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5/12/97

GUIDANCE ON BUDGET
JUNE 12, 1997

HEALTH CARE

The House Commerce Committee is marking up today, and we're sending them a letter. You'll have a copy of that letter. Following is the health guidance from June 11 -- Medicare, Medicaid, KidsCare

The Republicans on the Senate Finance Committee have issued a preliminary mark that has a number of problems in Medicare, Medicaid, and KidsCare. In some cases, they have diverged from the budget agreement. In other cases, we have other concerns. We're in contact with the members to let them know our concerns and we fully anticipate that some of these issues, at least, will be resolved before the final Chairman's mark is presented to the committee.

Medicare

* Raising Medicare eligibility age from 65 to 67. We are concerned about this proposal, especially in this context.

  First, it was not discussed as part of budget agreement.

  Second, we are very concerned about moving in this direction absent any consideration for the potential impact on elderly retired Americans. This is a population that is extremely difficult to insure, so we're concerned about the impact of this proposal on their access to affordable insurance. This is a proposal that clearly needs further thought and does not belong in this package.

* Balanced Billing. They would allow balanced billing, which we strongly oppose. This permits private health plans that contract with Medicare to charge more than Medicare allows.

* MSA's. We're uncertain at this time, but

* Phase-in of home health transfer. We believe this is not consistent with the Budget Agreement. While the agreement says phase in the premium increase, it does not say phase in the home health switch. Rather they should do that now. They've done what the

Ways and Means Committee did. However, the House Commerce Committee marked up yesterday and did it in a way that is consistent with agreement, and that's the way to go, in our view. (Frank Raines has written to Ways and Means to express concern about this.)

* <u>$5 copayment for home health visits</u>. We don't believe this is consistent with the spirit of the budget agreement. We feel we had a pretty good understanding of the limits of any additional burdens we would put on beneficiaries. This is an additional burden which we oppose.

Medicaid

* They've gone even farther than the House Commerce Committee and eliminated entirely the provision of the Budget Agreement providing $1.5 billion to help low-income seniors with the cost of the increased Medicare premiums. This clearly violates the agreement. (House Commerce provided in the neighborhood of a half billion.)

KidsCare

* They've confined all of the money they provide to a block grant program that does not provide meaningful coverage. **We're working with a bipartisan group of Senators who have a proposal we think is much preferable to the current mark under discussion (<u>Rockefeller/Chafee</u>).**

TAXES

Hoping that you'll have insert for today's BRT speech to guide what issues to highlight today.

The Ways and Means committee voted down a number of amendments last night. Following is comment on two issues that might be part of speech:

<u>Child Care Phase-Out</u>

* We're very disappointed they did not eliminate the phase-out of the child care tax credit for those who receive the proposed child tax credit. This is extremely unfair to parents who work outside the home. In effect, it denies them a portion of the child tax credit. Apparently, it's intended to discourage parents from working outside the home, but surely they should realize that this is a necessity for tens of millions of families.

Alternative Minimum Tax

* We understand that Chairman Archer is dropping his proposal for a complete repeal, but he is still proposing a substantial cut in this tax not only for individuals but for corporations. There may be a need for some reform of AMT with regard to individuals, but the fact is that this tax was put in place for corporations because so many of them were not paying any taxes at all during the 1980's, and this was a way of making sure that profitable businesses, especially the largest and most profitable ones, paid some taxes, like other Americans. We would be very skeptical of any proposal that substantially weakened that tax.

  Moreover, they used the additional revenues to speed up their very broad estate tax relief plan. That seems to us to be a pretty poor choice for allocating these additional revenues.

TOIV
Siewert, Jennings

Record Type: Record

To: Barry J. Toiv/WHO/EOP

cc:
Subject: Press Statement

I know you've been talking about this for a while.

---------------------- Forwarded by Joshua Silverman/WHO/EOP on 06/12/97 11:22 AM ---------------------------

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Subject: Press Statement

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Barbara D. Woolley
06/12/97 11:12:30 AM

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Subject: Press Statement

STATEMENT BY TREASURY SECRETARY ROBERT E.RUBIN:

"The Administration continues to support the ethanol credits as evidenced by the proposed extension of the excise credit for ethanol in our ISTEA reauthorization proposal earlier this year."

Message Sent To:

Draft letter on Ethanol

Honorable Richard A. Gephardt
U.S. House of Representatives
1226 Longworth House Office Building
Washington, DC 20515-2503

Dear Dick:

The Clinton Administration's is committed to the continued growth and development of the U.S. ethanol industry and ~~strongly~~ opposes efforts currently underway in Congress to repeal the Federal excise tax exemption for ethanol. While repealing the excise tax exemption would increase the monies available to the highway trust fund, it would cost this Nation's farmers billions of dollars in lost income and displace thousands of jobs. Rural areas that depend on farming would be particularly hard hit by the loss in farm income and employment.

In 1980, the ethanol industry used only 35 million bushels of corn to produce 88 million gallons of ethanol. Since then, the ethanol industry has grown over ten-fold, now using an estimated 450 million bushels of corn and producing 1.1 billion gallons of ethanol. Assuming continuation of the Federal excise tax exemption, the Department of Agriculture (USDA) projects the ethanol industry will continue to grow, using 640 million bushels of corn and producing 1.6 billion gallons of ethanol by 2005. However, if the excise tax exemption is eliminated, USDA estimates that investment in the ethanol industry will come to an abrupt halt and ethanol production will decline to 40 percent or less of current levels by 2005. The resulting reduction in corn use would lower net farm income by $6-$10 billion during 1998-2005 and require 7,000-14,000 workers to find other employment. Removing the Federal excise tax exemption for ethanol would also make us more dependent on for~~i~~eign oil. If the exemption is 5 removed, USDA estimates that imports of petroleum-derived oxygenates would increase by $-$9 billion during 1998-2005, though~~t~~ this would be partially offset by increases in agricultural exports of $1 billion and probably other trade flow changes that were not explicityl modeled.

In summary, continuation of the Federal ex~~c~~ise tax exemption for ethanol is good for farmers and good for rural areas. The exemption also furthers the goal of increasing our use of renewable sources of energy for the future and reducing energy imports. For these reasons, I am steadfastly committed to continuing the Federal excise tax exemption for ethanol and look forward to working with you and your colleagues in this regard.

Sincerely,

DAN GLICKMAN
Secretary

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

THE DIRECTOR

June 11, 1997

The Honorable Tom Bliley, Jr.
Chairman
Committee on Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express the views of the Administration on the Medicare, Medicaid, and children's health provisions that were approved by the Subcommittee on Health and the Environment on June 10, for inclusion in the FY 1998 budget reconciliation bill.

Overall, the Administration finds much to support in the bill. It incorporates many of the proposals from the FY 1998 President's Budget and is generally consistent with the Bipartisan Budget Agreement. It proposes Medicare structural reforms that constrain growth, extends the life of the Hospital Insurance Trust Fund for at least a decade, and improves preventive care benefits. All of these changes will help strengthen and modernize Medicare for the 21st century. It also allocates the full $16 billion for children's coverage policies within the Commerce Committee's jurisdiction, and thus, none of this important investment is dedicated to an inefficient tax approach.

However, as I noted in my letter to the Chairman and Ranking Member of the Health and the Environment Subcommittee, the Administration has concerns with several of the Medicare, Medicaid, and children's health provisions that your Committee will consider, including the following:

<u>Medicare</u>

MSAs

While we have agreed to work to develop a demonstration of this concept for the Medicare population, we have concerns about the size and scale of the demonstration in the mark. The Subcommittee's bill provides for a demonstration with 500,000 participants at a cost of approximately $2 billion over five years, which is much larger than any other Medicare demonstration. In addition, the Subcommittee approved an amendment that extends the MSA demonstration from 4 years to 5 years. Moreover, the demonstration exposes beneficiaries to any additional charges providers choose to levy without limitation. We strongly believe that the current law limits on balance billing should be applied to this demonstration. We have suggested limiting the demonstration to two states for a three-year period. We believe the demonstration should be limited geographically for a trial period, which will enable us to design the demonstration to answer key policy questions.

Medical Malpractice

We believe that the malpractice provisions in the Subcommittee's bill are extraneous to the agreement. As you know, the Administration opposed the malpractice provisions in the vetoed Balanced Budget bill, as well as those adopted in the House version of the Health Insurance Portability and Accountability Act (HIPAA). We find these provisions highly objectionable, and we oppose them.

Preventive Benefits

While the preventive benefits are largely the same as those advanced in the President's Budget, we bring to your attention the failure to waive coinsurance for mammograms. As you know, mammography saves lives, yet many Medicare beneficiaries fail to use this benefit. Research has found that copayments hinder women from fully taking advantage of this benefit. Thus, we continue to support waiving copayments for mammograms.

Prudent Purchasing

As you know, the Medicare program is governed by a strict set of provider payment rules that limit the ability of the Federal government to secure the most competitive terms available to other payers in the marketplace. We have advanced a set of proposals to allow Medicare, the nation's largest health insurer, to also take advantage of lower rates providers offer to other payers. At a time when we all agree that Medicare spending has been growing too quickly and the Federal budget faces increasing pressures for scarce resources, we do not understand why the Subcommittee would not want to take advantage of all these proposals to allow Medicare to be a more prudent purchaser. We propose adopting practices that work in the private sector. We should let them work in the public sector as well. These practices can work well to save taxpayers money and promote quality.

We are pleased that our proposal to expand the "Centers of Excellence" program is included in the bill, but we urge the inclusion of the other proposals. We also note that the Subcommittee has added a durable medical equipment competitive bidding demonstration to the bill. However, we continue to believe that the rapid escalation of costs in this area would be more appropriately addressed by the President's proposal to authorize competitive bidding on a permanent basis across the country.

Commission

We note that the Subcommittee's bill includes a Medicare commission. Establishing a process that is mutually agreeable is essential to successfully address the challenges facing Medicare. We look forward to working with you on the development of the best possible bipartisan process to address the long-term financing challenges facing Medicare while simultaneously ensuring the sound restructuring of the program to provide high-quality care for our nation's senior citizens.

<u>**Medicaid**</u>

Investments

After extended negotiations that preceded the Bipartisan Budget Agreement, the Administration and the Congressional leadership agreed to specified savings and investments in the Medicaid program over five years. The agreement clearly calls for a higher Federal matching payment for the Medicaid program in the District of Columbia and inflation adjustments for the Medicaid programs in Puerto Rico and the territories, but the Subcommittee failed to include these provisions. We strongly urge the Committee to include these proposals.

The bill does include a provision to ease the impact of increasing Medicare premiums on low-income beneficiaries as specified in the agreement. However, we are concerned that because of the way the proposal in the bill was drafted, low-income Medicare beneficiaries are not likely to be protected, as was intended in the agreement. The proposal in the Subcommittee's bill for the Federal government to pay 100 percent of the "extra" amount of premium due to the home health reallocation is too administratively complex for the value of the benefit provided. The cost of this provision, according to preliminary reports, is $600 million, approximately one-third of the $1.5 billion investment specifically included in the agreement. The Committee should include the full $1.5 billion investment to ease the impact of higher Medicare premiums on low-income beneficiaries.

Disproportionate Share Hospital Savings

We have concerns about the allocation of the disproportionate share hospital (DSH) payment reductions among States included in the bill. Although we agree that there have been abuses of this program in the past, taking such large reductions in certain states whose Medicaid programs are particularly dependent on DSH spending will likely affect their ability to cover services. We recommend that you revisit the FY 1998 President's Budget proposal, which ensures that the States with the highest DSH spending are not bearing most of the impact of the savings policy.

We are very concerned that your bill does not include retargeting of DSH funds. As the Administration has stated previously, we believe that significant savings from DSH payments should be linked to an appropriate targeting mechanism. It is for this reason that we support proposals that assure that some DSH funds are directed to hospitals that serve a high proportion of low-income and uninsured patients.

Boren Amendment

The Subcommittee bill does not repeal the Boren Amendment. The Nation's Governors have supported repeal of the Boren Amendment for many years, and the repeal was included in both the FY 1998 President's Budget and in the agreement. We are concerned that the Subcommittee's failure to include the repeal of the Boren Amendment will result in higher DSH cuts that could harm hospitals that serve a high proportion of low-income and uninsured patients. We want to work with the Committee to develop an acceptable compromise on this important issue.

Children's Health

We believe that the $16 billion investment in children's health should be used for health insurance coverage. It is for this reason that the Administration does not support the direct services option in the Subcommittee bill. We are concerned that a State could spend all of its money on one benefit or to offset the effects of the DSH cuts on certain hospitals, and children would not necessarily get meaningful coverage.

We are also concerned that the bill may not be the most cost-effective manner possible to expand coverage to children, as required by the agreement. The bill includes both a Medicaid and a grant option; however, the incentives in the bill could discourage States from choosing the Medicaid option. We believe that Medicaid is a cost-effective approach to covering low-income children, and would like to work with you on strengthening this option. We also believe that the grant program should be designed to be as efficient as possible. The provision that allows States to use funds for "other methods specified under the plan" with no details on what this means implies that States may use funds for purposes other than the intent of the agreement (e.g., to offset States' share of Medicaid). We would oppose this.

As the Administration has stated many times, we do not support limiting access to medically necessary benefits, including abortion services. We would like to work with the Congress to resolve this issue.

The Bipartisan Budget Agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. It is critical that we do so on a bipartisan basis.

I look forward to working with you to implement this historic agreement.

Sincerely,

Franklin D. Raines
Director

Identical letter sent to the Honorable John Dingell

Addendum

MedicarePlus

The Subcommittee's bill permits beneficiaries to be locked into a MedicarePlus plan for as long as 9 months, after a lengthy transition period. We continue to support the monthly disenrollment option as an important safety valve for managed care enrollees who are dissatisfied with their managed care plan. Moreover, we would support the ability of these enrollees to opt to purchase any Medigap plan of their choice upon disenrollment.

Medigap Reforms

The President's bill advanced a number of important Medigap reforms including annual open enrollment (as well as including information about Medigap plans in the annual open enrollment season informational materials), community rating, open enrollment for disabled and ESRD beneficiaries when they become entitled to Medicare, and portability protections similar to those enacted last year in HIPAA for the under 65 population. Many of these important protections were also advanced by bipartisan bills including those sponsored by Representatives Johnson and Dingell. We urge your reconsideration of the merits of these proposals. They ensure that Medicare beneficiaries are able to purchase affordable Medigap policies to fill in the many areas not covered by Medicare. Medicare beneficiaries should be able to choose which Medigap plans to purchase, or MedicarePlus plans to enroll in, without artificial constraints.

Survey and Certification User Fee Proposal

The Subcommittee bill does not contain a provision allowing HCFA to require state survey agencies to impose fees on health care providers for initial surveys required as a condition of participation in the Medicare program. This provision would authorize states to collect and retain fees from health care providers to cover the cost of initial surveys. Under the agreement, the discretionary funding level for HCFA Program Management assumes enactment of this mandatory, government receipt fee proposal.

Medicare Secondary Payer (MSP)

The Subcommittee's bill limits the time period that Medicare can recover mistaken primary payments from the primary insurer to three years. Unfortunately, because we must utilize information from tax returns which is then matched against information from the Social Security Administration, by the time we receive data it is already one year, and sometimes two years, old. We must then match this information against Medicare files before a questionnaire can be sent to identified employers to determine if a Medicare beneficiary (or their spouse) had coverage through the group health plan of an employer. Thus, a three year limit on when Medicare could recover mistaken payments would effectively mean that <u>no</u> mistaken primary payments could be collected.

