Comm. Relations – Haitians + Cubans (Detention)
  - Def. of Env. Lawsuits
  - ↳ all In-House

- Suggested increase in debt collection procedures

- Bottom Line:

$2 billion cut in $ Ebt base

Panetta Pr

Cops still only gives us 50,000 true cops

– Does not reflect in DOJ paper + requests.

↳ These are OMB non-optionals

Who in Fed. Law Enf. to shift focused on (00,000)

FBI — DEA, particularly DEA

→ Marshalls often not fungible or transferable

- Shift money out of supply side
- Use Asset Forfeiture Fund.

Bottom Line

500 - 600 in Base

50-60 in Reer

Move Run a budget scrub.

Move money + will have to get it from somewhere else

- Have States pick-up the down-stream costs of trying + incarcerating

↳ Now we give them 90% of forfeiture funds + try + confine these criminals

↳

DIRECTOR'S REVIEW

FISCAL YEAR 1995 BUDGET

Federal Drug Control Programs

CROSSCUT

SUMMARY OF STAFF ANALYSIS

Principal Findings:

- **Drug Use Is Estimated To Cost Society Over $67 Billion Each Year**
- **Effective Treatment Programs Return More In Savings Than Their Costs [No Consensus]**
- **Some Jail-Based Treatment Programs Can Be Effective In Reducing Costs of Incarceration, Re-Arrest Rates, and Recidivism.**
- **Recidivism Rates Can Drop Dramatically With Optimal Treatment [Minimum of 90 Days With Follow On Care].**
- **Some Prevention Programs Have Worked For "Easy-To-Reach" Populations, But Have Been Far Less Effective Addressing Hard Core, Urban, and Minority Drug Use**
- **Drug Intelligence Efforts Have Saved Interdiction Dollars Through Better Targeting and Tracking**
- **Interdiction Efforts Have Gradually Increased The Percentage of Cocaine Production Seized, But Still Over 60% of Production Is Not Seized**
- **Anecdotal Information Suggests That Community Based Efforts Are More Effective Than Traditional Policing**

STAFF RECOMMENDATIONS

A fiscal strategy could be adopted which accomodates deficit reduction and puts additional resources where they can have the greatest impact upon reducing drug abuse in the United States.

Consider Shifting Resources To Demand Reduction Programs.

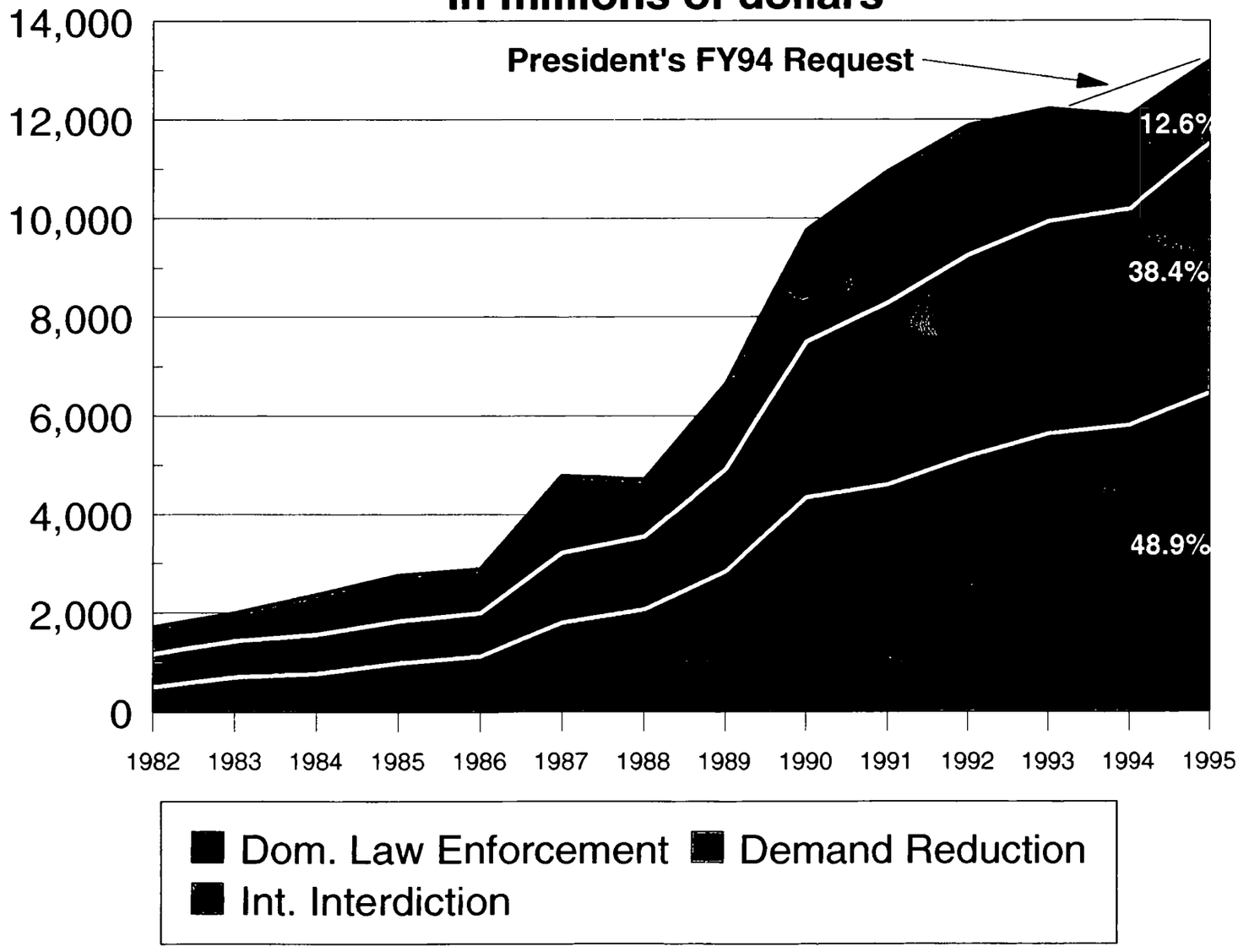
- Emphasize Programs That Save More Than They Cost
- Increase Funding For Drug Treatment
- Reallocate and Marginally Increase Prevention Programs
- Sustain Funding For Treatment Research
- Increase Funding For Jail Based Treatment Programs
- Fund Grants To Replicate Proven Demonstration Programs

Consider Making Reductions in Supply Reduction Programs.

