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EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
LEGISLATIVE AFFAIRS

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LAURA TYSON	456-2878
ROBERT RUBIN	622-0073
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NUMBER OF PAGES: ~~8~~ 9 (Includes cover)

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

THE DIRECTOR

May 29, 1996

The Honorable Bob Livingston
Chairman
Committee on Appropriations
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on the Foreign Operations, Export Financing and Related Programs, Appropriations Bill, FY 1997, as reported by the Subcommittee. Your consideration of these views would be appreciated.

The House Appropriations Committee has approved 602(b) allocations that force reductions in appropriations for international affairs programs that are inconsistent with the demands of American leadership at the end of this century and beyond. The short-sighted reductions contained in the Subcommittee bill would seriously erode the ability of the President to assure the security and prosperity of the American people in the international arena. Additional funding for foreign operations is required, and the Administration will work with the Congress to this end throughout the remainder of the appropriations process.

The Administration strongly opposes the provision in the bill that would reduce and constrain funding for, and impose severe eligibility restrictions and administrative burdens on, international family planning efforts. The effect of these provisions would be to deny funding for voluntary international family planning efforts, thereby increasing the incidence of unintended pregnancy, maternal and infant death, and the need for recourse to abortion. Moreover, the bill would establish the equivalent of an international "gag rule" by allowing full funding only for organizations which agree to restrict their privately funded activities.

The Administration is strongly opposed to these restrictions. They would make the U.S. foreign assistance program less effective by discouraging funds from going to the most experienced and qualified family planning and maternal-child health providers. Current law and policy adequately ensure that no USG funding is used to perform abortions.

The Administration is also deeply concerned about the many funding reductions in the Subcommittee bill. However, it commends the Subcommittee for providing full funding for a number of important programs including humanitarian assistance for refugees and disaster victims, aid to Bosnia and other Eastern European countries, foreign military financing grants primarily for Israel and Egypt, anti-terrorism assistance for Israel, and international military education and training.

U.S. International Leadership and Burden-Sharing

Most of the severe reductions in the Subcommittee bill would come from U.S. contributions to the multilateral development banks. Funds for the World Bank's International Development Association (IDA) would be cut by 44 percent, funds for the Inter-American Development Bank's Fund for Special Operations would be cut by two-thirds and funds for the African Development Bank and Fund would be eliminated. These reductions would compound the massive reductions enacted in FY 1996 and would have a severe impact on the ability of the U.S. to advance its priorities in the world's poorest countries, particularly in Africa. At a time when budget stringencies call for the United States to seek ways to share the development assistance burden with other developed countries, the bill would force an accelerated U.S. withdrawal from longstanding, successful burden sharing institutions such as IDA.

The Subcommittee bill would also reduce the proposed U.S. contribution to the Global Environment Facility (GEF) by 70 percent. This is a reduction of $5 million from the FY 1996 level. The GEF is a key component of the international effort to halt the spread of environmental degradation throughout the world. GEF programs affect both the United States and those countries directly benefitting from GEF assistance. Again, the bill would reject a critical burden sharing arrangement to address a serious world problem.

Further, the bill rejects proposed U.S. funding for the new Bank for Economic Cooperation and Development in the Middle East and North Africa. This Bank is intended to help consolidate the gains already made in the Middle East peace process by promoting regional economic cooperation. It is strongly supported by the countries of the region and the Palestinian Authority. At a time when American steadfastness in support of the peace process is critical to continued progress, the rejection of the Bank by the Subcommittee could undermine our effort to bring lasting peace to the region.

This problem is compounded by the Subcommittee's denial of funds for debt forgiveness for Jordan. This request is necessary only because funds previously appropriated fell short of providing the anticipated forgiveness due to technical requirements of credit legislation as interpreted both by OMB and the Congressional Budget Office. Without these funds, we will not be able to complete our commitment made to King Hussein in light of his courageous support of the peace process.

The nuclear framework agreement with North Korea is a major step forward in improving the future prospects for the security of the United States and its allies. This ground breaking agreement has halted work on a nuclear weapons capacity in that country. The agreement is fully supported both by South Korea and Japan, who will share the burden by providing the overwhelming majority of the funds to support its full implementation. Given these circumstances, the Subcommittee's proposed level of U.S. funding for this agreement and the restrictions on the use of these funds are totally unwarranted, and could cause friction with our partners.

Other burden sharing arrangements have also been undercut by the bill. The Subcommittee would not provide the requested increase in voluntary U.S. contributions to international organizations and programs, where our funds leverage considerable contributions by others and ensure our international leadership. U.S. contributions to the United Nations Development Program (UNDP), for example, are matched 9:1 by other donors. And UNDP returns $2 in purchases of U.S. goods and services to the American economy for every dollar the U.S. contributes. Through voluntary contributions, the United States can target activities that greatly benefit Americans, such as monitoring shipments of nuclear materials, protecting the ozone layer, preserving endangered species, and promoting aviation security. Continuing to provide funding at the reduced FY 1996 levels will undermine U.S. leadership in these organizations and would set back U.S. efforts to reform the U.N. system.

The Subcommittee bill would also reduce U.S. participation in the Debt Reduction for the Poorest program managed by the Paris Club group of governmental creditors. Although the Subcommittee mark would maintain the FY 1996 enacted amount, the budgetary requirement for this program will increase in FY 1997 as more developing countries qualify for debt relief by carrying through economic reform programs.

Advancing American Security

Funding cuts in the bill would also undermine American security. United States security interests would be affected by the reduction in funding for the New Independent States (NIS) of the former Soviet Union. The Administration has made major efforts to enhance the effectiveness of this program by concentrating on priority activities, by putting greater emphasis on cost sharing and leveraging, and by assuring that funds produce results the recipient countries. The reduction from the FY 1996 level contained in the Subcommittee bill, which is well below prior years, would diminish our capacity to achieve our fundamental objectives in the NIS at a time when assistance is critical to key countries.

While less severe than the reductions discussed above, the Subcommittee cuts to the President's FY 1997 request for security assistance programs are troublesome. Economic Support Fund financing for countries outside the Middle East, which has been reduced by 70 percent over the past five years, requires a modest increase to provide adequate levels of funding for countries such as Cambodia and the nations of Central America. The voluntary Peacekeeping Operations account (primarily for operations outside UN auspices) has been invaluable in supporting U.S. security interests in Bosnia, the Middle East and elsewhere and needs to be maintained at the FY 1996 enacted level of $70 million as requested by the Administration.

In addition, the bill would also hamper the Administration's efforts to combat international narcotics and crime activities by 30 percent, from $213 million to $150 million. This cutback would prevent full and vigorous implementation of the revitalized anti-drug strategy abroad, focussing on interdiction and eradication in the source countries. The Subcommittee would reduce funding for anti-terrorism training by 12 percent and would thus hamper the fight against this serious international problem.

Bilateral Development Activities

The bill would cut the President's request for USAID-administered Development Assistance by $60 million, leaving the total at the level appropriated for FY 1996. While the overall reductions are not as severe as for some other development programs, the Subcommittee bill would impair our efforts in such key development fields as environment, economic growth (agriculture, micro enterprise, privatization), and democracy. The Subcommittee would also reduce funding for housing guarantees below the President's modest request. These proposed cuts would eliminate critical planned urban environment activities in Indonesia, India, Morocco, and the Czech Republic. These projects provide badly needed potable water and sanitation to low-income families while helping to build the permanent capacity to provide such services for the future.