Hospital Outpatient Department (OPD) Coinsurance Waiver

While we support allowing hospitals to reduce coinsurance for beneficiaries without being charged with a kickback violation, we would urge the Committee to include language barring such hospitals from charging the Medicare program for bad debt for such waived coinsurance. We suggest that hospitals make an election with the Secretary where they choose on an across-the-board basis for all beneficiaries to waive coinsurance and consequently do not bill Medicare for the waived coinsurance. Such a policy will permit proper monitoring on bad debt.

Mark-up of Drugs

The Administration package contains a proposal to eliminate physician and supplier mark-ups for covered Medicare drugs. We made this proposal to eliminate excessive Medicare payments -- Medicare often pays 15 to 20 percent more than the physician's acquisition cost for the drug -- and to protect beneficiaries from excess charges. We appreciate the Subcommittee's interest in this issue, but we believe that the bill does not go far enough to eliminate excessive Medicare payments and does not contain the beneficiary protections that we believe are essential.

6/13/97

includes ① ltr from Raines to AG Cmte re: Food Stamps ② Raines ltr. re: SSI & Medicare

Guidance on Tax Bill
June 13, 1997

- **House**. Tax Bill was passed by Ways and Means last night on a straight party line vote. Democrats failed in effort to strip out provisions that penalize lower-income working Americans -- provisions the President criticized in yesterday's Business Roundtable speech: ③ Rubin letter to Range re: tax ④ Rubin letter re: child tax credit

  (1) The Republican provision that excludes four million low-income working families from receiving the $500 a child tax credit.

  (2) The Republican provision that cuts the child tax credit for families that receive the benefits of the child care incentives. ④ Raines ltr re: health care

- **Senate**. Roth will begin mark-up next week. Outline of Chairman's mark attached for your review. Preliminary analysis indicates that it shares many of the faults of the Archer plan, but it is preliminary enough that we should probably refrain from comment under than:

Certainly hope that the Senate will correct some of the more egregious provisions of the House Republican bill and meet the President's four-part test.

(1) Must be faithful to the bipartisan agreement;
(2) Must help the economy grow;
(3) Must be fair to middle class families;
(4) Must target our top priority -- education: and
(4) Must not explode the deficit and make it more difficult to meet the fiscal challenges we face when the baby boom nears retirement.

NEC, Jake 65316

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

THE DIRECTOR

June 12, 1997

The Honorable Robert F. Smith
Chairman
Committee on Agriculture
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As you know, the Administration and the bipartisan congressional leadership recently reached agreement on an historic plan to balance the budget by 2002 while investing in the future. The plan is good for America, its people, and its future, and we are committed to working with Congress to see it enacted.

The Bipartisan Budget Agreement includes $1.5 billion in additional funding for the Food Stamp Program to increase support for work and provide States with flexibility to exempt individuals from the Food Stamp time limits due to hardship. I am writing to express the Administration's deep concerns with the Committee's plans to implement the Food Stamp provisions in the agreement and to provide our views on two amendments that may be offered during mark-up.

We appreciate the Committee's draft language to implement the 15 percent hardship exemption, which is consistent with the Administration's approach. However, we have deep reservations about the Committee's proposal for employment and training (E&T) funds for able-bodied childless adults aged 18-50. The agreement specifically states that existing Food Stamp E&T funds will be redirected and new capped mandatory funding added "to create additional work slots for individuals subject to the time limits." The agreement provides $1 billion for this purpose. The Administration's legislative proposal creates 350,000 additional work slots over five years for individuals who want to work and would otherwise lose benefits if a work opportunity were not available. The Committee's planned approach does not achieve this end; it would create fewer than one-half the additional work opportunities for individuals facing the time limit.

The Committee proposal is seriously flawed for the following reasons:

- **The proposal lacks performance standards and accountability to ensure that the new Federal funding creates additional work slots.** The Committee proposal gives States hundreds of millions of dollars without any meaningful provisions to ensure that they put forth additional efforts to provide work opportunities for persons facing the time limit. Without such performance measures, States can absorb the additional funds by changing cost allocation schemes among current E&T activities or increasing the average cost of a slot.

- **The lack of maintenance-of-effort provisions in the preliminary Committee bill would result in States using new Federal money to reduce significantly their spending on E&T.** Adequate maintenance-of-effort provisions are necessary to ensure that the legislation provides maximum work opportunities. In FY 1996, States provided $73 million to fund E&T services for Food Stamp recipients. These existing State contributions are matched dollar for dollar at the Federal level. With the structure of the Committee's proposal for the new 100 percent Federal money, States can simply replace their funds with the new Federal money. We urge the Committee to strengthen the maintenance of effort requirements.

- **The proposal funds work slots that do not meet the welfare reform statute's tough work requirements for Food Stamp recipients.** The Committee provisions allow States to spend unlimited amounts of the new 100 percent Federal money on work activities that don't create workfare slots or provide 20 hours of employment. The Committee provisions would allow all the money to be spent on job search. The Administration's proposal targets funds to work activities that meet the tough standards for 18-50s -- and provide opportunities for individuals willing to work.

- **The provisions are out of line with performance requirements for other Federal work programs for welfare recipients.** The new Temporary Assistance for Needy Families (TANF) block grant includes explicit participation targets to ensure that States use block grant money to create work opportunities. States that do not achieve participation targets forfeit a portion of their grant. The Administration's proposal is consistent with this approach; the Committee proposal is not.

The Administration's proposal addresses accountability concerns, while giving States wide flexibility. It permits States to use 100 percent Federal funds to support work activities for individuals in areas waived from the time limits due to high unemployment or too few jobs. It also funds activities, such as job search. The Administration proposal, however, includes measures to ensure that the 100 percent Federal funding for these activities reimburses States at a rate that reflects the lower cost of providing these services. Better targeting of reimbursement rates, as well as the Administration's more accountable maintenance-of-effort requirements or measures with equivalent results, are essential to ensure that additional Federal funding for work slots yields additional opportunities rather than just supplanting State spending.

Amendments

The Administration understands that amendments may be offered that would allow Food Stamp operations to be privatized. While certain program functions, such as computer systems, can currently be contracted out to private entities, the certification of eligibility for benefits and related operations (such as obtaining and verifying information about income and other eligibility factors) should remain public functions. The Administration believes that changes to current law would not be in the best interest of program beneficiaries and would strongly oppose such amendments.

We understand that an amendment may be offered in the Committee mark-up, the purpose of which is to prevent costs from increasing in Food Stamps due to cost-shifting for common functions from the new TANF block grant, which places a cap on TANF administrative costs. We understand the CBO baseline includes costs of over $5 billion in FYs 98-02 because CBO assumes administrative cost shifting from TANF to Food Stamps and Medicaid. This proposal would reduce the extent of the cost-shift to the Food Stamp Program, yielding substantial savings against CBO's baseline, although it would not prevent cost-shifting to Medicaid and might even increase Medicaid costs. While the Administration is generally supportive of this effort -- to prevent States from changing cost allocation plans in order to shift greater administrative costs from the capped TANF block grant to the open-ended Food Stamp and Medicaid administrative costs that are matched by the Federal government -- we would need to carefully review the specific mechanism proposed. In particular, we would have serious reservations about proposals that would cap Food Stamp administrative costs.

The budget negotiators discussed the Food Stamp Program at considerable length and agreed to a $1.5 billion restoration in funding. An amendment reducing Food Stamps and directing savings to other programs was neither raised nor included in the budget agreement. The Administration has strong reservations about such an approach.

The budget agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. We must do so on a bipartisan basis.

I look forward to working with you to implement the historic budget agreement.

Sincerely,

Franklin D. Raines
Director

Identical letter sent to the Honorable Charles Stenholm

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

THE DIRECTOR

June 9, 1997

The Honorable E. Clay Shaw, Jr.
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

As you know, the Administration and the bipartisan congressional leadership recently reached agreement on a historic plan to balance the budget by 2002 while investing in the future. The plan is good for America, its people, and its future, and we are committed to working with Congress to see it enacted.

With regard to welfare, the budget agreement called for restoring Supplemental Security Income (SSI) and Medicaid benefits for immigrants who are disabled or become disabled and who entered the country before August 23, 1996; extending from five to seven years the exemption in last year's welfare law for refugees and asylees for the purposes of SSI and Medicaid; and making other important changes.

A number of provisions approved by the Subcommittee on Human Resources on June 5th for inclusion in the FY 1998 budget reconciliation bill are, however, inconsistent with the budget agreement in these and other areas. Consequently, if the Committee were to proceed with its legislation in this form, we would be compelled to invoke the provisions of the agreement that call on the Administration and the bipartisan leadership to undertake remedial efforts to ensure that reconciliation legislation is consistent with the agreement.

We appreciate the fact that the Subcommittee approved several provisions that were part of the budget agreement that the Administration supports, such as in the areas of welfare to work and State SSI administrative fees.

Welfare to Work -- We are pleased the budget agreement includes the President's $3 billion welfare-to-work proposal and that the Subcommittee approved provisions that meet many of the Administration's priorities. Specifically, we are pleased that the Subcommittee's action provided funds for jobs where they are needed most to help long-term recipients in high unemployment-high poverty areas; directed funds to local communities with large numbers of poor people; awarded some funds on a competitive basis, assuring the best use of scarce resources; and gave communities appropriate flexibility to use the funds to create successful job placement and job creation programs.

Though the Subcommittee did not address a performance fund, we appreciated their willingness to consider a mechanism to provide needed incentives and rewards for placing the hardest-to-serve in lasting, unsubsidized jobs that promote self-sufficiency. We hope the Committee will be open to an amendment to establish such a fund. In addition, we stand ready to continue to provide assistance in refining targeting factors.

State SSI Administrative Fees -- The Administration is pleased that the Subcommittee approved a provision, consistent with the budget agreement, to increase the administrative fees that the Federal Government charges States for administering their State supplemental SSI payments and to make the increase available, subject to appropriations, for Social Security Administration (SSA) administrative expenses.

With regard to immigrants, however, we have serious concerns with provisions that do not reflect the budget agreement. The Administration has separately transmitted draft legislative language on June 4th that reflects the budget agreement's provisions on benefits to immigrants.

Continued SSI and Medicaid Benefits for Legal Immigrants -- The Administration strongly opposes the provision that denies coverage to many legal immigrants who were in the United States when the welfare law was signed but who become severely disabled after that date. The budget agreement explicitly states, "Restore SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who enter the U.S. prior to August 23, 1996." The Subcommittee's action fails to reflect that agreement by only grandfathering those now receiving SSI, therefore dropping those who would become disabled in the future and would be eligible for benefits under the agreement. A policy that grandfathers immigrants who were on the SSI rolls on August 22, 1996, protects 75,000 fewer immigrants than the budget agreement in the year 2002. By contrast, the agreement targets the most vulnerable individuals by providing a safety net for all immigrants in the country when the welfare law was signed who have suffered -- or may suffer in the future -- a disabling accident or illness. In addition, the Administration believes the budget agreement assumed that all legal immigrants currently receiving SSI benefits would continue receiving benefits during the disability review, as has always been the practice.

In contrast with the budget agreement, which was designed to restore benefits, the Subcommittee's action would deny SSI and Medicaid benefits to immigrants who have a sponsor with income of over $40,000. The Administration strongly opposes this provision, which would cut off thousands of severely disabled legal immigrants who would receive benefits under the budget agreement. Last year, the President signed into law immigration reform legislation that makes sponsors legally responsible for immigrants they sponsor. Immigrants currently in the country, however, do not have this protection. The Subcommittee's action would deny critical assistance to a disabled immigrant who has a sponsor unable or unwilling to provide support.

As noted above, the agreement provided for both SSI and Medicaid eligibility for disabled legal immigrants. The Subcommittee's action, however, also fails to guarantee

Medicaid coverage for all disabled legal immigrants who continue to receive SSI. For States in which SSI eligibility does not guarantee Medicaid coverage and for States that choose not to provide Medicaid coverage to legal immigrants who were in the U.S. prior to August 23, 1996, legal immigrants who receive SSI would not be guaranteed continued Medicaid coverage. To conform to the policy in the budget agreement, the Committee should explicitly guarantee Medicaid coverage to disabled legal immigrants.

Refugee and Asylee Eligibility -- The budget agreement would extend the exemption period from five to seven years for refugees, asylees, and those who are not deported because they would likely face persecution back home. However, the Subcommittee's action would provide that extension for refugees and not for asylees and others. Such asylees and others should receive the additional two years to naturalize.

We are concerned by reports that the Committee may consider provisions which add further restrictions to immigrants access to public benefits. Many of the potential provisions were considered during last year's immigration reform debate and were removed from the final legislation after negotiations between Congress and the Administration because they were unacceptable to the Administration. The Administration strongly opposes these punitive provisions, which would introduce known controversies into the budget reconciliation process.

Finally regarding immigrants, the Administration urges the adoption of a provision to protect the benefits of those who have been on the SSI rolls prior to 1979. Generally these are elderly citizens over the age of 90 who do not possess the required birth certificates or other documents necessary to establish eligibility.

In addition to the provisions in the Subcommittee's action related to immigration, the Administration has the following serious concerns:

Unemployment Insurance Integrity -- The Subcommittee did not approve the provision of the budget agreement that achieves $763 million in mandatory savings over five years through an increase in discretionary spending of $89 million in 1998 and $467 million over five years. These savings are a key component of the budget agreement. The discretionary spending that the agreement assumes, and which would be subject to appropriation, would support the necessary additional eligibility reviews, tax audits, and other integrity activities that, the evidence demonstrates, will yield the savings. We urge the Committee to adopt this provision to achieve the specified savings.

The Federal Unemployment Account -- The Administration supports the proposed increase in the Federal Unemployment Account ceiling, which reflects the budget agreement. The Subcommittee's action, however, did not accomplish another aspect of the agreement, because it only "authorized" $100 million to the States in 2000-2002 for Unemployment Insurance administrative funding, rather than making the payments mandatory as the agreement provides. We look forward to working with the Committee to address this issue. The

Administration has separately transmitted draft legislative language on June 6th that reflects the budget agreement's provisions on both unemployment insurance provisions above.

Local administration of Welfare-to-Work funds. We understand that an amendment may be offered at the full committee markup to provide for local administration of the Welfare-to-Work funds by the State TANF agency. The Administration strongly believes that chief local elected officials, working with the Private Industry Councils, are the appropriate local administrative entities to ensure that Welfare-to-Work funds are targeted to long-term recipients in communities with large numbers of poor people.

The Subcommittee's action also included a number of provisions that were not specifically addressed in the budget agreement, and about which the Administration has serious concerns. They include the following:

Minimum Wage and Workfare --The Administration strongly opposes the Committee's proposal on the minimum wage and welfare work requirements.

The proposal is not part of the budget agreement and, had it been raised during negotiations, we would have strongly opposed it.

Second, the proposal would undermine the fundamental goals of welfare reform. The Administration believes strongly that everyone who can work must work, and those who work should earn the minimum wage --whether they are coming off welfare or not. The proposal does not meet this test. In addition, under this proposal, working welfare recipients will be deprived of the protection of laws addressing employment discrimination, unsafe workplaces, child labor, overtime, and family and medical leave.

Worker Protections in Welfare-to-Work --We remain deeply disappointed in the lack of adequate non-displacement provisions in the Subcommittee's action. We strongly urge the Committee to adopt, at a minimum, the provisions included in H.R. 1385, the House-passed job training reform bill.