- Trim Back Some DoD Operational Funding
- Reduce State's Foreign Operations
- Reduce Law Enforcement Funding For Low Pay Off and Slow Spending Programs
- Reallocate Portions of Law Enforcement Grants To Jail and Prison Based Treatment and Prevention Programs
- Scale Back DOJ Foreign Operations
- Reduce Interdiction Funding by Cutting Air Asset Procurement
- Reduce Seized Asset Sharing With State and Locals

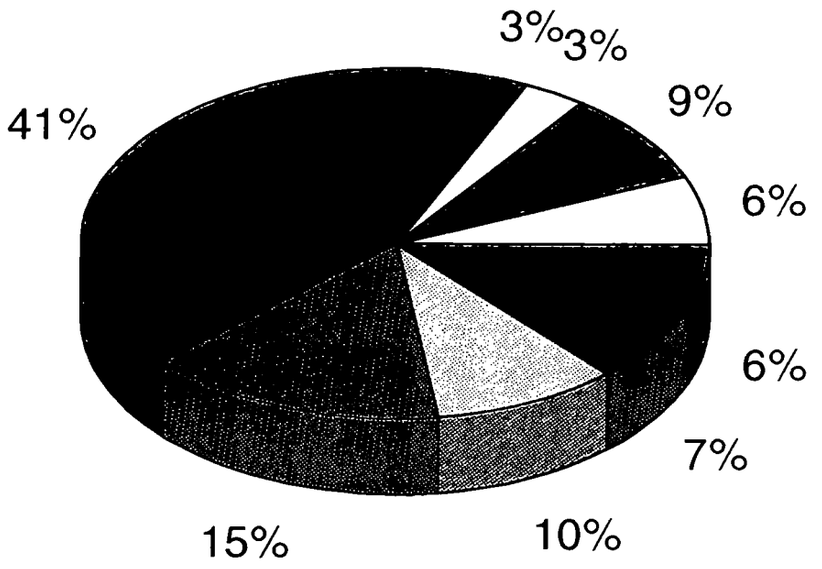
FEDERAL DRUG CONTROL FUNDING

In millions of dollars



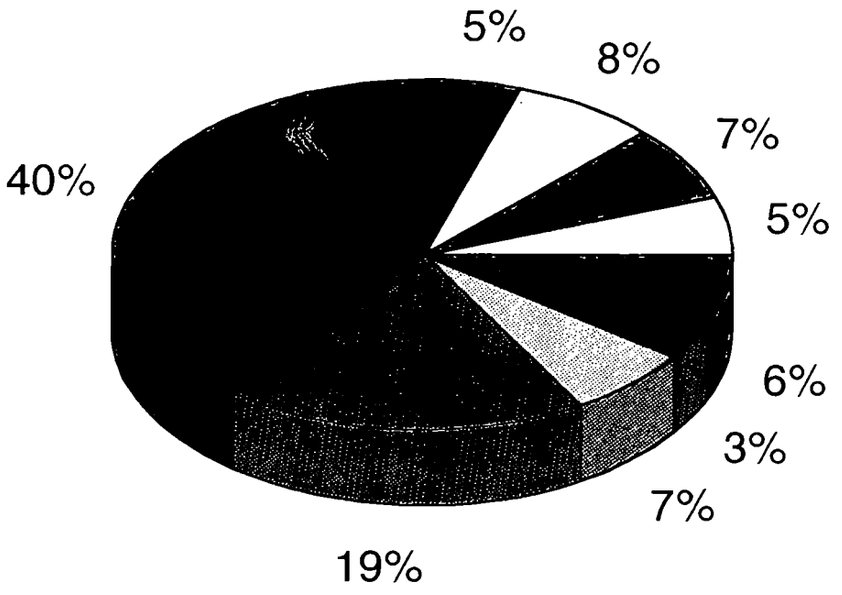
Federal Drug Control Funding

FY 1990 Actual



Total = $9,338

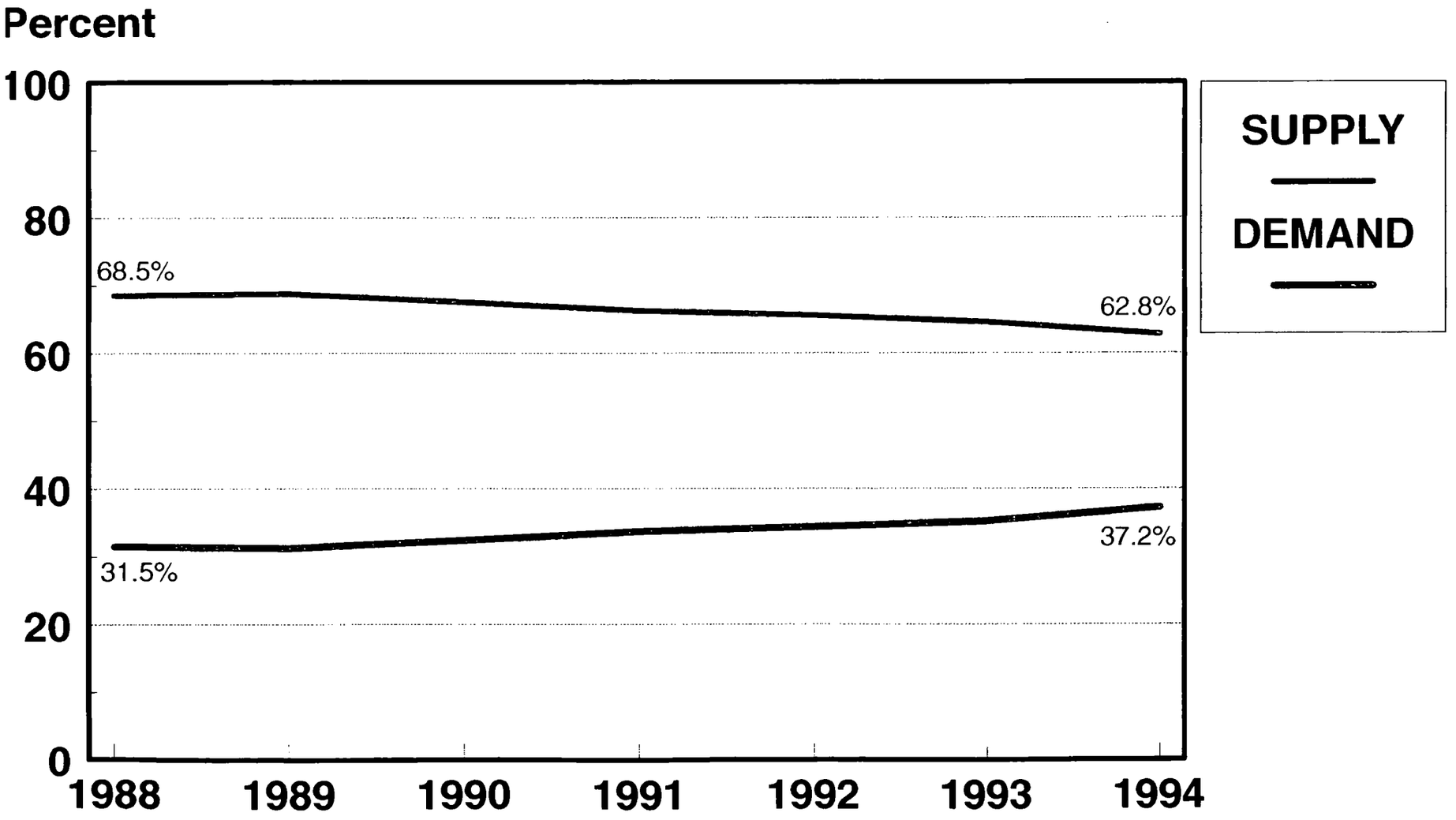
FY 1995 PAD MARK



Total = $13,180

Education	Defense	Veterans	Judiciary	Justice
HHS	Treasury	Transportation	All Other	