The Subcommittee bill would also provide $29 million less than the President's FY 1997 request for USAID operating expenses. The Agency has announced a Reduction-in-Force of 200 direct-hire Americans for FY 1996, based on the funding level requested for FY 1997. A cut to the requested level would undermine USAID's ability to downsize in an orderly manner while continuing to effectively manage its overseas and central programs.

The Administration strongly supports the Subcommittee's continuing efforts to minimize the number of funding earmarks and remove extraneous general provisions. As the funds available for foreign assistance have been reduced, the absence of earmarks has become even more critical to effective program management. Nevertheless, the Administration opposes the provisions of the bill that would set percentage share requirements in the development assistance program for geographic regions regardless of the total amount of funds available to that program. The Administration also opposes any ceiling on the share of total funds for Latin America that any one country can receive.

Despite the provision of appropriate funding for several accounts and the lack of earmarking, the many funding reductions in critical programs severely restrict American international leadership, causing the Administration to strongly oppose the Subcommittee bill. We look forward to working with the Committee to address our concerns.

Sincerely,

Alice M. Rivlin

Alice M. Rivlin
Director

Identical Letters Sent to Honorable Bob Livingston, Honorable David R. Obey, Honorable Sonny Callahan, and Honorable Charles Wilson

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

May 29, 1996
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

(THIS STATEMENT HAS BEEN COORDINATED BY OMB WITH THE CONCERNED AGENCIES.)

H.R. 3517-- MILITARY CONSTRUCTION APPROPRIATIONS BILL, FY 1997
(Sponsors: Livingston (R), Louisiana; Vucanovich (R), Nevada)

This Statement of Administration Policy provides the Administration's views on H.R. 3517, the Military Construction Appropriations Bill, FY 1997, as reported by the House Appropriations Committee.

Committee Funding Levels Unaffordable

The Administration does not support the level of funding in the Committee bill. The Committee would add $907 million above the President's request -- $979 million for unrequested programs offset by a $79 million cut in requested programs and a rescission of $7 million in balances that will not be available for obligation in FY 1997. With the nation facing serious budget constraints, such an increase for this bill is not affordable.

The President is committed to providing quality housing and facilities to the men and women of the armed forces. The President's budget provides sufficient funding for that purpose -- $9.1 billion in all, including $3.9 billion for family housing. The Administration appreciates the Committee's support of the request for the base realignment and closure program, the family housing program and requested construction projects.

Unrequested Programs Added by the Committee

The $979 million added by the Committee would fund 112 unrequested projects and other programs. This unrequested funding is unaffordable and should be deleted.

In particular, given the very tight constraints on discretionary spending, it is unacceptable that the Committee chose to fund 42 low priority projects and programs at a cost of $303 million that are not even in the Department of Defense long range plan.

Other Objectionable Committee Actions

The Administration objects to the Committee's:

- Deletion of funding for a flood control project at McClellan Air Force Base, California. This action could hamper privatization and reuse of the base.

- Imposition of a ceiling on the amount of Base Realignment and Closure (BRAC) II, III and IV funds that can be spent on environmental cleanup. This action could limit the ability to close bases and transfer property to local reuse authorities, thereby delaying economic development in base closure communities.

TAB I

"to Leon / et al."

copies to		Yes	No
Lake ?	✓	—
Hilley ?	✓	—

others ? — George

THE PRESIDENT HAS SEEN
2/20/96

(D) **McCurry memo on disaster actuality for Washington and Oregon.** Ran on 62 Washington and 31 Oregon radio stations.

(E) **Sec. Reich speech.** On February 6, he spoke at George Washington's School of Business and Public Management on "Pink Slips, Profits, and Paychecks: Corporate Citizenship in an Era of Smaller Government."

(F) **"Never Count out Bill Clinton."** Via Wendy Smith. February 4 San Jose Mercury News article by Stephen Buel. "Little of Clinton's first three years as president has surprised anyone familiar with his Arkansas record. It is uncanny at times how closely the tempo of his presidency mirrors that of his years as governor."

(G) **Scranton Times-Tribune article on Sen. Santorum and GOP Medicare proposal.** Via Leon. He had boasted that given 30 minutes, he could convince 80 seniors in an audience of 100 to support Republican proposals to overhaul Medicare. Few of the seniors who gathered for his presentation on February 2 bought his pitch. Of the 83 who cast written ballots after his presentation, 63 opposed the GOP plans and 20 supported his arguments.

(H) **Kansas City Star clip on John Carlin from Bob Nash.** Via Leon. John is getting good press. His former critics are praising him: "I think he's doing very well so far. He's trying to remake the agency and create a new culture and institute a strategic plan. It's a huge task and I commend him," said the Society of American Archivists, which fought his nomination. Article says morale is high at the Archives and that he is surrounding himself with good people.

cc: Leon/[illegible]/Laura

(I) **Sen. Leahy letter on Foreign Ops bill and landmines.** He thanks you for signing the bill with his amendment to impose a one-year moratorium on the use of antipersonnel landmines, except along international borders: "While I am very disappointed with the low level of funding for foreign assistance, I am gratified that these programs will not be operating under a Continuing Resolution for the remainder of the year . . ." *On landmines: "As public revulsion grows with each landmine casualty among NATO forces in Bosnia and civilians around the world, it is crucial that the Administration embrace this law . . . ."*

(J) **Howard Reed memo on upcoming jobs conference in France.** Nancy indicates that you asked Reed for this memo from him at a January radio address. Reed , Special Counsel at USTR, argues that the upcoming jobs conference in France is the appropriate forum for the U.S. "to provide leadership; generate G-7 support; and establish a unified position on the issues of jobs, technology, and the product life cycle." He says the "unified position" should then be presented to the WTO, and stresses the importance of incorporating developing countries in the process.

Laura/Tony

[illegible]

PATRICK LEAHY
VERMONT

COMMITTEES:
AGRICULTURE, NUTRITION, AN
FORESTRY
APPROPRIATIONS
JUDICIARY

United States Senate
WASHINGTON, DC 20510-4502

96 FEB 6 P5:18

THE PRESIDENT HAS SEEN
2/20/96

February 1, 1996

The Honorable William Clinton
The White House
Washington, DC 20500

Dear Mr. President:

I want to thank you for signing the Fiscal Year 1996 Foreign Operations bill. While I am very disappointed with the low level of funding for foreign assistance, I am gratified that these programs will not be operating under a Continuing Resolution for the remainder of the year which would have done grievous damage to many vital United States interests.

I also want to express my deep appreciation to you for signing the bill with my amendment to impose a one-year moratorium on the use of antipersonnel landmines, except along international borders. Although the moratorium does not take effect until January 1999, it once again puts the United States in the lead, with a number of our NATO allies, of international efforts to rid the world of these indiscriminate weapons. As public revulsion grows with each landmine casualty among NATO forces in Bosnia and civilians around the world, it is crucial that the Administration embrace this law so we can work together over the next three years to pressure other nations to take similar action.

Again, thank you.

Sincerely,

PATRICK LEAHY
United States Senator

This legislation is a clear statement on land mines.

VERMONT OFFICES. COURT HOUSE PLAZA, 199 MAIN STREET, BURLINGTON 802/863-2525
FEDERAL BUILDING, ROOM 338, MONTPELIER 802/229-0569
OR DIAL TOLL FREE 1-800/642-3193
SENATOR_LEAHY@LEAHY.SENATE.GOV

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 3-7

TO: Leon
Laura

FROM: ~~Staff Secretary~~ George

Any comment before this goes to POTUS?