Repeal of Maintenance of Effort Requirements on State Supplementation of SSI Benefits -- The Administration strongly opposes the repeal of the maintenance-of-effort requirement because it would let States significantly cut, or even eliminate, benefits to nearly 2.8 million poor elderly, disabled, and blind persons. Congress instituted the maintenance-of-effort requirement in the early 1970s to prevent States from effectively transferring Federal benefit increases from SSI recipients to State treasuries. The proposal also could put at risk low-income elderly and disabled individuals who could lose SSI entirely and thereby lose Medicaid coverage as well. The Administration opposed this proposal during last year's welfare reform debate.

Other TANF Provisions -- The Administration is concerned with several provisions approved by the Subcommittee that were not in the budget agreement. For example, the agreement did not address making changes in the TANF work requirements regarding vocational education and educational services for teen parents. The Administration opposes the provision allowing States to divert TANF funds away from welfare-to-work efforts to other social service activities.

The budget agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. We must do so on a bipartisan basis.

I look forward to working with you to implement the historic budget agreement.

Sincerely,

Franklin D. Raines
Director

Identical letters sent to the Honorable Bill Archer, the Honorable Charles Rangel, and the Honorable Sander Levin

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.
June 11, 1997

SECRETARY OF THE TREASURY

The Honorable Charles B. Rangel
Ranking Democratic Member
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Charlie:

I want to commend you and the other Democratic members of the Ways and Means Committee and the caucus for your tax proposal.

If we are going to continue to invest in education and the rest of our successful economic strategy, any tax cut package must meet four basic tests. First of all, it must reflect the terms of the bipartisan budget agreement. Second, the tax cuts must be designed to help the economy continue to grow. Third, the tax cut must not disproportionately benefit upper-income families. Fourth, a tax cut must genuinely expand educational opportunities for Americans of all ages. Your overall package meets those tests. The Republican House proposal does not.

We are particularly pleased that your proposal gives American families the help they need to make investments in education and lifelong learning. The decision to include a HOPE scholarship proposal mirrors our initiative to make education more affordable and to make the 13th and 14th grades universal. You have improved our initial proposal by allowing students who receive Pell Grants and still pay tuition to receive the HOPE scholarship. We fully endorse that change. Although our tuition deduction plans differ in some particulars, we are pleased that your proposal incorporates the full $10,000 tax benefit for tuition paid -- regardless of its source. Like our proposal, your tuition plan will help families who are not wealthy enough to pay for the entire amount of tuition out of savings and are therefore forced to borrow. It would also help Americans undertake lifelong learning so that they can take advantage of the opportunities -- and meet the challenges of the new economy.

We are pleased that your proposal includes a refundable child tax credit which will help millions of working families raise their children. We are extremely encouraged that your proposal would allow a low-income family to receive both the child credit and their full Earned Income Tax Credit.

At the same time, your proposal includes several of the President's priorities that were part of the budget agreement -- including an expansion of Empowerment Zones and Enterprise Communities, the Brownfield tax incentives and the Welfare-to-Work tax credit. Your proposal also addresses many of the President's other priorities -- including a permanent extension of the exclusion for employer-provided educational assistance and tax credits for investment in Community Development Financial Institutions.

In sum, your tax cut plan is a welcome and important proposal. While we continue to analyze specific provisions, we support the overall structure of the plan. We hope that members of both parties will give it careful consideration and will work with us to enact a tax cut package that meets our four tests.

Sincerely,

Bob

Robert E. Rubin

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

June 11, 1997

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515-4005

Dear Bill:

I have reviewed the Chairman's Mark you released earlier this week, providing the details of the tax portion of the bipartisan budget agreement. The President is eager to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. I have included preliminary Treasury distribution tables for your package after this letter. Our major concerns are listed below.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families. The credit should be indexed for inflation. We would also permit taxpayers to place their child credit into a tax-favored savings account to finance their children's college education. In combination with our tuition deduction, this proposal would allow families to save and pay for college tax-free.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly reduces tax relief for working parents who are struggling to maintain a decent standard of living and to pay for child care. For example, a family with two working parents making $45,000 who pay for child care for their two children would seemingly be eligible for a $1,000 child tax credit. But under the proposed legislation, they would also lose $480 of their child tax credit, beginning in 2002.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward upper-income families while reducing the benefits to lower-income families. It introduces serious administrative complications and is less effective at easing the burden of college attendance for working families.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the broadly available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition. In addition, your proposal does much less to encourage lifelong learning, one of the central objectives of the President's package.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses. In the early years, the benefits for education will only be available to those who already have large reserves of cash to deposit in these accounts, not to others who can contribute only modest amounts each year.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provides a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package also has an explosive revenue cost in years after 2007, possibly jeopardizing all our important work to balance the budget. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

In addition, we are concerned about the proposal to reduce the corporate capital gains tax rate. We would propose expanding the existing exclusion for long-term equity investments in smaller businesses. The expansion of the capital gains incentive for small businesses will help more start-ups get off the ground, and ensure that America continues to lead the world in high technology.

At a time when business conditions are strong and profits are at their highest share of GDP in two decades, you have proposed to spend $34 billion over 10 years to eliminate the corporate alternative minimum tax. This provision would return us to the days when some large and profitable corporations could pay little or no tax.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established U.S. policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

We are very disappointed that your proposal excluded a number of important initiatives for the President's FY 1998 Budget that were included in the budget agreement. For example, the Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which provides a tax incentive for environmental cleanup and encourages economic development in formerly contaminated areas. Your proposal excludes this provision. And while tax relief is provided for the District of Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

In addition, no provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio.

Your bill also includes a provision to raise the debt ceiling. We believe that it should be included in the other reconciliation bill.

In summary, we think this package disproportionately benefits the most well off in society at the expense of working families. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT, while at the same time denying tax relief provided by the child credit to millions of hard-working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs beyond the ten year budget window, are those that most advantage high-income taxpayers.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell homes, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,

Robert E. Rubin

Enclosures

Draft letter on Ethanol

Honorable Richard A. Gephardt
U.S. House of Representatives
1226 Longworth House Office Building
Washington, DC 20515-2503

Dear Dick:

The Clinton Administration's is committed to the continued growth and development of the U.S. ethanol industry and ~~strongly~~ opposes efforts currently underway in Congress to repeal the Federal excise tax exemption for ethanol. While repealing the excise tax exemption would increase the monies available to the highway trust fund, it would cost this Nation's farmers billions of dollars in lost income and displace thousands of jobs. Rural areas that depend on farming would be particularly hard hit by the loss in farm income and employment.

In 1980, the ethanol industry used only 35 million bushels of corn to produce 88 million gallons of ethanol. Since then, the ethanol industry has grown over ten-fold, now using an estimated 450 million bushels of corn and producing 1.1 billion gallons of ethanol. Assuming continuation of the Federal excise tax exemption, the Department of Agriculture (USDA) projects the ethanol industry will continue to grow, using 640 million bushels of corn and producing 1.6 billion gallons of ethanol by 2005. However, if the excise tax exemption is eliminated, USDA estimates that investment in the ethanol industry will come to an abrupt halt and ethanol production will decline to 40 percent or less of current levels by 2005. The resulting reduction in corn use would lower net farm income by \$6-\$10 billion during 1998-2005 and require 7,000-14,000 workers to find other employment. Removing the Federal excise tax exemption for ethanol would also make us more dependent on foreign oil. If the exemption is removed, USDA estimates that imports of petroleum-derived oxygenates would increase by \$5-\$9 billion during 1998-2005, though this would be partially offset by increases in agricultural exports of \$1 billion and probably other trade flow changes that were not explicitly modeled.

In summary, continuation of the Federal excise tax exemption for ethanol is good for farmers and good for rural areas. The exemption also furthers the goal of increasing our use of renewable sources of energy for the future and reducing energy imports. For these reasons, I am steadfastly committed to continuing the Federal excise tax exemption for ethanol and look forward to working with you and your colleagues in this regard.

Sincerely,

DAN GLICKMAN
Secretary

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

THE DIRECTOR

June 11, 1997

The Honorable Tom Bliley, Jr.
Chairman
Committee on Commerce
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express the views of the Administration on the Medicare, Medicaid, and children's health provisions that were approved by the Subcommittee on Health and the Environment on June 10, for inclusion in the FY 1998 budget reconciliation bill.

Overall, the Administration finds much to support in the bill. It incorporates many of the proposals from the FY 1998 President's Budget and is generally consistent with the Bipartisan Budget Agreement. It proposes Medicare structural reforms that constrain growth, extends the life of the Hospital Insurance Trust Fund for at least a decade, and improves preventive care benefits. All of these changes will help strengthen and modernize Medicare for the 21st century. It also allocates the full $16 billion for children's coverage policies within the Commerce Committee's jurisdiction, and thus, none of this important investment is dedicated to an inefficient tax approach.

However, as I noted in my letter to the Chairman and Ranking Member of the Health and the Environment Subcommittee, the Administration has concerns with several of the Medicare, Medicaid, and children's health provisions that your Committee will consider, including the following:

<u>Medicare</u>

MSAs

While we have agreed to work to develop a demonstration of this concept for the Medicare population, we have concerns about the size and scale of the demonstration in the mark. The Subcommittee's bill provides for a demonstration with 500,000 participants at a cost of approximately $2 billion over five years, which is much larger than any other Medicare demonstration. In addition, the Subcommittee approved an amendment that extends the MSA demonstration from 4 years to 5 years. Moreover, the demonstration exposes beneficiaries to any additional charges providers choose to levy without limitation. We strongly believe that the current law limits on balance billing should be applied to this demonstration. We have suggested limiting the demonstration to two states for a three-year period. We believe the demonstration should be limited geographically for a trial period, which will enable us to design the demonstration to answer key policy questions.

Medical Malpractice

We believe that the malpractice provisions in the Subcommittee's bill are extraneous to the agreement. As you know, the Administration opposed the malpractice provisions in the vetoed Balanced Budget bill, as well as those adopted in the House version of the Health Insurance Portability and Accountability Act (HIPAA). We find these provisions highly objectionable, and we oppose them.

Preventive Benefits

While the preventive benefits are largely the same as those advanced in the President's Budget, we bring to your attention the failure to waive coinsurance for mammograms. As you know, mammography saves lives, yet many Medicare beneficiaries fail to use this benefit. Research has found that copayments hinder women from fully taking advantage of this benefit. Thus, we continue to support waiving copayments for mammograms.

Prudent Purchasing

As you know, the Medicare program is governed by a strict set of provider payment rules that limit the ability of the Federal government to secure the most competitive terms available to other payers in the marketplace. We have advanced a set of proposals to allow Medicare, the nation's largest health insurer, to also take advantage of lower rates providers offer to other payers. At a time when we all agree that Medicare spending has been growing too quickly and the Federal budget faces increasing pressures for scarce resources, we do not understand why the Subcommittee would not want to take advantage of all these proposals to allow Medicare to be a more prudent purchaser. We propose adopting practices that work in the private sector. We should let them work in the public sector as well. These practices can work well to save taxpayers money and promote quality.

We are pleased that our proposal to expand the "Centers of Excellence" program is included in the bill, but we urge the inclusion of the other proposals. We also note that the Subcommittee has added a durable medical equipment competitive bidding demonstration to the bill. However, we continue to believe that the rapid escalation of costs in this area would be more appropriately addressed by the President's proposal to authorize competitive bidding on a permanent basis across the country.

Commission

We note that the Subcommittee's bill includes a Medicare commission. Establishing a process that is mutually agreeable is essential to successfully address the challenges facing Medicare. We look forward to working with you on the development of the best possible bipartisan process to address the long-term financing challenges facing Medicare while simultaneously ensuring the sound restructuring of the program to provide high-quality care for our nation's senior citizens.

Medicaid

Investments

After extended negotiations that preceded the Bipartisan Budget Agreement, the Administration and the Congressional leadership agreed to specified savings and investments in the Medicaid program over five years. The agreement clearly calls for a higher Federal matching payment for the Medicaid program in the District of Columbia and inflation adjustments for the Medicaid programs in Puerto Rico and the territories, but the Subcommittee failed to include these provisions. We strongly urge the Committee to include these proposals.

The bill does include a provision to ease the impact of increasing Medicare premiums on low-income beneficiaries as specified in the agreement. However, we are concerned that because of the way the proposal in the bill was drafted, low-income Medicare beneficiaries are not likely to be protected, as was intended in the agreement. The proposal in the Subcommittee's bill for the Federal government to pay 100 percent of the "extra" amount of premium due to the home health reallocation is too administratively complex for the value of the benefit provided. The cost of this provision, according to preliminary reports, is $600 million, approximately one-third of the $1.5 billion investment specifically included in the agreement. The Committee should include the full $1.5 billion investment to ease the impact of higher Medicare premiums on low-income beneficiaries.

Disproportionate Share Hospital Savings

We have concerns about the allocation of the disproportionate share hospital (DSH) payment reductions among States included in the bill. Although we agree that there have been abuses of this program in the past, taking such large reductions in certain states whose Medicaid programs are particularly dependent on DSH spending will likely affect their ability to cover services. We recommend that you revisit the FY 1998 President's Budget proposal, which ensures that the States with the highest DSH spending are not bearing most of the impact of the savings policy.

We are very concerned that your bill does not include retargeting of DSH funds. As the Administration has stated previously, we believe that significant savings from DSH payments should be linked to an appropriate targeting mechanism. It is for this reason that we support proposals that assure that some DSH funds are directed to hospitals that serve a high proportion of low-income and uninsured patients.

Boren Amendment

The Subcommittee bill does not repeal the Boren Amendment. The Nation's Governors have supported repeal of the Boren Amendment for many years, and the repeal was included in both the FY 1998 President's Budget and in the agreement. We are concerned that the Subcommittee's failure to include the repeal of the Boren Amendment will result in higher DSH cuts that could harm hospitals that serve a high proportion of low-income and uninsured patients. We want to work with the Committee to develop an acceptable compromise on this important issue.

Children's Health

We believe that the $16 billion investment in children's health should be used for health insurance coverage. It is for this reason that the Administration does not support the direct services option in the Subcommittee bill. We are concerned that a State could spend all of its money on one benefit or to offset the effects of the DSH cuts on certain hospitals, and children would not necessarily get meaningful coverage.

We are also concerned that the bill may not be the most cost-effective manner possible to expand coverage to children, as required by the agreement. The bill includes both a Medicaid and a grant option; however, the incentives in the bill could discourage States from choosing the Medicaid option. We believe that Medicaid is a cost-effective approach to covering low-income children, and would like to work with you on strengthening this option. We also believe that the grant program should be designed to be as efficient as possible. The provision that allows States to use funds for "other methods specified under the plan" with no details on what this means implies that States may use funds for purposes other than the intent of the agreement (e.g., to offset States' share of Medicaid). We would oppose this.

As the Administration has stated many times, we do not support limiting access to medically necessary benefits, including abortion services. We would like to work with the Congress to resolve this issue.

The Bipartisan Budget Agreement reflects compromise on many important and controversial issues, and challenges the leaders on both sides of the aisle to achieve consensus under difficult circumstances. It is critical that we do so on a bipartisan basis.

I look forward to working with you to implement this historic agreement.