Historical Supply/Demand Ratios
1988-1994



FEDERAL DRUG CONTROL FUNDING
Agency Summary
($ Millions)

	FY 1993	FY 1994	FY 1995				
	Enacted	Enacted	Agency Request /2	Agency Submission To Ceiling	PAD Rec'md Mark	ONDCP Increase Over PAD	Decision
Action	10	10	10	10	10		
Agency for International Development /1	140	42	132	n/a	n/a		
Department of Agriculture							
Agricultural Research Service	6	6	7	7	7		
U.S. Forest Service	10	10	11	10	10		
Total, Agriculture	16	16	17	16	16		
Department of Defense	1,141	868	1,009	1,009	868		
Department of Education	700	580	684	684	678	+ 81	
Dept. of Health and Human Services							
Administration for Children and Families	116	90	89	89	89		
Substance Abuse and Mental Health Administration	1,299	1,367	1,300	1,256	1,404	+ 480	
National Institutes of Health	404	425	442	439	438		
Social Security Administration	5	20	23	23	23		
Centers for Disease Control	31	37	37	37	37		
Food and Drug Administration	7	7	7	7	7		
Health Care Financing Administration	232	262	292	292	292		
Indian Health Service	45	43	41	41	51		
Health Resources & Services Administration	21	33	36	36	36		
Total, HHS	2,159	2,283	2,267	2,220	2,377		
Dept. of Housing and Urban Dev.	175	265	300	325	265		

Description of Major Funding Issues

- o **NO PAD DECISION YET**
  Provides For Economic Assistance and Development in Andes
- o PAD: Tentatively Freezes Estimate At FY 1994 Enacted
- o PAD: Adds (+ $99M) For Safe and Drug Free Schools
- o **ONDCP Over PAD: Adds (+ $81M) For Safe & Drug Free Schools**
- o PAD: Adds (+ $100M) To Treat 20,000 Incarcerated Users Or 5,000 Non-Incarcerated Users; Reallocates (-$60M) From Other SAMHSA Programs (Uses Conservative Estimates)
- o **ONDCP Over PAD: Net Increase of $480M**
  - **Adds (+ $460M) Resid'l Treatm't For 62,000 Hard Core Addicts**
  - **Adds (+ $20M) Teenage Drinking Prevention**
  - *** Adds (+ $150M) To Treat 64,000 Prison Inmates**
  - *** Adds (+ $35M) Vocational/Educational Programs For Prisoners**
  - *** Adds (+ $15M) Prison Staff Drug Counseling Training**
  - *** DOJ "Drug Court" Grants Would Offset The Last 3 Items By $200M**
- o PAD: Reflects Growth (+ $30M) In MEDICAID/CARE Acturarial Est.
- o PAD: Increase (+ $10M) Long-Term Treatment of Hard-Core Users Among Native Americans

FEDERAL DRUG CONTROL FUNDING
Agency Summary
($ Millions)

	FY 1993	FY 1994	FY 1995					Description of Major Funding Issues
	Enacted	Enacted	Agency Request /2	Agency Submission To Ceiling	PAD Rec'md Mark	ONDCP Increase Over PAD	Decision	
Department of the Interior								
Bureau of Indian Affairs	24	22	23	22	22			
Bureau of Land Management	10	5	5	5	5			
Fish & Wildlife Service	1	1	1	1	1			
National Park Service	9	9	9	9	9			
Office of Territorial and International Affairs	1	1	1	1	1			
Total, Interior	**46**	**38**	**40**	**38**	**38**			
The Judiciary	**407**	**526**	**605**	**605**	**605**			o Judiciary Staff Estimate Only
Department of Justice								
Assets Forfeiture Fund	498	462	487	479	487			o PAD: Increase In Mandatory Program Only
U.S. Attorneys	207	208	209	220	220			
Bureau of Prisons	1,334	1,408	1,839	1,641	1,581	+ 2		o PAD: Reflects Increase (+$173M) To Activate New Prison and Detention Facilities; Includes (+$13M) For Contract Offender Managemen
								o **ONDCP: Adds (+$2M) Over PAD For Offender Management Programs**
Criminal Division	19	19	19	21	21			
Drug Enforcement Administration	756	764	764	746	750			o PAD: Reduces AUO (-$14M) Pay
Federal Bureau of Investigation	252	246	327	328	320			o PAD: Increase (+$74M) For Expanded Organized Crime Activities; Laboratory and Technology Support
Immigration and Naturalization Service	146	153	180	160	165			
Interpol	2	2	2	2	2			
U.S. Marshals Service	234	235	264	264	264			
Office of Justice Programs	541	540	442	246	303			o PAD: Zeros Out Byrne Formula Grants (-$358M) In Light Of New Crime Bill Grant Programs
Organized Crime Drug Enforcement	385	382	374	372	372			
Support of U.S. Prisoners	191	222	279	267	267			
Tax Division	1	1	3	1	1			
Weed and Seed Program Fund	7	7	7	7	7			
Community Policing (100,000 Cops)		0	194	215	216			o PAD: Original Senate Authorization of $650M For 100,000 Cops
Crime Bill Trust Fund Spending Components:								
Community Policing (100,000 Cops)					356			o PAD: Provides For Remaining Authorization, After Bill Was Amended, For 100,000 Cops
Drug Courts Grants					200			o PAD: Grants For State/Local Residential Drug Treatment, Testing, & Staff Trainin
Bootcamps Grants					98			PAD: Meets Presidential Commitment To Support Bootcamps
Southwest Border Enforcement (INS)					15			o PAD: Part of Likely Presidential INS Initiative
Total, Justice	**4,575**	**4,648**	**5,388**	**4,968**	**5,644**			
Department of Labor	**71**	**71**	**73**	**71**	**71**			

FEDERAL DRUG CONTROL FUNDING
Agency Summary
($ Millions)