Todd

cc: Martha
Gene

MEMORANDUM TO THE PRESIDENT

FROM: RBR *Rr*

96 MAR 7 A11:45

RE: Job-training "add-backs"

Date: March 6, 1996

The magnitude of 1996 "add-backs" that Republican leaders in the House are now offering will leave very little for job training. The House is offering to add back only $1.5 billion to the Labor/Ed/HHS appropriation, 87 percent of which will go to education. (The Senate "add-back" is better, but still inadequate -- $3.3 billion, 52 percent for education).

Here's why a much bigger add-back is necessary: Remember that the 1996 program year begins July 1st. The current House-passed budget funds 1996 job-training (dislocated workers, the working poor, and summer jobs for disadvantaged kids) <u>28 percent below</u> the <u>1995</u> level, and <u>24 percent below Bush's 1993</u> level (in nominal dollars; adjusted for inflation, it would be even lower). <u>You</u> have proposed adding back $1.2 billion for job training. But even with this add-back, we'll still be <u>4 percent below</u> <u>1995</u> and almost <u>exactly at Bush's 1993</u> level (again, in nominal dollars; adjusted for inflation, even lower).

Obviously, if you were to accept the Republican "add-backs," overall funding for job training would drop significantly below the Bush 1993 level, and the putative "GI Bill for American Workers" would barely be funded at all. To be sure, there's still the possibility of a $10,000-per-family yearly tax deduction for lifetime learning, but you should be aware of the consequences for the rest of the package. At a time of heightened public sensitivity to the plight of working people who are losing their jobs and need to upgrade their skills, this administration's major response to worker insecurity would be rendered relatively meaningless.

I urge you to hold out for an "add-back" to the Labor/Ed/HHS appropriation of at least $4.5 billion, so that we'll have at least $1.2 billion for job training.

ATTACHMENT 2

Summary of Advisory Council Plans

Maintenance of Benefits Reform Plan (Bob Ball Plan)

- Relatively small changes in the basic structure of the program
- Assumption of a lower CPI for future COLAs
- Partial investment of the trust fund in equities (37% of assets)
- Full taxation of benefits in excess of contributions and transfer revenue to OASDI (Benefit tax revenue is currently deposited in the Hospital Insurance Trust fund)
- Expand coverage to all state and local workers

Individual Accounts Reform Plan (Ned Gramlich Plan) "Little PIP"

- Assumption of lower CPI for future COLAs
- Includes a new mandatory private investment plan funded by a 1.6 % payroll tax
- Gradual increase in the normal retirement age (NRA) to 68
- Full taxation of benefits in excess of contributions
- Scale back benefits to high wage workers
- Reduce future benefit levels by extending the benefit computation period from 35 years to 38 years
- Expand coverage to all state and local workers

Personal Security Accounts Plan (Carolyn Weaver Plan) "Big PIP"

- A more aggressive partial privatization scheme that diverts five percentage points of the current 12.4% combined employer/employee payroll tax into private savings accounts
- The remainder of the payroll tax funds a minimum flat benefit plus disability and survivors benefits
- A new tax equal to 1% of GDP (about 2% of payroll) would be created to fund the transition to the new system
- Gradual increase in the NRA to 68, fully tax benefits in excess of contributions, and expand coverage to all state and local workers

Administration Response

- "The Administration welcomes the valuable insight provided by the Advisory Council's report. The three reform proposals in the report present very provocative solutions to the important issue of the long term solvency of Social Security. However, the three proposals also demonstrate a lack of consensus within the Council. An appropriate solution is not easily achieved and it is not clear that any of the three reform proposals have outlined an appropriate solution.

- This Administration would strongly oppose efforts to privatize Social Security. Too many of our citizens -- both now and in the future -- depend on this important program.

- The Advisory Council is also exploring ways to invest Social Security reserves in private equities. There are a number of unanswered questions to this approach, such as the impact on the federal budget deficit and the costs of Treasury borrowing, that need to be resolved before the Administration would recommend such an approach.

- This Administration stands for a continued strong Social Security system; the current principles of individual equity and social adequacy should be maintained. Until the public discussion has progressed, it is not appropriate for the Administration to endorse a specific solution to this serious problem."

PRESIDENT CLINTON HAS A BALANCED BUDGET THAT PROTECTS AMERICA'S VALUES

January 10, 1996

- **President Clinton Has A Common Ground 7-Year Balanced Budget That Protects Medicare, Medicaid, Education, The Environment, And Tax Fairness.**

- **The Congressional Budget Office Certifies And Republicans Agree That President Clinton's Plan Balances The Budget In 7 Years.** [Attached is the letter from the Congressional Budget Office, certifying that the President's plan balances the budget in 7 years.]

- **The Only Remaining Disagreement Is That Republicans Insist On Excessive Medicare, Medicaid, Education, And Environmental Cuts -- Beyond What Is Needed To Balance The Budget And Give A Middle Class Tax Cut -- For Two Reasons:**

    1) **They do not support the values behind these commitments;**

    2) **They want an excessive tax cut.**

President Clinton's 7 Year Balanced Budget Upholds Our Values:

- <u>Balance the Budget</u> to lift the burden of debt off our children.
- <u>Protect Medicaid and Medicare</u> to honor our duty to our elderly, people with disabilities, and children.
- <u>Invest in Education and Training,</u> to honor our duty to our children and families.
- <u>Protect the Environment and Public Health,</u> so our children grow up in a clean and safe world.
- <u>Reward Work</u> by not raising taxes on working families.
- <u>Provide Tax Relief for Middle Class Families.</u>

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The only remaining dispute is that Republicans still insist on excessive cuts in Medicare, Medicaid, Education, and the Environment, beyond what is needed to balance the budget.

- Now that the President has provided a 7-year balanced budget certified by CBO that makes room for a modest tax cut, the only issue that divides the two parties is how much more must the Republicans cut Medicare, Medicaid, Education and the Environment in order to fund a larger tax cut?

Republicans are insisting on these excessive Medicare, Medicaid, Education, and Environmental cuts -- beyond what is needed to balance the budget and give a middle class tax cut -- for two reasons:

1) **They do not believe in the values these programs represent and**

2) **They need to fund an excessive tax cut for the well-off.**

REPUBLICANS DO NOT VALUE THESE VITAL COMMITMENTS:

- **Medicaid:** They want to eliminate the guarantee of quality nursing home care and meaningful health care benefits for older Americans, individuals with disabilities, pregnant women, and poor children -- even though it is not necessary to balance the budget.

- **Medicare:** They want to charge 37 million Medicare recipients higher premiums and change the system so that it benefits the healthiest and wealthiest while allowing the traditional Medicare program to wither on the vine -- even though it is not necessary to balance the budget.

- **Education:** They call for cuts in aid for smaller classrooms, Head Start, basic skills, and higher standards, while ending the Direct Student Loan program -- even though it is not necessary to balance the budget.

- **Environment:** They continually put the special interests over the environment and take the environmental cop off the beat -- even though it is not necessary to balance the budget.