Sincerely,

Franklin D. Raines
Director

Identical letter sent to the Honorable John Dingell

Addendum

MedicarePlus

The Subcommittee's bill permits beneficiaries to be locked into a MedicarePlus plan for as long as 9 months, after a lengthy transition period. We continue to support the monthly disenrollment option as an important safety valve for managed care enrollees who are dissatisfied with their managed care plan. Moreover, we would support the ability of these enrollees to opt to purchase any Medigap plan of their choice upon disenrollment.

Medigap Reforms

The President's bill advanced a number of important Medigap reforms including annual open enrollment (as well as including information about Medigap plans in the annual open enrollment season informational materials), community rating, open enrollment for disabled and ESRD beneficiaries when they become entitled to Medicare, and portability protections similar to those enacted last year in HIPAA for the under 65 population. Many of these important protections were also advanced by bipartisan bills including those sponsored by Representatives Johnson and Dingell. We urge your reconsideration of the merits of these proposals. They ensure that Medicare beneficiaries are able to purchase affordable Medigap policies to fill in the many areas not covered by Medicare. Medicare beneficiaries should be able to choose which Medigap plans to purchase, or MedicarePlus plans to enroll in, without artificial constraints.

Survey and Certification User Fee Proposal

The Subcommittee bill does not contain a provision allowing HCFA to require state survey agencies to impose fees on health care providers for initial surveys required as a condition of participation in the Medicare program. This provision would authorize states to collect and retain fees from health care providers to cover the cost of initial surveys. Under the agreement, the discretionary funding level for HCFA Program Management assumes enactment of this mandatory, government receipt fee proposal.

Medicare Secondary Payer (MSP)

The Subcommittee's bill limits the time period that Medicare can recover mistaken primary payments from the primary insurer to three years. Unfortunately, because we must utilize information from tax returns which is then matched against information from the Social Security Administration, by the time we receive data it is already one year, and sometimes two years, old. We must then match this information against Medicare files before a questionnaire can be sent to identified employers to determine if a Medicare beneficiary (or their spouse) had coverage through the group health plan of an employer. Thus, a three year limit on when Medicare could recover mistaken payments would effectively mean that <u>no</u> mistaken primary payments could be collected.

Hospital Outpatient Department (OPD) Coinsurance Waiver

While we support allowing hospitals to reduce coinsurance for beneficiaries without being charged with a kickback violation, we would urge the Committee to include language barring such hospitals from charging the Medicare program for bad debt for such waived coinsurance. We suggest that hospitals make an election with the Secretary where they choose on an across-the-board basis for all beneficiaries to waive coinsurance and consequently do not bill Medicare for the waived coinsurance. Such a policy will permit proper monitoring on bad debt.

Mark-up of Drugs

The Administration package contains a proposal to eliminate physician and supplier mark-ups for covered Medicare drugs. We made this proposal to eliminate excessive Medicare payments -- Medicare often pays 15 to 20 percent more than the physician's acquisition cost for the drug -- and to protect beneficiaries from excess charges. We appreciate the Subcommittee's interest in this issue, but we believe that the bill does not go far enough to eliminate excessive Medicare payments and does not contain the beneficiary protections that we believe are essential.

July 9, 1997

MEMORANDUM FOR DISTRIBUTION

From: Larry Haas

Re: Talking Points on Recent Deficit Projections

In light of today's story in the *Washington Post*, Frank asked that I get this material to you.

We hope that you find it useful.

NEW DEFICIT PROJECTIONS

TALKING POINTS

July 9, 1997

Q: Is it true that we can reach balance without any more deficit reduction? And if that's true, do you still think we need to implement the budget agreement?

A.
- First of all, I saw that some economists and others are saying that the budget agreement would somehow make the deficit worse. That's absolute nonsense. The agreement would save some $200 billion off the deficits over the next five years.

- Second, the good news is the result of the sound economic policies that we put in place four years ago.

  Our continued strong economic growth is bringing in more Federal revenues. That, combined with our constraint on spending, is bringing down the deficit.

  As a result, in 1997, the deficit is going to be lower than anyone had expected it to be.

- Third, strong economic growth and constraints on spending have always been the keys to our policy.

  We put in place a strong economic program in 1993, and Congress has lived within the spending constraints that we enacted.

- Fourth, the new deficit figures show how much the world has changed since we put our plan in place.

  Before I took office after the 1992 election, the deficit was headed through the roof.

  The 1992 deficit was a record $290 billion, and every responsible budget observer saw it going higher. In January of 1993, CBO projected deficits rising to $319 billion in 1997, and $357 billion in 1998 -- and to $653 billion in 2003.

  Over the 10 years between 1993 and 2002, we have already reduced the accumulated deficits by <u>over $2.5 trillion</u> compared to what they would have been if we had not acted.

  That $2.5 trillion figure is based on policies that we have already put into place.

Clearly, something has changed. And the most respected observers -- from Federal Reserve Chairman Alan Greenspan and former Chairman Paul Volcker to Wall Street economists and academics -- credit the deficit reduction in the President's plan of 1993 with much of this drastic improvement.

With the worst of the deficit fears lifted, interest rates fell, investment soared, and the economy strengthened.

- Fifth, Congress now must finish the job by implementing the budget agreement. And Congress can now do that with the increased confidence that the agreement will, in fact, lead to a balanced budget. The new deficit figures make a credible plan even more credible.

This is no time to back off. If we don't finish the job, the deficit will soon begin to rise again.

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

July 11, 1997

THE DIRECTOR

The Honorable John R. Kasich
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As Conferees begin to consider this year's budget reconciliation bill, I am writing to transmit the Administration's views on the House and Senate versions of the spectrum title in the spending bill on reconciliation, H.R. 2015.

We are pleased that the House and Senate adopted many provisions that are consistent with the Bipartisan Budget Agreement, reflecting the continuing bipartisan cooperation that we will need to fully implement the agreement and balance the budget. The Administration supports a number of the spectrum-related provisions contained in both the Senate and House bills.

Most significantly, both versions of the legislation generate roughly $20 billion in savings, over $6 billion short of the targets agreed to in the Bipartisan Budget Agreement. The shortfall in both versions of the bill is due primarily to: the lack of a firm date for the return of analog broadcast spectrum (-$2.9 billion in the House and -$3.4 billion in the Senate) and the omission of two of the proposals agreed to in the Balanced Budget Agreement, (1) the spectrum fee (-$2.0 billion); and (2) auction of vanity toll-free telephone numbers (-$0.7 billion). In addition, two critical issues exist which could have significant spending impacts: authorization of reimbursement of Federal users for relocation costs and authority for the Federal Communications Commission (FCC) to revoke and reauction licenses when a licensee declares bankruptcy. I strongly urge the conferees to craft legislation that complies with the savings targets agreed to in the Budget Agreement and to addresses these critical provisions.

The Administration's specific concerns with the spectrum portion of the House and Senate passed versions of the bill are detailed below.

Reimbursement of Federal Users: While the Senate bill provides for reimbursement of Federal agencies for the costs of relocating to new spectrum bands so that the spectrum they are now using can be made available by the FCC for auction for commercial use, the House bill contains no such provision. This key provision is essential to prevent future multi-billion dollar demands by agencies, such as the Department of Defense, for additional discretionary funding to cover these costs. The reimbursement process has been adopted by the FCC and is sound policy for both government and non-government users. The Administration strongly urges the conferees to adopt the Senate language.

Analog Return: Neither bill contains a firm date for terminating analog broadcasting. This omission has resulted in reduced scoring by the Congressional Budget Office of $2.9 billion in the House and $3.4 billion in the Senate. Any delay in the return of analog broadcast spectrum would likely impede the rapid build-out of digital technology expected to create jobs and consumer benefits, result in reduced spectrum auction revenues, and create significant delays in reallocating 24 MHZ to the public safety community, which are critical to the Nation's police, fire, and safety personnel. The conferees are urged to include language specifying the firm date of 2006 as proposed by the Administration.

Authority to Revoke Licenses for Reauction in the Event of Bankruptcy: Neither the House nor Senate bills include language allowing the FCC to revoke and reauction licenses when an entity declares bankruptcy. Such language is important to protect our interest in licenses awarded in previous auctions. Clarifying the inherent conflict between the Telecommunications Act of 1996 which authorizes the FCC to revoke and reauction licenses in the event of default and bankruptcy law could avoid prolonged, expensive, and unnecessary litigation. The Administration believes that this language is particularly relevant in the budget bill to safeguard past and future spectrum receipts and to maximize use of this valuable resource.

Directed Reallocation: The House bill requires that the 100 MHZ directed reallocation from the FCC be in increments of 25 MHZ and the 20 MHZ reallocated from Federal use be in a single increment unless smaller bands can yield higher value. Identifying spectrum for reallocation in these increments would be extremely difficult. The House bill also identifies specific bands for reallocation. We believe that such specificity is not required to ensure that valuable spectrum is made available and could be construed as micro-management. The inter-agency spectrum management process has been very successful and is the best way to determine the optimal spectrum for reallocation. The Administration supports the acceleration of the auction of 45 MHZ located at 1,710-1,755 MHZ in 2001. However, it is important that incumbent Federal users be allowed to continue to use this spectrum until December 31, 2003, according to previous reallocation plans. We urge the conferees to adopt the Senate language for the entire directed reallocation section.

Statutory Waivers of Duopoly and Newspaper-Broadcast Cross-Ownership Rules: The Administration has serious concerns with the non-germane language included in the House bill that eliminates the Duopoly and Newspaper-Broadcast Cross-Ownership Rules for entities that bid on spectrum now used for analog television broadcasting. The Administration strongly opposed changes to these rules when they were debated during the Telecommunications Act of 1996. Congress subsequently rejected efforts to weaken these rules. The Administration objects to the attempt to revisit these issues in the context of the budget reconciliation process. These provisions could undermine our Nation's long-standing commitment to fostering a diverse marketplace of ideas. Moreover, it ignores potential telecommunications policy goals and revenue gains that may be achieved if the FCC were to reconfigure this spectrum for alternative uses. We urge the conferees to delete this language.

Repeal of Authority to Retain Auction Receipts for Administrative Expenses: The House bill would repeal current FCC authority to retain a portion of auction receipts to cover the expense of administering auctions. Such repeal would either necessitate discretionary appropriations to cover these costs, force a 10% reduction in FCC activities, or prevent the Commission from conducting auctions. The Administration urges the conferees to delete this provision.

Spectrum Fees: Neither bill includes language authorizing the fee included in the Budget Agreement. Specifically, this fee would be levied against entities that received spectrum at no charge for digital broadcasting, but opted to utilize it for ancillary services. Additionally, neither version of the bill includes language allowing the FCC to use economic mechanisms other than auctions where appropriate, i.e., user fees to create incentives for efficient spectrum management. Such language would allow the FCC to implement a fee structure to allocate licenses that could generate additional revenue. The majority of other public resources utilized by the private sector has a fee structure to protect the public interest. The conferees are urged to include both of these provisions.

Auction of Vanity Toll Free Telephone Numbers: Neither bill includes authority for the auction of vanity toll free telephone numbers. This authority would provide an effective means for the FCC to allocate a potentially valuable resource when multiple entities request the same phone number in an efficient and equitable manner. The conferees are urged to include this provision.

Minimum Bid Requirements: The Administration is not opposed to minimum bid requirements, in some cases, and believes that the Commission should have the authority to take such action if it deems it to be in the public interest. However, the Administration opposes mandated minimum bids as a substantial administrative burden on the FCC and believes that if required for all auctions, unnecessary litigation and delay in the deployment of new services to consumers could occur.

Public Safety: Both bills include a very expansive definition of public safety that would create loopholes permitting far too many entities to be exempted from auctions. The Administration's proposal includes the specification that in cases where public safety is the "sole use" of spectrum, said spectrum shall be exempt from auction. We request that the conferees amend the current versions of the legislation to be consistent with language proposed by the Administration. In addition, the Senate bill would potentially permit nongovernmental entities access to the reallocated 24 MHZ of spectrum, effectively limiting the spectrum available to state and local agencies and jeopardizing their ability to fulfill their public safety duties. Finally, the Senate bill specifies that the Commission consult with the Secretary of Commerce and the Attorney General when assigning 24 MHZ to be made available for public safety uses. We believe that such consultation is essential to ensure that Federal law enforcement and emergency management personnel are included within the public safety community with access to the 24 MHZ.

Effective Date: The effective date specified in the House bill precludes auction of mutually exclusive applications received prior to enactment, but for which the Commission was unable to conduct auctions prior to the end of 1998. The Senate language, which does not include this stipulation, is preferable.

Sunset of Auction Authority: The House bill would sunset auction authority in 2002 instead of 2007, as proposed by the Administration and as included in the Senate bill. The Administration is concerned that if any delay were to occur with the large volume of auctions, including spectrum made available as a result of the analog return scheduled for the 2001-2002 time frame, the FCC would be forced to halt all proceedings as a result of expiration of authority. The Administration prefers the Senate language.

FCC Information Requirements: The Senate language would require the FCC to provide specific information to the Federal Government if it were unable to accommodate commercial licensees forced to relocate. The House includes no such provision. The Administration believes that the Senate language is important to avoid impinging on Federal users.

Universal Service Fund: The House bill proposes to accelerate spending in the Universal Service Fund. Accelerated spending could advance the Administration's commitment to provide access to advanced telecommunications services for schools, rural health care facilities, and libraries. The Administration could support this provision if it clearly permits carryover of any unspent funds. Universal service support is paid out on an annual, as-needed basis to carriers to reimburse them for subsidize service that they provide in that year. Carryover is essential to prevent a shortfall in any one year for universal service support.

I urge the Congress to address these concerns and make the appropriate adjustments. Such action is essential to fulfill our mutual goal of a balanced budget by the year 2002.

Sincerely,

Franklin D. Raines
Director

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  -- That's AFTER taking account of the tax cuts and new public investment.

  -- For instance, the agreement calls for a net $115 billion in savings from Medicare alone.

- The agreement will ensure that we reach balance by 2002.

- In the absence of an agreement, the deficit will begin to rise in 1998 and stay above or near $100 billion for at least the next five years:

  -- That's according to the CBO assumptions that were used for the budget agreement.

- We recognize that continued economic growth has consistently brought the deficit in lower every year that we've been here, compared to what we projected earlier in the year.

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- We should not, however, all of a sudden decide that we're going to ASSUME the deficit away by insisting that all of our good luck will continue.

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- In addition, we should make the policy changes as a down payment on the long-term problems raised by the retirement of the baby boom generation.

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Larry Haas

The Mid-Session Review of the Budget

July 14, 1997

* Each year, OMB is supposed to send Congress its Mid-Session Review of the Budget before July 16.

-- The mid-session includes:

our new baseline for deficits over the next 5 years, and

other technical information.

* Over the last 20 years, the Mid-Session has been sent late about 10 times, normally for very good reasons.

* This year may be another of those times.

* We have begun consultations with Congress (key members, staff) on the timing of the Mid-Session.

* There are at least two basic considerations:

1. Should we put out a report that, because we hope to finish reconciliation by early August, will be out of date in just three weeks -- or would it make more sense to wait and incorporate our reconciliation action into our report?

2. In light of reason (1), does it make sense to allocate OMB and Treasury resources away from the important work of reconciliation to finish a report that we think will be out of date in three weeks?

* We have not made a final decision about what we'll do.

* But we will make this decision in consultation with Congress.

Mellody per Haas

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

July 11, 1997

THE DIRECTOR

The Honorable John R. Kasich
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As Conferees begin to consider this year's budget reconciliation bill, I am writing to transmit the Administration's views on the House and Senate versions of the spectrum title in the spending bill on reconciliation, H.R. 2015.