	FY 1993	FY 1994	FY 1995					Description of Major Funding Issues
	Enacted	Enacted	Agency Request /2	Agency Submission To Ceiling	PAD Rec'md Mark	ONDCP Increase Over PAD	Decision	
Off. of National Drug Control Policy								o **NO BUDGET REQUEST YET SUBMITTED TO OMB**
Operations	18	12	n/a	n/a	n/a			
High Intensity Drug Trafficking Areas	86	86	n/a	n/a	n/a			
Special Forfeiture Fund	15	13	n/a	n/a	n/a			
Total ONDCP	**119**	**110**	**n/a**	**n/a**	n/a			
Small Business Administration	**0**	**0**	**0**	**0**	**0**			
Department of State								o **NO PAD DECISION YET**
Bureau of International Narcotics Matters_/1	148	100	149	n/a	n/a	+ 73		Funds Host Country Law Enforcement Activities and Narco-Terrorist Rewards
								o **ONDCP: Restores Funds (+$48M) Cut By Congress In FY 94**
								Adds (+$25M) For New Andean Program Effort
								Amount Shown Assumes Change From FY 1994 Enacted Level Insofar As There Is No PAD Recommendation
Bureau of Politico/Military Affairs_/1	52	13	43	n/a	n/a			
Emer. in the Dip. and Consular Service_/1	0	0	0	n/a	0			
Total, State	**200**	**114**	**192**	**n/a**	**0**			
Department of Transportation								
U.S. Coast Guard	420	417	403	403	403			
Federal Aviation Administration	22	25	17	17	17			
National Highway Traffic Safety Admin.	8	8	6	6	6			
Total. Transportation	**450**	**450**	**425**	**425**	**425**			
Department of the Treasury								o PAD: Reduces (-$22M) Overall Agency Funding
Bureau of Alcohol, Tobacco, and Firearms	152	148	149	149	127			o PAD: Eliminates Marine Program (-$50M) By Transferring Assets To Coast Guard; Eliminates (Non-P3) Air Program (-$150M) Retains 4 P-3 Aircraft and Transfers 4 P-3s To DEA
U.S. Customs Service	572	518	545	545	317			
Federal Law Enforcement Training Center	22	21	21	n/a	18			
Financial Crimes Enforcement Network	17	15	15	n/a	13			
Internal Revenue Service	115	113	113	n/a	113			
U.S. Secret Service	54	57	58	n/a	59			
Treasury Forfeiture Fund	192	228	228	n/a	179			
Total, Treasury	**1,125**	**1,100**	**1,128**	**n/a**	**826**			

FEDERAL DRUG CONTROL FUNDING
Agency Summary
($ Millions)

		FY 1993	FY 1994	FY 1995				
		Enacted	Enacted	Agency Request /2	Agency Submission To Ceiling	PAD Rec'md Mark	ONDCP Increase Over PAD	Decision
U.S. Information Agency		10	10	10	n/a	10		
Department of Veterans Affairs		903	940	983	955	955		
Estimates of Amounts Not Provided				148	1,529	391		
ONDCP Recommended Change To PAD Recommendation Levels				---	---	---	+ 636	
Total Federal Program		12,245	12,071	13,410	12,855	13,181	13,817	
Total Supply Programs	$	7,910	7,683	---	---	8,273	8,298	
	%	64.6%	63.7%	---	---	62.8%	60.1%	
Total Demand Programs	$	4,306	4,387	---	---	4,908	5,519	
	%	35.2%	36.3%	---	---	37.2%	39.9%	

NOTES:
_/1 Starting in FY 1995, Activities Funded From This Account Will Be Aggregated Into A Single International Counternarcotics Fund In The Department of State
/2 In Some Cases Drug Budget Requests Have Been Imputed From Department Budget Total

Description of Major Funding Issues

- o Funds Public Diplomacy Activities Relating To Counter-Narcotics Efforts Overseas
- o Reflects Flat-lining all 1994 Enacted Estimates Into 1995 Where PAD Recommendations Not Yet Provided
- o **Net Adds To PAD Mark Requested By ONDCP -- No Offsets Offered Reflects $988M In Initiatives Offset By PAD Increases For: Drug Free Schools (+$99M); Drug Treatment (+$40M); Offender Management (+$13M); and Drug Courts [Crime Trust Fund @$200M]**
- o **PAD LEVEL: Increases Supply Programs By +$590M**
  ONDCP LEVEL: Increases Supply By +$615M
- o **PAD LEVEL: Increases Demand Programs By +$521M**
  ONDCP LEVEL: Increases Demand By +$1,132M

OFFICE OF NATIONAL DRUG CONTROL POLICY
EXECUTIVE OFFICE OF THE PRESIDENT
Washington, D.C. 20500

NOV 17 1993

The Honorable Leon Panetta
Director
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20500

Dear Mr. Panetta:

The enclosed document outlines ONDCP's budget priorities for FY 1995 to support the principal objectives of the President's Interim Drug Control Strategy. This Interim Strategy charts a new, realistic course that will reinvigorate our efforts to prevent drug use before it starts, extend a hand to those who have started, punish those who profit from the misery and tragedy that flows from drug trafficking, and work with those countries, especially the major source and transit countries, that demonstrate the political will and program commitment to combat the drug trade. This proposal presents the funding plan for key initiatives to ensure that the objectives of the Interim Strategy are achieved.

The budget initiatives proposed in the enclosed document put more emphasis than in the past on demand reduction programs, youth drug and violence prevention, and source country programs. A total of $988 million is requested for three major initiatives that are briefly described below. When fully implemented, these initiatives will have a tremendous impact on the most difficult aspect of the drug problem, hard-core drug use and its damaging consequences.

Treatment Infrastructure Service Expansion

The Treatment Infrastructure Service Expansion initiative requests $715 million to provide expanded treatment capacity and more treatment for hard-core drug addicts, both inside and outside the criminal justice system. It will add nearly 51,000 slots and will provide resources so that nearly 126,000 additional persons can receive treatment services they need.

Youth Crime, Violence and Prevention

Drug use is behind much of America's problem with crime and violence. The Youth Crime, Violence, and Prevention initiative requests $200 million to ensure that every child from kindergarten through the twelfth grade will have the opportunity to live productive lives free of crime and violence. This effort provides additional funding for the Safe and Drug-Free Schools and Communities program and for a new initiative to combat teenage drinking.

Source Country Counterdrug Enhancement

The Interim Strategy calls for a controlled shift of emphasis away from the transit zones to the source countries, focusing on programs to achieve democratic institution-building, dismantle organizations, and interdict drugs. The recently signed Presidential Decision Directive (PDD) signals the President's dissatisfaction that source country resources were cut by Congress below their FY 1994 request level. Accordingly, the proposal includes a $73 million initiative in this area to restore and enhance resources for the Bureau of International Narcotics Matters in FY 1995.

These initiatives, along with expected funding from the Crime Bill, will give the Administration the resources it needs to implement its drug control priorities, as articulated in the Interim Strategy. I look forward to working with you in the weeks ahead on this very important issue. Should your staff need any additional information, they should contact John Carnevale, Director of Planning and Budget at 467-9880.

Sincere regards,

Lee P. Brown
Director

Enclosure

Executive Office of the President
Office of National Drug Control Policy

I. OVERVIEW

Background

The Office of National Drug Control Policy (ONDCP) establishes the policies, objectives, and priorities for the National Drug Control Program (the Program). ONDCP provides the President's primary Executive Branch support for drug policy development and program oversight. It advises the President on national and international drug control policies, strategies, and funding levels, and works to ensure effective coordination of drug programs within the Federal government.

A policy statement delineating the major focus of this Administration's National Drug Control Strategy was released in October 1993. The the "Interim Strategy" set forth the Administration's plan to conduct domestic and international drug policy, but did not identify budget resources or provide goals and objectives to implement it. This document defines the resource requirements to implement the President's plan.

