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TEA - 21 [Transportation Equity Act for the 21st Century]: [Budget Cost of Possible ISTEA
[Intermodal Surface Transportation Efficiency Act] Compromises]

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THE WHITE HOUSE
WASHINGTON

- Shuster people have said -
If we can do

FY99 budget proposed to =
at \$175:

Free parking = \$175/mo

Free transit = \$65/mo.

If you = Fed at \$100/mo., you
get \$9B

----- \$140/mo -

--- \$3B

Surface Transportation Policy Project
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Washington, D.C. 20036
Phone: 202.466.2636 Fax: 202.466.2247
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TO:

Dorothy

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FAX:

456-2223

PHONE:

FROM:

Roy Kienitz

PHONE:

974-5138

DATE:

PAGES:

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(including cover page)

RE:

NOTES:

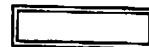
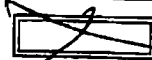
① our letter to the hill

② EPA memo re cash out.

Please deliver immediately

Reply Requested

No immediate rush for delivery / reply



Please call if there is a problem with the transmission of this fax.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

OFFICE OF
POLICY, PLANNING AND EVALUATION

To: Roy Kienitz, STPP

From: Laura Gottsman, Office of Policy Development *LG*

Subject: Revenue estimates from changes in the parking cap

Date: June 11, 1997

I derived the following from KPMG's technical appendix to ACT's Commuter Choice report.

Cap on tax-exempt parking in 1998	Revenue, FY 1998- 2002
\$85/month	\$11.2 bn
\$105/month	\$7.9 bn
\$115/month	\$5.7 bn
\$145/month	\$1.9 bn

These estimates assume that the cap on tax-exempt parking would be indexed upward with inflation over the five years, so that, for example, the \$85 cap in FY 1998 is \$95 in FY 2002.

Some of the revenue reported in the technical appendix for each scenario is a result of converting parking benefits into taxable cash ("parking cash out"). This revenue would not of course be realized by a change to the parking cap. It is not possible to tell exactly how much revenue is attributable to parking cash out, but KPMG's estimates of travel impacts from parking cash out were extremely small, so the revenue raised from parking cash out in each scenario must also be small relative to the revenue raised from lowering the parking cap. (KPMG's estimates of revenue from lowering the parking cap were unaffected by their conservative assumptions about travel mode shifts from changes in parking cost). To get in the ballpark, I assumed that parking cash out accounts for 10% of the revenue raised in each scenario. The numbers in the above table are the remaining 90%, which appears to be entirely attributable to lowering the parking cap.

The Commuter Choice Survey estimates the total value of employer-provided parking to be \$36 billion, of which \$31.5 billion is tax-exempt. The total tax revenue foregone because of the parking subsidy is then about \$6.3 billion (assuming an average

marginal tax rate of 20%). That would mean that all the parking spaces worth less than \$85/month are worth, in total, about \$4 billion, while parking spaces worth more than \$85/month are worth, in total, about \$2.3 billion, which seems reasonable.

A case could easily be made for higher figures—survey-based estimates of the value of employer-provided parking like this one are significantly lower than engineering-based estimates because so few people pay for parking at work, and nearby commercial parking prices are depressed by the presence of so much free employer-provided parking. An estimate of tax revenue foregone from the parking subsidy using an engineering-based estimate of the value of employer-provided parking is a little more than double: \$12.8 billion annually. I think it is safe to say that estimates from the Commuter Choice survey are at the low end of the range.

March 16, 1998

The Honorable Bud Shuster
Chairman, Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Shuster:

As the *ad hoc* Transportation Task Force develops a plan to fund transportation into the next century, we would like to bring to your attention a potential source of revenue for this purpose. As you may know, Federal tax law currently treats employer-provided free parking more favorably than other forms of fringe benefits related to commuting, such as transit and van-pool services. We feel that this sends the wrong price signal to commuters and contributes to traffic congestion, limits the freedom of employees to benefit from efficient commute strategies, and deprives the U.S. Treasury of revenue. Reducing this inequality by lowering the tax exemption for employer-provided parking closer to the level of the exemption for other commute options is fair, and it can raise significant revenue.

Until 1992, the IRS allowed individuals to receive parking fringe benefits of any value without paying income tax on that value. By contrast, transit fringe benefits with a value over \$21 per month had to be declared as income by the employee. The Energy Policy Act of 1992 made the first step in equalizing the treatment of these two forms of commuting. It raised the cap on non-taxable transit benefits to \$60 per month and imposed a cap on non-taxable parking benefits of \$155 per month. (Indexing for inflation has since adjusted both caps upwards, to \$65 and \$175 respectively.)

Lowering the parking cap would further level the playing field among commute options, and would raise significant revenue. The following table reflects analysis performed by KPMG Peat Marwick and the Barents Group as part of the 1995 *Commuter Choice Initiative*, a joint project of U.S. EPA, U.S. DOT and the Association for Commuter Transportation.

<u>Level of Parking Cap</u>	<u>Additional 5 Years Revenue (FY98-02)</u>
\$145 per month	\$2.1 billion
\$115 per month	\$6.3 billion
\$105 per month	\$8.8 billion
\$85 per month	\$12.5 billion

If room is to be made in the budget to spend more on transportation, it seems logical for this revenue to come from transportation, and to follow the principle that has made ISTEA a successful law since its enactment in 1991: fairness between different modes of transportation.

Sincerely,

Hank Dittmar
Executive Director

CENTER ON BUDGET AND POLICY PRIORITIES

Revised May 4, 1998

HIGHWAY BILL LIKELY TO CUT INTO FUNDING FOR OTHER NON-DEFENSE DISCRETIONARY PROGRAMS

by Sam Elkin and Robert Greenstein

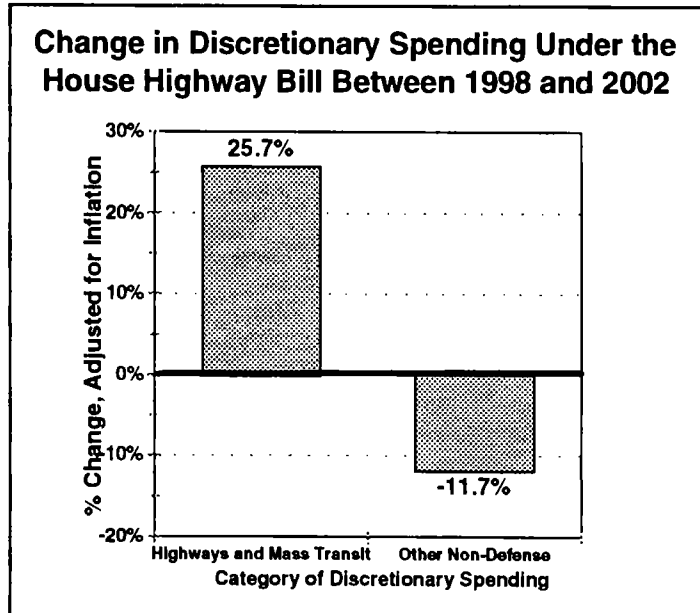
Summary

The highway bill now in a conference committee between the Senate and House threatens to precipitate large reductions in the next several years in the non-defense discretionary part of the federal budget. Programs in areas ranging from education and child care to environmental, agricultural, rural, veterans, and foreign aid programs, as well as scientific research, are likely to be affected adversely.

The versions of the highway bill that both the House and Senate have passed would sharply increase highway spending to levels well in excess of what was agreed to during last year's budget negotiations between Congress and the President. Due to the binding caps the budget agreement placed on expenditures for discretionary (i.e., non-entitlement) programs, increased highway spending must automatically lead to reductions in other discretionary programs unless the increased highway spending is offset in some other manner.

That the highway bill will have this effect on other discretionary programs is not well understood. There is a widespread — but wholly mistaken — view that the increased highway spending is being financed out of the highway trust fund in a way that does not affect funding for other programs. The highway trust fund, however, is essentially a bookkeeping mechanism. Its existence does not alter the fact that discretionary spending on highways is counted under the discretionary spending caps — and an increase in highway spending consequently requires reductions in other discretionary programs so that overall discretionary spending remains within the cap.

The budgetary realities related to these matters are as follows:



- The Balanced Budget Agreement established legally binding caps on spending for discretionary programs for each year through fiscal year 2002. If the relative proportions of overall discretionary spending that go to defense and non-defense programs remain relatively stable (as the budget agreement assumes they will), the caps will reduce spending for non-defense discretionary programs by a cumulative total of \$39 billion over the next four fiscal years. In fiscal year 2002 alone, spending for non-defense discretionary programs will be \$24 billion — or eight percent — below the fiscal year 1998 level after adjusting for inflation.¹
- Increasing funding for any discretionary program means that the amount left for other discretionary programs must be reduced. As a result, the increase in spending in the highway bill will almost certainly lead to a decrease in spending for other discretionary programs. If the House version of the highway bill becomes law, highway (and related mass transit) spending will rise 26 percent by 2002, after adjusting for inflation. Over the same period, spending levels for other non-defense discretionary programs will fall 12 percent in inflation-adjusted terms (assuming the reductions needed to offset the increased highway expenditures come from the non-defense portion of discretionary spending). The overall reduction in non-defense discretionary programs for fiscal years 1998 through 2002, other than highway and mass transit programs, would be about 50 percent deeper than the reduction that last year's budget agreement, by itself, will cause in these programs.

Spending on highways and mass transit would be about one-third higher in 2002 under the House version of the highway bill than the Balanced Budget Agreement assumed.²

¹ The documents setting forth last year's Balanced Budget Agreement, released May 15, 1997, included agreed-upon levels for various categories of discretionary spending through 2002. Among these were specific levels for defense and non-defense discretionary spending; these levels kept the relative shares of discretionary spending going for defense and non-defense programs essentially stable. However, for fiscal years 2000 through 2002, these specific defense and non-defense levels were not set into law. For those years, only the overall ceiling on all discretionary spending is written into law.

² The documents setting forth the terms of the Balanced Budget Agreement include assumptions for discretionary spending levels for transportation (Function 400 of the budget) for each fiscal year through 2002. These figures were not written into law. This paper estimates the highway and mass transit share of overall transportation spending that is reflected in the budget agreement by assuming a five-year freeze on spending for transportation expenditures other than highways and mass transit, with the increase above a freeze level in overall transportation spending assumed to go for highways and mass transit. If we had assumed instead that all transportation programs were expected under the budget agreement to grow at the same rate, the levels used in this analysis for the spending levels the budget agreement assumed for

- The crunch that will face non-defense discretionary programs over the next several years may be even sharper than these figures indicate. The budget agreement places separate caps on defense and non-defense discretionary spending in fiscal years 1998 and 1999; starting in fiscal year 2000, however, these separate caps disappear and are replaced by one overall cap on total discretionary spending. Many budget and Congressional observers expect Congress to increase spending levels for defense after 1999, causing still-deeper cuts in non-defense discretionary programs. Reductions in non-defense discretionary programs made as a result of increased highway spending thus would be in addition to both the reductions precipitated by the budget agreement and any additional reductions caused by increases in defense spending.
- Furthermore, the highway bill's sponsors seek to *guarantee* that no matter how severe the crunch becomes on other areas of non-defense discretionary spending in coming years, highway programs will get every penny of the increased funding the highway bill calls for, and other programs will be reduced correspondingly. Rep. Bud Shuster, chairman of the House Transportation Committee and principal author of the House highway bill, is apparently seeking in conference to place a "firewall" around highway and mass transit spending. This would insure that even if the increases in highway spending are perceived in coming years to be overly generous when compared to the painful reductions being meted out to other discretionary programs, no reallocation of funds from highways to other areas is permitted. This Shuster proposal would prevent Congress from making budget priorities decisions on a level playing field, locking in the spending increases in the highway bill through at least 2002.
- In theory, the conference committee on the highway bill could adopt the approach set forth in the Senate budget resolution, which attempts to pay for highway spending increases through reductions in entitlements and other mandatory programs, rather than through deeper cuts in discretionary programs. But the approach reflected in the Senate budget resolution is, at best, likely to offset only a modest share of the increased highway spending. That would still leave reductions in discretionary programs bearing most of the load of paying for the highway bill.

highways and mass transit would have been lower, and the amount by which the highway bill would increase highway spending above the budget agreement levels would have been larger than the figures cited here.

**CBO Affirms that the Highway Trust Fund Will Not "Pay"
for Increased Highway Spending**

On April 28, 1998, June O'Neill, director of CBO, wrote to Senator Pete Domenici, Chairman of the Senate Budget Committee, in response to several questions the Senator posed regarding the highway bills. In its letter, CBO dispels the myth that the increases proposed in the Senate and House highway bills would be offset by gas tax receipts earmarked for the Highway Trust Fund or by cash balances in that trust fund. The CBO letter states that discretionary spending on highways falls under the discretionary caps and an increase in such spending necessitates corresponding reductions in other discretionary programs. Excerpts from the CBO letter follow.

1. Why are gas tax receipts not an offset to ISTEA spending?

"Most of the ISTEA outlays are discretionary — subject to annual obligation limitations in appropriation acts — and thus fall under the discretionary caps. The excise taxes, in contrast, are subject to the pay-as-you-go mechanism; changes in such taxes can only be offset, for pay-as-you-go purposes, by changes in other revenues or in direct [i.e., mandatory] spending that were enacted in authorizing bills."

"Both S. 1173 and HR. 2400 [the Senate and House highway bills] would only have modest effects on revenues over the next five years but would substantially increase spending for surface transportation programs (assuming appropriation action consistent with the bills). Thus, even if the separate budgetary categories did not exist, the small changes in revenues resulting from S. 1173 or HR. 2400 would not offset the additional spending."

2. Why is the current Highway Trust Fund cash balance not an offset to ISTEA spending?

"... the cash balance in the trust fund reflects tax revenues that the government has already received and has counted in calculating the budget deficit or surplus. Counting the balance as an offset to spending [such as the spending in the highway bill] would have the effect of counting revenues twice."

3. Why is reducing or eliminating the current cash balance in the Highway Trust Fund not an offset to ISTEA spending?

"The cash balance of the Highway Trust Fund plays no part in calculating the deficit or surplus because it is neither a receipt nor an expenditure. It is simply a summary of previous budgetary transactions — the prior deposits into the fund less the prior spending out of the fund. Eliminating or reducing the cash balance without changing federal spending or revenues...would have no effect on the surplus or deficit."

This is true for several reasons. First, the Senate budget resolution does not appear to contain enough mandatory spending reductions to pay for the full cost of the highway bill. Second, the Senate budget resolution assumes the appropriations committees will make significant cuts in *mandatory* programs over which they normally lack jurisdiction to produce savings sufficient to offset the additional highway spending. That, however, is likely to prove difficult politically for the appropriations committees. Nothing in the budget resolution would obligate them to make these reductions in mandatory programs, and some of the cuts are highly controversial. For example, more than half of the mandatory programs savings the Senate budget resolution assumes the appropriations committees will make to pay for the added highway spending would come from a contentious proposal to deny veterans' disability compensation benefits to veterans who smoked while in the armed forces and later developed smoking-related disabilities. Although this proposal also is in the Administration's budget, numerous Members of both parties oppose it, and the House has gone on record against it. If this proposal is not enacted, half of the mandatory savings that the Senate budget resolution assumes will be used to pay for highway spending increases will evaporate. Under the Senate budget resolution approach, any savings that are assumed to come from mandatory programs reductions but are not enacted must be made up by cuts in discretionary programs instead.