We are pleased that the House and Senate adopted many provisions that are consistent with the Bipartisan Budget Agreement, reflecting the continuing bipartisan cooperation that we will need to fully implement the agreement and balance the budget. The Administration supports a number of the spectrum-related provisions contained in both the Senate and House bills.

Most significantly, both versions of the legislation generate roughly $20 billion in savings, over $6 billion short of the targets agreed to in the Bipartisan Budget Agreement. The shortfall in both versions of the bill is due primarily to: the lack of a firm date for the return of analog broadcast spectrum (-$2.9 billion in the House and -$3.4 billion in the Senate) and the omission of two of the proposals agreed to in the Balanced Budget Agreement, (1) the spectrum fee (-$2.0 billion); and (2) auction of vanity toll-free telephone numbers (-$0.7 billion). In addition, two critical issues exist which could have significant spending impacts: authorization of reimbursement of Federal users for relocation costs and authority for the Federal Communications Commission (FCC) to revoke and reauction licenses when a licensee declares bankruptcy. I strongly urge the conferees to craft legislation that complies with the savings targets agreed to in the Budget Agreement and to addresses these critical provisions.

The Administration's specific concerns with the spectrum portion of the House and Senate passed versions of the bill are detailed below.

Reimbursement of Federal Users: While the Senate bill provides for reimbursement of Federal agencies for the costs of relocating to new spectrum bands so that the spectrum they are now using can be made available by the FCC for auction for commercial use, the House bill contains no such provision. This key provision is essential to prevent future multi-billion dollar demands by agencies, such as the Department of Defense, for additional discretionary funding to cover these costs. The reimbursement process has been adopted by the FCC and is sound policy for both government and non-government users. The Administration strongly urges the conferees to adopt the Senate language.

Analog Return: Neither bill contains a firm date for terminating analog broadcasting. This omission has resulted in reduced scoring by the Congressional Budget Office of $2.9 billion in the House and $3.4 billion in the Senate. Any delay in the return of analog broadcast spectrum would likely impede the rapid build-out of digital technology expected to create jobs and consumer benefits, result in reduced spectrum auction revenues, and create significant delays in reallocating 24 MHZ to the public safety community, which are critical to the Nation's police, fire, and safety personnel. The conferees are urged to include language specifying the firm date of 2006 as proposed by the Administration.

Authority to Revoke Licenses for Reauction in the Event of Bankruptcy: Neither the House nor Senate bills include language allowing the FCC to revoke and reauction licenses when an entity declares bankruptcy. Such language is important to protect our interest in licenses awarded in previous auctions. Clarifying the inherent conflict between the Telecommunications Act of 1996 which authorizes the FCC to revoke and reauction licenses in the event of default and bankruptcy law could avoid prolonged, expensive, and unnecessary litigation. The Administration believes that this language is particularly relevant in the budget bill to safeguard past and future spectrum receipts and to maximize use of this valuable resource.

Directed Reallocation: The House bill requires that the 100 MHZ directed reallocation from the FCC be in increments of 25 MHZ and the 20 MHZ reallocated from Federal use be in a single increment unless smaller bands can yield higher value. Identifying spectrum for reallocation in these increments would be extremely difficult. The House bill also identifies specific bands for reallocation. We believe that such specificity is not required to ensure that valuable spectrum is made available and could be construed as micro-management. The inter-agency spectrum management process has been very successful and is the best way to determine the optimal spectrum for reallocation. The Administration supports the acceleration of the auction of 45 MHZ located at 1,710-1,755 MHZ in 2001. However, it is important that incumbent Federal users be allowed to continue to use this spectrum until December 31, 2003, according to previous reallocation plans. We urge the conferees to adopt the Senate language for the entire directed reallocation section.

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Larry Haas

BUDGET

PRESIDENT CLINTON DELIVERS THE FIRST BALANCED BUDGET IN A GENERATION AND A MAINSTREAM TAX CUT

President Clinton has achieved a landmark balanced budget that promotes our values, providing critical investments for education, health care, and the environment while strengthening and modernizing Medicare and Medicaid. It also provides middle-class families a tax cut to help raise their children and send them to college.

ONLY FOUR YEARS AGO. In 1993, the President inherited a budget deficit of $290 billion that was expected to explode to over one-half trillion dollars in 2002. A decade of large deficits had weakened the foundation of our economy and sapped our power and prestige abroad. Unemployment was 7.5% in 1992, and job growth was sluggish.

THE PRESIDENT PASSES HIS 1993 ECONOMIC PLAN. President Clinton implemented an economic program designed to reduce the deficit and to invest in critical priorities, such as education and training. **The 1993 economic plan has exceeded all expectations:** *the deficit has fallen by more than 75%, dropping for a likely fifth year in a row to $67 billion or less in 1997; business investment has been the strongest since Kennedy was President; the economy has produced over 12.5 million new jobs; and the unemployment rate this year is the lowest in 24 years.*

THE PRESIDENT ACHIEVES FIRST BALANCED BUDGET IN A GENERATION TO FINISH THE JOB. The President began his second term determined to fulfill his goal of balancing the budget. As we head into the next century, this bipartisan balanced budget protects our priorities, solidifies the nation's economic foundation, restores faith in our ability to govern ourselves, and bolsters America's preeminent position in the world economy.

- **Roughly $900 Billion in Net Ten-Year Savings** to keep us on the path of fiscal responsibility and help prepare the nation for the retirement of the baby boom generation.

- **Largest Increase in Higher Education Funding Since the G.I. Bill of 1945,** including $1,500 HOPE Scholarship to make the first two years of college universally available and a 20% Tuition Tax Credit for college juniors, seniors, graduate students <u>and</u> working Americans pursuing lifelong learning to upgrade their skills.

- **Single Largest Investment in Health Care for Children Since the Passage of Medicaid in 1965.** Today, ten million children have no health insurance. The balanced budget takes dramatic and concrete steps to right this wrong. Health care coverage will be extended to up to 5 million children

- **Critical Long-Term Entitlement Reforms** including between $400-$450 billion in ten-year Medicare savings to keep the Medicare Trust Fund Solvent for at least a decade. Importantly, these savings are achieved in a way that prepares Medicare for the 21st century -- more choice, competition and revamped payment systems and preventive benefits.

- **$500 Per Child Tax Credit** to make it easier for approximately 27 million families to raise their children.

- **Helping Move 1 Million People from Welfare to Work.** The budget bill provides an additional $3 billion, the full amount requested by the President, to help communities move long-term welfare recipients into jobs. The dollars are locally controlled and targeted to high-poverty areas.

- **Protects our Nation's Most Vulnerable People.** The budget includes $12 billion to restore both disability and health benefits to legal immigrants who are currently receiving benefits or become disabled in the future, ensuring that they will not be turned out of their homes or otherwise left to an uncertain fate. The budget bill will help 350,000 legal immigrants (in FY 2002) who would otherwise have been denied assistance.

Signed off by Treasury & OMB

PRESIDENT CLINTON DELIVERS THE FIRST BALANCED BUDGET IN A GENERATION AND A MAINSTREAM TAX CUT

- ✔ **Roughly $900 Billion in Net 10 Year Deficit Savings.**
- ✔ **First Balanced Budget since 1969.**
- ✔ **Largest Investment in Higher Education Since the G.I. Bill in 1945:**
  - **$1,500 HOPE Scholarship to Help Make Two Years of College Universally Available.**
  - **20% Tuition Tax Credit for College Juniors, Seniors, Graduate Students <u>and</u> Working Americans pursuing Lifelong Learning to upgrade their skills.**
- ✔ **Single Largest Investment in Health Care for Children Since 1965.**
- ✔ **A $500 Per Child Tax Credit for Approximately 27 Million Families.**
- ✔ **Critical Long-Term Entitlement Reforms -- Extends Solvency of Medicare Trust Fund for at Least a Decade.**
- ✔ **Brownfields and Empowerment Zones Tax Incentives to Revitalize Our Nation's Distressed Areas.**
- ✔ **A $ 3 Billion Welfare-to-Work Jobs Initiative Targeted to High Poverty Areas.**
- ✔ **Treats Legal Immigrants Fairly -- Restores Health and Disability Benefits.**

THE FIRST BALANCED BUDGET IN A GENERATION

FIRST BALANCED BUDGET SINCE 1969

- ✔ Net savings of roughly **$900 billion** over ten years.
- ✔ 1993 Economic Plan has cut the deficit more than 75% from $290 billion in 1992 to $67 billion or lower in 1997. **This agreement finishes the job -- balances the budget in 2002 and puts the budget in surplus at least through 2007.**

SINGLE LARGEST INVESTMENT IN HEALTH CARE FOR CHILDREN SINCE THE PASSAGE OF MEDICAID IN 1965

- ✔ **An unprecedented $24 billion for children's health care.**
- ✔ **Guarantee of meaningful health coverage including full range of benefits to as many as 5 million uninsured children.**
- ✔ Provisions to ensure that states use this investment to provide health care coverage to children who do not currently have health insurance and that there are adequate cost protections so that families are not burdened with excessive costs so that care is affordable.

CRITICAL LONG-TERM ENTITLEMENT REFORMS

- ✔ **Between $400-$450 billion in ten-year Medicare savings.**
- ✔ **Extends the life of the Medicare Trust Fund for at least a decade.**
- ✔ **Prepares Medicare for the 21st century** -- more choice, competition, improved payment systems.
- ✔ **$4 billion in preventive benefits** to fight diseases like breast cancer, diabetes & colon cancer.
- ✔ **$1.5 billion to help pay the premiums of low-income Medicare beneficiaries.**

PROTECTS PRESIDENT'S CRITICAL DOMESTIC PRIORITIES. The Budget Agreement, which will be enacted in the Appropriations bills in the fall, includes 99% of total amount of President's 5-year Domestic Discretionary Budget.

- ✔ **Largest education investment in 30 years.**
- ✔ **Pell Grant expansion** -- maximum grant increased to $3,000.
- ✔ **New child literacy initiative** consistent with President's America Reads.
- ✔ **Head Start expansion** -- on track to 1 million children in 2002.
- ✔ **Full funding for President's training budget,** including Job Corps.
- ✔ **President's FY 98 budget request for EPA Operating Budget**
- ✔ **National Park Service full funding** for operations budget, plus land acquisition and state assistance, and Everglades Restoration.
- ✔ **Superfund** -- clean-up of 500 toxic sites in next four years (if policies can be worked out).
- ✔ **COPS** -- funding on track to put 100,000 more police officers on streets by 2000, plus full funding for overall Violent Crime Reduction Trust Fund.

MOVES PEOPLE FROM WELFARE TO WORK & TREATS LEGAL IMMIGRANTS FAIRLY

- ✔ **$3 billion to help states and local communities move people from welfare to work.**
- ✔ **$12 billion to restore both disability and health benefits for 350,000 legal immigrants** in 2002 who are currently receiving assistance or become disabled, ensuring that they will not be turned out of their apartments or nursing homes or otherwise helpless.
- ✔ **Preserves the minimum wage and other labor protections for welfare recipients moving from welfare to work.** Does not include the House-passed provision to leave workfare participants unprotected by the
- ✔ **Fair Labor Standards Act and other employment laws.** Protects workers from displacement by those leaving the welfare rolls, and establishes a strong process for workers to raise grievances with an independent agency.

A MAINSTREAM TAX CUT

On December 15, 1994, President Clinton proposed the Middle Class Bill of Rights, which included a $500 Child Tax Credit, an expanded IRA to allow people to withdraw money tax-free and without penalty for education, and a tax deduction for post-high school education expenses. ***Each of the President's proposals is included in this budget:***

A CHILD TAX CREDIT FOR APPROXIMATELY 27 MILLION FAMILIES.

- ✔ **$500 Per-Child Tax Credit for approximately 27 million families with 45 million children** under 17. The credit begins to phase out for couples with incomes above $110,000.
- ✔ **13 million children from families with incomes below $30,000 will receive the child tax credit -- up to 7.5 million* more than would have under the Congressional plans.** Families earning under $30,000 such as young teachers, police officers, farmers, and nurses who work hard and play by the rules will now receive the Child Tax Credit. *Comparison to House passed bill; vs. Senate bill: 5.9 million.

A VICTORY FOR MIDDLE CLASS PARENTS TRYING TO PAY FOR THEIR CHILDREN'S COLLEGE AND FOR WORKING PEOPLE TRYING TO UPGRADE THEIR SKILLS.

- ✔ **$1,500 HOPE Scholarship to make the first two years of college universally available.** The final agreement includes the President's initiative to help make the 13th and 14th grades as universal as a high school diploma is today. Students will receive a scholarship of 100% on the first $1,000 of tuition and fees and 50% on the second $1,000.
- ✔ **20% Tuition Tax Credit for college juniors, seniors, graduate students <u>and</u> for working Americans pursuing lifelong learning to upgrade their skills.** The 20% credit will be applied to the first $5,000 of qualified education expenses through 2002, and to the first $10,000 thereafter. The President has long understood that the economy is changing and that people need the opportunity to enhance their skills throughout their working lives. This is why the President insisted on the 20% tuition tax credit that is in the final bill and was a major improvement over the bills passed by Congress.

TAX INCENTIVES TO REVITALIZE OUR NATION'S DISTRESSED URBAN AREAS.

A key component of the President's tax cutting agenda has been to spur economic activity in distressed areas of our nation's cities. This budget reflects the President's agenda:

- ✔ **A New Tax Cut Plan Helps to Clean Up and Redevelop Brownfields.** The 3-year Brownfields tax incentive will reduce the cost of cleaning up thousands of contaminated, abandoned sites in economically distressed areas by permitting clean-up costs to be deducted immediately for tax purposes. This will, in turn, encourage redevelopment of these areas. *The Treasury Department estimates that this $1.5 billion tax incentive would leverage more than $6 billion for private sector cleanups nationwide, allowing redevelopment of 14,000 brownfields.*

- ✔ **New Empowerment Zones (EZs).** The budget includes a second-round of EZs -- 15 urban and 5 rural EZs. The new EZs will benefit from a different blend of tax credits from the first-round communities. For example, the EZs will be eligible for the Brownfields tax incentive, special expensing of business assets, and qualification for private-activity bonds.

HELPING MOVE PEOPLE FROM WELFARE TO WORK

- ✔ **A Welfare to Work Tax Credit.** This provision will give employers an added incentive to hire long-term welfare recipients by providing a credit equal to 35% of the first $10,000 in wages in the first year of employment, and 50% of the first $10,000 in the second year, paid to new hires who have received welfare for an extended period. The credit is for two years per worker to encourage not only hiring but retention.

- ✔ **$3 Billion to Help Move 1 Million People from Welfare to Work.** Includes President's proposal to create $3 billion Welfare to Work Jobs Challenge to move long-term welfare recipients into jobs. These funds can be used for job creation, job placement and job retention efforts, including wage subsidies to private employers, and other critical post-employment support services. The Labor Department will provide oversight but the dollars will be placed in the hands of the localities who are on the front lines of the welfare reform effort.

PRESIDENT CLINTON DELIVERS THE LARGEST SINGLE INVESTMENT IN CHILDREN'S HEALTH CARE SINCE THE PASSAGE OF MEDICAID IN 1965

The President fought hard to ensure that the Budget Agreement includes $24 billion to provide meaningful health care coverage to as many as five million of our nation's ten million uninsured children. This investment includes a meaningful benefits package, ensures that states use this money to cover uninsured children and not replace existing public or private spending, and guarantees adequate cost-sharing protections for families.