Republicans are insisting on these harmful and excessive cuts in Medicare, Medicaid, Education, and the Environment -- as well as *tax increases* on working poor families -- because they insist on a large tax cut that benefits the most well-off Americans.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

January 6, 1996

Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

The Congressional Budget Office (CBO) has prepared a preliminary analysis of the President's budgetary submission of this date. The analysis is based on draft legislative language or on other descriptive material provided by staff. It employs CBO's updated economic and technical estimating assumptions, which incorporate the economic effects of balancing the federal budget by 2002 and are described in the CBO memorandum "Economic and Budget Outlook: December 1995 Update." The analysis also assumes, as specified by staff, that the projected adjustment to reduce the formula bias in the consumer price index (CPI) will reduce the rate of growth of the CPI by 0.3 percentage points a year, which is the upper end of the range estimated by the Bureau of Labor Statistics. CBO's December baseline assumes a reduction near the middle of the range.

Under these assumptions, the proposal would result in deficits of $153 billion in 1996 and $167 billion in 1997 and a surplus of $1 billion in 2002. Compared to the CBO baseline, the proposal would reduce the deficit by $220 billion over the next five years and by $583 billion over the 1996-2002 period. Table 1 summarizes the proposed policy changes. Table 2 shows the estimated savings from the changes in direct spending and revenues that would result from enactment of each title of the proposal.

Sincerely,

Paul Van de Water

for June E. O'Neill

Attachments

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January 10, 1996

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Sincerely,

Paul Van de Water
for June E. O'Neill

Attachments

Congress of the United States

Washington, DC 20515

January 26, 1996

President William J. Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

As the Budget negotiations continue, there clearly are many major policy issues to be resolved that will have far reaching impacts on the American people. We certainly do not wish to prejudge any elements of the negotiations as the difficult process unfolds. We are deeply troubled, however, over reports emanating from the Treasury Department that consideration is being given to fundamental alterations of the capital gains treatment for real estate.

Specifically, the Wall Street Journal reported on January 4, that the Administration is discussing a broad cut in capital gains taxes that make the "real estate provisions less generous". While we understand your concerns about the revenue loss associated with a capital gains differential, we believe strongly that any capital gains proposal should place all qualifying assets on a level playing field. There exist genuine and legitimate differences over the appropriateness and wisdom of a capital gains reduction, but analysts universally agree that any differential should not prejudice a certain asset class.

Of particular concern to us is a possible attempt to revise or repeal the current law depreciation recapture rules that apply to real property. We feel that these rules, which have been in place since 1964, are proper and urge you to reject any changes to the depreciation recapture rules.

There undoubtedly will continue to be extensive negotiations concerning the tax provisions of the budget, as this process unfolds, we suggest that in order to promote fairness and balance economic growth, the tax provisions should maintain an even playing field for all segments of our country.

Sincerely,

Martin Frost

Robert T. Matsui

Pete Geren

Bart Gordon

Glen Browder

Ray Thornton

Jack Reed

Cal Dooley

[illegible]

Ken Bentsen

Jim Moran

Ed Pastor

John Spratt

Solomon P. Ortiz

Karen L. Thurman

[illegible]

Mr. Leon Panetta
Mr. George Stephanopoulos
Ms. Laura D'Andrea Tyson
Secretary Robert Rubin
Ms. Alice Rivlin
Congressman Dick Gephardt

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-0920

PUBLIC DOCUMENT

OFFICIAL BUSINESS

M.C.

WHITE HOUSE MAIL
RECEPTION & SECURITY
'96 FEB -5 AM 8:57

Mr. George Stephanopoulos
1600 Pennsylvania
Washington, D.C. 20500

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

January 6, 1996

Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, DC 20515

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Sincerely,

Paul Van de Water

for June E. O'Neill

Attachments

TABLE 1. DEMOCRATIC PLAN CHANGES FROM CBO'S DECEMBER BASELINE
(By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	To 1996-2002
CBO December Baseline Deficit[a]	172	182	183	195	204	211	228	*
Baseline Adjustments[b]	0	0	-2	-2	-3	-6	-6	-19
Adjusted December Baseline	172	182	181	193	201	205	222	*
Democratic Plan Policies								
Outlays								
Discretionary[c]								
Freeze[d]	-8	-9	-11	-32	-49	-66	-84	-258
Savings relative to freeze	-4	2	-3	2	2	-9	-28	-37
Subtotal	-12	-7	-14	-30	-47	-75	-110	-295
Mandatory								
Medicare	e	-3	-6	-12	-19	-26	-35	-102
Medicaid	0	e	-2	-7	-10	-13	-19	-52
Other	-7	-9	-12	-15	-15	-15	-22	-95
Subtotal	-7	-12	-21	-34	-45	-54	-76	-249
Net Interest	e	-2	-3	-5	-9	-14	-23	-56
Total Outlays	-20	-21	-37	-69	-100	-143	-209	-599
Revenues[f]	e	6	6	6	10	3	-14	17
Total Policies	-20	-15	-32	-63	-90	-140	-223	-583
Democratic Plan Deficit	153	167	149	130	110	65	-1	*

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

NOTES: * = not applicable.

Numbers may not add to totals because of rounding.

a. Projections assume that discretionary spending is equal to the spending limits that are in effect through 1998 and will increase with inflation after 1998.

b. The Democratic plan assumes that the anticipated change in the consumer price index (CPI) methodology used by the Bureau of Labor Statistics (BLS) will reduce the rate of growth of the CPI by 0.3 percentage points a year, which is the upper end of the range estimated by the BLS. CBO's December baseline assumes a reduction near the middle of the range.

c. Discretionary savings specified by staff.

d. Savings from freezing 1996-2002 appropriations at the nominal level appropriated for 1995.

e. Less than $500 million.

f. Revenue increases are shown with a negative sign because they decrease the deficit. Includes Earned Income Credit outlays.

TABLE 2. SAVINGS FROM POLICY CHANGES IN THE DEMOCRATIC PLAN BASED ON CBO'S DECEMBER BASELINE ASSUMPTIONS, BY TITLE (By fiscal year, in billions of dollars)

Title	1996	1997	1998	1999	2000	2001	2002	Total, 1996-2002
I—Banking and Housing								
Outlays	-4.3	a	-0.1	0.2	0.1	0.1	-0.5	-4.4
II—Spectrum Allocation								
Outlays	-0.2	-1.8	-2.7	-3.6	-3.1	-2.7	-7.4	-21.3
III—Medicaid								
Outlays	0	-0.4	-2.4	-6.7	-10.3	-13.2	-18.6	-51.7
IV—Medicare								
Outlays	a	-2.7	-6.1	-12.3	-19.1	-26.0	-35.4	-101.5
V—Welfare Reform								
Outlays	-0.9	-4.8	-5.8	-6.3	-6.9	-6.9	-7.6	-39.1
Revenues[b]	-0.1	-0.3	-0.6	-0.7	-0.8	-0.8	-0.9	-4.2
Deficit	-1.0	-5.1	-6.4	-7.0	-7.6	-7.7	-8.5	-43.3
VI—Federal Retirement								
Outlays	-0.5	-1.8	-2.7	-2.7	-2.7	-2.7	-2.9	-15.9
Revenues[b]	-0.2	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6	-3.5
Deficit	-0.7	-2.2	-3.2	-3.2	-3.3	-3.3	-3.5	-19.4
VII—Veterans Provisions								
Outlays	-0.2	-0.3	-0.4	-1.2	-1.3	-1.3	-1.4	-6.1
VIII—Asset Sales, User Fees, and other Mandatory Provisions								
Outlays	-1.3	-0.5	-0.6	-1.5	-1.3	-1.3	-2.2	-8.7
IX—Revenues								
Revenues[b,c]	0.5	6.5	6.9	7.0	11.1	4.3	-12.1	24.2
X—Budget Enforcement								
Outlays	0	0	0	0	0	0	0	0
Total								
Outlays	-7.3	-12.3	-20.7	-33.9	-44.6	-53.8	-76.0	-248.7
Revenues[b,c]	0.2	5.8	5.8	5.8	9.7	2.9	-13.7	16.5
Deficit	-7.1	-6.5	-14.9	-28.2	-34.9	-50.9	-89.7	-232.2