The approach reflected in the Senate budget resolution also would be likely to run into roadblocks in the House. The Senate budget resolution approach uses savings in mandatory programs to offset highway spending costs so that discretionary programs do not have to be reduced further. Conservative House Republicans apparently would prefer to use mandatory program reductions to pay for tax cuts and seem ready to make deeper reductions in non-defense discretionary programs. In fact, the draft House budget resolution that House Budget Committee chairman John Kasich has recently produced is widely reported to include further reductions in non-defense discretionary spending of \$100 billion to \$150 billion over five years, on top of the reductions in last year's budget agreement.

- One other point also may be noted about the Senate budget resolution approach. To the extent that some reductions in mandatory programs are used to pay for a modest portion of the increased highway expenditures, these savings become unavailable to pay for initiatives in the President's budget. Most of the mandatory program reductions that the Senate budget resolution assumes would help pay for the added highway spending are reductions the President's budget would use to finance

Administration initiatives. The combined effect of losing financing for Presidential initiatives and having to make deeper reductions in overall funding for non-defense discretionary programs (other than highways and mass transit) would likely mean that some discretionary program areas that the President's budget proposed to increase would instead find themselves subject to cuts in the years ahead.

Background on the Discretionary Caps

In negotiating the Balanced Budget Agreement, Congress and the President agreed to extend the strict spending limits on discretionary programs that have been in place since 1991. These limits, known as caps, were set in law through 2002.

Defense and non-defense discretionary programs operate under separate caps until the end of fiscal year 1999. After that, defense and non-defense discretionary programs are subject to a single cap. The discretionary part of the federal budget encompasses a wide range of government responsibilities, including the military, international programs, NASA, civilian energy, agricultural and biomedical research, environment, national parks, community and economic development, education, job training, Head Start, public health programs, housing, veterans hospitals, law enforcement, rural programs, general governmental operations, and highways, among others. Funding for these programs as a whole cannot exceed the amount of the caps without triggering automatic across-the-board cuts in discretionary programs.

The caps the Balanced Budget Agreement established are quite restrictive; under these caps, the total amount of inflation-adjusted spending available for discretionary programs shrinks over the next several years. Programs must be reduced or eliminated if overall spending is to fit within the caps. If Congress continues to abide by the defense spending levels assumed in last year's budget agreement (which assumed that the relative shares of discretionary spending that go to defense and non-defense programs would remain essentially stable), expenditures for non-defense discretionary programs (including highway spending) will by 2002 be 8.4 percent below the 1998 level, after adjusting for inflation.

The Highway Bill Takes Substantial Funding Away from Other Programs

The highway bill would deepen the cuts required in discretionary programs other than highway and mass transit programs, because it would increase highway and mass transit spending and leave less money for other discretionary programs under the discretionary spending caps. The highway bill the House has passed would raise highway and mass transit spending to a level 25.7 percent higher in 2002 than its 1998 level, after adjusting for inflation. As explained below, the House version of the highway bill also would wall off highway and mass transit spending from other

The Effect of the Highway Bill on Discretionary Spending
Discretionary spending, in billions of FY 1998 dollars

	<u>1998</u>	<u>1999</u>	<u>Fiscal year</u> <u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Percent change,</u> <u>1998 to 2002</u>
Discretionary spending levels agreed to in the Balanced Budget Agreement of 1997						
Highways and Mass Transit*	\$25.2	\$25.3	\$25.1	\$24.6	\$24.1	-4.6%
Other non-defense programs	\$261.2	\$261.3	\$257.5	\$249.9	\$238.4	-8.7%
Defense	\$266.8	\$260.9	\$257.5	\$253.0	\$249.2	-6.6%
Total	\$553.3	\$547.5	\$540.2	\$527.5	\$511.7	-7.5%
Discretionary spending levels under House version of the highway bill.						
Highways and Mass Transit*	\$25.2	\$27.2	\$29.7	\$31.6	\$31.7	+25.7%
Other non-defense programs	\$261.2	\$259.4	\$252.9	\$243.0	\$230.8	-11.7%
Defense	\$266.8	\$260.9	\$257.5	\$253.0	\$249.2	-6.6%
Total	\$553.3	\$547.5	\$540.2	\$527.5	\$511.7	-7.5%

* Highways and other discretionary programs covered by The House highway bill (H.R. 2400)

Notes:

CBPP calculations based on CBO estimates of H.R. 2400 and the Bipartisan Budget Agreement (May 15, 1997)

Assumes all nominal increases in Transportation spending under the Budget Agreement go to highways and mass transit. (See footnote 2.)

discretionary spending, thereby guaranteeing that deeper cuts must be made in other discretionary programs.

Each extra dollar in discretionary spending the bill gives to highways and mass transit must be taken from other discretionary programs, unless the extra spending is offset by cuts in mandatory programs. Since defense spending is unlikely to be reduced below the levels assumed in the balanced budget agreement (and may be raised to levels higher than that), increases in discretionary spending for highways and mass transit programs will, in all probability, need to be paid for through deeper cuts in other non-defense discretionary programs.

As the table above shows, if the House version of the highway bill is enacted, total spending on all non-defense discretionary programs other than highways and mass transit will have to be cut a cumulative total of \$58.8 billion between 1998 and 2002. In 2002 alone, spending on these programs will have to be \$30.4 billion — or 11.7 percent — below the 1998 level, after adjustment for inflation.

The House bill also would ensure that Congress could not lessen the magnitude of the reductions in non-defense programs in future years by paring back the highway

and mass transit spending increases. The House bill would take highway and mass transit spending "off budget" and result in lower caps being applied to other discretionary spending.³ Rep. Bud Shuster, chairman of the House Transportation Committee, has suggested an alternative approach for conference, but the alternative approach would have essentially the same effect. It would place highway and mass transit spending under a separate cap and lower the cap for other discretionary spending accordingly.

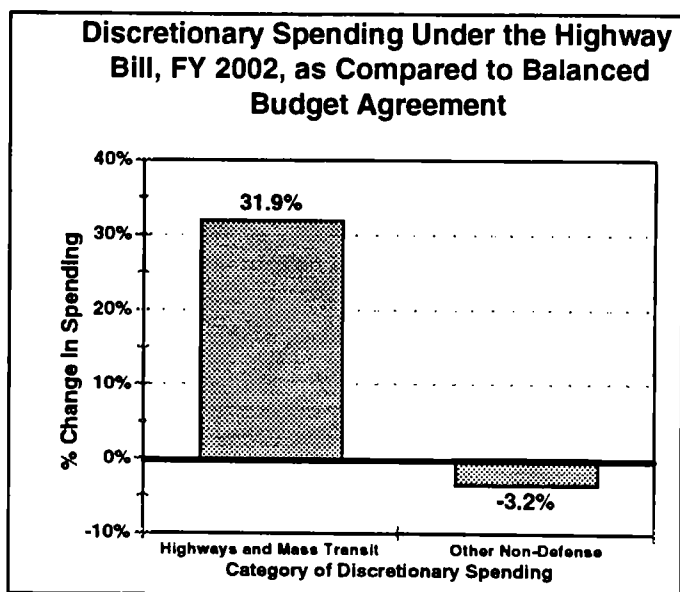
In either case, the impact on other discretionary programs would essentially be the same — these programs would be reduced by the amount the highway bill increases discretionary spending for highway and mass transit programs. Other discretionary programs would have to be cut dollar for dollar by the amount the legislation boosts discretionary spending on highways and mass transit.

The Balanced Budget Agreement itself accorded somewhat more favorable treatment to transportation programs than most other programs, largely due to Chairman Shuster's efforts last year. (See table on page 7.) The pending highway legislation goes much further. In the year 2002 alone, discretionary spending on highways and mass transit under the House highway bill would be \$7.7 billion, or 31.9 percent, above the level the budget agreement envisioned. Other non-defense discretionary spending would have to be cut \$7.7 billion below the level the budget agreement assumed for 2002.

Defense Spending Increases May Further Erode Funding for Non-Defense Discretionary Programs

The estimates cited above assume that defense and non-defense programs will retain approximately the same shares of total discretionary spending over the next five years. Beginning in 2000, however, the budgetary mechanism that prevents Congress from cutting non-defense programs more deeply to increase funding for the military (and vice versa) will disappear.

Defense spending has been reduced over the course of recent



³ Under the Budget Enforcement Act, if a program is taken "off-budget," there is a corresponding reduction in the discretionary caps.

years, and proponents of a larger military clearly intend to push for increases in defense spending at the expense of non-defense programs as soon as the opportunity arises. (Some, including Representative Floyd Spence, chairman of the House National Security Committee, are even urging Congress to reopen the budget agreement now to increase defense spending. Spence recently declared: "How are the military services supposed to stabilize their downsized post-Cold War force structure, protect quality of life and readiness, and end the decade-long procurement 'holiday' when they lose purchasing power every year?"⁴) Many budget observers, including the authors of this paper, believe it is likely Congress will raise defense spending over the next few years to levels exceeding those assumed in the budget agreement. Doing so would mean that reductions in non-defense discretionary programs would be larger than the figures cited here.

Military spending thus is likely to grow at the same time that highway spending would increase. If defense spending is raised to higher levels than those the budget agreement assumed and the House highway becomes law, non-defense discretionary programs will need to be cut more than 11.7 percent by 2002.

Furthermore, some non-defense programs Congress favors may receive special treatment. If such programs receive additional funding, or if they simply receive enough to keep up with inflation and are not reduced, that will further shrink the funds available to other non-defense discretionary programs.

Despite the likelihood of reductions in discretionary programs, some in the House are proposing still deeper cuts in the overall amount available for non-defense discretionary programs. According to news reports, the budget resolution that House Budget Committee chairman John Kasich has written and is discussing with other House Republicans would lower the discretionary caps and cut non-defense discretionary funding by an additional \$100 billion or more over the next five years, on top of the reductions in last year's budget agreement.

The Senate Budget Resolution and Increased Highway Spending

Both the Senate and House versions of the highway bill increase highway spending substantially over the levels reflected in the budget agreement. Neither version of the highway bill pays for these increases by making offsetting cuts in other programs.

Some in the Senate have said the Senate version of the budget resolution would pay for increased highway spending without requiring additional reductions in other discretionary programs. The Senate budget resolution envisions that Congress would

⁴ "Rep. Kasich Stirs up a Low-Calorie Budget", *Washington Post*, April 26, 1998.

accommodate the increased highway spending by writing offsetting cuts in entitlements and other mandatory (i.e., non-discretionary) programs into this year's appropriations bills.

There is strong reason to believe, however, that only a modest portion — if any — of these mandatory savings will actually materialize as offsets to the increased highway expenditures. The budget resolution is not a piece of legislation; it cannot make these cuts itself. The appropriation committees would have to do that. But some of the assumed mandatory cuts are highly controversial and will be politically difficult to achieve. It is far from clear that appropriators will be willing — or more important, will be able — to make some or all of these cuts. In addition, the process of using cuts in mandatory programs to offset increased discretionary spending might not be acceptable to the House, where a number of conservative Members would prefer to use savings from reductions in mandatory programs for larger tax cuts and appear ready to exact further reductions in non-defense discretionary programs.

A budget resolution is only a framework for the development of legislation and generally can enforce reductions in mandatory programs only through "reconciliation instructions." This year's Senate budget resolution contains no reconciliation instructions. Even if the Senate budget resolution approach for financing highway spending increases is ultimately written into the final budget resolution that both the Senate and House adopt, there likely will be no enforcement mechanism to require that the proposed reductions in mandatory programs actually be made.

Moreover, the Senate budget resolution does not actually contain these mandatory program reductions. The Senate Budget Committee report accompanying the budget resolution simply lists reductions in mandatory programs that it assumes the appropriations committees will make during the appropriations process.

Some of the mandatory savings listed in the Senate Budget Committee report will be difficult to secure. More than half of the mandatory savings the Senate budget resolution assumes will be used to pay for increased highway spending — \$10.5 billion out of \$18.5 billion — comes from a proposal to deny veterans disability compensation to veterans with smoking-related disabilities. Although this proposal appears to have merit and also is included in the President's budget, it seems unlikely to pass.

The upshot is that there appears to be little chance that the highway spending increases will be largely or fully offset by reductions in mandatory programs. To the extent that increases in discretionary transportation spending are not offset by reductions in mandatory programs, other discretionary programs must be cut.

Presidential Priorities Endangered

A final point is that if some of the mandatory savings listed in the Senate Budget Committee report *are* used to offset a portion of the increase in highway spending, that will have other consequences. Virtually all of the mandatory savings measures the Senate Budget Committee envisions using to pay for added highway spending are proposals included in the President's budget to pay for Administration initiatives. To the extent these savings are used to pay for highway spending increases instead, various initiatives will be left without a financing mechanism.

The impact of the highway bill both on discretionary programs in general and on the Clinton initiatives in particular does not appear to be well understood. Supporters of some discretionary programs that the President's budget would increase may assume the question is what portion of the proposed increase these programs will receive. But in many cases, it appears such programs may more likely to be reduced over the next five years than expanded.

The President's budget substantially increased the discretionary caps; it used a combination of anticipated tobacco legislation revenue, revenue from closing certain tax breaks, and mandatory program savings to pay for the increase in the caps. The Congressional majority is rejecting that approach and, as noted, it may seek to reduce the caps. (In addition, the Congressional Budget Office has estimated the President's budget falls \$32.3 billion short over five years of fully offsetting the cost of its initiatives.)

The bottom line is that if highway spending is increased without raising the discretionary caps, other discretionary programs must be cut. There is no way around that budgetary arithmetic. The question increasingly appears to be how large the additional cuts in discretionary programs will be.

Conclusion

Since highway spending falls under the discretionary caps, increases in it must come at the price of reductions in other discretionary programs, unless mandatory offsets are found. Neither the House nor the Senate highway bills include mandatory offsets. The Senate budget resolution assumes mandatory offsets but cannot make these reductions itself. And it is likely the appropriations committees will not be able to make many of the mandatory program reductions the Senate budget resolution assumes.

Non-defense discretionary programs consequently are likely to bear the brunt of most of the increased spending in the highway bill. Furthermore, the emerging question regarding many of the initiatives in the Clinton budget is not what portion of the initiative will be salvaged but how much more deeply discretionary programs overall — including some of the discretionary programs the Administration has proposed to expand — may be sliced over the next five years.