The Interim Drug Strategy gives new direction to national efforts to confront the problems caused by illicit drug use and trafficking. It views drug policy as a cornerstone of domestic policy in general, and links it with efforts to spur economic growth, reform health care, curb youth violence, and empower communities. It is distinguished from past Strategies in several key ways:

- It shifts the focus away from the easier part of the drug problem, reducing casual or intermittent drug use, to the most difficult aspect, reducing hard-core drug use and its consequences.

- It views the drug problem not in isolation, but as inextricably linked to other domestic policy issues such as the health of the economy, violence, health care, and family and community stability.

- It recognizes drug dependence as a chronic, recurring disorder requiring treatment and continuing aftercare, and targets all heavy drug users for intensive treatment and supervision to reduce their drug use and its consequences.

- It proposes an aggressive drug treatment strategy to reduce the number of hard-core drug users by expanding treatment capacity in general and for special populations, such as those in the criminal justice system and pregnant drug users.

- It proposes to give all drug users access to treatment services through Health Care Reform and other related initiatives.

- It recognizes the need for grassroots level efforts rather than top down Federal-to-local programs to deal with the drug problem.

- It supports Community Empowerment (local efforts based on strategic, comprehensive plans) as the best way to coordinate government efforts across program and jurisdiction lines. It promotes Community Policing as a necessary first step to halt the cycle of community decay caused by drug use and trafficking and the violence it spawns.

- It supports efforts to reduce ready availability of the guns that play a significant role in drug-related violence. It supports the Brady Bill and proposes to do more by enacting a ban on all domestic assault weapons.

- It views alcohol use, especially underage drinking, as part of the overall drug problem and focuses drug prevention on high-risk populations to deter first-time drug use.

- It recognizes that drug policy must be an integral part of our overseas foreign policy and pursued on a broad front of institution building, dismantling organizations, and source-country interdiction.

The Four Tracks to Successful Implementation

The Interim Strategy proceeds on four basic tracks. The first track is to *concentrate on demand reduction efforts*. This requires that we mount an aggressive drug treatment strategy, with heavy or addicted drug use as our primary focus. By increasing treatment capacity so that those who need treatment can receive it, the Interim Strategy seeks to promote drug treatment programs that are shown to work. It also seeks to link habilitation, social, and vocational services to drug treatment, to ensure that heavy drug users receive the support and learn the skills they need to prevent relapse and recidivism. Finally, health care reform will provide direct substance abuse treatment benefits for inpatient and residential treatment, intensive non-residential treatment, outpatient treatment, and follow-up services. However, until it is enacted, we must not relax our efforts to expand treatment capacity and provide more comprehensive treatment services for those who are in need.

The second track is to *reduce drug-related violence, and control and prevent crime.* This requires we pursue a comprehensive approach to criminal violence, involving law enforcement, educators, substance abuse treatment specialists, and religious and community leaders. Emphasis will be on community policing efforts to involve police officers working with community residents to help resurrect and maintain neighborhoods and lay the foundation for constructive involvement by government, the private sector, and neighborhood residents. And to help curb school violence, we will also seek to address the impact of drugs and violence on our youth. We will teach our school children the skills needed for the positive resolution of conflict, and balance the need for swift, appropriate punishment with the need to set every young person on the right track to productive living. We will push hard to take guns out of the hands of criminals and children.

The third track is to *streamline government and empower communities*. This requires that we seek ways to make communities more active in combating drug trafficking and use, focus Federal efforts to eliminate duplication and waste by government agencies, and review the appropriate roles of Federal, State and local governments in controlling drugs. We will review existing interdiction organizations, resources, and methods; aggressively pursue improvements to our intelligence systems; improve our data collection and research efforts to help Federal, State and local, as well as private organizations obtain the best and most up-to-date information possible about the drug problem; establish performance standards for drug treatment providers; and seek to empower communities to resist drug trafficking and use and repair the damage it has done.

The fourth track is to *provide international leadership and support for international drug control actions*. We will support counternarcotics programs in those source countries that demonstrate the political will to stand against the drug trade, focusing on those programs that work and eliminating those that do not. We will emphasize assistance to international and regional institutions that conduct or support counternarcotics programs. The Interim Strategy calls for a controlled shift of emphasis away from the transit zones to the source countries, focusing on programs to achieve democratic institution-building, dismantle organizations, and interdict drugs.

Conclusion

This Administration is committed to reducing the demand for drugs through comprehensive and aggressive prevention and treatment initiatives, with particular emphasis on heavy drug use and addiction and on seriously at-risk populations. On the supply side, the Interim Strategy calls for a shift in emphasis from the transit zone to source countries to attack the production of drugs and suppress the traffic in drugs aimed at the United States. What is now required is a sufficient resource commitment to fund these priorities and begin a credible program effort.

II. FY 1995 DRUG CONTROL FUNDING PRIORITIES

Overview

The Interim Strategy charts a new, more realistic course that will reinvigorate our efforts to prevent drug use before it starts, extends a hand to those who have started, punish those who profit from the misery and tragedy that flows from drug trafficking, and work with those countries, especially the major source and transit countries, that demonstrate the political will and program commitment to combat the drug trade. This proposal presents the funding plan necessary to implement the most critical elements of the Interim Strategy.

The successful implementation of the Interim Strategy requires a budget that places increased emphasis on demand reduction programs, source country programs, and local law enforcement (Community Policing). This means that some programs that received priority in the past will not receive priority in this Strategy.

Some of the required resources can be reallocated from existing, lower priority programs. For example, the controlled shift in interdiction from a focus on transit zones to one on source countries will result in some reductions in transit zone program funding. In other areas, Administration-supported action on the FY 1994 budget promises to fund key priorities in the Interim Strategy that will carry over into the FY 1995 budget. For example, the Crime Bill will likely result in funding for more *cops on the street,* assuming that such priorities will be funded in FY 1995. However, in other key Interim Strategy program areas, resource enhancements must be provided if critical services are to be provided.

Implementation of the National Performance Review and new program initiatives such as Community Empowerment and National Service program promises to implement key Interim Strategy priorities for Streamlining Government and Empowering Communities. No new initiatives above and beyond what is already covered by these efforts are proposed for FY 1995 in these areas.

There are certain program areas identified in the Interim Strategy that must be funded if the Strategy is to succeed. In some instances, these are top priority Interim Strategy priorities that are not currently funded by other ongoing Federal efforts. In other areas, the existing resource level is inadequate to provide a meaningful, credible effort. This budget proposal identifies $988 million for three major initiatives, which are requested over the FY 1994 enacted levels:

A. **Treatment Infrastructure and Service Expansion** ($715 million): This initiative will provide new funds for expanded capacity to target the treatment needs of hard-core drug users, both inside and outside the criminal justice system, principally for long-term residential treatment. A total of $500 million is proposed for targeted treatment services expansion for those outside the criminal justice system, $150 million for treatment and monitoring targeted at those already within the criminal justice system, $15 million for offender management programs, $35 million for vocational and educational services, and $15 million for training to provide more staff to treat this population. This initiative will add nearly 51,000 new treatment slots

through capacity expansion, and will provide resources so that 126,000 additional persons can receive treatment.