SOURCES: Congressional Budget Office; Joint Committee on Taxation.

a. Less than $50 million.
b. Revenue increases are shown with a negative sign because they reduce the deficit.
c. Includes Earned Income Credit outlays.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

January 6, 1996

Honorable Newt Gingrich
Speaker of the House of Representatives
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PRESIDENT CLINTON HAS A BALANCED BUDGET THAT PROTECTS AMERICA'S VALUES

January 10, 1996

- **President Clinton Has A Common Ground 7-Year Balanced Budget That Protects Medicare, Medicaid, Education, The Environment, And Tax Fairness.**

- **The Congressional Budget Office Certifies And Republicans Agree That President Clinton's Plan Balances The Budget In 7 Years.** [Attached is the letter from the Congressional Budget Office, certifying that the President's plan balances the budget in 7 years.]

- **The Only Remaining Disagreement Is That Republicans Insist On Excessive Medicare, Medicaid, Education, And Environmental Cuts -- Beyond What Is Needed To Balance The Budget And Give A Middle Class Tax Cut -- For Two Reasons:**

    1) **They do not support the values behind these commitments;**

    2) **They want an excessive tax cut.**

President Clinton's 7 Year Balanced Budget Upholds Our Values:

- Balance the Budget to lift the burden of debt off our children.
- Protect Medicaid and Medicare to honor our duty to our elderly, people with disabilities, and children.
- Invest in Education and Training, to honor our duty to our children and families.
- Protect the Environment and Public Health, so our children grow up in a clean and safe world.
- Reward Work by not raising taxes on working families.
- Provide Tax Relief for Middle Class Families.

PRESIDENT CLINTON IS FIGHTING FOR A BALANCED BUDGET THAT PROTECTS AMERICA'S VALUES

January 10, 1996

President Clinton Has Put Forth A 7 Year Balanced Budget That Is Certified By CBO *And* Protects America's Values:

- Balance the Budget to lift the burden of debt off our children.
- Protect Medicaid and Medicare to honor our duty to our elderly, people with disabilities, and children.
- Invest in Education and Training, to honor our duty to our children and families.
- Protect the Environment and Public Health, so our children grow up in a clean and safe world.
- Reward Work by not raising taxes on working families.
- Provide Tax Relief for Middle Class Families.

The only remaining dispute is that Republicans still insist on excessive cuts in Medicare, Medicaid, Education, and the Environment, beyond what is needed to balance the budget.

- Now that the President has provided a 7-year balanced budget certified by CBO that makes room for a modest tax cut, the only issue that divides the two parties is how much more must the Republicans cut Medicare, Medicaid, Education and the Environment in order to fund a larger tax cut?

Republicans are insisting on these excessive Medicare, Medicaid, Education, and Environmental cuts -- beyond what is needed to balance the budget and give a middle class tax cut -- for two reasons:

1) **They do not believe in the values these programs represent and**

2) **They need to fund an excessive tax cut for the well-off.**

REPUBLICANS DO NOT VALUE THESE VITAL COMMITMENTS:

- **Medicaid:** They want to eliminate the guarantee of quality nursing home care and meaningful health care benefits for older Americans, individuals with disabilities, pregnant women, and poor children -- even though it is not necessary to balance the budget.

- **Medicare:** They want to charge 37 million Medicare recipients higher premiums and change the system so that it benefits the healthiest and wealthiest while allowing the traditional Medicare program to wither on the vine -- even though it is not necessary to balance the budget.

- **Education:** They call for cuts in aid for smaller classrooms, Head Start, basic skills, and higher standards, while ending the Direct Student Loan program -- even though it is not necessary to balance the budget.

- **Environment:** They continually put the special interests over the environment and take the environmental cop off the beat -- even though it is not necessary to balance the budget.

Republicans are insisting on these harmful and excessive cuts in Medicare, Medicaid, Education, and the Environment -- as well as *tax increases* on working poor families -- because they insist on a large tax cut that benefits the most well-off Americans.

CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, D.C. 20515

June E. O'Neill
Director

January 6, 1996

Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, DC 20515

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Sincerely,

Paul Van de Water

for June E. O'Neill

Attachments

BALANCED BUDGET HIGHLIGHTS

- Balances The Budget In 7 Years Under Congressional Budget Office Scoring

- Achieves Over $600 Billion Of Deficit Reduction

- Cuts Taxes For Families With Children, Provides Deductions For Higher Education, And Increases Savings Through IRAs.

- Extends The Solvency Of The Medicare Part A Trust Fund Through 2011.

- Protects Medicare And Medicaid Recipients

- No Cuts In Student Loans; Funds Key Investments In Education, The Environment, And Science And Technology

- Contains Zero Special Interest Giveaways, Spenders, And Outyear Deficit Busters

- Triggers Accelerated Deficit Reduction; Tax Cuts; And Investments In Education, And Other Priorities As CBO Deficit Targets Are Exceeded

THE INVESTMENT DIVIDEND

- Triggers Dividends If Economic Performance Exceeds CBO Expectations

- CBO/OMB Baseline Differences Total $194 Billion Between 1996 and 2002

- Dividend Allocation:

  -- 1/3 For Additional Deficit Reduction
  -- 1/3 For Additional Tax Cuts
  -- 1/3 For Additional Investments

- Allocation Of Dividend Results In:

  -- Total Tax Cuts - $147 Billion
  -- Investments - $23 Billion Above A Freeze
  -- Surplus - $29 Billion In 2002

BALANCED BUDGET PROPOSAL

($ billions)	1996	1997	1998	1999	2000	2001	2002	7-YEAR
CBO DECEMBER BASELINE	172	182	183	195	204	211	228	---
Take full BLS adjustment	*0*	*0*	*-2*	*-2*	*-3*	*-5*	*-6*	*-17*
REVISED BASELINE	172	182	181	193	201	206	223	---
DISCRETIONARY	-12	-7	-14	-30	-47	-75	-110	-295
MANDATORY								
Medicare	-0	-3	-6	-12	-19	-26	-35	-102
Medicaid	0	-0	-2	-7	-10	-13	-19	-52
Farm programs	0	0	0	0	0	0	0	0
FCC spectrum auction	-0	-2	-3	-4	-3	-3	-7	-21
Welfare (outlays and revenues)	-1	-5	-6	-7	-8	-8	-9	-43
EITC	-0	-0	-0	-0	-0	-0	-0	-2
Student loans	0	0	0	0	0	0	0	0
Veterans programs	-0	-0	-0	-1	-1	-1	-1	-6
Federal retirement/Postal benefits	-1	-2	-3	-3	-3	-3	-4	-19
Banking and housing	-4	0	-0	0	0	0	-1	-4
Other mandatory	-1	-1	-1	-1	-1	-1	-2	-9
Total, mandatory	-8	-13	-22	-36	-46	-56	-78	-259
Tax Cuts	3	13	14	16	22	17	2	87
Corporate Loopholes and other	-2	-6	-7	-9	-10	-12	-14	-60
Total Policy Changes	-19	-13	-31	-60	-85	-131	-205	-544
Net interest	-0	-2	-3	-5	-9	-15	-24	-57
TOTAL CHANGES	-20	-15	-34	-65	-93	-146	-229	-602
PLAN DEFICITS	153	167	149	130	110	65	-1	---