Record Type: Record

To: Michael Deich/OMB/EOP

cc: See the distribution list at the bottom of this message

Subject: Summary of STPP ISTEA Mtg., 5/15

The Surface Transportation Policy Project (STPP) met today (5/15) to share the latest intelligence on what is happening on the Hill related to the surface transportation reauthorization bill. The following is a summary of highlights from today's meeting:

Funding Issues

According to STPP, the Congressional counter-offer to add \$10 billion to the Administration's funding offer, may now only be \$4-5 billion. Senator Chafee reportedly championed an 80/20 highway/transit split of the \$10 billion figure. While Senator D'Amato was pressing for increased transit funding, he was apparently not involved in final discussions for an unknown reason. The American Public Transit Association (APTA) appears to be pleased with the guarantee for transit funding, but it is still considering the total level of funding provided for transit.

Demonstration Projects

Congressional members are reportedly asking for formula runs showing how much funding their States will receive in the various offers. Some of these runs have reportedly included funding for demonstration projects. This is significant because the funding for these projects are typically viewed by Congress as additional State allocations above the formula program funding level. Because these projects are being included in the formula runs, it appears that these projects, which have historically been mandatory spending, will now be placed under the Federal-aid highway obligation limitation, as proposed by the Senate, and made discretionary spending.

Possible Senate Demo/Policy Issue Deal

The Senate may offer the House a compromise regarding demonstration project funding sometime today. According to STPP, the Senate began negotiating by offering \$2 billion for House demonstration projects funding. However, tides have turned and the Senate reportedly has its own list of demonstrations projects totaling \$2-4 billion (\$1.8 billion is for Woodrow Wilson Bridge). In exchange for its support of the House demonstration projects, the Senate will reportedly indicate in its offer that it wants the following:

- **.08 BAC.** The House would have to give up its prohibition regarding .08 BAC sanctions. The Administration supports the .08 BAC standard.
- **Federal Lands.** The House would have to take the Senate Federal Lands proposal, which benefits western States and Senator Baucus.
- **Three-Year Review.** The House would have to drop its provision to re-open the reauthorization bill in three years. The Administration also opposes the three-year review because it would be disruptive.

- **Transferability.** The House would have to agree to eliminate the transferability of Enhancements, Bridge, and Safety funds to other highway construction program categories. (The elimination of the transferability of bridge funds is reportedly a stab at Conferee Chairman Shuster, whose State, according to STPP, receives the most bridge funding and transfers the most to other programs.) While it is unclear, the Senate offer may include agreeing to the House provision to allow 50% of the increase in funding above the 1997 levels for the Congestion Mitigation and Air Quality Improvement (CMAQ) program to be transferred to other highway program categories. The Administration opposes transferability of CMAQ funds. STPP plans to mobilize its constituents to oppose the CMAQ transferability provision.

AMTRAK Eligibility. The House appears to be considering AMTRAK eligibility for highway funds. However, the House will reportedly only offer AMTRAK eligibility under the CMAQ program rather than under all major highway program categories, as proposed by the Administration and adopted by the Senate. AMTRAK is already eligible for CMAQ funds in air quality nonattainment areas, where AMTRAK use is typically popular, so STPP does not consider this a serious House offer.

Parking/Vanpool Tax Benefit. STPP has made contact with House Ways and Means Conferees (Nussle, Hulshof, and Rangel) to support this Senate provision. However, STPP believes that getting House agreement on this provision will be difficult. Rangel, who is the most likely supporter of the provision, has not been engaged on the issue to date. STPP plans to work to highlight this issue.

drm

Message Copied To: _____

Daily Report for Executives

No. 94

Friday May 15, 1998

Regulation, Law & Economics

Transportation

Controversies Over ISTEA Bill Continue

Despite Deal on Funding, Budget Issues

Despite an agreement on the funding and budget treatment of highway and transit programs, new controversies over the rewrite of the Intermodal Surface Transportation Efficiency Act continued to emerge May 14, raising the question of whether conferees can wrap up their work by the Memorial Day recess.

Although House and Senate leaders are said to have tentatively included the ISTEA legislation on their schedule for the week of May 25, a meeting of conferees held late May 14 indicated that many contentious issues remain to be settled, from the structure of the programs to the projects that ultimately will be included in the conference report.

Senate Environment and Public Works Committee Chairman John Chafee (R-RI), emerging from a meeting with House Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa) and a handful of other conferees, little progress had been made on resolving many of the policy items in dispute. However, Chafee said the closed-door talks with Shuster and other conferees would continue May 15 and during the weekend. Meanwhile, a session is tentatively planned for May 25 where conferees on the legislation (H.R. 2400/S. 1173) might sign off on a final package, aides said.

Chafee said Senate conferees believe they gave considerable ground when they agreed recently with the House to create a new budgetary mechanism to guarantee increased highway and transit spending. "Now we'd like some things in return," Chafee said shortly after the session broke up.

Although there are numerous issues on Senate conferees' priority list, Chafee said the latest round of talks concentrated on only a few top items, including sanctions on states that do not adopt .08 blood alcohol laws and provisions to allow states to use highway money on Amtrak.

But the prospect that the legislation's levels will be cut back in order to appease budget hawks is not sitting well with other Senate conferees, who were briefed earlier in the day on the funding deal agreed to by House and Senate GOP leaders (93 DER A-38, 5/14/98). Among others, Sen. Frank Lautenberg (D-NJ), a member of Chafee's committee, told BNA he is concerned both about his state's reduced allocation and proposed cuts in the federal transit program's funding.

"I don't want my state to lose ground in any reformulation," Lautenberg said, adding that other members of the Environment and Public Works Committee are raising concerns about the plan to scale back the legislation's funding by several billion.

"Everyone is concerned about their state allocation being cut," said Sen. Max Baucus (D-Mont), the panel's ranking Democrat.

Another battle is brewing over whether the conference report will carry both the new budgetary mechanism and the offsets to guarantee the increased spending, aides said. Senate Budget Committee Chairman Pete Domenici (R-NM) is said to be resisting conferees' efforts to include them in the ISTEA conference report.

OMB Still Dissatisfied With ISTEA Plan

The conferees' meeting occurred a day after House and Senate GOP leaders agreed to guarantee more than \$167 billion in highway spending over six years via a new mechanism to "wall off" transportation in the budget. With some \$33.5 billion in guaranteed transit funding as well as another \$10 billion in funds subject to appropriations also to be provided, lawmakers said they would have about \$210 billion in budgetary resources available for their ISTEA rewrite, significantly less than the \$214 billion in the Senate bill and the \$218 billion in the House version.

But despite the scaling back that conferees have agreed to, Clinton administration officials said the plan still is not satisfactory. Office of Management and Budget Director Franklin Raines, speaking to reporters May 14, said the levels the conferees are discussing still could trigger a veto.

Repeating the threat made a day earlier in a letter to Shuster, Raines said a veto would be in order if the bill makes available excessive budgetary resources, uses unacceptable offsets, or is not fully paid for.

"We've yet to see a proposal from the conferees that meets those tests," Raines said.

Raines said conferees have not made any agreement to scale the bill back to \$200 billion, and none of the proposals shared with the administration have had acceptable offsets.

"We've not seen one as cheap as \$200 billion," Raines said.

At the Transportation Department, Secretary Rodney Slater told interest groups at a briefing May 14 that the administration holds the view that the proposal authorizes spending that actually exceeds projected gas tax revenues over the six-year period. Also, according to meeting attendees, Slater said conferees have not identified all of the offsets that are needed for the bill.

But while the "overspending" in part may be due to the plan's scoring, Slater and others were said to be particularly concerned about the transit portion of the funding deal. To get transit funding to an acceptable level, meeting attendees said, might require giving transit more general fund money or keeping part of the Highway Trust Fund's transit account balance that would be given up as part of the proposed deal.

Besides his concern about a reduced highway formula, Lautenberg said he does not like the proposed transit funding. And Banking Committee Chairman Al D'Amato (R-NY) also is said to be wanting to increase the level, aides said. But any increases, they said, would require even more offsets to be found.

Budgetary Mechanism Being Developed

Meanwhile, aides said that Domenici continues to be opposed to the funding plan for transportation and is considering raising budgetary points of order against the conference report when it comes to the Senate floor.

Domenici, aides said, wants to play a large role in crafting the budgetary mechanism to guarantee greater ISTEA spending and is resisting conferees' efforts to include it in their own legislation. "But the leaders have made it clear there will be a guaranteed mechanism in here," an aide to Shuster said.

Shuster and other conferees, he said, want to be involved in designing that mechanism. "You want to make sure you don't have something that leaks like a sieve," he said.

Another issue in dispute is offsets, the aide said. While Domenici and other lawmakers may resist it, House and Senate leaders have agreed that the offsets will all be provided in the ISTEA conference report, he said.

But while conferees agreed to provide a package of offsets of about \$20 billion, the aide said the exact figure needed will not be known until the final bill is scored.

"I think [the bill] will end up between \$18 billion and \$22 billion over the baseline," he said.

Projects Under Negotiation

At the same time that conferees fine-tune the offsets, aides said they will also have to pare back funding for particular programs as well as highway projects.

While lawmakers so far have declined to give details about those talks, sources said they are discussing a package of projects that likely will look very different from that included in H.R. 2400 when it passed the House in April.

At that time, the House drew widespread criticism for including some 1,500 highway projects valued at about \$9 billion, including from senators who said they are opposed to such earmarks. But in recent days senators, armed with a colored map showing how their states have been shortchanged on project money, have begun positioning themselves to gain their own earmarks.

With overall negotiations on the legislation moving quickly, members of the Environment and Public Works Committee are discussing their own proposed projects. Among others, Baucus has pointed out to House conferees that Montana received no projects in H.R. 2400, a conferee said.

But with conferees' having agreed to cut back the bill's overall highway funding, the pot for projects also seems vulnerable to reductions. Sources said the House offered to scale back the total project money from about \$9 billion to \$7.5 billion. But the two sides still are far apart, with the Senate said to propose a counteroffer of \$2.7 billion--with \$1.8 billion of that for the Woodrow Wilson Bridge.



By Nancy Ognanovich

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**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET**

725 17th St. N.W.
Room 9208 N.E.O.B.
Washington, D.C. 20503

FAX # - 202-395-4797
Alternate Fax # - 202-395-7238

Number of Pages: (including this page)

To:

Dorothy, Chuck

From:

DAVID WORZALA
202-395-3101

Comments:

OMB Scoring
Comparison of Current Congressional Offers
 (\$ in Millions)

		1998	1999	2000	2001	2002	2003	Total 1998-2003
Option 2								
	BR	27,631	32,556	33,489	33,921	34,361	34,827	196,785
	OL	27,056	29,300	31,812	33,185	33,890	34,721	189,964
CBO WODI								
	BR	27,631	27,631	27,631	27,631	27,631	27,631	165,786
	OL	27,111	28,210	28,640	28,707	28,539	28,550	169,757
Increase above WODI								
	BR	0	4,925	5,858	6,290	6,730	7,196	30,999
	OL	-55	1,090	3,172	4,478	5,351	6,171	20,207
President's Budget (CBO Scoring)								
	BR	27,952	27,790	27,700	27,645	27,625	27,625	166,337
	OL	27,171	28,292	28,429	28,598	28,387	28,374	169,251
Increase above President's Budget								
	BR	-321	4,766	5,789	6,276	6,736	7,202	30,448
	OL	-115	1,008	3,383	4,587	5,503	6,347	20,713



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

May 14, 1998

MEMORANDUM FOR THE PRESIDENT

From: Jacob J. Lew
Larry Stein

Subject: ISTEA Reauthorization

This memo seeks guidance on whether you are inclined to veto the latest Congressional offer on ISTEA reauthorization.

As you know, the House and Senate bills would have provided roughly \$220 billion in budget resources during 1999-2003, with outlays roughly \$34 billion more than your Budget. The latest Conference document would provide \$197-200 billion in budget resources during 1999-2003, with outlays roughly \$21-23 billion above your Budget. The attachment describes \$23.5 billion in outlay offsets that the Leadership have identified to pay for the bill. About \$3-5 billion of these offsets were in your Budget, and the Administration is relying on having access to those offsets later in the '99 appropriations process to pay for some of your key budget priorities. Another \$4 billion or so of the offsets seem politically unachievable; if we agreed to the spending levels that those offsets support, and the offsets later were dropped, the Republicans might seek to retain the spending and pay for it with objectionable offsets, by lowering the discretionary caps, or by not fully financing the increased spending levels.

We are not sure if the principle goal of the Republican leadership is to pay for a transportation bill or instead to use up all of the offsets that the Administration needs to pursue our own objectives in the appropriations process. If the former, we believe that a deal is possible. In particular, we should be able to craft a package that includes most, and perhaps all, of the spending in the Congressional offer. By modestly changing the time path and composition of that spending, and by having Congress direct CBO to adopt OMB scoring on certain items (as they already appear ready to do on the VA tobacco offset) we should be able to pay for the bill solely through the VA tobacco offset in our offer. We have asked for a meeting with the leadership to discuss resolving the funding dispute. To date, however, the leadership has shown little eagerness to meet.

We believe that the leadership is unlikely to engage us in serious negotiations unless we make a credible threat that you will veto a bill that contains unacceptable offsets, that spends the surplus, or that skews transportation priorities. Earlier this week, we issued a letter to the conferees with a senior advisors veto threat on these grounds. At the moment, Gephardt and Oberstar appear ready to support a veto, but Oberstar's support seems tentative. There will be no reliable way to assess in advance our chances to sustain a veto. In the Senate, support for the bill is overwhelming, and Senator Daschle is unlikely to support a veto.

Although we do not yet know how the Congressional offer addresses some of our core policy objectives (.08 BAC, environmental provisions, etc), your economic team is inclined to recommend that you veto the bill if it is paid for with the offsets noted at Tab A. John Podesta doubts the wisdom of a veto if it could not be sustained, and the Legislative Affairs staff has concerns about the long-term consequences of an override.

2.

from

Doother

check

like me
and

DRAFT -

Jack's version

MEMORANDUM FOR THE PRESIDENT

FROM: Jack Lew
Larry Stein

SUBJECT: Addendum to the May 14 ISTEA Reauthorization memo

This morning Erskine suggested that it would be useful to provide you with the individual views within the White House on the latest Congressional offer on the ISTEA reauthorization.

Rahm Emanuel, Doug Sosnik, and John Podesta want you to be aware of the real risk that your veto could be overridden. We are unable to determine whether we have the votes to sustain a veto at this time.

Despite this concern, we concur with the view of members of your economic team, including Erskine, Frank Raines and Secretary Rubin, to recommend you veto the bill as the only way to maintain fiscal discipline. The stakes go well beyond this bill, and will impact our ability to resolve other funding issues later in the year.

Attachment

Gene

Copy to 5200

? Gene?

? Rubin?

? Larry?

Alan C.

622-0052

DRAFT-

Podesta's version

MEMORANDUM FOR THE PRESIDENT

FROM:

Jack Lew

Larry Stein

SUBJECT:

Addendum to the May 14 ISTEA Reauthorization memo (see attached)

This morning Erskine suggested that it would be useful to provide you with the individual views within the White House on the latest Congressional offer on the ISTEA reauthorization.

We are unable to determine whether we have the votes to sustain a veto at this time. Despite this concern, we concur with the view of members of your economic team, including Erskine, Gene Sperling, Frank Raines and Secretary Rubin to recommend you veto the bill as the only way to maintain fiscal discipline.