B. **Youth Crime, Violence, and Prevention** ($200 million): Drug use fuels much of America's problem with crime and violence. This initiative provides an additional $180 million for the Safe and Drug-Free Schools and Communities Program. This new reauthorization proposal takes a comprehensive, integrated approach to drugs and violence prevention by recognizing the relationships between drug use and violent behavior. Additionally, $20 million is targeted for a new teenage drinking prevention program component to be carried out jointly by the Center for Substance Abuse Prevention, the Department of Education, and the Department of Transportation. This Youth Crime, Violence, and Prevention initiative ensures that our children will be able to attend school free of crime and violence, and gives them the tools to resist the temptation to use alcohol and other drugs.

C. **Source Country Counterdrug Enhancement** ($73 million): The Interim Strategy calls for a controlled shift of emphasis from the transit zones to the source countries, focusing on democratic institution-building, dismantling drug trafficking organizations, and interdiction closer to the source of production. The recently signed Presidential Decision Directive signals the President's disapproval over the Congressional reductions to source country programs to levels below the FY 1994 request and directs OMB and ONDCP to minimize the effects of these cuts. This initiative proposes increase the FY 1994 request level for the Bureau of INM by $25 million. This requires that $48 million be added to the FY 1994 enacted level plus an additional $25 million for new Andean program efforts.

When fully implemented, these initiatives will have a tremendous impact on the most difficult aspect of the drug problem, hard-core drug use and its damaging consequences. By taking action now, the Administration can achieve its goal of reducing drug use and drug-related crime and violence.

Each of these initiatives is discussed below.

A. TREATMENT INFRASTRUCTURE AND SERVICE EXPANSION

This Administration will make it a priority to add to our Nation's capacity so that those who need treatment can receive it.

Unless we can increase treatment capacity, the physical and psychological debilitation often caused by substance abuse and a drug-using lifestyle will overwhelm our health care system. . . .

Treatment must be made available to those who need and want it. . . . We must begin to focus more directly on ways to reduce the population of heavy users. . . . Habilitation and social services must be linked with treatment services, both during and after treatment.

The Interim Strategy.

The Interim Strategy identified the hard-core drug user as the principal challenge for drug policy. Hard-core drug use has not been reduced by past anti-drug efforts, especially in our inner cities and among the disadvantaged, and recent hospital emergency-room data suggest that problems resulting from heroin and cocaine use are on the rise. According to the statistics from the Drug Abuse Warning Network (DAWN), cocaine and heroin medical emergencies reached 119,800 and 48,000 in 1992, respectively, the highest levels since data from this survey were first reported. Further, we continue to see high levels of drug use among the arrestee population, with cocaine being the most commonly abused drug.

Hard-core users fuel the overall demand for drugs and are the most difficult and intractable aspect of the drug problem. For example, one study conducted by RAND for ONDCP found that although heavy users constitute only about 20 percent of all cocaine users, they account for roughly two-thirds of total cocaine consumption.

Hard-core drug use appears to fuel the continued high level of crime in our inner cities. Decades of research has established that drug users are much more criminally active during periods of heavy use. One study, for example, found that 573 substance abusers in Miami were responsible for nearly 14,000 serious crimes and over 50,000 additional, petty criminal acts in one year. Drug users themselves report greater involvement in crime and are more likely to have criminal records than non-drug users. Jail and prison inmates report very high rates of drug use, with more than 25 percent reporting they were under they were under the influence at the time they committed the offense that led to their incarceration.

As drug use increases, so does the number of crimes a person commits. According to a draft study prepared by HHS for ONDCP on the procurement habits of hard-core drug users, half of the hard-core users surveyed in the study reported having used illegal income to procure drugs, mostly from property crime and drug-related activities.

The relationship of drugs to violence is well established by empirical work. Paul Goldstein, for example, conducted studies of the drug market on the lower east side of New York City and found that about one-half of all violence was drug and alcohol related. This violence was attributable to the effects of using drugs or to factors internal to the drug trade (e.g.,

fights between rival dealers). Goldstein finds little evidence that drug-related violence is economic related; that is, drug users do not generally commit violent or predatory acts to obtain money for drugs. In fact, his work supports the HHS procurement study finding that drug users core commonly commit property crime to obtain income to support their habits.

Hard-core drug use and HIV/AIDs are highly related. Injecting users and their sexual partners account for nearly one third of reported AIDs cases and, in cities where the rate of HIV seropositivity is high, women trading sex for crack has also been identified as a growing source of HIV/AIDs transmission.

It is for these reasons that the Interim Strategy makes the reduction of drug use by hard-core users its number one priority. To the extent we are able to place hard-core users into treatment, we can expect drug-related crime to be reduced immediately during the course of treatment and (with the provision of follow-up supervision and support) for an extended period of time afterward. To do otherwise would sentence our inner cities to more crime. The proposed $715 million initiative contains the following elements:

- Targeted Treatment Services Expansion ($500 million): to provide funds so that 62,000 additional hard-core users outside the criminal justice system can receive long-term treatment, with emphasis on residential treatment. The Capacity Expansion Program would be repealed and replaced by this new program to be administered by the Center for Substance Abuse Treatment (HHS).

- Criminal Justice Targeted Treatment ($150 million): to expand prison-based treatment and transitional services programs so that 64,300 additional addicts can receive treatment. This program would be administered by CSAT in coordination with the Department of Justice.

- Offender Management Programs ($15 million): to ensure public safety and foster treatment effectiveness by providing essential assessment, monitoring, and supervision of offenders in community treatment and in transition from institutional treatment to the community. We envision funding or enhancing TASC or TASC-like programs in areas where heavy drug users are concentrated, under a program administered by DOJ in coordination with CSAT.

- Vocational and Educational Services ($35 million): to provide habilitation and rehabilitation services to addicts to enhance their long-term employability. This program would be administered by CSAT in collaboration with the Department of Labor.

- Treatment Staff Training ($15 million): to train more staff to cope with the increased demand for substance abuse treatment services. This program would be administered by CSAT.

Together, these components of the Treatment Infrastructure and Service Expansion Initiative will provide a focused effort to address hard-core substance abuse. Resources will be

allocated directly to communities, most likely urban areas, with disproportionately high rates of substance abuse, and will link to Empowerment Zones where appropriate.

The Substance Abuse Block Grant provides general funding nationwide to support substance abuse treatment, but does not target high treatment need areas. We are assuming level funding for this program in FY 1995.

Expected Outcome: This initiative will add nearly 51,000 more treatment slots to treat and provide related supervision and support 126,000 more persons. Given its targeted focus, it will have a tremendous impact on the drug problem and related violence that has devastated our urban areas.

B. YOUTH CRIME, VIOLENCE, AND PREVENTION

Our drug prevention programs must send a strong "no use" message and educate individuals about the risks and dangers of illegal drug and alcohol use. . . .

Violence against students and teachers in our Nation's schools has now reached epidemic proportions. If any place in our community is gun-free and drug-free, it must be our schools.

The Interim Strategy.

