

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

August 23, 1976

The Honorable James T. Lynn, Director
Office of Management and Budget
Washington, D.C. 20500

Dear Jim:

I enclose our supplemental budget for fiscal year 1977 in the amount of \$3.9 million.

As your staff well knows, we completed an exhaustive review of our current budget before resorting to this request. More important, we greatly reduced a number of unneeded expenditures to reorder our priorities.

Of the \$3.9 million requested, \$800,000 is to remedy our severe office space problems. There is I believe no question but that we need the new space and that the sum sought is appropriate.

Files and records are stored in hallways, administrative hearings are deferred or delayed because hearing rooms are not available, meetings with outsiders are held in intolerably small areas, and professional employees are doubled up in 150 sq. ft. offices. These are circumstances that would never be tolerated in the private sector and I do not believe they are suffered by other regulatory agencies. The additional sum of slightly less than \$800,000 for fiscal 1977 will eliminate our present overcrowded conditions. The only issue is whether we and GSA can find space.

Unfortunately, we are also seeking funds for an additional 34 positions -- 32 for our investigations and enforcement activity and two for our economic and policy research group at a cost of about \$700,000.

You should know, however, that this requested increase will not represent a significant change in the Commission's staff over the past two years. The attached graph makes that point quite clearly. The additional sums will in fact do no more than permit a higher level of average manning during the year.

Most important, we will keep our commitment not to increase overall manning in 1978.

You will note that more than one-half of the new personnel will be assigned to our regional offices. This comports with our long range effort to equip the regional offices to carry a greater share of the burden. Such reallocation will reduce travel and other related expenses and will give the Commission both a better overall capacity and greater flexibility.

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Further efficiencies are possible but not without a major improvement in equipment. For example, we have recently installed 90 pieces of new equipment in the Division of Corporation Finance. The replaced equipment had an average life of 10 years or more. With the new equipment, the Division has undertaken to reduce its initial response to the filing of 7 different types of forms by an average of 20% by November 1, 1976 (see chart II attached).

To upgrade the balance of the Commission's equipment to a comparable standard will cost \$515,000 of this 1977 supplemental.

In the area of economic and policy research, we wish to emphasize our strong belief that the Commission's capacity for economic research requires substantial strengthening. We require a more adequate economic data base for practically all of our work -- in monitoring the effectiveness of our disclosure and regulatory efforts and in assessing our market regulation and enforcement priorities. We have already moved forward in this area by employing four top-rated economists. We still require one additional economist and one research assistant for the purpose of gathering data to measure the potential impact of proposed legislation and/or the issuance of new or modified regulations before the Commission acts.

The continued use of the existing substandard office equipment and furniture is having an adverse effect on the effectiveness and efficiency of our personnel. It also gives a very poor impression to the large number of persons who have occasion to visit and to do business with the Commission.

Two major areas which have not been given attention for some time, a ten-year old computer facility lacking capacity and a manual paperbound records program, have a damaging impact on Commission efficiency.

The initiation of our Records and Systems Modernization Program in 1977 is essential if we are to provide current and future programs with the support needed to continue to be effective. The need for automated litigation support and case tracking systems is increasingly apparent as is the need for improved communication and coordination with the regional offices through telecommunications.

More importantly, the modernization program once implemented will cut our costs primarily through absolute staff reductions in some areas and significant cost avoidances in others, and substantial space savings. By 1981, with the modernization program, our annual budget will be \$1.5 million less than current conservative projections.

Our present efforts are designed to provide the foundation which will allow programs of the current administration to become more firmly established. The reduction of paperwork, regulatory reform, limiting the number of federal employees and contracting with the public sector are all concepts embodied in our modernization efforts.

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The tracking of our activities in a more comprehensive manner is of primary importance. It will permit both more efficient use of manpower and an awareness by the Commission of the progress of individual cases. Too often investigations are continued over months and even years because we cannot direct sufficient manpower to backlogs that are created. The resultant delay is both wasteful and unfair to parties who must suffer through months of apprehension before our position is known to them.

Jim, this supplemental request represents a major commitment of our time over the last six months. Its approval is critical to the sound operations of the Commission. I urge its approval. Should it receive a preliminary disapproval, I ask for a personal meeting to discuss it in greater detail.

With best regards,

Roderick M. Hills
Chairman

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