John Podesta, Rahm Emanuel, Doug Sosnik, and Paul Begala want you to be aware of the real risk if your veto is overridden. You could not only suffer a political loss, but in the long run the override could undermine your ability to affect other decisions on the Hill. They would only support a veto if we had a reasonable chance to sustain an override.

The stakes go well beyond this bill, and will impact our ability to resolve other funding issues later in the year.

Attachment

THE WHITE HOUSE
WASHINGTON

But some programs
not in place (DHSS)

over wide for some programs

\$ 20.2B - B equal to prior
year receipts

We went up at 11 to talk to
Grigich's people

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

GENERAL GOVERNMENT AND FINANCE
Old Executive Office Building
Room 246
Fax Number: 202-395-4639

FACSIMILE TRANSMISSION

Date: 5/15 Number of Pages including Cover 2

PLEASE DELIVER THE FOLLOWING PAGES TO:

Dorothy Reby 6-2223

FROM:

X

MICHAEL DEICH, Associate Director, General Government
& Finance (202-395-3120)

____ Pat Romani (202-395-3120)

____ Ted Wartell (202-395-3801)

Comments:

Tab A**Congressional Leadership Proposed Offsets**

<u>Offset</u>	<u>Savings over 1999-2003</u>
• <i>VA tobacco</i>	\$16 billion
CBO would be directed to use OMB scoring of roughly \$16 billion over five years. Congress appears ready to adopt the Administration's request that some funds be reserved for expanded veteran's benefits.	
• <i>Social Services Block Grant</i>	\$3.1 billion
Your budget used this offset to fund increases in other social services programs. Using this offset for highways would make it difficult to fund any program increases in the Labor/H appropriations bill or to pay for even a modest child care proposal.	
• <i>Increase in GNMA fees</i>	\$0.9 billion
This proposal would triple the fee increase proposed in your budget. Although not objectionable from a policy standpoint, an increase of this size could be difficult to achieve. Your budget uses this offset to pay for new housing initiatives.	
• <i>FHA policy reforms</i>	\$1.0 billion
Your budget proposed increasing the limit on FHA-insured loans to pay for a second round of Empowerment Zones. The offset noted above abandons that loan limit increase in favor of unspecified 'reforms.' It is unclear whether such reforms could be either identified or passed by Congress.	
• <i>Fees on Fannie Mae and Freddie Mac</i>	\$4.5 billion

This offset has been proposed and quickly shot down many times over the last ten years. No one believes this has a credible chance of passage.

President Clinton's New Transportation Proposal Offers a Clear Choice

In just a few short days, Congress will face a critical decision on a transportation bill that will have far reaching implications. The choice is clear:

President Clinton's New Proposal -- the new proposal includes an **unprecedented guarantee** that receipts that flow into the Highway Trust Fund will be invested in highways, highway safety, and mass transit. The new proposal is fully paid for, protects the surplus consistent with saving Social Security First, and protects critical investments in other key priorities, such as education, health, law enforcement and the environment.

Or

Current Congressional Plan -- calls for spending in excess of receipts flowing into the Highway Trust Fund. The plan is not paid for and it would force dramatic cuts in critical priorities such as education, health, law enforcement and the environment .

President Clinton has proposed a new surface transportation funding plan. The new proposal:

- Provides an **unprecedented guarantee** that *all* Highway Trust Fund receipts will be spent on surface transportation (fully phased in by 2001).
- Commits to the **same level of funding as in the House and Senate** surface transportation reauthorization bills -- \$219 billion -- but the funds would be spent **over 7 years rather than 6 years**, so as to protect other investment priorities.
- Is fully "paid for."
- Achieves record levels of transportation spending, while still:
 - ✓ ***Protecting the surplus to save Social Security First.***
 - ✓ ***Protecting critical investments in education, health, the environment, and law enforcement because the Administration proposal does not force these priorities to compete with transportation needs.***
- By setting spending on surface transportation equal to prior year Highway Trust Fund receipts, this plan ensures that spending levels can be sustained **after** the end of the authorization period
- Protects key transportation priorities, including transit, safety and the environment.
- Provides for historic levels of surface transportation spending:
 - ✓ Average annual spending on surface transportation in the Bush Administration was \$20 billion.
 - ✓ Average annual spending during the first 4 years of the Clinton Administration was \$25.5 billion, an increase of 25 percent.
 - ✓ The President's FY99 budget proposed spending \$28 billion a year -- a 37 percent increase over Bush levels.
 - ✓ The Administration's new proposal would reach \$33.8 billion a year -- a one-third increase over spending during the President's first term.

In stark contrast, the current Congressional plan calls for excessive levels of spending that would threaten the budget surplus -- undermining the President's pledge to save Social Security First -- and force draconian cuts in other critical domestic programs.

- The congressional plan would spend *more* on surface transportation than the Highway Trust Fund collects each year. Thus, the federal government could not maintain these spending levels for the long-term without increasing the gasoline tax.
- If fully funded, it would drain tens of billions of dollars from critical national priorities including education, child care, medical research, food safety, the environment, and even law enforcement and other transportation priorities, such as aviation.
- Even at these spending levels, the congressional plan would not guarantee sufficient funding for highway safety. The National Highway Traffic Safety Administration (NHTSA) would have to compete with other domestic discretionary programs to get the funding levels the President has requested.
- The congressional plan slights mass transit, spending a smaller fraction of available funds on transit than the Senate's ISTEA II bill or the Administration's proposal.

The President's senior advisers would recommend that he veto a conference bill that makes available an excessive level of budgetary resources if it is financed by: spending the surplus, reducing the domestic discretionary budget caps, using unacceptable budget offsets, or forcing cuts in domestic priority programs. They would also recommend veto of a conference bill that slights highway safety or other transportation priorities.

The Choice is Clear		
	President Clinton's <u>New</u> Proposal	Congressional Plan
Highway Trust Fund	<u>Guarantees</u> that receipts flowing into trust fund will be spent on highways and transit. (fully phased in by 2001).	Spends <u>more</u> than receipts flowing into the trust fund.
Funding Levels	\$219 billion over 7 years (budget auth).	Similar amount of over 6 years.
Transit	19% transit funding -- guaranteed.	17% transit funding.
Highway safety	Funding guaranteed.	Funding <u>not</u> guaranteed.
Fiscal Impact	Completely paid for and fully consistent with saving Social Security first.	Plan remains unpaid for, thereby threatening the surplus and commitment to save Social Security first.
Impact on other priorities, including: Head Start Pell Grants NIH Law Enforcement Environment	All fully protected	All at risk

Check Brian

- Oberstar wants TPO on why offsets are

- cut >

1 VA - 4

2 Joe Lee's Blog - other

3 1 in Ginny Madsen # 2004/3X

4. Ronnie & Debbie 4

5. FIA policy reforms #13

CB would score

Transportation Bill

We continued to work this week to try to achieve a compromise with the Congress on the highway bill. The conferees presented us with a counter-offer mid-week. It was unacceptable because the level of funding and structure would put pressure on your other critical priorities. Frank sent a letter to conferees that included a "senior advisers would recommend a veto" threat. In addition, we widely distributed talking points to highlight the clear choice at hand:

President Clinton's New Proposal -- the new proposal includes an unprecedented guarantee that receipts that flow into the Highway Trust Fund will be invested in highways, highway safety, and mass transit. The new proposal is fully paid for, protects the surplus consistent with saving Social Security First, and protects critical investments in other key priorities, such as education, health, law enforcement and the environment.

Or

Current Congressional Plan -- calls for spending in excess of receipts flowing into the Highway Trust Fund. The plan is not paid for and it would force dramatic cuts in critical priorities such as education, health, law enforcement and the environment.



HOUSE BUDGET COMMITTEE

DEMOCRATIC CAUCUS

Congressman John M. Spratt, Jr., Ranking Minority Member
222 O'Neill House Office Building, Washington, DC 20515 • 202-226-7200

FAX COVER SHEET

DATE: 5/14

TO: Chuck Mahr

FAX NUMBER: 456-2223

FROM: Al Davis

PAGES FOLLOWING THIS COVER 12

SPECIAL INSTRUCTIONS:

PLEASE CALL 226-7200 IF YOU HAVE PROBLEMS WITH THIS FAX.

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CHAIRMAN

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JOSEPH PITTS, PENNSYLVANIA
(VACANCY)

WAYNET. STRUBLE, STAFF DIRECTOR
(202) 226-7270



U.S. House of Representatives

COMMITTEE ON THE BUDGET

Washington, DC 20515

May 14, 1998

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EVA M. CLAYTON, NORTH CAROLINA
(VACANCY)

THOMAS S. KAHN, MINORITY STAFF DIRECTOR
AND CHIEF COUNSEL
(202) 226-7260

Dear Democratic Colleague:

We obtained today a draft of the "Budget Resolution Proposals" put together by John Kasich and the Republican staff of the House Budget Committee. I am attaching a summary of the proposals prepared by the Democratic Staff of the Budget Committee, which I think you will find interesting.

The Republican resolution would cut \$100 billion from domestic discretionary and entitlement programs and claims it will use the savings to pay for a repeal of the "marital penalty tax." This budget does not provide increased funding for BESTEA; in fact, it assumes a small reduction in transportation funding. If BESTEA were enacted at the House level of funding, spending would have to be cut by another \$40 billion. The proposed cuts include conversion of Medicaid acute care to a block grant saving \$5 billion and a reduction in Medicare capital payments to hospitals saving \$4.8 billion. This budget would abolish the Departments of Energy and Commerce, and eliminate the Economic Development Agency as well as the Legal Services Corporation. It would cut poor families without children out of the EITC; deny Food Stamps to those between 18 and 50 who are not working; cut Welfare-to-Work; and change Title I from grants to schools to grants to students. It would also direct the sale of three power marketing administrations.

Since this budget proposal will be in the news today, we thought you would find the summary useful. If you have questions, feel free to contact me or call the Democratic Staff of the Budget Committee at 226-7200.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member



HOUSE BUDGET COMMITTEE

DEMOCRATIC CAUCUS

Congressman John M. Spratt, Jr., Ranking Democratic Member
222 O'Neill House Office Building, Washington, DC 20515 • 202-226-7200
www.house.gov/budget_democrats/

May 13, 1998

Briefing Paper

Highlights of May 12 Draft Republican Budget Resolution

John M. Spratt, Jr.
Ranking Democratic Member

This document has not been reviewed and approved by the Democratic Caucus of the Budget Committee and may not necessarily reflect the views of all members.

OVERVIEW

Does Not Fund Transportation — The draft Republican budget resolution is unrealistic. It falls more than \$40 billion below the transportation funding levels that were overwhelmingly approved by both the House and the Senate. In fact, the draft Republican budget resolution decreases transportation funding noticeably below 1998 levels for all future years.

Realistically, this means that as much as \$40 billion in additional cuts will be taken elsewhere in non-defense discretionary programs, doubling the amount of those cuts, in order to pay for highway funding. Alternatively, this plan assumes that Congress will spend a portion of the budget surplus, which is supposed to be reserved for Social Security.

Hidden Entitlement Cuts — The Republican plan claims \$54 billion in entitlement cuts over the next five years, but the figures in their document only add to \$49 billion. The missing \$5 billion cut may possibly come from Medicare, since there is a large blank space under Medicare on page 5 of the document.

Alters Existing Funding Priorities — The draft Republican budget plan alters existing budget priorities for the worse:

- With almost no exceptions, it either freezes domestic appropriations at current levels for the next five years, or else cuts programs below the 1998 levels. Each of the discretionary cuts listed in the Republican document is a reduction below a five-year freeze.

Note that by itself a five-year freeze constitutes a 13 percent loss in purchasing power by 2003. These cuts are not even listed in the Republican document. Each cut listed in that document is *in addition to* the cut in the same program implicit in a five-year freeze.

- The non-defense discretionary cuts listed in the Republican document would reduce funding (budget authority) below 1998 levels by \$76 billion over five years, and would reduce outlays by \$57 billion over that period.
- At the same time, the draft Republican budget resolution apparently *increases* defense funding by \$73 billion and defense outlays by \$24 billion over the five-year period.

Smoke and Mirrors — The use of \$7 billion in one-time asset sales, which will decrease future federal revenue, is an imprudent method of financing permanent tax cuts. It suggests that budget savings will no longer cover the losses generated by the tax cut in years beyond the five-year window.

Revenue Cuts and Revenue Increases — The draft Republican budget resolution emphasizes that it includes \$100 billion in tax cuts, but it does not emphasize that it also includes \$6 billion in explicit tax increases, another \$10 billion in increased "fees," and a further \$7 billion in increased government revenues from the sale of assets.

Summary of the draft Republican budget resolution
(Dollars in billions)

	<u>Relative to Freeze</u>	<u>Relative to Balanced Budget Agreement</u>
Defense outlays	+24	0
Non-defense discretionary outlays	- 57	- 41
Entitlements and user fees		<u>- 54*</u>
Subtotal, outlay reductions		- 95
Tax cuts		100
Tax increases		<u>- 6</u>
Subtotal, tax changes		94

* Listed entitlement cuts and increased user fees only add to \$49 billion.

Medicare

- **Medicare** — The 1999 draft Republican budget resolution assumes Medicare cuts of \$4.8 billion over five years (1999-2003). Over five years, the Republican plan eliminates bad debt payments to hospitals (-\$1.4 billion) and further reduces hospital capital payments by 25 percent (\$-3.4 billion). Hospitals are the only providers affected by the proposed cuts. These cuts are in addition to the five-year cuts of \$115 billion that were enacted as part of the Balanced Budget Act of 1997 (BBA).

Medicaid

- **Medicaid** — The 1999 draft Republican budget resolution assumes Medicaid cuts of \$4.8 billion over five years (1999-2003). These cuts are in addition to the five-year cuts of \$14.8 billion that were enacted as part of the Balanced Budget Act of 1997 (BBA). The draft resolution also abolishes the individual's entitlement to Medicaid acute care services and replaces it with a block grant to the states. In 1999, acute care represents 60 percent of all federal Medicaid spending. In addition to these Medicaid cuts, additional reductions are assumed by capping or reducing Medicaid's administrative funds. *See Food Stamp Section*

Other Health Care

- **Cut National Health Service Corps (NHSC)** — The 1999 draft Republican Budget resolution assumes a cut of \$58 million in 1999 and \$290 million over five years (1999-2003) for NHSC. The NHSC is part of an integrated Health Center strategy to provide primary health care services for approximately 10.4 million underserved individuals in urban and rural areas.
- **Cut Agency for Health Care Policy and Research (AHCPR)** — The 1999 draft Republican Budget resolution assumes a cut of \$90 million in 1999 and \$450 million over five years (1999-2003) for AHCPR. This agency's work results in better health care outcomes and lower medical costs. AHCPR translates data and evidence into practice. For example, by developing a key measure to track variation in blood transfusion utilization and using the data in treatment techniques, the percentage of open heart patients contracting pneumonia dropped dramatically from eight to one percent. The hospital saved \$350,000 annually.
- **Eliminate Native Hawaiian Health Care** — The 1999 draft Republican Budget resolution assumes elimination of native Hawaiian health care. This program elimination produces savings of \$3 million in 1999 and \$15 million over five years (1999-2003). The Native Hawaiian health care program provides health education, health promotion, and disease prevention services. Native Hawaiians face cultural, financial and geographic barriers that prevent them from utilizing existing services. Health care services are often unavailable in the community.