✔ **INVESTS UNPRECEDENTED $24 BILLION FOR UNINSURED CHILDREN.** The President insisted on increasing the investment for children's health from $16 billion to $24 billion by including revenue from a new tobacco tax. Because of the President's leadership, this budget will contain the largest children's health care budget increase since the enactment of Medicaid in 1965. Including these additional revenues in the children's health initiative will not only further reduce the number of uninsured children, but it will also serve as a financial barrier to help prevent our children from starting smoking in the first place.

✔ **ENSURES MEANINGFUL HEALTH CARE COVERAGE, WHILE ALLOWING STATES TO DESIGN THEIR OWN BENEFITS PACKAGES.** The President fought hard to ensure that this investment guarantees the full range of benefits -- from checkups to surgery -- that children need to grow up strong and healthy. The President also worked to ensure that prescription drugs, vision, hearing, and mental health coverage now offered at the state level are extended to millions of uninsured children.

✔ **GIVES STATES THE FLEXIBILITY TO DESIGN BENEFITS THAT MEET THEIR NEEDS.** States will be able to choose from any of four benefits packages: (1) the FEHPB model; (2) the benefits package of the most popular state HMO; (3) the state employee plan; and (4) the actuarial equivalent of any of the three stated benefit plans as long as prescription drugs, vision, hearing, and mental health services now offered in these plans are guaranteed to equal at least 75 percent of the value of these services.

✔ **SUPPLEMENTS, NOT SUPPLANTS, CURRENT HEALTH CARE COVERAGE.** Includes provisions to ensure that states provide health care coverage to children who do not currently have health insurance. It requires that states maintain their current Medicaid eligibilty levels of spending to access Federal dollars to ensure that this investment is not used to replace public or private money that already covers children.

✔ **ENSURES ADEQUATE COST-SHARING PROTECTIONS.** The President fought to ensure that families are not forced to shoulder excessive costs for their children. The Agreement guarantees that families under 150 percent of poverty will be protected against overly burdensome cost sharing.

PRESIDENT CLINTON DELIVERS A $500 CHILD TAX CREDIT FOR APPROXIMATELY 27 MILLION FAMILIES

MAIN FEATURES OF THE CHILD TAX CREDIT:

- ***Age.*** Covers children under 17.
- ***Amount per child.*** $400 in 1998. $500 thereafter.
- ***Income limits.*** Begins to be phased out for couples making over $110,000 and for one parent families making over $75,000.
- ***"Stacking."*** Child tax credit will be calculated or "stacked" before the EITC, and will therefore be available for the up to 7.5 million children in working families who have incomes below $30,000 and who were denied the child tax credit under the congressional bills.
- ***For families with more than two children – Refundability to cover out-of-pocket income and payroll taxes.*** Because many large families have little income tax liability, but pay significant out-of-pocket payroll taxes, the child tax credit for these families is partially refundable. These families will receive a child credit for their income taxes plus the extent to which their out-of-pocket (employee share) payroll taxes exceed their EITC.
- ***Savings Incentive.*** Taxpayers will be given the opportunity to contribute $500 each year to an education Individual Retirement Account (IRA). Earnings would accumulate tax-free in the account, and no taxes will be due upon withdrawal for an approved purpose.

A CHILD TAX CREDIT FOR FAMILIES WHO WORK HARD AND PAY TAXES.

13 million children from families with incomes below $30,000 will receive the child tax credit -- up to 7.5 million* more than would have under the Congressional plans. Families making under $30,000 like young teachers, police officers, farmers, nurses and others who work hard and play by the rules will now receive the Child Tax Credit. *Comparison to House passed bill; vs. Senate bill: 5.9 million.

President Clinton worked to ensure that under any final agreement, these young parents would receive a child tax credit to make it easier for them to raise their children.

Consider a family of four with two small children: the father is a rookie police officer making $23,000, and the mother has chosen to stay at home. Both congressional bills would have denied this family, and millions of others, the child tax credit. Under the final agreement, this family will receive a child tax credit of $675.

	President Clinton's Proposal	Agreement	House Bill	Senate Bill
Child Tax Credit for family of rookie police officer making $23,000	$767	$675	$0	$0

PRESIDENT CLINTON DELIVERS EDUCATION TAX CUTS TO HELP MIDDLE CLASS FAMILIES PAY FOR COLLEGE

THE PRESIDENT'S HOPE SCHOLARSHIP AND TUITION TAX CREDIT

From the beginning, promoting expanded educational opportunity has been the centerpiece of President Clinton's budget and his middle class tax cut proposal. Promoting education is the centerpiece of this final tax cut bill:

✔ **$1,500 HOPE Scholarship to make the first two years of college universally available.** The final agreement includes the President's program to advance the goal of making the 13th and 14th grades as universally available as a high school diploma is today. Students would be provided a scholarship of 100% on the first $1,000 of tuition and fees and 50% on the second $1,000.

✔ **20% Tuition Tax Credit for College Juniors, Seniors, Graduate Students <u>and</u> for working Americans pursuing lifelong learning to upgrade their skills.** The 20% credit will be applied to the first $5,000 of tuition and fees through 2002, and to the first $10,000 thereafter.. The President has long understood that the economy is changing and that people must have the opportunity to enhance their skills throughout their working lives. This is why the President insisted on the 20% tuition tax credit that is in the final bill and is a major improvement over the Congressionally-passed bills.

A SUMMARY OF ADDITIONAL EDUCATION TAX CUTS

- ***Education and Retirement Savings Accounts.*** Allows penalty-free IRA withdrawals for undergraduate, post-secondary vocational, and graduate education expenses. Additionally, taxpayers are given the opportunity to deposit $500 into an education IRA. Earnings would accumulate tax-free and no taxes would be due upon withdrawal for an approved purpose.

- ***Employer-Provided Education Benefits.*** Extends Section 127 of the tax code for three years, which allows people to exclude $5,250 of employer-provided undergraduate education benefits from their taxable income.

- ***Student Loan Interest Deduction.*** Allows a deduction for up to $2,500 per year of interest on education loans for expenses of students enrolled at an institution of higher education. This deduction would be available even if the taxpayer does not itemize deductions.

- ***Community Service Loan Forgiveness.*** In most circumstances, a loan that is forgiven is considered income and is therefore taxable. To encourage programs that offer loan forgiveness to borrowers who take lower-paying, community-service jobs, the agreement would exclude from taxable income both loan amounts forgiven through programs run by nonprofit tax-exempt charitable or educational institutions. Currently, the exclusion generally covers only certain forgiveness arrangements between students and government entities.

- ***Repeal Cap on Tax Exempt Bond Issuance by Colleges and Universities.*** Repeals the $150 million bond cap that affects private higher education institutions and certain other charitable institutions. The repeal would apply to tax-exempt bonds issued by these institutions to finance new capital expenditures.

PRESIDENT CLINTON DELIVERS A BUDGET THAT STRENGTHENS AND PRESERVES MEDICARE

The Budget Agreement preserves and strengthens the Medicare program, saving $115 billion over five years and extending the life of the Medicare Trust Fund for at least ten years. It modernizes Medicare by including new market-oriented reforms that have proved successful in the private sector plus $4 billion in new preventive benefits. As this agreement strengthens and preserves the Medicare program, it also creates a Medicare Commission to examine the long-term needs of the program so that Medicare will be prepared for the retirement of the baby boomers.

✔ **SAVES APPROXIMATELY $115 BILLION OVER FIVE YEARS.** Includes about $115 billion in savings over five years and between $400-$450 billion over ten years.

✔ **EXTENDS THE LIFE OF THE MEDICARE TRUST FUND FOR AT LEAST TEN YEARS.** This agreement will keep Medicare solvent until at least 2007.

✔ **IMPLEMENTS NEW MARKET-ORIENTED REFORMS INCLUDING:**

(1) Empowering the Secretary of Health and Human Services to implement competitive market mechanisms;
(2) Opening up new options that offer more choice among competing health plans and have proven effective in the private sector, including Preferred Provider Organizations (PPOs) and Provider Sponsored Organizations (PSOs);
(3) Providing Americans with meaningful choices by reforming annual Medigap enrollment; and
(4) Building on Medicare's success in controlling hospital costs, restructuring the payment systems for home health, agencies, skilled nursing facilities and hospital outpatient departments so that rates are set in advance through a prospective payment system.

✔ **INCLUDES $4 BILLION OVER FIVE YEARS FOR NEW PREVENTIVE BENEFITS.** Expanding coverage for mammograms and colorectal screening and improving self-management of diseases like diabetes.

✔ **ENSURES NEW PREMIUM PROTECTIONS FOR LOW-INCOME MEDICARE BENEFICIARIES.** The budget agreement invests $1.5 billion over five years to pay the premiums for beneficiaries up to 135 percent of poverty. Beneficiaries over 135 percent of poverty to as high as 175 percent of poverty will get assistance as well.

✔ **TAKES STEPS TO ENSURE THAT VULNERABLE HOSPITALS ARE PROTECTED.** The Agreement reduces the Medicare Disproportionate Share Hospitals cut from $2.4 billion in the Senate-passed bill to $600 million over five years.

✔ **ESTABLISHES A MEDICARE COMMISSION.** The agreement creates a 17-member Medicare Commission which contains eight Democrats and eight Republicans and a Chair who will be selected jointly by the President and the Congressional leadership. The Commission will release a report in 1999 and require an 11 of 17 majority to ensure that its recommendations are bipartisan.

PRESIDENT CLINTON PROTECTED PRIORITY PROGRAM IN EDUCATION, ENVIRONMENT, LAW ENFORCEMENT

The Budget agreement achieves 99% of the President's budget for non-defense discretionary spending over the next 5 years. While priority items are protected, there are $61 billion of savings in non-defense discretionary outlays over the next 5 years -- a 10% real cut by 2002.

LARGEST INCREASE IN EDUCATION INVESTMENT IN 30 YEARS

The budget agreement endorsed President Clinton's overall plan for investing in education and training -- $63 billion more than the Republican plan over five years. With the tax cuts for education, this represents the largest increase in the Federal investment in education in 30 years. The agreement specifically calls for:

✔ **Increases funding for Head Start to continue on road to achieve enrollment of 1 million kids in 2002.**

✔ **Largest Pell Grant increase in two decades - boosts the maximum 1998 Pell grant from $2,700 to $3,000, and expands the program to more poor independent students.**

✔ **Adopts the President's budget request to launch a child literacy initiative consistent with his America Reads program.**

✔ **Increases funding for bilingual (27% increase) and immigrant education (50% increase).**

✔ **Includes all of the $579 million increase in funding requested by the President in his FY 1998 budget of $5.3 billion for Training and Employment Services, including Job Corps.**

BOLSTERS ENVIRONMENTAL ENFORCEMENT AND KEY PROGRAMS

✔ **Provides a 9% increase for EPA's Operating program which includes research, enforcement, state grants and regulatory programs.**

✔ **Doubles the pace of Superfund cleanups, if policy details can be worked out.**

✔ **Provides a 6 percent increase for operation of the National Parks, and a more than doubles funding ($156 million) for Everglades Restoration.**

PUTS MORE POLICE ON THE STREET

✔ **Protects funding for the Community Oriented Policing Services (COPS) initiative, which should put 100,000 more police officers on the street by 2000.**

URBAN INITIATIVES

✔ **Expansion of Community Development Financial Institution Fund.**

PRESIDENT CLINTON DELIVERS TAX CUTS TO CLEAN UP AND REVITALIZE URBAN AREAS...

✔ **THE BROWNFIELDS TAX INCENTIVE WILL REDUCE THE COST OF CLEANING UP THOUSANDS OF CONTAMINATED, ABANDONED SITES IN ECONOMICALLY DISTRESSED AREAS** by permitting clean-up costs to be immediately deducted for tax purposes. This would, in turn, encourage redevelopment of these areas. The tax incentive will be available for three years. *The Treasury Department estimates that this $1.5 billion tax incentive would leverage more than $6 billion for private sector cleanups nationwide, allowing redevelopment of 14,000 brownfields.*

✔ **THIS PROPOSAL IS A MAJOR PRIORITY FOR MANY OF AMERICA'S MAYORS.** Chicago Mayor Richard Daley, writing recently on behalf of the U.S. Conference of Mayors, urged Ways and Means Chairman Archer to include the President's Brownfields proposal in the tax bill: "This is a high priority for communities across the nation." [Letter to Chmn. Archer, 6/11/97]

✔ **CREATES NEW EMPOWERMENT ZONES.** Under the President's 1993 Empowerment Zones and Enterprise Communities initiative, participating communities develop a strategic plan to spur economic development, and they receive Federal tax benefits, social service grants and flexibility in use of Federal funds in order to put these plans into effect. The EZs and ECs are urban or rural areas with high poverty and unemployment rates.

- ***A Strong Start since 1994.*** The 105 communities selected as EZ/ECs in 1994 amassed over $8 billion in public-private commitments. In the six urban Empowerment Zones, the private sector has made or pledged $2 billion in new investments.
- ***A Second Round to Build on Our Successes.*** In response, the President proposed, and the bill includes, a second-round of EZs -- 15 urban and 5 rural EZs. The new EZs will benefit from a different blend of tax credits than first-round EZs. They will be eligible for the Brownfields tax incentive, special expensing of business assets, and qualification for private-activity bonds.

...AND TO MOVE PEOPLE FROM WELFARE TO WORK

✔ **A WELFARE-TO-WORK TAX CREDIT.** This provision will give employers an added incentive to hire long-term welfare recipients by providing a credit equal to 35% of the first $10,000 in wages in the first year of employment, and 50% of the first $10,000 in wages in the second year, paid to new hires who have received welfare for an extended period. The credit is for two years per worker to encourage not only hiring, but also retention.

✔ **$3 BILLION TO HELP MOVE 1 MILLION PEOPLE FROM WELFARE TO WORK.** Includes President's proposal to create $3 billion Welfare to Work Jobs Challenge to move long-term welfare recipients into jobs. These funds can be used for job creation, job placement and job retention efforts, including wage subsidies to private employers, transportation and other critical post-employment support services. The Labor Department will provide oversight but the dollars will be placed in the hands of the localities who are on the front lines of the welfare reform effort.

PRESIDENT CLINTON FOUGHT TO PROTECT OUR MOST VULNERABLE PEOPLE

Several provisions in last year's welfare reform bill had nothing to do with the goals of welfare reform. The President said so at the time and promised to work to correct these provisions. That's why he fought to ensure that any agreement protects the most vulnerable in our society. The President fought to better protect:

CHILDREN

- ✔ **KEEPING THE GUARANTEE TO MEDICAID.** Preserves the Federal guarantee of Medicaid coverage for the vulnerable populations who depend on it, and contains additional investments to extend coverage to uninsured children. Also ensures that 30,000 disabled children losing SSI because of the new tighter eligibiliy criteria keep their Medicaid coverage.

LEGAL IMMIGRANTS

- ✔ **CURRENT RECIPIENTS.** Restores both SSI and Medicaid benefits for immigrants now receiving assistance, ensuring that they will not be turned out of their apartments or nursing homes or otherwise left helpless.

- ✔ **CURRENT RESIDENT NONRECIPIENTS.** Does not change the rules retroactively. Immigrants in the country as of August 22, 1996 but not receiving benefits at that time who subsequently become disabled will also be fully eligible for SSI and Medicaid benefits. The budget will restore benefits to over 350,000 legal immigrants in FY 2002.