Distribution of Possible Investment Dividend

	1996	1997	1998	1999	2000	2001	2002	7-YEAR
CBO/OMB baseline differences	-12	-6	7	24	38	61	82	194
Assume 1/3 for deficit reduction	*-4*	*-2*	*2*	*8*	*13*	*20*	*27*	*65*
Assume 1/3 for tax cuts 1/	*0*	*0*	*0*	*0*	*13*	*20*	*27*	*65*
Assume 1/3 for discretionary 1/	*0*	*0*	*0*	*0*	*13*	*20*	*27*	*65*
Adjusted Deficits with Dividend	*157*	*169*	*147*	*122*	*98*	*45*	*-28*	---
Adjusted Tax Cuts with Dividend	*3*	*13*	*14*	*16*	*34*	*38*	*29*	*147*
Adjusted Discretionary with Dividend	*-12*	*-7*	*-14*	*-30*	*-34*	*-55*	*-83*	*-235*
Comparison to BA freeze	*-4*	*2*	*-3*	*2*	*14*	*11*	*1*	*23*
Comparison to Republican Offer	*6*	*23*	*25*	*26*	*34*	*35*	*26*	*174*

1/ Effective only in last 3 years.

06-Jan 07:48 PM

OTHER MANDATORY CHANGES IN BALANCED BUDGET PROPOSAL

($ in billions)	1996	1997	1998	1999	2000	2001	2002	7-YEAR
Veterans programs:								
Health Care Per Diems and Copays	0.000	0.000	0.000	-0.058	-0.062	-0.065	-0.070	-0.255
Medical Care cost recovery	0.000	0.000	0.000	-0.190	-0.198	-0.206	-0.215	-0.809
Verify income for pension purposes	0.000	0.000	0.000	-0.010	-0.020	-0.030	-0.040	-0.100
Verify income for medical care	0.000	0.000	0.000	-0.004	-0.008	-0.012	-0.016	-0.040
Pension limitation - nursing home vets	0.000	0.000	0.000	-0.194	-0.236	-0.169	-0.212	-0.811
Fees on original loans	0.000	0.000	0.000	-0.074	-0.076	-0.078	-0.080	-0.308
Fees on later loans	0.000	0.000	0.000	-0.024	-0.025	-0.025	-0.025	-0.099
Resale losses	0.000	0.000	0.000	-0.004	-0.004	-0.004	-0.004	-0.016
Enhanced loan asset sale authority	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.005	-0.035
Overturn Supreme Court Gardner decision	-0.088	-0.210	-0.328	-0.451	-0.504	-0.426	-0.457	-2.464
With holding payments and benefits	-0.090	0.000	0.000	0.000	0.000	0.000	0.000	-0.090
Reduce COLA for MGIB benefits	-0.007	-0.025	-0.044	-0.061	-0.080	-0.099	-0.118	-0.434
Round-down compensation COLA	0.002	-0.015	-0.046	-0.081	-0.122	-0.139	-0.186	-0.587
Total, veteran programs	**-0.188**	**-0.255**	**-0.423**	**-1.156**	**-1.340**	**-1.258**	**-1.428**	**-6.048**
Federal retirement:								
Extend COLA delay for Civilian retirement	0.000	-0.309	-0.323	-0.326	-0.329	-0.342	-0.356	-1.985
Raise agency pension contributions	-0.497	-0.641	-0.615	-0.587	-0.532	-0.510	-0.486	-3.868
Revise congressional retirement benefits	-(*)	-(*)	-0.001	-0.001	-0.002	-0.002	-0.003	-0.009
Employee contributions (revenues)	-0.198	-0.393	-0.529	-0.570	-0.582	-0.607	-0.634	-3.513
Add prefunded health benefits	0.000	-0.850	-1.700	-1.700	-1.800	-1.800	-2.000	-9.850
USPS Transitional Appropriation	0.000	-0.009	-0.037	-0.037	-0.036	-0.036	-0.036	-0.191
Total, retirement	**-0.695**	**-2.202**	**-3.205**	**-3.221**	**-3.281**	**-3.297**	**-3.515**	**-19.416**
Banking and Housing:								
Deposit insurance funds (BIF/SAIF)	-4.100	0.500	0.500	0.900	0.800	0.800	0.200	-0.400
Rent adjustments for operating costs	-0.018	-0.066	-0.126	-0.177	-0.210	-0.229	-0.249	-1.075
FHA single-family assignment	-0.119	-0.216	-0.234	-0.268	-0.308	-0.317	-0.317	-1.779
1% cut in housing rent adjustments	-0.042	-0.170	-0.216	-0.211	-0.198	-0.182	-0.170	-1.189
Total, banking and housing	**-4.279**	**0.048**	**-0.076**	**0.244**	**0.084**	**0.072**	**-0.536**	**-4.443**
ASSET SALES AND FEES:								
Asset sales:								
U.S. Enrichment Corporation	-1.300	0.000	-0.021	-0.054	-0.055	-0.046	-0.047	-1.523
Elk Hills	0.000	0.000	0.000	0.000	0.000	0.000	-1.100	-1.100
Sale of DOE assets	-0.020	-0.015	-0.015	-0.015	-0.015	-0.015	-0.015	-0.110
Sale of Weeks Island Oil	-0.100	-0.188	-0.182	0.000	0.000	0.000	0.000	-0.470
Sale of Helium Reserve	0.000	-0.003	-0.008	-0.009	-0.009	-0.009	-0.009	-0.047
OCS deepwater royalty relief	0.000	0.000	0.000	0.000	0.000	-0.020	-0.020	-0.040
Sale of Governors Island NY	0.000	0.000	0.000	-0.500	0.000	0.000	0.000	-0.500
Sale of Union Station Air Rights	0.000	-0.040	0.000	0.000	0.000	0.000	0.000	-0.040
Subtotal, asset sales	**-1.420**	**-0.246**	**-0.226**	**-0.578**	**-0.079**	**-0.090**	**-1.191**	**-3.830**
Fees and other:								
NRC charges	0.000	0.000	0.000	-0.330	-0.330	-0.330	-0.330	-1.320
U.S. Enrichment Corporation	0.306	0.084	0.064	0.036	-0.255	-0.080	0.030	0.185
Lease of excess SPRO capacity	0.000	0.000	-0.024	-0.037	-0.064	-0.059	-0.071	-0.255
Elk Hills - lost receipts	0.000	0.000	0.000	0.000	0.000	0.000	0.094	0.094
Hetch Hetchy fees	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001	-0.007
Bonneville Power Administration	0.000	0.000	-0.016	-0.014	-0.012	-0.026	-0.026	-0.094