Tax Cuts

- **Reducing the marriage penalty** — The draft Republican budget resolution calls for \$100 billion in tax cuts over five years. The sole explanation given for the size of the tax cut is to “relieve families of the marriage penalty.”

But the Republican plan concedes that it does not have to cost \$100 billion to address concerns about the marriage penalty. The plan states that “The revenue impact [of addressing marriage penalties] could range from \$50 billion to \$100 billion over five years, depending on the details of the proposal.” In the vetoed Republican 1995 budget and tax cut bill (H.R. 2491), which was part of the “Contract with America,” only \$8 billion over five years was devoted to reducing marriage penalties.

There are a number of proposals to address marriage penalties that do not reduce revenues by nearly as much as \$100 billion per year. For example, a bipartisan bill to restore the second-earner deduction, which was repealed in 1986, would reduce revenues by less than \$50 billion over five years. A bill to make the standard deduction for married couples twice that of singles would reduce revenues by less than \$30 billion over five years.

Furthermore, part of any revenue loss from addressing the marriage penalty can be offset by measures to close tax loopholes. But the draft Republican budget calls for only \$6 billion from closing loopholes, almost all of which comes from a reduction in the incentive to produce non-conventional fuels sources like oil from shale rock.

A \$100 billion budget allowance for tax cuts is not all going to be used on the marriage penalty. The Republican Budget Committee's views on tax cuts are not binding. The Chairman of the Ways & Means Committee, Representative Bill Archer, has many other tax cuts under consideration, including deeper capital gains tax cuts, larger cuts in the estate tax, and reductions in the alternative minimum income tax.

Large revenue-losing bills that completely eliminate marriage penalties have drawbacks. Under one popular proposal, couples with the same income will owe different amounts of income tax. For example, a one-earner couple with a \$64,600 income would owe \$1,478 more tax than a two-earner couple with the same income. Under another approach, larger “singles” penalties would be created — a situation in which a single person would owe substantially more tax than a married couple with the same income (and with no children).

Republican bills to reduce the marriage penalty are tilted toward Americans at higher income levels. For example, one bill with a large number of co-sponsors directs over 80 percent of its tax relief to couples with incomes over \$50,000. In comparison, couples with incomes over \$50,000 account for only 42 percent of all couples and only 64 percent of all marriage penalties.

Earned Income Tax Credit (EITC)

- ***Eliminates EITC for workers without children*** — The Republican budget document cites savings of \$2.7 billion over five years.

Elsewhere, the Republican budget document expresses support for incentives to work. The EITC goes only to people who are working. Nevertheless, this budget would repeal a provision of the tax code that encourages people without children to go to work and hold a job, rather than rely on transfer payments and charity.

The EITC for childless workers reaches its maximum at a very low income, only \$5,570 per year, and a childless worker's EITC is completely phased out for those with earnings of \$10,030 or more. Eliminating this EITC is change targeted on the poor and near poor. Some four million poor workers will have a tax increase at the same time as the Republican plan promises \$100 billion in tax cuts for others over five years.

These EITC recipients receive very little other aid from the federal government.

Under current law, a single worker at the poverty line will owe about \$1,500 in income taxes and the payroll tax (both shares). If the EITC is eliminated, the poverty-line worker's taxes go up. Single workers can now owe income tax, even if their earnings are below the poverty line, and they will owe more if their EITC is eliminated.

The EITC for childless workers never exceeds the sum of what the worker pays in income taxes and the payroll tax (employee-share only). So repealing this EITC is a tax increase for those already paying taxes.

The EITC for childless workers was enacted in 1993, after low-income single workers experienced a decade of substantial tax increases, unlike other taxpayers, whose increases in payroll taxes were offset by income tax cuts.

Transportation

- ***New Transportation Fees*** — The draft Republican budget resolution requires the FAA to establish charges for the awarding of airport takeoff and landing slots, raising \$500 million in 1999 and \$2.5 billion over the five-year period 1999-2003. The draft resolution also establishes Federal inland waterway system user fees to fully offset the costs of operations and maintenance and new construction, raising \$170 million in 1999 and \$2.0 billion over the five-year period 1999-2003.
- ***Airport Improvement Program (AIP)*** — The draft Republican budget resolution cuts AIP outlays by \$36 million in 1999 and \$1.7 billion over the five-year period 1999-2003. Over five years, this is an approximate 20 percent cut from the 1998 level.

- **National Aeronautics and Space Administration (NASA)** — The draft Republican budget resolution cuts funding for NASA's science, aeronautics, and technology program by \$129 million in 1999 and \$576 million over the five-year period 1999-2003.
- **Amtrak** — The draft Republican budget resolution cuts operating subsidies for Amtrak and terminates the next generation high-speed rail program, cutting \$193 million in 1999 and \$1.7 billion over the five-year period 1999-2003. (The President's budget increased Amtrak capital grants and assumed continued operating assistance through 2002 from funds made available by the Taxpayer Relief Act of 1997.)
- **BESTEA Programs** — The draft Republican budget resolution does not accommodate the spending levels of the House-passed Building Efficient Surface Transportation and Equity Act of 1998 (BESTEA). Spending in the draft resolution is \$40-\$41 billion below BESTEA levels over five years in both contract authority and outlays (\$4.8 billion in contract authority and \$2.4 billion in outlays in 1999). Even without proposed cuts to selected BESTEA programs, the draft resolution would be below BESTEA by \$37-\$38 billion in contract authority and \$35-\$36 billion in outlays over five years (\$4.2 billion in contract authority and \$1.9 billion in outlays in 1999).

Proposed cuts from selected BESTEA programs total \$695 million in budget authority and \$452 million in outlays in 1999 and \$4.3 billion in budget authority and \$5.8 billion in outlays over the five-year period 1999-2003. These cuts include the following:

General Fund Programs — The draft Republican budget resolution shifts funding of several general fund programs to the Highway Trust Fund. In so doing, the draft resolution cuts the general fund spending without making corresponding increases to trust fund spending. The claimed savings are \$478 million in 1999 and \$3.0 billion over the five-year period 1999-2003.

Appalachian Regional Commission (ARC) — The draft Republican budget resolution ends separate funding for ARC road construction, cutting ARC administrative funding by \$67 million in 1999 and \$335 million over the five-year period 1999-2003.

Intelligent Transportation Systems (ITS) — The draft Republican budget resolution terminates ITS funding, cutting \$25 million in outlays in 1999 and \$347 million over the five-year period 1999-2003.

Scenic Byways — The draft Republican budget resolution terminates separate funding for scenic byways, cutting \$4 million in outlays in 1999 and \$52 million over the five-year period 1999-2003.

Mass Transit Capital — The draft Republican budget resolution reduces funding for mass transit capital expenditures, causing no change in 1999 but cutting \$2.0 billion in outlays over the five-year period 1999-2003.

Education

- **Consolidate higher education programs** — The Republican plan consolidates 15 different higher education programs. The plan claims that the consolidation generates enough savings to pay for a \$350 increase in the maximum Pell grant. The plan, which appears to have no net budgetary effect, does not identify which programs are consolidated or how the increase in the Pell grant will be achieved.
- **Eliminate bilingual education** — The draft Republican budget resolution eliminates funding for bilingual education to help children with limited English proficiency. It cuts federal support for these programs by \$204 million in 1999 and \$1.0 billion over the five-year period 1999 to 2003.
- **Education Savings Accounts for Grades K-12** — The draft 1999 Republican budget resolution assumes an expansion of the current post-secondary education IRA to include education expenses for grades K-12.
- **Education Vouchers for Title I** — The draft 1999 Republican budget resolution converts the current Title I program for disadvantaged children to a voucher program. Funds are directed to individual children, and not the school they attend.
- **Block Grant for Elementary and Secondary Education Programs** — The draft 1999 Republican budget resolution contains rhetoric about block granting several undefined education programs. However, it does not propose the consolidation, nor does it list the cuts for these undefined categorical programs.

Veterans

- **Tobacco-Related Illnesses** — The draft Republican budget resolution denies disability compensation to veterans who became addicted to tobacco products while serving in the military and later develop an illness as a result of the addiction. This proposal reduces spending on veterans by \$400 million in 1999 and by \$10.0 billion over five years.

Energy

- **Eliminate the Department of Energy** — The draft Republican budget resolution assumes the elimination of the Department of Energy (DOE). The plan states that most of the programs currently carried out by DOE will be transferred to other government agencies.
- **Sell Power Marketing Administrations** — The draft Republican budget resolution assumes the sale of the Southwestern, Western, and Southeastern Power Marketing Administrations. The proposal calls for the sale of assets related to power generation,

such as generators, turbines, and transmission lines while retaining other assets such as dams, locks, reservoirs, and reservoir lands. The draft Republican budget resolution assumes the sale of the PMAs will save \$6.6 billion over five years.

- ***Terminate Applied Research and Development*** — The draft Republican budget resolution cuts applied research and development within the energy supply and conservation accounts by \$2.0 billion over five years. In addition, the proposal cuts \$2.1 billion by reducing funding for fossil energy research and development and by terminating the Clean Coal Technology Program.
- ***Corporatize National Laboratories*** — The draft Republican budget resolution transfers most, if not all, non-weapon-oriented national laboratories to a nonprofit research and development corporation.

Natural Resources and the Environment

- ***Discontinue Federal Land Acquisition*** — The draft Republican budget resolution eliminates future funding for federal land acquisition. Overall, this proposal cuts funding for land acquisition by \$1.4 billion over five years.
- ***Consolidate Federal Land Management Agencies*** — The draft Republican budget resolution assumes, but does not specify, savings from the consolidation of land management agencies other than the National Park Service.
- ***Eliminate NOAA Fleet and Uniformed Corps*** — The draft Republican budget resolution eliminates the National Oceanic and Atmospheric Administration's (NOAA) fleet and uniformed corps. According to the plan, this proposal cuts NOAA's funding by \$480 million over five years.

Housing

- ***Flood Insurance Subsidy*** — The draft Republican budget resolution makes mandatory cuts of \$40 million in 1999 and \$1.7 billion over five years by reducing federal flood insurance subsidies to individuals living in flood plains by charging them higher premiums.
- ***Surplus Federal Property for the Homeless*** — The draft Republican budget resolution makes mandatory cuts of \$100 million over 5 years by repealing a provision that gives right of first refusal in the disposal of surplus Federal properties to groups providing aid to the homeless.

Community and Regional Development

- ***Eliminate Economic Development Administration*** — The Economic Development Administration (EDA) assists commercial and industrial growth in urban and rural areas that have high unemployment, large percentages of poor people, and sudden and severe distress. The draft Republican budget resolution assumes a \$1.8 billion cut over five years, which would effectively eliminate EDA programs.
- ***Establish Native American Block Grant*** — The Bureau of Indian Affairs (BIA) helps Native American communities manage forest land and mineral resources and aids business development, improves Native American housing facilities and schools, and builds infrastructure within Native American communities. The draft Republican budget resolution assumes that the BIA would administer its programs through block grants. The block grant proposal cuts funding for Native American development programs by \$1.1 billion over five years.
- ***Establish Revolving Fund*** — The Department of Agriculture (USDA) assists rural communities and businesses by providing loans and grants through the Rural Community Advancement Program (RCAP) for safe drinking water, improving waste water treatment facilities, and expanding economic development. The draft Republican budget resolution restructures the RCAP into a revolving fund in FY 2001 and cuts funding for these programs by \$1.6 billion, or 46 percent, over five years.
- ***Consolidate the Community Development Block Grant and the Community Development Financial Institutions Fund*** — The Community Development Block Grant (CDBG) offers states and localities flexible funds for activities that benefit low-income persons; prevent or eliminate slums and blight, or meet urgent community needs regarding threats to public health. The Community Development Financial Institutions Fund (CDFI) provides funds that must be matched by non-federal money to promote economic revitalization and community development. The draft Republican budget resolution consolidates CDFI into CDBG and cuts these programs by \$397 million over five years.

Justice Programs

- ***Eliminate Legal Services Corporation*** — The Legal Services Corporation provides services to poor individuals and families who are in need of legal assistance but cannot afford private counsel. The draft Republican budget resolution assumes a \$1.4 billion cut over five years by eliminating the Legal Service Corporation in 1999.

Welfare

- ***Eliminate welfare-to-work grants provided by the BBA*** — The draft Republican budget resolution eliminates \$1.5 billion in funding for welfare-to-work grants provided by last year's Balanced Budget Agreement. These grants to states and local communities support efforts to create job opportunities for the hardest-to-employ welfare recipients.

Food Stamps

The draft Republican budget resolution rescinds two provisions enacted as part of the BBA — the exemption for able-bodied adults, and funding for employment and training. It also freezes the excess shelter expense deduction. Together, these three changes cut federal spending on the Food Stamp Program by \$369 million in 1999 and by \$2.3 billion over the five-year period 1999-2003.

- ***Eliminate exemption from food stamp work requirements for able-bodied adults without dependents*** — The draft Republican budget resolution eliminates the 15 percent exemption from the food stamp work requirements for able-bodied adults without dependents. The 1996 welfare law limited food stamp benefits for adults who do not have children and who are not working or participating in a work-related activity, with few exceptions. The BBA provides states with flexibility to address the needs of this population by allowing them to exempt up to 15 percent of their caseloads from this requirement.
- ***Eliminate funding for food stamp employment and training programs*** — The draft Republican plan eliminates additional funding provided by the BBA for food stamp employment and training programs. The BBA significantly increased federal funds for employment and training programs for food stamp recipients. These grants do not require state matching funds, remain available indefinitely, and are intended largely to serve able-bodied adults affected by the work requirements under the 1996 welfare law. On May 12, 1998, the Senate passed the conference agreement on the Agriculture Research bill that reduces the amount of food stamp employment and training funds in 1999 and 2000, for a total savings of \$200 million.
- ***Freeze food stamp shelter deduction*** — The draft Republican budget resolution freezes the cap on the deduction for excess shelter costs under the Food Stamp Program at its current level of \$250. Under current law, the deduction is scheduled to increase to \$300 by 2001. This deduction allows households to deduct excess shelter costs in determining their food stamp benefits.
- ***Limit federal reimbursement for administrative costs for food stamps and Medicaid*** — The Republican plan limits increases in federal reimbursement for food stamp and Medicaid administrative costs to the rate of inflation. (It is not clear whether this change also reduces the federal match rate for these costs, as proposed in the President's budget.) The Republican change reduces federal spending by an estimated \$300 million in 1999 and \$4.3 billion over the five-year period 1999-2003. The conference agreement on the

Agriculture Research bill, passed by the Senate on May 12, 1998 (and expected to be passed by the House shortly) already reduces food stamp administrative costs by \$1.73 billion over five years.