- ✔ **REFUGEES AND ASYLEES.** Extends the SSI and Medicaid eligibility period for refugees and asylees from 5 years after entry (the limit in the welfare bill) to 7 years to give these residents more time to naturalize. Adopts Administration proposal to treat Cuban and Haitian entrants and Amerasian immigrants as refugees to preserve benefits for these groups that have endured extraordinary hardships.

POOR ELDERLY AND DISABLED, INCLUDING CITIZENS

- ✔ **RECIPIENTS OF STATE SSI SUPPLEMENTS.** Does not include the House-passed provision that would have repealed the maintenance-of-effort requirement applying to State supplementation of SSI benefits which would have permitted States to reduce or eliminate benefits to almost 3 million poor blind, elderly and disabled individuals.

PEOPLE WHO WANT TO WORK BUT CAN'T FIND A JOB

- ✔ **235,000 MORE WORK SLOTS.** Last year's welfare reform bill restricted food stamps for able-bodied childless adults to only 3 out of every 36 months, unless they were working. This move ignored the fact that finding a job often takes time. The budget bill provides nearly $1 billion to an estimated 235,000 work slots over 5 years and food stamp benefits to those who are willing to work but, through no fault of their own, have not yet found employment.

- ✔ **ALLOWS STATES TO EXEMPT UP TO 15 PERCENT OF THE FOOD STAMP RECIPIENTS (70,000 Individuals Monthly) WHO WOULD OTHERWISE BE DENIED BENEFITS AS A RESULT OF THE "3 IN 36" LIMIT.**

President Clinton's Historic Balanced Budget Agreement: Building on His Strong Record of Deficit Reduction and Growth

President Clinton has achieved a balanced budget agreement that includes critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid -- just as he promised last year. This achievement finishes the job of balancing the budget, a key priority for the President since he took office.

ONLY FOUR YEARS AGO. In 1993, the President inherited a budget deficit of $290 billion that was expected to explode to over one-half trillion dollars in 2002. A decade of large deficits had weakened the foundation of our economy and sapped our power and prestige abroad. Unemployment was 7.5% in 1992, and job growth was sluggish.

THE PRESIDENT PASSES HIS 1993 ECONOMIC PLAN. President Clinton addressed this problem of fiscal instability immediately on a pledge to cut the deficit in half. Working with Democrats in Congress, he implemented an economic program designed to reduce the deficit and to invest in critical priorities, such as education and training. **The 1993 economic plan has exceeded all expectations:** *the deficit has fallen by more than 75%, dropping for a likely fifth year in a row to $67 billion or lower in 1997; equipment investment has been the strongest since Kennedy was President; the economy has produced over 12.5 million new jobs; and the unemployment rate this year is the lowest in 24 years.*

THE PRESIDENT ACHIEVES BIPARTISAN AGREEMENT TO FINISH THE JOB. The President began his second term determined to fulfill his goal of balancing the budget. As we head into the next century, this bipartisan agreement protects our priorities, solidifies the nation's economic foundation, restores faith in our ability to govern ourselves, and bolsters America's preeminent position in the world economy. The balanced budget agreement includes roughly $900 billion in 10 year net deficit savings and delivers the first balanced budget in a generation.

President Clinton Delivers the First Balanced Budget in a Generation

Year	1993 Deficit Projection	Current Deficit Path
1993	$310	$255
1994	$302	$203
1995	$301	$164
1996	$298	$107
1997	$347	$67
1998	$387	$90
1999	$429	$90
2000	$475	$83
2001	$521	$53
2002	$576	$1 Surplus

* Numbers from the budget agreement. Final Budget numbers from reconciliation still being tallied.

BUDGET STAYS IN BALANCE. In addition to delivering a balanced budget in 2002, **the budget agreement delivers budget surpluses for each of the second five years of the budget window, 2003-2007,** putting the nation on a solid fiscal path at a critical time as the baby boom generation edges toward retirement.

President Clinton Delivers a Mainstream, Middle Class Tax Cut

How Typical American Families Will Benefit

Example #1

Consider a family of four with an income of $40,000 a year. The father is a carpenter who makes $25,000, and the mother works at a local department store who makes $15,000. They have two children, a son who is 14 and a freshman in high school and a daughter enrolled full-time in her first year at a state university. Her tuition is $5,000 a year.

This family benefits from the tax cut in at least two ways. They will receive a child tax credit of $500 for their son, plus a HOPE Scholarship of $1,500 for their daughter. In total, they will receive a $2,000 tax cut.

Tax Cut

Family of four with two children aged 14 and 18 and $40,000 income:

Child Tax Credit for 14 year old	$500
HOPE Scholarship for 18 year old	$1,500
Total tax cut:	**$2,000**

* Tax Year 1999

Example #2

Consider a family of three making $55,000 a year. The father has a degree in accounting and works for a local business in the accounting department. The mother works part-time at the local library. They have one daughter aged 7. The father would like to return to school to prepare for his CPA examination. He is going to attend the local liberal arts college. He has signed up for two courses with total tuition of $4,000.

This family will receive a $500 child tax credit for their daughter and a $800 tuition tax credit to help pay for the father's course work.

Tax Cut

Family of three with one child aged 7 and $55,000 income:

Child Tax Credit for 7 year old	$500
Tuition tax credit	$800
Total tax cut:	**$1,300**

* Tax Year 1999

Example #3

Consider a family of three making $80,000 combined. They have a daughter who is 17 years old and is trying to decide where to go to college. She is leaning towards a private liberal arts school. Her parents are staring at tuition payments in excess of $10,000 a year for four school years and wondering how they will pay for it.

This tax cut will help. Their daughter will be eligible for a $1,500 HOPE Scholarship in each of her first two years in college. During her junior and senior years, she will be eligible for a tuition tax credit of $1,000. (because four school years fall across five tax years she will be eligible for another $1,000 in the fifth year).

Year	Tuition Tax Credits
1998	$1,500 Hope Scholarship
1999	$1,500 Hope Scholarship
2000	$1,000 Tuition Tax Credit
2001	$1,000 Tuition Tax Credit
2002	$1,000 Tuition Tax Credit
Cumulative Tax Cut to Help Pay for Daughter's Education	**$6,000**

Example #4

A single mother lives with her six year old daughter in California. She's been working as a bank teller for several years and her pay is now $20,000 a year. Working towards becoming a loan officer, she is taking one course a semester towards a bachelor's degree. Her tuition is $1,000. This family will receive a $500 child tax credit for the daughter and a $200 tuition tax credit.

	Tax Cut
Family of two with one child aged 6 and $20,000 income:	
Child Tax Credit for 6 year old	$500
Tuition Tax Credit	$200
Total tax cut:	**$700**

* Tax Year 1999

GUIDANCE ON MISCELLANEOUS BUDGET ISSUES
JULY 30, 1997

COVERDELL AMENDMENT

* This amendment created savings accounts with preferential tax treatment that could have been used for private and parochial school expenses in K-12.

* The President is a strong supporter of public school choice. He has supported funding for charter schools as well.

* However, the President has opposed tax provisions that would undermine public school education by conferring tax benefits for private and parochial school expenses.

* That is why he made it clear in a letter last night to the Republican leadership that he would veto this legislation if it contained the Coverdell amendment.

* (This letter was agreed to in the negotiations as a way of dealing with the amendment.)

DSH

* If asked, moderation of DSH savings for high-Disproportionate share states had nothing to do with politics. It had everything to do with ensuring that some states were not hit disproportionately with severe cuts.

MEDICARE COMMISSION

* The Medicare Commission is to report by March 1, 1999.

* It will have 17 members:

    * The President appoints 4 members.

    * The Speaker and the Senate Majority Leader each appoint 4 members.

    * The House and Senate Minority Leaders each appoint 2 members.

    * The Chair is mutually agreed on by the President, the Speaker, and the Senate Majority Leader.

* To ensure a bipartisan result, any conclusions by the Commission will need 11 votes out of the 17 members to be adopted.

Q: Will you include your means-testing proposal for Medicare Part B premiums in your budget next year?

A: Obviously, the President has indicated his support for income related premiums for upper-income recipients, but we haven't made any decisions about what will be included in our budget six months from now.

SOCIAL SECURITY

* Clearly, the same baby boom problem facing Medicare is also facing Social Security. It will not hit as quickly, but the President believes the sooner we act, the more effectively and fairly we can confront the problem.

* As with Medicare, a bipartisan process is what is needed. Whether or not that means a Commission has not been decided, and we have not made a proposal in that regard.

* We also have not determined the appropriate timing for a proposal or for the process to commence.

AMTRAK

* Unfortunately, the Amtrak authorization needed to permit spending of the money that was put in the tax bill to provide needed funding for a reformed Amtrak will not be included in the bill.

* The funding is still in the bill, but it cannot be spent until an authorization bill is adopted. We had hoped that this would also be included in the bill, but that is not to be.

* The Administration made a good-faith effort to resolve the issues. We put two specific offers on the table. Unfortunately, Republicans refused to make any counter-proposal. So the authorization bill will not be in the reconciliation legislation and will have to be taken up at a later date.

* The problem is that Republicans were insisting on a proposal that would breach long-standing agreements with Amtrak's workers, harm the communities through which Amtrak runs, and ultimately deny service to the over 50 million passengers who rely on Amtrak service each year.

* The Republican proposal would harm railroad workers by tilting the bargaining table -- in connection with severance and contracting out -- so far in management's direction that they would have little incentive to negotiate in good faith.

* Communities would be harmed by strict global caps on not only Amtrak's but on any freight railroad's liability for environmental damages caused by an accident where hazardous substances are released; and punitive damages would be available only where a plaintiff proves actual malice, the strictest standard in use in any state that allows punitive damages.

* Rail passengers would be harmed by the bill's ultimate goal -- completely unsupported and unsubsidized rail passenger service, which does not exist anywhere else in the world.

* We want to provide needed funding to a reformed Amtrak that makes efficient use of the money will providing needed passenger service to the American people. We look forward to working toward sensible, balanced reform that is good for passengers, communities, and workers.

TOIV
Hilley, Jennings, Siewert

THE WHITE HOUSE

WASHINGTON

July 29, 1997

Dear Mr. Leader:

I want to again thank you for working in a productive, bipartisan manner to develop this bipartisan budget agreement. I feel particularly good about the strong education package that is included in the tax bill. As you know, in working out the final agreement, I strongly opposed the Coverdell amendment. I would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses.

Sincerely,

Bill Clinton

The Honorable Trent Lott
Majority Leader
United States Senate
Washington, D.C. 20510

Q: THE NEW YORK TIMES SAID THAT THE PRESIDENT HAS ABANDONED HIS PUBLIC INVESTMENT AGENDA AND REPLACED IT WITH A MORE RIGHTWARD LEANING AGENDA OF ZERO DEFICITS. WHAT IS YOUR RESPONSE?

A: **President Clinton has pursued a clear economic strategy since Day 1 of his Presidency. It is invest and grow economics with three central components: reduce the deficit, invest in our people, and open markets abroad**. This strategy has been a remarkable success.

- We reject their premise that one must choose between deficit reduction and increased public investments. Both are critical. Deficit reduction is needed to spark private sector investment and public investment is needed to complement private investment.

- **Look at our record - deficit reduction plus increased public investments**. Between 1992 and this year we have reduced the deficit by more than 75 percent, from $290 billion then to likely below $67 billion this year. At the same time:

  - **Head Start** - we increased funding for Head Start 43% from FY93 to FY97.

  - **Pell Grants** - we increased the maximum Pell Grant by 17% between FY93 and FY97 from $2,300 to $2,700.

  - **Training** - we have doubled training for dislocated workers from $651 million in FY93 to $1.3 billion in FY97.

  - **WIC** - increased funding for Women, Infants, and Children nearly $1 billion or 38% in FY97.

  - **Advanced Technology Program** - Increased funding 231% to $225 million in FY97 to develop new technologies with private sector.

  - **Manufacturing Extension Centers** - funding has been increased 428%, expanding from 7 to 78 centers.

  - **Cleaning Up Toxic Waste Sites** - we cleaned up more toxic waste sites (we cleaned up 260) in 4 years than the previous Administrations did in 12 years.

  - **National Information Infrastructure** - we created this program in 1994 and is funded at $21 million in FY97.

  - **National Institutes of Health** - NIH funding has been increased 23% over 4 years to $12.7 billion in FY97. NIH now supports 32,000 grants in more than 1,700 universities, medical schools, and other research institutions.

- **The balanced budget agreement protects the protects the president's critical domestic priorities**. The Budget Agreement, which will be enacted in the Appropriations bills in the fall, **includes 99% of total amount of President's 5-year Domestic Discretionary Budget and protects the President's investment priorities.**

  - ✔ **Largest education investment in 30 years.**
  - ✔ **Pell Grant expansion** -- maximum grant increased to $3,000.
  - ✔ **National Institute of Standards and Technology (NIST)**
  - ✔ **New child literacy initiative** consistent with President's America Reads.
  - ✔ **Head Start expansion** -- on track to 1 million children in 2002.
  - ✔ **Full funding for President's training budget,** including Job Corps.
  - ✔ **President's FY 98 budget request for EPA Operating Budget**
  - ✔ **National Park Service full funding** for operations budget, plus land acquisition and state assistance, and Everglades Restoration.
  - ✔ **Superfund --** clean-up of 500 toxic sites in next four years (if policies can be worked out).
  - ✔ **COPS --** funding on track to put 100,000 more police officers on streets by 2000, plus full funding for overall Violent Crime Reduction Trust Fund.

6/5/97

June 5, 1997 - Budget Q &A

Q: **WHAT IS YOUR RESPONSE THE REPUBLICAN ATTEMPTS TO DEVIATE FROM THE OUTLINE OF THE BUDGET AGREEMENT?**

A: **We expect the Republicans in Congress to honor the agreement we reached just last month.**

- **They should keep their word just as the President has honored his word -- even when it has been difficult**. The Kennedy-Hatch proposal is a perfect example. The President is very sympathetic to what that proposal. Nontetheless, the President recognized that it was outside the agreement and honored his word. Now, Republicans in the House are explicitly violating provisions in the actual text of the agreement.

- **To the extent Republicans put forth provisions that betray the agreement, we will call them on it and expect them to move quickly to correct these deviations**. From the start, there have been good faith efforts on both sides. The President and the congressional leadership entered into an honorable agreement that was passed with strong bipartisan majorities in both Houses. We and the American people fully expect that they will honor that agreement.

FOLLOW-UP

Q: **WILL THE PRESIDENT VETO THE RECONCILIATION IF, FOR EXAMPLE, THE IMMIGRANT PROVISIONS ARE NOT CHANGED?**

A: **It is premature to throw the word "veto" around**. We are at the early stage of the reconciliation process.

- **We expect that the Republicans in Congress to honor the agreement**. That is fairly straight forward.

Q: IT IS BECOMING CLEARER EVERY DAY THAT THERE IS NO SUPPORT IN EITHER PARTY FOR THE PRESIDENT'S EDUCATION TAX CUT PROPOSALS. WILL THE ADMINISTRATION ACCEPT ALTERNATIVE EDUCATION PROPOSALS?

A: I do not think that's right. First of all, and most importantly, there is strong support for the President's education tax cuts among parents and students. We halso have support in Congress, and most importantly, the agreement we reached specifically sets aside $35 billion for the President's education tax cuts.

It is hardly surprising that members of Congress will focus on pushing this or that pet project, but the agreement calls for the President's education tax proposals, not theirs.