OTHER MANDATORY CHANGES IN BALANCED BUDGET PROPOSAL

($ in billions)	1996	1997	1998	1999	2000	2001	2002	7-YEAR
OCS	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Park fees	-0.007	-0.013	-0.014	-0.011	-0.014	-0.010	-0.014	-0.083
National Defense Stockpile sales	-0.021	-0.079	-0.079	-0.079	-0.080	-0.155	-0.156	-0.649
Vessel Tonnage Duties	0.000	0.000	0.000	-0.049	-0.049	-0.049	-0.049	-0.196
FEMA charges	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.012	-0.084
Denial unemployment insurance to individuals who voluntarily leave military service	-0.235	-0.270	-0.265	-0.270	-0.275	-0.285	-0.295	-1.895
Extend patent and trademark fees	0.000	0.000	0.000	-0.119	-0.119	-0.119	-0.119	-0.476
Subtotal, fees	**0.030**	**-0.291**	**-0.347**	**-0.886**	**-1.211**	**-1.126**	**-0.949**	**-4.780**
Total, asset sales and fees	**-1.390**	**-0.537**	**-0.573**	**-1.464**	**-1.290**	**-1.216**	**-2.140**	**-8.610**

MEDICARE

This proposal implements reforms that strengthen and improve Medicare, reducing its rate of growth by $102 billion (net) over seven years and guaranteeing the solvency of the trust fund for more than a decade. Specific reforms provide seniors with more choices of private health plans, improve Medicare's fee-for-service program by making it more efficient and responsive to beneficiary needs, tackle fraud and abuse through programs applauded by law enforcement officials, reduce the rate of growth of provider payments, and extend the 25% Part B premium.

Highlights of Provider Payment Reforms and Program Savings

- **Hospitals ($40 B).** Reduces inflation update for hospitals and payments for capital and indirect medical education; reforms payments for graduate medical education.
- **Managed Care ($22 B).** Reforms payments by using reasonable rate of growth limits on updates for managed care payments, removing payments made for disproportionate share and medical education and reducing current geographic variation in payments.
- **Physicians ($15 B).** Reforms physician payments by collapsing the current three conversion factors into a single update for all physicians; replaces current "volume performance standards" with a "sustainable growth rate."
- **Home Health Care ($9 B)/Skilled Nursing Facilities ($7 B).** Implements a series of interim payment reforms before the establishment of separate prospective payment systems for home health care and skilled nursing facilities.
- **Fraud and Abuse ($7 B).** Introduces aggressive and comprehensive policies to stamp out Medicare waste, fraud, and abuse and extends and enhances Medicare secondary payor policy.
- **Other Providers ($5 B).** Freezes or reduces payments for durable medical equipment and ambulatory surgical centers.
- **Beneficiaries ($7 B).** Requires beneficiaries to pay 25% of Part B costs.

Provisions to Improve Rural Health Care

This proposal implements a variety of measures to enhance access to and quality of health care in rural areas. These include an extension of Rural Referral Center program, direct Medicare reimbursement for nurse practitioners and physician assistants, improvements to the Sole Community Hospital program, and an expansion of the Rural Primary Care Hospital program.

Program Improvements and Preventive Benefits (+$11 B)

A series of reforms transform the fee-for-service program from a bill-paying insurance program into a responsive health plan by giving Medicare the authority to adopt the same types of purchasing and quality techniques pioneered by private sector payers. The proposal also expands and improves Medicare managed care by (1) ensuring beneficiary protections while increasing the types of plans (including PPOs and PSNs) available to seniors and (2) instituting a coordinated annual open enrollment process during which beneficiaries use comparative information to choose among managed care and supplemental insurance options. A preventive benefits demonstration program provides respite care for Alzheimer's patients, annual mammograms and elimination of mammography co-insurance, and colorectal cancer screening.

MEDICAID

This proposal would reform the Medicaid program rather than repeal it, guaranteeing health and long-term care coverage for all Medicaid recipients. It achieves $51.7 billion in savings in a responsible manner by limiting spending on a per person basis (a "per capita cap") and reducing and retargetting Medicaid Disproportionate Share Hospital (DSH) payments to hospitals that serve large numbers of Medicaid and uninsured patients. The plan provides special payments for Federally Qualified Health Centers and States that have large numbers of undocumented immigrants, and gives States additional flexibility to allow them to more efficiently administer their Medicaid programs. Finally, this plan would retain current nursing home quality standards as well as spousal impoverishment protections and provisions that protect the financial resources of adult children whose parents are in nursing homes.

Savings Proposals

- **Per Capita Cap ($22.2B).** A per capita cap would limit the amount of Federal spending per eligible person while retaining current eligibility and benefit guidelines. This approach guarantees that the elderly, disabled, and pregnant women and children meeting certain criteria will continue to be eligible for health benefits while reducing the rate of increase in Medicaid spending to a level that is sustainable for States and the Federal government.

- **Disproportionate Share Hospital Payments ($29.5B).** Disproportionate Share Hospital (DSH) payments would be reduced and retargeted to specific institutions, including public hospitals, children's hospitals, Federally Qualified Health Centers and Rural Health Clinics. An additional fund is created for States with large numbers of undocumented immigrants.

Provisions to Increase State Flexibility

- **Boren Amendment.** This plan repeals the Boren Amendment, eliminating provider payment requirements that are imposed on States.

- **Managed Care.** This plan would allow States to move toward managed care and other types of cost-effective arrangements without Federal waivers.

- **Home and Community Based Care.** States would be allowed to move populations needing long-term care from nursing homes to home and community based care without having to seek Federal waivers.

Protections for Low-Income Seniors and Native Americans

Retains current policy of assisting low-income seniors by assuming responsibility for their Medicare premiums, copayments, and deductibles and retains current payment protections for Medicaid-eligible Native Americans treated in Indian Health Service facilities.

WELFARE REFORM SAVINGS

The plan will move welfare recipients to work while protecting children saving about $45.7 billion over 7 years. The plan essentially follows the House Democratic Coalition plan with some modifications.

SSI/Disabled Children: New eligibility standards for childhood disability benefits would begin as soon as possible for new applicants. For children currently receiving SSI, a one year transition period would be granted with disability reviews beginning in 1997 to be completed by 1998. Full cash benefits for all eligible children would be retained.

Child Care: A total of $11.8 billion is included for child care, which is $3 billion above baseline ($8.8 billion) for child care assistance for those welfare recipients required to work, transitioning from welfare to work, and the working poor. This is in addition to the $1 billion per year in discretionary funding authorized under the Child Care Development Block Grant. Existing child care programs would be consolidated into the Child Care Development Block Grant.

Nutrition programs: Cuts in food stamps would be about $20.6 billion and cuts in child nutrition programs would be $3.3 billion for a total of $23.9 billion in savings. There would be no block grants under the Food Stamp program. There would be no food stamp overall cap. There would be no child nutrition block grants, but child nutrition spending would be reduced by about 6% in 2002. There would be tighter targeting of food subsidies for Family Day Care Homes and meal reimbursement rates would be rounded down to the nearest cent for child nutrition programs.

Noncitizens: About $5 billion would be saved by deeming sponsor income until citizenship.

Title XX (Social Services Block Grant): Cuts $1.9 billion.

Cash Assistance: AFDC would be terminated and replaced by a new conditional entitlement of limited duration. There would be a 5 year maximum time limit with a state option for vouchers at the end of that period to assist children.

EITC: Improved compliance and inclusion of capital gains income in determining the credit would save about $2 billion.

Dependent Care Tax Credit: As under the Coalition plan, the DCTC would be made refundable and phased out between $60,000 and $80,000 of AGI.