Employment and Training

- ***Block grant programs under the Job Training Partnership Act (JTPA)*** — The draft Republican budget resolution cuts funding for JTPA employment and training programs by \$511 million in 1999 and \$2.7 billion over the five-year period 1999 to 2003. The plan assumes that these cuts will come from administrative savings caused by consolidating JTPA programs.

Defense

- ***Defense increases \$73 billion*** — Defense is not mentioned in the draft Republican budget resolution, which apparently means that defense is assumed to be funded at the levels in the Balanced Budget Agreement. This constitutes a five-year funding increase of \$73 billion above 1998 levels. With that funding increase, defense outlays would grow from \$267 billion in 1999 to \$281 billion in 2003.

International Affairs

- ***International Affairs*** — Over five years, the draft Republican budget resolution cuts spending for international affairs by \$9.2 billion, which represents a cut of 9.6 percent below a five year freeze. Spending for international affairs in 1999 is cut by \$1.1 billion, which is 5 percent below 1998 funding. The draft resolution cuts Economic Support Funds by \$2.6 billion over five years. The draft resolution privatizes the U.S. Information Agency and abolishes the Arms Control and Disarmament Agency. The draft resolution eliminates all funds for international food aid under P.L. 480 as well as funds for multilateral development banks and the International Development Association.



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

May 12, 1998

THE DIRECTOR

The Honorable Bud Shuster
Chairman
Committee on Transportation
2165 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As the House-Senate conference on reauthorization of the *Intermodal Surface Transportation Efficiency Act* (H.R. 2400) proceeds, I write urging your consideration of a proposal the Administration has made to resolve the important budget issues raised by this legislation.

On April 30, I sent you a letter expressing the Administration's serious concerns about the excessive spending in the House and Senate bills; in particular, that the spending levels would either require unacceptable reductions in high priority discretionary program funding, or they would drain anticipated budget surpluses prior to fulfilling our commitment to save Social Security first.

These budgetary concerns were reiterated in a May 1 letter to conferees from Secretary Slater, along with a detailed review of other important policy issues that need to be resolved in an acceptable manner in order to bring this legislation to a conclusion. These issues include a stronger national standard for drunk driving and other safety concerns, maintenance of the historical balance in highway-transit funding, and ensuring protection of the environment as we carry out transportation programs.

Last week, during the course of ongoing discussions with conferees, the Administration proposed the attached framework for bridging some of the distance between the funding levels supported by the Administration, the House and the Senate. The framework is based on four principles: (1) the projected budget surplus shall not be used to pay for the legislation; (2) spending shall be offset fully, without lowering the caps on discretionary spending; (3) after a phase-in period, total budget resources spent each year should equal total receipts to the Highway Trust Fund (HTF); and (4) spending levels in the legislation shall be sustainable after the end of the authorization period.

This framework fulfills the objective of many in Congress that one hundred percent of Highway Trust Fund receipts be available for obligation. After an appropriate phase-in period, a new budget mechanism would require that total funding equal 100 percent of total HTF receipts. This funding guarantee would serve as both a floor and a ceiling for fiscal years 1999-2004. In exchange for the unprecedented guarantee of authority to spend all prior year Trust Fund

receipts, this framework also establishes that total surface transportation spending will not exceed receipts. Total funding over the reauthorization period would equal \$218.9 billion, which is between the amounts called for in the House and Senate bills. However, this funding would be provided over seven years, instead of six, in order to satisfy the Administration's core principles that the surplus not be depleted and the spending caps not be reduced.

The President's senior advisers would recommend that he veto a conference report that makes available an excessive level of budgetary resources if financed by spending the surplus, by reducing the domestic discretionary caps, by using unacceptable offsets, or by forcing cuts in domestic priorities. We would also recommend veto of a conference report that skews transportation priorities.

We need final action now on this critical legislation. The Administration strongly urges the conferees to seriously consider the framework discussed in this letter, which would ensure stable funding for surface transportation, in a manner that is both fiscally responsible and consistent with the President's pledge to save Social Security first.

Sincerely,

A handwritten signature in black ink, appearing to read 'F. D. Raines', with a stylized flourish at the end.

Franklin D. Raines
Director

Attachment

Identical Letter Sent To:

The Honorable Bud Shuster
The Honorable James Oberstar
The Honorable Tom Petri
The Honorable Nick Rahall
The Honorable John Chafee
The Honorable Max Baucus
The Honorable John Warner
The Honorable William Roth
The Honorable Daniel Patrick Moynihan
The Honorable Alfonse D'Amato
The Honorable Paul Sarbanes
The Honorable John McCain
The Honorable Ted Stevens
The Honorable Ernest Hollings
The Honorable Pete Domenici
The Honorable Frank Lautenberg
The Honorable Tom Bliley
The Honorable George Brown
The Honorable John Dingell
The Honorable Jim Sensenbrenner

ISTEA REAUTHORIZATION

May 5, 1998

Core principles. Final legislation must be consistent with the following principles:

- The projected budget surplus shall not be used to pay for the legislation.
- Spending shall be offset fully, without lowering the cap on other discretionary spending.
- After a phase-in period, total budget resources spent each year should equal total receipts to the Highway Trust Fund (HTF).
- Spending levels in the legislation shall be sustainable after the end of the authorization period.

Aggregate Funding. Any agreement reached on funding issues is contingent on agreement regarding policy issues.

- Aggregate budgetary resources (obligation limitations plus any budget authority not subject to limitation) will total \$218.9 billion over the period 1998-2004.
- A new budget mechanism will provide, after an appropriate phase-in period, negotiated assurances that all receipts to the HTF will be obligated. Total budgetary resources in each year will equal estimated *prior year* receipts (as in the Chafee-Bond proposal) in order to provide States with certainty about spending levels.
- Assured spending will be distributed between highway spending and transit spending in the same proportions as total authorizations are distributed between highways and transit in the Senate bill. Within the total for highways, highway safety will be funded at the authorization levels contained in the Administration's NEXTEA proposal. This offer assumes that no demonstration projects are funded. If any demonstration projects are included in final legislation, they will need to be funded within the total for highways.
- Balances in the Highway Account of the HTF, except those amounts needed to pay for prior year spending, will be transferred to the General Fund. The Highway Trust Fund will not collect interest.

- In 1999 and 2000, total funding would equal the levels in the President's Budget; in 2001, total funding would equal 97 percent of total HTF receipts; in 2002 and beyond, total funding would equal 100 percent of total HTF receipts:

	(In billions of dollars)							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
<u>Prior-Year Receipts</u> ^{1/}	23.9	32.3	32.4	33.2	33.8	34.4	35.1	225.2
<u>Total</u>								
Budget resources	28.0	27.8	27.7	32.1	33.8	34.4	35.1	218.9
Outlays	26.5	27.3	27.7	28.7	30.8	32.5	33.5	206.9
<u>Hwy Funding</u>								
BR	23.1	23.0	22.9	26.0	27.4	27.9	28.4	178.8
OL	22.3	23.4	23.4	24.1	25.6	26.7	27.4	173.1
<u>Transit Funding</u>								
BR	4.8	4.8	4.8	6.1	6.4	6.5	6.7	40.1
OL	<u>4.2</u>	<u>3.9</u>	<u>4.3</u>	<u>4.6</u>	<u>5.1</u>	<u>5.7</u>	<u>6.0</u>	<u>33.8</u>

1/ Receipts have been normalized to eliminate the '97 TRA one-time shift of deposits between '98 and '99.

- All outlays above those called for in the President's Budget will be offset fully under CBO scoring by implementing, as part of the reauthorization, the "VA tobacco" proposal contained in the President's Budget. Outlays savings associated with the VA tobacco offset, *net of funds needed for the President's GI Bill initiative*, are as follows:

	(In billions of dollars)							
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
OMB scoring	n.a.	-0.7	-1.2	-2.1	-6.0	-6.0	-6.0	-21.8
CBO scoring	n.a.	-0.4	-0.8	-1.7	-2.6	-3.6	-4.6	-13.5

CongressDailyAM

MONDAY

TUESDAY

WEDNESDAY

THURSDAY

FRIDAY

MAY 14, 1998

GOP Health Bill To Exclude Cap On Malpractice Awards

HEALTH

THE HEALTH PACKAGE THAT will be unveiled by a House GOP task force next week is unlikely to include provisions to cap medical malpractice awards — and that omission is backed by the American Medical Association, which has previously touted malpractice reform as a top legislative priority. The task force “absolutely” will have a bill, at least in concept, to recommend to the full House by its self-imposed deadline of next week, its chairman, **House Chief Deputy Majority Whip Dennis Hastert**, R-Ill., told reporters Wednesday.

But while the measure is likely to include a wide variety of proposals in addition to patient protection provi-

sions from the popular “Patient Access to Responsible Care Act,” it probably will not seek to impose caps on non-economic damages in medical malpractice suits. “This is the first time the medical community isn’t actually lobbying for” the malpractice changes, said Hastert, adding that AMA officials had said they “don’t want any poison pills” in the measure.

An AMA spokesman denied that anyone from his organization actually recommended that the working group not include malpractice language in the package, but said the AMA does concur with the sentiment. “There’s no question in our minds that [malpractice damage caps] would make enactment of patient protection

continued on page 6

ISTEA Spending Levels Approved

TRANSPORTATION

THE HOUSE and Senate leadership Wednesday agreed to fund highway programs at higher levels than set in the balanced budget agreement, but by less than the amount of either the House- or Senate-passed bills to reauthorize the Intermodal Surface Transportation Efficiency Act. The leaders also agreed to \$23 billion in controversial spending offsets.

During a two-hour meeting, the top leadership did not agree on funding levels for transit programs or a mechanism to guarantee gas tax revenues are used for transportation. But **House Speaker Gingrich** said afterward that they still plan to take all offsets from mandatory spending.

“I don’t know how soon we’ll get it all done,” said **Senate Budget Chairman Domenici**. “There’s a lot of loose ends. We have to wait for some scoring evaluations.”

For highways only, the Republican leadership agreed to spend \$158 billion in outlays and \$167 billion in contract authority over six years. The bal-

anced budget agreement called for spending roughly \$135 billion in outlays over six years and \$147 billion in contract authority.

Those numbers would produce an increase in highway funding of \$23 billion in outlays and \$20 billion in contract authority over six years beyond the balanced budget agreement.

To increase those highway outlays by \$23 billion, the House and Senate leadership agreed to the following offsets: \$14 billion from scaling back cash benefits for veterans who smoked, and from other veterans’ programs; \$3 billion from cutting unspecified social services block grants; and \$6 billion from cutting federal mortgage and housing programs, which was just added at the negotiating table Wednesday.

The leadership originally had on the table a \$1.9 billion cut in Medicaid payments to the states. And House and Senate negotiators discussed raising that to a \$7 billion cut during the meeting Tuesday, sources said.

But **Senate Environment and Public Works Chair-**

continued on page 13

▼ TODAY'S HIGHLIGHTS

Floor Schedule

Senate

Convenes at 9:30 a.m. to consider the Defense authorization bill and pending high tech legislation. Roll call votes are expected throughout the day.

House

Convenes at 10 a.m. to consider the Mandates Information Act, the Freedom from Religious Persecution Act, and wildlife refuge reauthorization legislation.

(Committee schedules begin on page 15.)

Inside Stories

On The Money

■ If it’s May, it must be Labor-HHS, page 5.

Banking

■ House passes banking bill, page 3.

Budget

■ Kasich plan hits GOP wall, page 4.

Everyone is hearing a lot of **FALSE** information about hospitals, physicians and the False Claims Act

WHAT'S FALSE?

FALSE. The Department of Justice is currently working with physicians and hospitals in a truly meaningful way to end the misuse of the False Claims Act.

FALSE. Changing the harsh "guilty until proven innocent" tone of "demand" letters is a substantive change in DOJ policy.

FALSE. The 150 cosponsors of the Health Care Claims Guidance Act want to "gut" the False Claims Act.

FALSE. In applying the False Claims Act to Medicare billing, the Justice Department distinguishes between unintentional billing errors and intentional fraud.

FALSE. H.R. 3523/S. 2007 create a "free fraud" zone.

WHAT'S TRUE?

The **TRUTH** is that hospitals and physicians have zero tolerance for fraud.

The **TRUTH** is that hospitals and physicians also have zero tolerance for DOJ's misuse of the False Claims Act — and for treating hospitals and physicians as guilty until proven innocent.

The **TRUTH** is that DOJ's actions are causing scarce health care dollars to be spent on lawyers and auditors instead of patient care.

The **TRUTH** is that more than 150 cosponsors support the Health Care Claims Guidance Act.

The **TRUTH** is that the False Claims Act was created to identify and prosecute those who defraud the government.

Let's keep it that way.

Support H.R. 3523 and S. 2007 The Health Care Claims Guidance Act

American Academy of Ophthalmology • American Academy of Otolaryngology Head & Neck Surgery • American Academy of Physicians of Indian Origin • American Association of Neurological Surgeons • American College of Emergency Physicians • American Gastroenterological Association • American Hospital Association • American Medical Association • American Medical Group Association • American Organization of Nurse Executives • American Psychiatric Association • American Society for Healthcare Risk Management • American Society of Anesthesiologists • American Urological Association • Association of American Medical Colleges • Catholic Health Association • Congress of Neurological Surgeons • Federation of American Health Systems • Health Industry Initiative • Healthcare Leadership Council • Medical Group Management Association • National Association of Psychiatric Health Systems • National Association of Public Hospitals • National Council of Community Hospitals • Premier, Inc. • Society of Nuclear Medicine • Society of Thoracic Surgeons • Society for Social Work Leadership in Health Care • VHA Inc.

ISTEA

Continued from page 1

man Chafee, who has been a longtime supporter of Medicaid and healthcare access for the poor, prevailed during the leadership meeting to remove all Medicaid cuts. The budget writers and leaders then agreed instead to cut the federal mortgage and housing programs.

The House bill contains \$181 billion in contract authority for highways while the Senate bill contains \$173 billion. That means the new agreement falls \$6 billion to \$14 billion short of highway contract authority levels in those bills.

However, those levels far exceed those proposed by President Clinton. And OMB Director Raines in a letter Wednesday for the first time threatened to recommend a "veto" if the ISTEA funding levels are too high.

With less money in the highway allocation pot, states are sure to see their highway dollar amounts decrease from the House and Senate bills. That also means the state allocation formula fight

will become more fierce because of fewer resources.

"We still have to work out the transit thing," said Chafee. House and Senate negotiators for weeks have disagreed over the scoring of transit programs, which affects how much in outlay offsets are needed to fund them.

One aide said they have resigned themselves to the fact that they must also pay for \$5 billion in transit projects from the last ISTEA, for which the bills have not yet come due.

House Transportation and Infrastructure Chairman Shuster said ISTEA conferees will meet early today to discuss the current status of the bill.

Gingrich reiterated, "We have a general agreement that the gas tax user fees will be used for highways and mass transit, exactly as we said."