- **It is instructive to go back and read what is part of the agremeent, what the Speaker and Senate Majority Leader put in writing to the President**: *"it was agreed that the package must include tax relief of roughly $35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package shoild be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in tghe Administration's FY 1998 budget to assist middle class parents?*

- **We have responded to constructive criticisms of our proposals**. We have adjusted the scholarship to ensure that more lower income students will be benefit from it. And we have dropped the B average requirement. These changes are have improved the proposals in the eyes of many and enhanced the support of these important tax cuts that make it easier for parents to send their kids to college.

Q: WHAT IS YOUR RESPONSE TO THE ATTEMPT BY THE HOUSE REPUBLICANS TO CHANGE THE IMMIGRANT PROVISIONS?

A: The provisions on affecting immigrants being advanced by Republicans on the House Ways and Means Committee, as the Vice President said, "violate the terms of the balanced budget agreement."

- **These provisions were negotiated in painstaking detail and were put in writing**. In black and white, the agreement on Page 22 clearly states, "Restore SSI and Medicaid for all disabled legal immigrants who are or become disabled." It's right there, "are or become." The House leadership might want to show this agreement to some of their chairmen.

- **We expect the Republicans in Congress to honor the agreement. We expect them to fix these provisions**.

6/11/97

GUIDANCE ON BUDGET

* This afternoon (prob. at 1:30), Secretaries Rubin and Riley are going to brief on the tax legislation, particularly the education components, over at the Department of Education. (Rangel may attend as well, we need to check on that.)

* We expect the President to send a letter to Congressman Rangel today that thanks him for the excellent work he has done and states the President's view that Mr. Rangel's proposal meets the four tests the President laid out for a tax package yesterday.

* (DRAFT of letter attached)

* (In addition, we expect that the Administration will communicate our views to Chairman Archer today on his proposal. That communication will also outline the proposals referenced today by the Vice President to assist small business people. COPY OF DRAFT ALSO ATTACHED)

TOIV
Siewert

MIKE -- THIS IS A DRAFT OF A LETTER THAT THE PRESIDENT WILL SEND TO RANGEL. WE CAN'T RELEASE IT YET, BUT IT GIVES YOU A GOOD SENSE OF THE FOUR PRINCIPLES.

BT

Dear Congressman Rangel:

I am pleased that your tax cut package embraces the principles that I have set forth. Most importantly, it is designed to give working families in America the tax relief they deserve.

If we are going to continue to invest in education and the rest of our successful economic strategy, any tax cut package must meet four basic tests. First of all, it must reflect the terms of the bipartisan budget agreement. Second, the tax cuts must be designed help the economy continue to grow. Third, that tax cut must primarily benefit middle-class families. Fourth, a tax cut must genuinely expand educational opportunities for Americans of all ages. Your package, though it differs from our proposal in some respects, meets those tests. The Republican House proposal does not.

We are particularly pleased that your proposal gives American families the help they need to make investments in education and lifelong learning. The decision to include a HOPE scholarship proposal mirrors our initiative to make education more affordable and to make the 13th and 14th grades universal. You have improved our initial proposal by allowing students who receive Pell Grants to the full amount of the HOPE scholarship. We fully endorse that change. Although our tuition deduction plans differ in some particulars, we are pleased that your proposal incorporates the full $10,000 tax benefit for tuition paid -- regardless of its source. Like our proposal, your tuition plan will help families who are not wealthy enough to pay for the entire amount of tuition out of savings and are therefore forced to borrow. It would also help Americans undertake lifelong learning so that they can take advantage of the opportunities offered by the new economy.

Your tax cut plan is a welcome addition to the current tax cut debate. I hope that the House Democrats and Republicans and the Senate Democrats and Republicans will work with us to enact a tax cut package that meets the four tests I outlined above.

DRAFT

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June 10, 1997

The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
???? Longworth
Washington, DC 20515-4005

Dear Chairman Archer:

I have reviewed the tax plan you released yesterday, providing the details of the tax portion of the bipartisan budget agreement. The President is anxious to sign legislation implementing the agreement into law, but in its present form, the proposal you have put forth does not meet the test of fairness to working families and has other serious problems. My major concerns are listed below.

Your bill will reduce the value of the $500 child credit for millions of low income families by requiring a family to take the child credit only after the earned income tax credit is taken against their tax liability. A family with two children and $25,000 of income, for example, would receive no tax relief from the child credit under your proposal. Under the President's plan, this family would get $1,000, the same as a family that earned twice as much. We would favor a refundable child credit that better targets low and middle income working families.

The proposed legislation singles out six million families who pay for child care and gives them a smaller tax cut. Beginning in 2002, families who receive a tax credit for their child care expenses would lose 50 cents for each dollar of their child credit. This provision unfairly limits tax relief for single parents who are required to work to support their children and families with second earners who are struggling to maintain a decent standard of living.

The education package falls nearly $13 billion short of the agreed goal of $35 billion in tax cuts for education, which are consistent with the HOPE scholarship and tuition deduction proposals in the President's FY98 Budget. Furthermore, as compared to the President's proposals, it directs more benefits toward middle- and upper-income families while reducing the benefits to lower-income families who rely on loans and grants to finance their education. It introduces serious administrative complications and works much more poorly than the President's proposals in helping to enhance educational opportunities for students.

- The HOPE credit would be cut to 50 percent of tuition expenses, halving the value of education benefits for millions of students attending community colleges and other low-cost institutions.

- Unlike the universally available tuition deduction in the President's package, the tuition deduction in your proposal would be available only if education expenses are paid from certain education savings plans. Hence, no help is given beyond the first two years of higher education to low-income students and students who must borrow to pay tuition.

- Tax-free savings offered through new education investment accounts and the opportunities for tax-deferred saving through private prepaid tuition plans are overly generous to upper income families, since they have neither income limits nor contribution limits. This would give high-income taxpayers an incentive to use these vehicles to save tax-free, even if they never intend to use the savings for education expenses.

The American Dream IRAs are not sufficiently targeted. Contributions could be made to these back-loaded IRAs without any income limits, which would surely result in a substantial shifting of existing savings into tax-preferred investment vehicles by high-income taxpayers, rather than creating new savings.

The proposal to index certain capital assets and lower the rate of tax on capital gains provide a double benefit to taxpayers, substantially overcompensating them for the effects of inflation. The package would disproportionately benefit the wealthy over lower- and middle-income wage earners. The package so have an explosive revenue cost in years after 2007, possibly jeopardizing all our important work on deficit reduction. In addition, the indexing proposal is enormously complex and difficult to administer. To quote the New York State Bar Association, indexing is "fundamentally flawed" and would create problems that would "overwhelm taxpayers and the IRS."

At a time when the U.S. economy is the strongest in the world, you have proposed to spend $34 billion over 10 years to eliminate the corporate Alternative Minimum Tax, a proposal that benefits America's largest and wealthiest companies.

Your plan contains other provisions that raise serious concerns. The safe-harbor for independent contractor status would permit employers to avoid essential worker protections. This proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.

Under your proposal, Indian tribes would be subject to the unrelated business income tax on all income earned from commercial activities. Contrary to long-established United States policy, this tax fails to respect the sovereignty of Indian tribes and their special status as domestic dependent nations. This lack of respect for sovereignty is particularly apparent in the difference the proposal would create between tribes and States. In addition, the proposal would be extremely difficult to administer.

The President's FY98 Budget contained a number of important initiatives that we are very disappointed were not included in your proposals. The Nation's mayors and urban and rural communities have been extremely supportive of the President's brownfields provision, which allows a special deduction for certain expenses associated with environmental cleanup. No provision is included to stimulate investments in Community Development Financial Institutions to revitalize distressed neighborhoods around the country. No provision is included for equitable tolling, which protects a taxpayer's rights when he or she is incapacitated, or for restructuring our Nation's affordable housing portfolio. And while tax relief is provided for the District of

Columbia, no additional Empowerment Zones or Enterprise Communities for the rest of the country are provided.

Your bill also includes a provision to raise the debt ceiling. While we support this provision, we believe that it should be included in the other reconciliation bill, as the Senate plans to do.

In conclusion, we think this package disproportionately benefits the most well off in society. Given the tough choices that need to be made within this tax package, we think it is unwise, for example, to eliminate the corporate AMT while at the same time, denying tax relief provided by the child credit to millions of hard working taxpayers with children who receive the earned income tax credit. Moreover, the provisions in the package that drive up costs in the second ten years, are those that most advantage high income taxpayers. This is an unwise legacy to leave to our children.

We look forward to working with the Congress to design a tax package that helps working families pay for education, buy and sell a house, and raise their children. We are committed to achieving a tax package that is fair to all Americans.

Sincerely,

6/11/97 ☑002

To Jake
62223
Deliver ASAP

DEMOCRATIC ALTERNATIVE

5-year cost
in billions

I. Education Tax Benefits

A. Hope credit as proposed by the Administration with the following changes:

1. Eliminate the provision reducing the limitation on the credit by the amount of Pell Grants and other nontaxable Federal grants. These grants will be treated like other scholarship grants, offsetting tuition expenses but not reducing the limitation on the credit.

2. Eliminate the B- grade requirement and substitute a requirement for satisfactory academic progress.

3. Allow the credit against the minimum tax.

4. Phase in the limitation on the credit as follows: $1,100 for 1997, 1998 and 1999, $1,200 for 2000, and $1,500 for 2001 and thereafter.

The alternative substitutes a 20 percent nonrefundable HOPE credit for tuition costs for the Administration's deduction. The credit would be available after student ceases to be eligible for phased-in $1,500 HOPE credit described above. The credit would be allowable against the minimum tax. The limitation on the amount of expenses for which the credit is allowable is phased in as follows: $4,000 for 1997, 1998, 1999, $5,000 for 2000, $7,500 for 2001, $10,000 for 2002 and thereafter. $37.0

B. Permanent extension of exclusion of employer-provided educational assistance and reinstatement of exclusion for graduate education. The reinstatement of the exclusion for graduate education would take effect for courses beginning after June 30, 1997. 3.4

	5-year cost in billions
C. The education zone proposal from H.R. 1512. The proposal permits local governments to issue up to $10 billion per year for 5 years of interest-free bonds to assist elementary and secondary schools (either in empowerment zones or enterprise communities or with at least 35-percent poor students) which join with a private business in a partnership to improve education. The business would be required to make contributions to the partnership.	1.6
II. Family Credit	
An income tax credit per child for children under age 18 to begin in 1998; the credit would be $300 in 1998, 1999, and 2000, $500 in 2001 and thereafter; phased out for families with incomes between $60,000 - $75,000 and unavailable to those with more than $75,000; refundable to the extent of the employee share of payroll taxes and allowed before the EITC.	71.2
III. Capital Gains	
A. President's exclusion of $500,000 on sale of a principal residence.	1.9
B. Allow deductibility of losses on sale of a principal residence.	3.8
C. Allow an 18 percent rate (7.5 percent for taxpayers in 15-percent bracket) on capital gains, up to a lifetime cap of $600,000, generated by capital assets not publicly traded on established markets; require a 3-year holding period.	5.7

IV. Estate Tax Relief

The alternative includes an additional exclusion for family-owned business interests:

A. The limitation on the exclusion would be $400,000 except that so much of the exclusion that is not claimed on the death of the first spouse may be claimed by the estate of the other spouse. This permits family-owned business interests with values up to $2 million to pass with no estate tax in the case of a married couple.

	5-year cost in billions
B. The provision would take effect for decedents dying after December 31, 1997.	1.9

V. Extenders

A. The research credit would be extended for one year.	2.1
B. The provision permitting fair-market value deduction for contributions of appreciated stock to private foundations would be extended for one year.	0.1
C. The work opportunity tax credit would be extended for one year with the following modifications:	
1. The credit would be expanded to cover certain individuals losing their eligibility for food stamps as contained in the Administration's proposal. This change would be effective for individuals hired after date of enactment through September 30, 2000.	0.2
2. The credit would be modified as provided in H.R. 1729 to increase the credit rate to 40 percent and provide a lower credit for workers not meeting 400 hour requirement.	0.5
D. The Orphan Drug Credit would be made permanent.	0.2

VI. Other Presidential Initiatives

The alternative includes the following tax provisions as recommended in the President's budget:

A. Expansion of empowerment zones and enterprise communities. The President's proposal would be modified by requiring that three of the additional empowerment zones would be designated in areas with distressed financial service industries meeting the requirements of the Kennelly bill, H.R. 2015 and financial service industries in those areas would be treated as qualified businesses, eligible for otherwise available tax benefits.	1.0

		5-year cost in billions
B.	Brownfield tax incentives. The President's proposal would be modified by including the provisions of H.R. 523 that permit tax-exempt qualified redevelopment bonds to be used to pay environmental remediation expenses for qualified sites.	1.2
C.	Tax credit for investment in community development financial institutions.	*
D.	Welfare-to-Work Tax Credit.	0.3
E.	Equitable tolling of statute of limitations for incapacitated taxpayers.	0.1
F.	Extension and modification of Puerto Rico tax credit.	0.7
G.	Foreign sales corporation benefits for licensed software.	0.6
H.	District of Columbia tax incentives.	0.3
	TOTAL	$133.7

*Less than $50 million.

Prepared by Democratic Staff of the Committee on Ways and Means.
June 10, 1997

Budget
11-12-96

Talking Points:

The President's Meeting and the Fiscal 1998 Budget

November 12, 1996

- The President met with congressional leaders today to see if we can expedite agreement on how to balance the budget.

  – The President and congressional leaders came very close to an agreement last winter.

  – The President has said he thinks we should pick up where we left off and finish the job.

- As the President has said, the American people sent a clear message in the election:

  – They want the President and Congress to work together.

    They sent a Democratic President and a Republican Congress back to Washington.

    And many of the congressional races were extremely tight.

  – The American people are coalescing around the "vital center" that the President likes to speak about.

- The President and Congress have shown what they can do when they work together.

  – In the last 2 months of the last Congress, they enacted (among other things):

    A higher minimum wage;

    A landmark immigration bill;

    The Kassebaum-Kennedy bill;

    A welfare reform bill;

    An expansion of the Brady Bill;

    An adoption tax credit; and

    Much of the budget for fiscal 1997.

- The President and Congress have good reasons to work together:

-- Because we did not enact a long-term plan to balance the budget last year, both the President's and Congress' last budgets no longer reach balance in 2002.

Thus, we should work together to close the gap.

-- In addition, the President and Congress could avoid the usual process, which tends to produce months of bickering. Under the usual process:

We present our budget in February, with our own set of economic and technical assumptions and a plan to reach balance.

The Congressional Budget Office then comes out with a separate set of assumptions, with which it tends to determine that the President's budget does not, in fact, reach balance.

Then the Administration and Congress spend months arguing over baselines, rather than agreeing on the parameters of the problem.

- Meanwhile, OMB is following the normal process of putting together the President's 1998 budget.

-- OMB Director Frank Raines is meeting with his staff to review the budget requests that the agencies submitted (generally in September) to OMB.

-- Under the normal process, OMB would send its recommendations of what the President's budget should include back to the agencies around Thanksgiving.

-- The President then would make final decisions about his budget in December.

-- OMB would write the budget books in January.

-- The President would send the budget to Congress no later than February 3 (first Monday in February).

- The budget will incorporate:

-- The President's longstanding priorities, and

-- The initiatives that he proposed between the release of last year's budget (in March) and the election.

Haas 53814