ESTIMATED REVENUE EFFECTS OF "MIDDLE CLASS BILL OF RIGHTS TAX RELIEF ACT OF 1996"

Fiscal Years 1996-2005

[Millions of Dollars]

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	1996-00	1996-02
I. MIDDLE-CLASS BILL OF RIGHTS										
1. Credit for families with young children..........................	1/1/96	-1,451	-7,228	-7,081	-7,763	-11,096	-9,073	---	-34,619	-43,692
2. Deduction for higher education expenses....................	1/1/96	-1,736	-5,010	-5,996	-6,679	-6,995	-4,532	---	-26,416	-30,948
3. Provisions relating to individual retirement plans..........	1/1/96	235	-445	-964	-1,674	-3,443	-3,630	-2,034	-6,290	-11,954
4. Increase the self-employed health insurance deduction (35% in 1996 and 1997; 40% in 1998; 45% in 1999; 50% in 2000; and 30% thereafter).............................	tyba 12/31/95	-29	-91	-137	-267	-422	-358	---	-945	-1,303
II. LIMITATIONS ON CORPORATE WELFARE AND OTHER REVENUE PROVISIONS										
1. Revision of tax rules on expatriation..........................	2/6/95	18	29	46	65	86	102	109	244	455
2. Gain recognition for certain extraordinary dividends (Seagrams)..	da 5/3/95	-56	-100	-71	-33	13	69	104	-247	-74
3. Registration of certain confidential corporate tax shelters..	aiolRSg	[1]	[1]	[1]	[1]	[1]	[1]	[1]	[2]	[2]
4. Disallow interest deduction for corporate-owned life insurance policy loans (BBA)......................................	ipoaa 10/13/95	220	579	883	1,369	1,749	1,856	1,895	4,800	8,551
5. Phase out preferential tax deferral for certain large farm corporations required to use accrual accounting..	[4]	26	37	38	39	40	41	42	179	261
6. Reformulate Puerto Rico and possessions tax credit (section 936)..	tyba 12/31/96	---	56	175	308	455	616	718	994	2,328
7. Further restrict like-kind exchanges involving foreign property...	eoa 12/31/95	2	5	8	11	13	15	17	39	71
8. Eliminate interest allocation exception for certain nonfinancial corporations (BBA)................................	tyba 12/31/95	41	93	107	123	141	163	187	505	855
9. Repeal section 1374 for large corporations ($5 million fair market value)...	12/7/95	21	42	44	47	49	51	54	203	308
10. Modification of loss carry-back and carry-forward rules; restrict to 1-year carry-back.............................	NOLgtyba 12/31/99	---	---	---	---	-165	1,360	1,695	-165	2,890
11. Require recognition of gain for certain transactions......	———	100	100	100	100	100	100	100	500	700
12. Extend pro rata disallowance of tax-exempt interest expense to all corporations..	[5]	24	43	49	56	64	70	73	238	381
13. Reduce dividends received deduction to 50%.............	dpa 1/31/96	241	383	402	422	443	465	488	1,891	2,844
14. Modify holding period for dividends received deduction [6]...	dpa 1/31/96	6	14	16	17	18	19	20	71	109

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	1996-00	1996-02
15. Treat certain preferred stock as "boot"	12/7/95	80	147	150	154	160	104	33	692	829
16. Deny interest deduction on certain debt instruments	dia 12/7/95	25	76	136	212	262	288	303	711	1,302
17. Interaction with 50% DRD proposal	dia 12/7/95	1	3	5	8	11	12	12	28	52
17. Defer original issue discount deduction on convertible debt	dia 12/7/95	5	17	36	53	64	78	90	175	343
18. Modification of rules relating to foreign trusts having one or more United States beneficiaries	2/6/95	93	162	171	180	188	197	206	794	1,197
19. Expand subpart F provisions regarding income from notional principal contracts and stock lending transactions	tyba 12/31/95	11	15	10	10	11	12	12	57	80
20. Treat foreign taxes on oil and gas extracted income as royalties (with treaty override)	1/1/96	800	2,000	2,200	2,400	2,600	2,800	3,000	10,000	15,800
21. Repeal section 911	tyba 12/31/95	300	1,300	1,400	1,500	1,600	1,700	1,800	6,100	9,600
22. Require thrifts to account for bad debts in the same manner as banks	tyba 12/31/95	63	95	216	280	277	272	260	931	1,462
23. Reform depreciation under the income forecast method	ppisa 9/13/95	18	83	29	13	14	16	19	157	192
24. Repeal lower of cost or market method	tyba 12/31/98	---	---	---	55	306	330	336	361	1,027
25. Repeal advance refunds of diesel fuel tax for diesel cars and light trucks (BBA)	1/1/96	8	19	19	19	19	19	19	84	122
26. Increase penalties for failure to file correct information returns	rda 90 daDOE	12	20	21	22	23	24	25	97	147
27. Modify basis adjustment rules under section 1033	icoa 9/13/95	2	4	7	11	16	23	31	40	94
28. Intermediate sanctions	9/14/95 & 1/1/96	4	4	4	5	5	5	6	22	33
29. Extend Superfund AMT permanently	1/1/96	351	612	633	647	672	700	729	2,915	4,345
30. Extend Oil Spill Liability Trust Fund tax through 9/30/02	1/1/96	---	---	---	---	---	63	65	---	128
31. Extend 0.2% FUTA surtax through 2002 (under current law; scheduled to expire 12/31/98)	---	---	---	---	877	1,199	1,218	1,237	2,076	4,531
32. Provide that rollover of gain on sale of a principal residence cannot be elected unless the replacement property purchased is located within the United States (limit to resident aliens who terminate residence within 2 years) (BBA)	sea 12/31/95	[7]	[7]	[7]	[7]	[7]	[7]	[7]	[7]	[7]
33. Repeal exemption for withholding on gambling winnings from bingo and keno where proceeds exceed $5,000 (BBA)	1/1/96	20	6	6	6	6	7	7	44	58
34. Repeal 15-day tax-free vacation home rental	tyba 12/31/95	11	22	23	23	24	26	27	103	155
35. EIC compliance and self-employment taxes	tyba 12/31/95	13	252	261	265	272	276	282	1,062	1,619
36. Modify definition of disqualified investment income test	tyba 12/31/95	11	111	122	132	143	156	171	519	846

Provision	Effective	1996	1997	1998	1999	2000	2001	2002	1996-00	1996-02
37. Modify dependent care credit..	1/1/97	---	128	377	433	493	544	622	1,431	2,597
NET TOTAL..		-507	-6,414	-6,552	-6,551	-10,582	-3,793	12,763	-30,604	-21,638

Joint Committee on Taxation

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column: aiolRSg = after issuance of Internal Revenue Service guideline
da = distributions after
dia = debt issued after
DOE = date of enactment
dpa = dividends paid after
eoa = exchanges on or after
icoa = involuntary conversions occurring after
ipoaa = interest paid or accrued after
NOLgtyba = NOLs generated taxable years beginning after
ppisa = property placed in service after
rda 90 daDOE = returns due after 90 days after date of enactment
sea = sales and exchanges after
tyba = taxable years beginning after

[1] Gain of less than $5 million.
[2] Gain of less than $25 million.
[3] Gain of less than $30 million.
[4] No new suspense accounts could be established in taxable years ending after 9/13/95. The income in existing suspense accounts would be recognized in equal installments over a 20-years period beginning with the first taxable year beginning after 9/13/95.
[5] Effective for taxable years beginning after 12/31/95 with respect to obligations acquired after 12/7/95.
[6] Includes interaction with 50% DRD provision.
[7] Gain of less than $500,000.