With funding disagreements still outstanding, aides said there is little chance now for an ISTEA conference agreement to reach the floors before the Memorial Day recess.

— BY MATTHEW MORRISSEY

Direct Aid Flights Resume To Cuba

■ THE UNITED STATES Wednesday implemented previously announced procedures for increased humanitarian aid to the Cuban people through direct flights, the *Associated Press* reported.

The announcement means that, effective immediately, direct flights are being permitted for the first time since President Clinton suspended them in February 1996. Such flights are permitted only from Miami.

The measures also allow people in the United States to send up to \$1,200 a year to family members in Cuba. Such remittances were banned in 1994. The administration pledged to expedite the sale and donation of medicine and medical supplies.

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TOP NEWS

SPOTLIGHT
The Story Within The Story
Waiting a year at the table of the ongoing global tobacco settlement talks, Ohio Attorney General Betty Montgomery has filed a lawsuit against the tobacco industry to recap state funds spent treating smokers. Ohio joins more than two dozen states which have filed against the industry. However, settling with the cigarette makers may be the easy part.

Competition Two class action lawsuits have already filed out as a result of the state, and one of them has been participating in the talks with the industry. Meanwhile, they claim that their suit takes precedence and any other settlements will go to Ohio through them, unless they first approve the new order are headed for a showdown, regardless of any settlement resolution. (11)

Fits Like A Glove
Attempting to "create a small map" for passage of a bill in the House. Congress is trying to pass a bill to end cigarette taxes that cover exactly the amount of money for children's insurance in last week's budget deal. (11)

Empire State Stomach
Late medical treatment payments by IBM's in New York prompt Gov. Pataki to call for a state-wide investigation. (11)

Rocky Mountain Marriage
Blue Cross and Blue Shield of Colorado announce plans to accept HSA Health Plans making BOPB the state's largest health plan. (11)

Watching Out For The Little Guy
An advisory board created by Massachusetts Gov. Weld proposes a set of reforms for the state's individual health insurance. (11)

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THE DIRECTOR

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

May 13, 1998

Dr. Robyn
226

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines 

SUBJECT: Status of the Intermodal Surface Transportation Efficiency Act (ISTEA)
Reauthorization -- INFORMATION

Erskine asked us to send you a comparison of the House and Senate versions of the transportation reauthorization bill now being considered in Conference.

Background

Earlier this month, the Administration offered a compromise on ISTEA that would provide Congress one of their key objectives (a guarantee that annual surface transportation spending would equal Highway Trust Fund receipts). In exchange for this spending guarantee, the proposal would set spending significantly below the levels contemplated in the House and Senate bills. The compromise would preserve the budget surplus and would protect discretionary funding for your other priorities.

Congress would like to complete floor action on this bill prior to the Memorial Day recess that begins May 22, but it is unclear whether they can meet this deadline. ISTEA programs have been operating this year under a short-term extension that permits transit, highway safety, and Department of Transportation administrative programs to continue at a reduced level for the next several months. However, States have been prohibited from obligating new highway construction funds since May 1, 1998. Although construction work continues using carryover funds, the pressure will increase for Congress to authorize a bill quickly.

On May 12, the Administration sent a letter to the conferees (attached) notifying them that your senior advisers will recommend that you veto the conference report if it "makes available an excessive level of budgetary resources if financed by spending the surplus, by reducing the domestic discretionary caps, by using unacceptable offsets, or by forcing cuts in domestic priorities." In addition, the letter stated that your senior advisers would "also recommend veto of a conference report that skews transportation priorities."

Funding Issues

The following table summarizes the funding levels included in the various reauthorization proposals. Each proposal is described in more detail below. For 1999 alone, surface transportation programs would be funded at more than 25 percent above the levels in the President's budget (roughly 1998 enacted). The attachment provides annual funding levels for each proposal.

Comparison of Budgetary Resources 1998-2003
(Mandatory and Discretionary \$ in billions)

	Admin. NEXTEA	House BESTEA	Senate ISTEA 2	Admin. May 5 Proposal
Highways	137.6	183.0	177.5	150.3
Transit	28.7	36.7	40.5	33.5
TOTAL	166.5	219.7	218.0	183.8

House: Building an Efficient Surface Transportation Efficiency Act (BESTEA)

The House bill would provide \$219.7 billion in budgetary resources, \$53 billion above your request. This includes \$9.3 billion for almost 1,500 highway demonstration projects that are funded as mandatory spending. Nearly 17 percent of the spending authorized by BESTEA is provided for transit. BESTEA includes a requirement that the Conference Report identify offsets to pay for any spending in the bill above a baseline frozen at the 1998 enacted level. To date, no offsets have been identified.

Under BESTEA, total budgetary resources (the amounts available for obligation) would be set at levels significantly above HTF receipts. Supporters nonetheless claim that "spending equals receipts" because outlays would equal receipts during the period 1998-2003. This of course means that beyond 2003 outlays would significantly exceed tax receipts. BESTEA would guarantee this spending by taking "off budget" all highway and transit spending that is financed by the Highway Trust Fund. To fund the spending contained in BESTEA, other non-defense outlays would need to be reduced by \$34 billion during the period 1999-2003.

Senate: The Intermodal Surface Transportation Efficiency Act 2 (ISTEA 2)

The Senate proposal would provide \$218 billion in budgetary resources, \$51 billion above the President's Request. ISTEA2 includes no demonstration projects, although some

Senate demonstration projects will likely be included in the final bill. ISTEA2 includes a requirement that demonstration projects be incorporated into the regular highway program formula allocations among the States, thereby diminishing the incentive for earmarking. Roughly 19 percent of the total spending in ISTEA 2 would be devoted to transit.

ISTEA2 continues the current budgetary treatment of highway and transit programs. Almost all funding is subject to the appropriations process and is not guaranteed. ISTEA2 does not include any offsets, although the Senate Budget Resolution assumes that many of your new mandatory offset proposals would be redirected to offset highway spending.

Administration Proposal

On May 5, the Administration proposed a compromise designed to reflect four core principles: (1) the budget surplus shall not be used to pay for the legislation; (2) spending shall be offset fully, without lowering the cap on other discretionary spending; (3) after a phase-in period, total budgetary resources spent annually should equal total Trust Fund receipts; and (4) spending levels must be sustainable for the long-run.

The Administration proposal would provide total spending equal to \$218.9 billion -- the average of the House and Senate bills -- but spread that spending over seven years rather than the six years contained in BESTEA and ISTEA 2. (The Administration offer would provide \$183.8 billion during the 1998-2003 period contemplated by the House and Senate bills, an increase of \$17.4 billion in budgetary resources and \$8.1 in outlays over our original NEXTEA proposal). As in the Senate bill, the Administration's proposal would provide 19 percent of total resources to transit. No demonstration projects would be provided; to the extent they were included in the final legislation, they would need to be funded out of the total for highways.

The Administration proposal incorporates a key Congressional goal: guaranteeing that annual spending on surface transportation equal to annual receipts into the Highway Trust Fund. In contrast to BESTEA, however, the Administration's proposal sets spending so that budgetary resources, not outlays, equal receipts. This not only lowers the cost of our proposal, but also allows program spending levels to be sustained in the long-run (the House and Senate bills would obligate far more than receipts -- thus, at some time not too far beyond the budget window, spending would have to be curtailed or the gas tax would have to be increased). In addition, the Administration's proposal would guarantee *all* spending for transit and highways alike.

The Administration proposal would phase in the spending guarantee. Spending would equal the levels in the President's Budget for 1999 and 2000, and then rise to 97 percent of prior-year Trust Fund receipts in 2001, and 100 percent of prior-year receipts thereafter. This spending level would be guaranteed by creating a third category of spending (surface transportation) under the Budget Enforcement Act. This category would set not only a *floor*, but also a *ceiling* on surface transportation spending, and thereby protect other discretionary spending from pressure to approve even higher levels of transportation spending.

Our proposal would be offset fully by CBO's current scoring of the \$13.5 billion VA/tobacco provision contained in your budget. If CBO chose to adopt OMB scoring of this provision (at \$21.8 billion), our proposal would support an additional \$8.3 billion of transportation spending through 2004 (net of the spending on veterans' training and education programs).

Key Policy Issues

Many of the priorities included in the Administration's NEXTEA proposal are incorporated in both the House and Senate bills. For example, the Disadvantaged Business Enterprise program has been retained and the new Access to Jobs program is funded. Below are several of the issues that still need to be resolved in Conference.

- .08 Blood Alcohol - As you know, the Senate bill includes a provision which withholds highway construction funds from States (beginning in Fiscal Year 2002) if they have not adopted a .08 blood alcohol concentration standard under state drunk driving laws. The House bill does not contain a similar provision. To date, the conferees have made no progress on this issue.
- Environmental Programs - BESTEA includes an onerous provision that would permit the oversight of the National Environmental Policy Act process to be delegated to the States. In addition, we oppose the transferability of environmental program funds to highway construction.
- Woodrow Wilson Bridge - The Woodrow Wilson Bridge is the only Federally-owned bridge on the Interstate System. The bridge is on the Capitol Beltway south of Washington. The Administration requested \$400 million as the Federal share of the \$1.9 billion replacement cost, with Maryland and Virginia responsible for the remaining cost. The Senate bill includes \$900 million as the Federal share for this project, while the House provides no funding. In discussions with the Maryland and Virginia delegations, the Administration has pledged that it will not oppose up to \$900 million as the Federal share and, if Maryland and Virginia want it, a Federal loan to help finance the State share. Maryland and Virginia are pushing for no less than \$1.5 billion in Federal grant funding. To date, it appears that \$900 million is as much as the States can expect from the conferees.

Attachments



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

May 12, 1998

THE DIRECTOR

The Honorable Bud Shuster
Chairman
Committee on Transportation
2165 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As the House-Senate conference on reauthorization of the *Intermodal Surface Transportation Efficiency Act* (H.R. 2400) proceeds, I write urging your consideration of a proposal the Administration has made to resolve the important budget issues raised by this legislation.

On April 30, I sent you a letter expressing the Administration's serious concerns about the excessive spending in the House and Senate bills; in particular, that the spending levels would either require unacceptable reductions in high priority discretionary program funding, or they would drain anticipated budget surpluses prior to fulfilling our commitment to save Social Security first.

These budgetary concerns were reiterated in a May 1 letter to conferees from Secretary Slater, along with a detailed review of other important policy issues that need to be resolved in an acceptable manner in order to bring this legislation to a conclusion. These issues include a stronger national standard for drunk driving and other safety concerns, maintenance of the historical balance in highway-transit funding, and ensuring protection of the environment as we carry out transportation programs.

Last week, during the course of ongoing discussions with conferees, the Administration proposed the attached framework for bridging some of the distance between the funding levels supported by the Administration, the House and the Senate. The framework is based on four principles: (1) the projected budget surplus shall not be used to pay for the legislation; (2) spending shall be offset fully, without lowering the caps on discretionary spending; (3) after a phase-in period, total budget resources spent each year should equal total receipts to the Highway Trust Fund (HTF); and (4) spending levels in the legislation shall be sustainable after the end of the authorization period.

This framework fulfills the objective of many in Congress that one hundred percent of Highway Trust Fund receipts be available for obligation. After an appropriate phase-in period, a new budget mechanism would require that total funding equal 100 percent of total HTF receipts. This funding guarantee would serve as both a floor and a ceiling for fiscal years 1999-2004. In exchange for the unprecedented guarantee of authority to spend all prior year Trust Fund

receipts, this framework also establishes that total surface transportation spending will not exceed receipts. Total funding over the reauthorization period would equal \$218.9 billion, which is between the amounts called for in the House and Senate bills. However, this funding would be provided over seven years, instead of six, in order to satisfy the Administration's core principles that the surplus not be depleted and the spending caps not be reduced.

The President's senior advisers would recommend that he veto a conference report that makes available an excessive level of budgetary resources if financed by spending the surplus, by reducing the domestic discretionary caps, by using unacceptable offsets, or by forcing cuts in domestic priorities. We would also recommend veto of a conference report that skews transportation priorities.

We need final action now on this critical legislation. The Administration strongly urges the conferees to seriously consider the framework discussed in this letter, which would ensure stable funding for surface transportation, in a manner that is both fiscally responsible and consistent with the President's pledge to save Social Security first.

Sincerely,

A handwritten signature in black ink, appearing to read 'F. D. Raines', with a stylized flourish at the end.

Franklin D. Raines
Director

Attachment

Identical Letter Sent To:

**The Honorable Bud Shuster
The Honorable James Oberstar
The Honorable Tom Petri
The Honorable Nick Rahall
The Honorable John Chafee
The Honorable Max Baucus
The Honorable John Warner
The Honorable William Roth
The Honorable Daniel Patrick Moynihan
The Honorable Alfonse D'Amato
The Honorable Paul Sarbanes
The Honorable John McCain
The Honorable Ted Stevens
The Honorable Ernest Hollings
The Honorable Pete Domenici
The Honorable Frank Lautenberg
The Honorable Tom Bliley
The Honorable George Brown
The Honorable John Dingell
The Honorable Jim Sensenbrenner**

Surface Transportation Reauthorization Funding
Comparison of Congressional and Administration Proposals
(Mandatory and Discretionary \$ in billions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>1998-2003</u> <u>Total</u>	<u>1998-2004</u> <u>Total</u>
<u>President's Budget</u>									
BR	28.0	27.8	27.7	27.7	27.7	27.6	27.7	166.5	194.2
OL	26.5	27.3	27.7	27.8	28.0	28.1	28.1	165.4	193.5
<i>Highway/Safety</i>									
BR	23.1	23.0	22.9	22.9	22.8	22.8	22.8	137.6	160.4
OL	22.3	23.3	23.4	23.3	23.2	23.1	23.2	138.7	161.9
<i>Transit</i>									
BR	4.8	4.8	4.8	4.8	4.8	4.8	4.9	28.7	33.6
OL	4.2	3.9	4.3	4.5	4.8	4.9	4.9	26.5	31.4
<u>HR 2400, BESTEA</u>									
BR	29.3	35.0	38.9	38.8	38.9	38.8	--	219.7	--
OL	26.6	28.8	32.9	35.7	37.2	37.9	--	199.1	--
<i>Highway/Safety</i>									
BR	24.5	29.0	32.5	32.4	32.4	32.4	--	183.0	--
OL	22.4	24.9	28.2	30.5	31.2	31.6	--	168.8	--
<i>Transit</i>									
BR	4.8	6.0	6.5	6.5	6.5	6.5	--	36.7	--
OL	4.2	4.0	4.7	5.3	5.9	6.3	--	30.3	--
<u>S 1173, ISTEA2</u>									
BR	27.8	36.7	37.4	38.0	38.7	39.5	--	218.0	--
OL	26.4	29.4	33.4	35.5	36.9	38.0	--	199.6	--
<i>Highway/Safety</i>									
BR	22.9	29.8	30.4	30.9	31.4	32.0	--	177.5	--
OL	22.3	25.3	28.4	29.7	30.4	31.0	--	167.1	--
<i>Transit</i>									
BR	4.8	6.9	7.0	7.1	7.3	7.5	--	40.5	--
OL	4.2	4.1	5.0	5.7	6.5	7.0	--	32.5	--
<u>Offer</u>									
BR	28.0	27.8	27.7	32.1	33.8	34.4	35.1	183.8	218.9
OL	26.5	27.3	27.7	28.7	30.8	32.5	33.5	173.4	206.9
<i>Highway/Safety</i>									
BR	23.1	23.0	22.9	26.0	27.4	27.9	28.4	150.3	178.8
OL	22.3	23.4	23.4	24.1	25.6	26.8	27.4	145.7	173.1
<i>Transit</i>									
BR	4.8	4.8	4.8	6.1	6.4	6.5	6.7	33.5	40.1
OL	4.2	3.9	4.3	4.6	5.1	5.7	6.0	27.7	33.8

**cc: Lew
Stein
Sperling
Forbes
Brain
Emery
Kieffer
Damus
Robyn
Marr
Lance**

HYBRID BUDGET PROCESS TO GUARANTEE THAT
GAS TAX REVENUES ARE SPENT

This option creates a guarantee for the Highway Trust Fund that ensures that gas tax revenues are spent for their intended purpose, yet preserves the integrity of the Budget and Appropriations processes. This process contains three elements.