Drug use is behind much of America's problem with crime and violence. The proposed Safe and Drug-Free Schools and Communities Program will extend the current school-based prevention programs to include activities to prevent violence and drug use by youth. The Interim Strategy highlights the need that our children be taught skills for the positive resolution of conflict. However, for those who somehow do not get the message that drug use and violence will not be tolerated, the Strategy provides for swift and appropriate punishment

In general, we have seen tremendous progress in reducing drug use by our youths. The University of Michigan's High School Senior Survey has registered annual declines in drug use by seniors since the mid-1980s in all major categories of illicit drugs. Presumably, prevention efforts have contributed to this progress. However, there is evidence that the prevention message may be becoming stale. The most recent University of Michigan survey reported that drug use--especially cocaine, hallucinogens, and marijuana--is on the rise for eighth graders. More dramatically, fewer eighth graders in 1992 associated great risk of harm with cocaine or crack use than did eighth graders in 1991. These findings do not bode well. We must reinvigorate our existing prevention programs, focusing hard on their currency and relevancy. Otherwise, we stand to lose a new generation of our youth to drug abuse.

The seriousness of the drug/violence connection cannot be understated. The National Crime Victimization Survey Supplement reports that crimes in schools contribute to fears among students. It reported that 9 percent of students had experienced a victimization while at school. Sixteen percent report that a student attacked or threatened a teacher. Twenty-two percent of public school students are indicated some fear of attack at school (compared to 13 percent for private schools).

A preliminary study done by the Atlanta-based PRIDE organization found a strong link between high levels of marijuana use and violence; the higher the use, the more violent the student. Further, this study found that 45 percent of those who used marijuana 1-7 times a week responded in the positive to the following question: "Have you threatened to harm another student or teacher using a weapon?

An analysis of prevention programs done by Abt Associates for ONDCP shows that successful programs share three important characteristics: 1) they are comprehensive in approach; 2) they are positive in focus; and 3) they are carefully tailored to a clearly defined target population. To be continuously successful, prevention programs must reflect or

accommodate the changes in the population they target. We must constantly update and expand prevention efforts and better target these efforts to in effect "cap" the pipeline into drug use.

The Director of ONDCP has consistently expressed his support for drug prevention programs. The DFSCA program is a key component of the overall prevention effort. However, Congress has cut the funding for the DFSCA program by nearly $130 million. Given the threatened increase in drug use among our younger school age population, and the continued crime and violence that plague our schools, it is imperative that funding be provided to increase existing program efforts. Accordingly, to address the problems confronting our youth, this $200 million initiative contains two elements:

- Safe and Drug-Free Schools and Communities Program ($180 million): under the new SDFSC legislative proposal, the scope of the DFSCA program is broadened to include violence and drug prevention strategies. This budget initiative provides an additional $180 million so that comprehensive, coordinated prevention efforts for drugs, violence, and alcohol can be implemented. This will facilitate the success of Goal 6, "That all schools are free of drugs and violence by the year 2000 and will maintain a disciplined environment conducive to learning."

- Targeted Teenage Drinking Prevention Program ($20 million): this provides resources to establish a prevention campaign specifically for alcohol prevention to be carried out by SAMHSA, the Department of Education, and the Department of Transportation. The use of alcohol begins early. According to the High School Senior Survey many eighth graders regularly use alcohol (26 percent); this initiative seeks to reverse this unacceptably high level of use.

Expected Outcome: This initiative ensures our children will be able to attend school free of crime and violence, and gives them the tools to resist the temptation to use drugs and alcohol. This initiative ensures that every student in grades K-12 will have the opportunity to receive drug, violence, and alcohol prevention programs. It is estimated that over 40 million youths are exposed to prevention programs annually; this initiative will provide more comprehensive programs for these youth.

C. SOURCE COUNTRY COUNTERDRUG ENHANCEMENT

To improve our national responses to organized international drug trafficking, there will be a controlled shift of emphasis from the transit zones to the source countries, focusing on democratic institution-building of law enforcement and judicial institutions.

We will concentrate drug control assistance in major producer and transit countries that have demonstrated their political will to reduce drug trafficking. Assistance programs will focus on improving judicial and policy systems, interdiction efforts, and other programs to attack the drug-trafficking infrastructure.

The Interim Strategy.

Our interdiction effort has been successful in forcing traffickers to abandon direct shipments to the United States. It has also forced them to adopt more costly and difficult concealment tactics, shipping, and delivery methods, and dramatically increase production to ensure their supply. Traffickers' most favored transportation method--private aircraft into the Caribbean and Central America--has recently been dramatically reduced indicating another shift away from preferred methods. In the future, we believe the traffickers will be more vulnerable in the source countries to increased host country intelligence-cued law enforcement operations.

In 1992, we and our allies seized an estimated 338 metric tons of cocaine--more than we estimate is consumed by Americans annually. These seizures of cocaine resulted in the loss of billions of dollars in potential profits, making our interdiction effort very painful financially to the traffickers.

Interdiction operations have produced valuable intelligence and exposed operations. Interdiction contributed to about 43,000 drug arrests and detentions in Latin America in 1992. We have also used interdiction operations to train host nation police forces in how to plan, coordinate, and execute sophisticated counter-narcotics operations. Consequently, Mexico has taken over full responsibility for planning and executing its interdiction operations, and Colombia has begun planning and executing such operations. Bolivia is starting to plan and execute operations on her own. Peru is the weakest in this area, but its capability to conduct counter-drug operations is growing.

The Interim Strategy calls for a controlled shift of emphasis from the transit zones to the source countries -- in response to the shift in air smuggling by traffickers. A recently signed Presidential Decision Directive (PDD) ensures that certain resources, such as Customs' P-3 assets, be used more intensely to augment interdiction and intelligence in the source countries. Given the reduced threat in the transit zone, there is less need for detection and monitoring operations there; there is also less need for some border control air program efforts, such as helicopter operations.

The PDD also signals the President's dissatisfaction that source country funding was reduced by Congress below the FY 1994 President's Budget request level and directs OMB and ONDCP to minimize the effects of these cuts. Most notable among the cuts to the Andean Program in FY 1994 was the $48 million cut to the Bureau of International Narcotics Matters

(INM). The Department of State has assigned INM responsibility for developing, implementing, and monitoring U.S. international drug control programs. INM provides bilateral and multilateral assistance in Latin America for numerous activities such as enforcement efforts, training, judicial reform, crop control, prevention and treatment, and interdiction. Additionally, INM supports programs in other parts of the world focused on opium cultivation and heroin production and trafficking. Given the growing threat heroin poses to the U.S., and the President's intent to strengthen our source country effort, funding for source country programs must be restored and enhanced.

The source-country counterdrug enhancement initiative, which totals $73 million, contains two elements:

- o INM Program Restoration ($48 million): the PDD directs OMB and ONDCP to partially restore and minimize the effects of these cuts in FY 1994. Implicit in this directive is the full funding and support for this program in FY 1995. This initiative proposes to restore resources in the FY 1995 program to the FY 1994 Presidential request level.

- o INM Program Enhancement ($25 million): proposes to plus up by $25 million the FY 1994 request level for the Bureau of INM. This is needed to supported the expansion of source country programs over and above the shift in source country interdiction efforts from the transit zone.

By way of background, Congressional cuts to the President's FY 1994 counter-drug budget request -- INM ($48 million), DoD ($300 million), Foreign Military Financing ($36 million), Economic Support Funds ($71 million) -- will, if not at least partially restored, severely and adversely impact implementation of the President's international strategy as outlined in the Interim Strategy and the PDD. Restoration of $48 million in INM funds, along with a program enhancement of $25 million is absolutely essential to allow continuation of priority ongoing programs and permit some very modest enhancement of selected source country programs as required by the PDD.

Expected Outcome: INM resources enable producing and trafficking countries to engage in efforts to reduce the availability of illicit drugs. Such efforts were key to the proven success in reducing drug demand the late 1980's (according to ONDCP's White Paper on the price and purity of cocaine reported source country supply reduction efforts caused domestic U.S. cocaine prices to rise and drug use (as measured by DAWN) to decline). Country-specific results follow:

Colombia: Restoration and enhancement of the INM budget will allow necessary increases in support of expanded Colombian National Police operations throughout Colombia. It will help Colombia to sustain its extensive efforts to locate and arrest Pablo Escobar and to intensify its activities against the Cali cartel.

Colombia also needs the additional funds to continue efforts to gain control over sovereign airspace and to expand its capabilities to conduct night and day "end-game" operations throughout Colombia. Additional funds are also needed to support

Colombian efforts to interdict maritime shipments moving through Colombian ports with greater frequency.

Peru: Restoration and enhancement of the INM's budget will prevent the termination of U.S. law enforcement presence east of the Andes mountains and the termination of a new initiative to form and deploy mobile Peruvian law enforcement teams in Eastern Peru. This initiative, if funded, will reduce by half the cost of conducting interdiction and law enforcement operations east of the Andes. Given DoD's $300 million budget cut and Congress' refusal to give Peru Foreign Military Financing, additional funding for Peru for this specific area is absolutely essential to implement the President's new strategy.

This is also true for institution building and sustained development in Peru. Additional funding is required to help compensate for a $21 million or 65% cut in Economic Support Funds for Peru. The monies are needed to support judicial reform, expand demand reduction, and allow selective alternative development.

Bolivia: Bolivia is now going through a transition period in which they are assuming greater responsibility for planning and conducting law enforcement and interdiction operations. Restoration and enhancement of the INM budget will allow this effort to continue and will help make up for a projected cut of $10 million dollars or 66% in Foreign Military Financing and a $25 million or 50% cut in Economic Support Funds. Bolivia is now having major successes in attacking trafficker organizations and badly needs additional funding to sustain its police air and river operations.

Bolivian political will is very high under the new government and major new initiatives are underway to attack coca cultivation and expand alternative development in the Chapare growing area. Without additional funding, considerable initiative and infrastructure will be lost both in the Chapare and in drug transit and processing areas to the north.

III. PROGRAM LINKAGES

This Administration will set a new tone in reducing drug use by "reinventing" Federal drug control programs.

The Federal approach must be one that empowers communities. *Empowering communities means supporting local efforts that are based on comprehensive, strategic plans and that involve the private sector, build on existing community institutions, and coordinate government efforts across program and jurisdiction lines.*

The Interim Strategy.

There is a dire need for better cross-agency coordination with regard to drug programs, as well as more flexibility for communities to allocate resources to best meet their particular situations. This is highlighted in the Interim Strategy and repeatedly mentioned in the Vice President's National Performance Review. There are many programs that are similar, and perhaps even duplicative; however, there has been little direction and coordination of programs among the various drug control Departments and agencies to date.

The Interim Strategy has a new focus to confront the drug crisis. It targets scarce resources to areas of greatest need, as well as the most efficient and effective programs. It commits to reducing drugs and crime in our communities by focusing on targeted treatment, youth prevention, and crime and violence reduction by empowering communities and providing them with the proper tools.

To reduce drug use, as well as the crime and violence plaguing our communities, the Departments and agencies must commit to work together in targeting their scarce resources to those areas with the greatest need. This effort should encompass the Empowerment and Enterprise zones, as well as target other high need areas.

ONDCP, in collaboration with OMB, has held several joint Department/Agency meetings in order to discuss the merits, both political and technical, of grant "consolidation". This consolidation will take a two tier approach. Due to time constraints, the first tier will be proposed for the FY 1995 budget. It will link several cross-agency grant programs to allow for more effective targeting of resources. The second tier will be addressed subsequently this Spring with a view to developing specific proposals for the FY 1996 budget. This effort will involve specific proposals to consolidate existing grant and demonstration programs into larger discretionary grant programs, continuing to build infrastructure in support of the drug Strategy, Health Care reform, Empowerment Zone legislation, and the Crime bill.

FY 1995 Program Linkages

For the FY 1995 Budget request, we are proposing to link several existing drug programs, across-agencies to provide greater flexibility to communities, better use of scarce resources, and allow for the design of programs that work for the targeted population. The linkages will focus on the themes of the Interim Strategy: Targeted Treatment Expansion; Youth Prevention; and, Crime and Violence initiatives. The Department of Labor will be a key player in the "consolidation" because in order to successfully treat users, as well as provide incentives to youth and others to stop the crime and violence, alternatives such as gainful employment must be offered.

The linkage proposal will be included in the February Strategy. Examples of the programs that are likely to be candidates for cross-agency linkages are listed below. ONDCP will continue to work with OMB in coming to resolution on sound, finite, cross-agency proposals.

- Youth Program Linkages: High risk youth (HHS), Youth Gang (HHS and Justice), National Service, Job Corps (Labor) and Safe and Drug-Free Schools (Education.)

- Special Treatment Populations Linkages: Pregnant and Postpartum Women (HHS), Crack babies (HHS), Critical Populations (HHS), and Job Training Partnership Act/JTPA (Labor).

- Community Prevention Linkages: Community Empowerment, Drug Elimination grants (HUD), Community Policing grants (Justice), and Community Partnerships.

- Early Childhood Program Linkages: Head Start (HHS), Grants for infants and families (Education), Emergency Protection (HHS) and Early childhood education (Education.)

New funding from expiring grants, as well as existing funding would fall under the umbrella of eligible funding to be linked. The programs would be jointly administered by the responsible Departments and agencies by Cooperative Agreements, Memorandum of Understanding, Interagency agreements, and the like. The grants would be targeted to those areas with the need for comprehensive services, and most likely would target those communities that already receive multiple "separate" grants. This would enable the communities to use the majority of the funds to provide services by greatly reducing their administrative burden.

After the linkages have been formed, the next step (Tier II) will be to look at appropriate program that can be consolidated. This broader "consolidation" would merge existing programs, that are very similar, and consolidate them into large discretionary grant programs.

The benefits of such a consolidation are clear: administrative savings; greater flexibility for communities to design solutions; more effective concentration of limited resources; and, programs that work for the target population.