Non-Guaranteed Portion	Discretionary	Additional funding to total contract authority in ISTE II / BESTEA.
Guaranteed Portion	New Mandatory Spending offset in Bill	Extra exempts to the point where funding is equal to tax revenues
	WODI Baseline Exempts	Existing Exempts
	Discretionary Firewall	WODI baseline adjusted for ARC

First, a firewall would be established under the caps to guarantee highway and transit spending at WODI baseline levels. This firewall would act as a floor on highway/transit funding. Otherwise, the role of the Appropriations Committee would be unchanged. (green portion)

Second, the amount of spending needed to ensure that gas tax revenues are spent for these programs in excess of the baseline would be added to the mandatory side of the budget. This level would be pegged to annual gas tax revenues. The discretionary caps would therefore not have to be changed. (yellow portion)

Third, the Appropriations Committee would be authorized to further increase Highway Trust Fund spending above the guaranteed amount if they choose. The outlays from such increases would be charged to the caps. (red portion)

HYBRID BUDGET TRANSIT CONCEPT CALCULATION

		<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total 98-03</u>	<u>Total 99-03</u>
A.	Tax Revenue	3.407	5.256	4.436	4.506	4.578	4.657	26.840	23.433
B.	Firewall Programs at Baseline								
	trust fund capital	2.260	2.260	2.260	2.260	2.260	2.260	13.560	11.300
	formula	2.000	2.000	2.000	2.000	2.000	2.000	12.000	10.000
	general fund formula	0.240	0.240	0.240	0.240	0.240	0.240	1.440	1.200
	UTC	0.006	0.006	0.006	0.006	0.006	0.006	0.036	0.030
	Admin.	0.046	0.046	0.046	0.046	0.046	0.046	0.276	0.230
	Planning	0.092	0.092	0.092	0.092	0.092	0.092	0.552	0.460
	WMATA	--	<u>0.200</u>	<u>0.200</u>	<u>0.200</u>	<u>0.200</u>	<u>0.200</u>	<u>1.000</u>	<u>1.000</u>
	TOTAL	4.644	4.844	4.844	4.844	4.844	4.844	28.864	24.220
C.	New Mandatory Program	0.000	0.563	1.031	1.031	1.031	1.031	4.689	4.689
D.	Total - Firewall + Mandatory	4.644	5.407	5.875	5.875	5.875	5.875	33.553	28.909
E.	Administration Budget Resources	4.800	4.800	4.800	6.100	6.400	6.500	33.400	28.600
F.	Total CA -- House Bill Assumptions	4.895	5.625	6.316	6.316	6.316	6.316	35.784	30.889
G.	Total CA and Guaranteed BA -- Senate Bill Assumptions *	4.920	6.053	6.190	6.330	6.473	6.621	36.587	31.667

* (includes \$1 billion per year in "Guaranteed" general fund authorizations in FY 1999-03)

Guaranteed Budget Calculation Concept - Highways

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total 98-03</u>	<u>Total 99-03</u>
A. Tax Revenue (w/o spike)	27.149	27.634	28.066	28.506	28.972	29.471	169.798	142.649
B. Firewall Programs at Baseline								
Federal-aid: Ob. Limit	21.500	21.500	21.500	21.500	21.500	21.500	129.000	107.500
NHTSA: Ob. Limit.	0.186	0.186	0.186	0.186	0.186	0.186	1.116	0.930
MCSAP: On. Limit	0.085	0.085	0.085	0.085	0.085	0.085	0.510	0.425
ARC (DOT): BA	-	0.300	0.300	0.300	0.300	0.300	1.500	1.500
ARC (Energy & Water): BA)	-	0.102	0.102	0.102	0.102	0.102	0.510	0.510
Subtotal	21.771	22.173	22.173	22.173	22.173	22.173	132.636	110.865
C. Mandatory Components								
D. Current Mand. Baseline: BA	0.739	0.739	0.739	0.739	0.739	0.739	4.434	3.695
E. New Mand. BA (A-B+D) *	1.932	4.722	5.154	5.594	6.060	6.559	30.021	28.089
Total Mand. BA (D+E)	2.671	5.461	5.893	6.333	6.799	7.298	34.455	31.784
F. Total Guaranteed: Firewall + Mandatory	24.442	27.634	28.066	28.506	28.972	29.471	167.091	142.649
G. Total CA - House Bill Assumptions	24.000	28.500	32.200	32.200	32.200	32.200	181.300	157.300
H. Total CA - Senate Bill Assumptions	24.751	28.761	29.195	29.629	30.100	30.628	173.064	148.313

Revenues = Spending

* Indefinite amount, calculated annually. 1998 shows House assumptions.

Daily Report for Executives

No. 93

Thursday May 14, 1998

Regulation, Law & Economics

Transportation

House, Senate Leaders Strike Deal

To Provide \$210 Billion for ISTEA

House and Senate GOP leaders said May 13 they have struck a deal to change the budgetary treatment of highway and transit programs and provide some \$210 billion for this year's rewrite of the Intermodal Surface Transportation Efficiency Act.

After a lengthy meeting with key House and Senate conferees on the ISTEA rewrite, House Speaker Newt Gingrich (R-Ga.) and Senate Majority Leader Trent Lott (R-Miss.) said they agreed to lawmakers' plan to create a new budget category for transportation in order to guarantee large highway and transit funding increases.

While the GOP leaders cautioned that the details of the plan still must be worked out, Gingrich and Lott said the basic framework of the deal is in place, setting the stage for ISTEA conferees to step up their work on finalizing the legislation (H.R. 2400/S. 1173).

"We have agreed that the gas tax user fees will be used for highways and mass transit exactly as we wanted," Gingrich said after the meeting with House Transportation and Infrastructure Committee Chairman Bud Shuster (R-Pa.), Senate Environment and Public Works Committee Chairman John Chafee (R-R.I.), Senate Budget Committee Chairman Pete Domenici (R-NM), and other lawmakers. "For anybody who's a fiscal conservative, it was a very successful negotiation and I think the Senate feels very good about it."

The deal agreed to essentially reflects the plan that Shuster and Chafee recently developed during their own private negotiations. The new budgetary mechanism would "wall off" transportation in the budget in order to guarantee a certain level of spending. In addition, the deal calls for the ISTEA bill to authorize more money that will be subject to appropriations.

In all, lawmakers said the preliminary deal calls for \$167.091 billion in guaranteed spending on highways over six years and \$33.553 billion in guaranteed spending on transit. In addition, they said, the deal would call for an additional \$10 billion in authorizations subject to appropriations -- \$8 billion for highways and \$2 billion for transit.

When combined, the figures add up to roughly \$210 billion, a small scaling back from the \$214 billion earlier endorsed by the Senate and the \$218 billion approved by the House. But lawmakers agreed to the cuts in exchange for the guarantee of spending, they said. Also, they said they agreed to come up with some \$23 billion in offsets to cover the spending increases.

But many details about the plan still must be worked out, lawmakers and aides said, and the Clinton administration also is sounding a warning about the emerging deal. After meeting with Shuster earlier in the day, Office of Management and Budget Director Franklin Raines told BNA that the administration remains concerned about the budgetary impact of the legislation. In a separate letter to Shuster, Raines suggested that he would recommend a veto of the bill if the bill makes available an "excessive level" of budgetary resources financed by the surplus, reduces domestic discretionary caps, uses unacceptable offsets, or forces cuts in other domestic priorities.

Details Still in Flux

Shuster met with Raines, Transportation Secretary Rodney Slater, and other administration officials shortly before the meeting with Gingrich and Lott. "The bill has to be scaled back," Raines told BNA, "and they indicated they understood that."

"Everyone is concerned about getting this done in a reasonable way," Slater said after the session.

But the deal that GOP leaders subsequently agreed to rejects the administration's recent proposal to stretch out the ISTEA reauthorization period to seven years and keep funding essentially flat until after the third year, when funding then would be boosted to reflect gas tax revenues. But it does reflect the administration's bid to create a firewall to guarantee transportation spending.

According to lawmakers and aides, the deal calls for the creation of the hybrid budget process for transportation. Although lawmakers from the budget and appropriations committees have criticized some aspects of the plan, the leaders appear to have agreed to the three-tier plan that Shuster and Chafee developed.

Under the so-called guaranteed portion of the plan, a firewall would be established under the caps to guarantee highway and transit spending at baseline levels, setting a floor on funding. Second, there would be extra mandatory spending aimed at ensuring that gas tax revenues are spent for ISTEA on top of the baseline. Conferees want to link that number to annual gas tax revenues.

According to Chafee's office, the \$167 billion for the guaranteed programs reflect estimates that gas tax revenues to the Highway Trust Fund over the ISTEA reauthorization period will be \$167 billion. However, Chafee said after the meeting that the \$167 billion is the authorization level, with actual outlays for highways during the period expected to be \$158 billion.

While Chafee said figures for transit still had not been nailed down, others said the deal called for \$33.5 billion in guaranteed funding for transit during the period.

On top of the guaranteed funding would be the third tier of the plan: \$10 billion in authorizations that still would be subject to the annual appropriations process. Of that \$10 billion, \$8 billion would be for highways and \$2 billion for transit.

Confidence Emerges on Firewall

Gingrich said conferees on the ISTEA bill, who include members of the budget committees, still must determine how to build the firewall in the budget. But he said he believes the details will be worked out soon.

"I think that they're working right now to figure out exactly how to do it," Gingrich said. "But we will guarantee that highway money will be spent on highways and will not be used to cover other spending."

The speaker also said conferees would determine how to accommodate the new mandatory spending in the budget.

"They're working out a way of handling it," Gingrich said.

Gingrich, who called the ISTEA bill "very complicated," said the funding issues have to be resolved soon. "[W]e hope that they'll get done maybe by the end of the week."

But Gingrich said lawmakers already have agreed on where to get about \$23 billion in budgetary offsets. While he declined to give many specifics on where they are drawn from, he said they all come from the mandatory side of the budget.

Senate aides said a large part of the offsets is drawn from the veterans' benefit for nicotine dependency. But none of the offsets, they said, come from administrative reforms for Medicaid. "They were taken off of

the table," an aide said.

'End of the Beginning' of Conference

For their part, both Shuster and Chafee said after the meeting that they are pleased with the funding deal.

"I think we have the outline of a good program," Shuster said shortly before briefing Rep. James Oberstar (D-Minn), the Transportation Committee's ranking Democrat, and other committee members on the proposal.

"This is a very important breakthrough in terms of guaranteeing highway funds," Chafee said in a statement. The deal, he said, "guarantees that the estimated \$167 billion in Highway Trust Fund revenues will be spent on highways over the next six years yet keeps the trust fund on budget."

But aides said Chafee now is going to press the House to give ground on many of the issues important to the Senate, including tougher drunk driving laws, highway money for Amtrak, and preservation of ISTEA's environmental programs.

"We have a number of big issues to iron out," an aide to Chafee said. "This is the end of the beginning."

But Shuster denied Senate allegations that House conferees have not negotiated in good faith.

"That's a malicious inaccuracy because we are responding to them," Shuster said. "As usual, the Senate is having their way with us."



By Nancy Ognanovich and Cheryl Bolen

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Not a big deal - the switch from mand. to disc; it's to do spending that matters

Told They're not going to get ^{the} mandatory spending request.

T: I } a) move all mand. to disc. except what's
CBO } in the baseline
b) some thing using prior yr. after current yr. report's
\$210 B wld be the max

~~Bottom~~ Request for ↑ went to CBO last night.
CBO:

~~one proposal:~~

~~going to prior year report's~~

\$23.4B

offsets: (Ellen Nissenbaum)

Income budget {
- VA / ^{\$16B} to be CBO - Jered at 90% of Admin's prop. - Grady Mae } fees ~~13000~~
- ~~XXXXXX~~ FFA / oons (Fannie Mae) - Freddie Mac }
- Title 20 / NHS } Was in Domenici budget

Don't know if they'll cut CA if they can't come up w/ offsets

**PRESIDENT CLINTON AND VICE PRESIDENT GORE:
.08 -- A TOUGH LAW
TO PROTECT ALL AMERICANS**

May 13, 1998

"Lowering the drunk driving level to .08 means sending a message to those who would carelessly risk the lives of their loved ones and of innocent citizens. We say to them today: we will not let your arrogance endanger Americans. We will not let your irresponsibility harm the helpless. We will not let your recklessness cheat us of our loved ones."

Vice President Al Gore
May 13, 1998

Today, at a Bipartisan event, Vice President Al Gore publicly called on the full Congress to include the Lautenberg Amendment to the final highway bill, which helps to set a nationwide limit for impaired driving at .08 blood alcohol content (BAC). The Vice President was joined by Senators DeWine (R-OH) and Lautenberg (D-NJ), and by Representatives Lowey (D-NY) and Canady (R-FL), to make an urgent and strong push for this legislation.

An Urgent Need For Action. Every 30 minutes, someone dies because of a drunk driver. In 1996, of the 41,907 motor vehicle deaths, 41% -- or 17,126 -- were alcohol-related. Nearly 3,000 of these fatalities were young people under age 21. Over 80% of drivers involved in fatal crashes with positive BACs had levels exceeding .08 BAC.

The .08 BAC Standard Saves Lives. Research shows that the risk of being involved in a fatal car crash is 11 times greater at .08 than when a driver has no alcohol in their system. When all states lower their BAC limits to .08 BAC, alcohol-related deaths are expected to decrease by as many as 600 each year.

Making .08 BAC The Nationwide Standard. President Clinton and Vice President Gore endorse the Lautenberg Amendment, which helps set a national BAC limit of .08 percent for drivers age 21 and older. The bill would give states three years to enact laws to make .08 BAC the legal limit, or risk losing highway funds. Sixteen states have already adopted .08 BAC laws: Utah, Oregon, Maine, California, Vermont, Kansas, North Carolina, Washington, New Mexico, New Hampshire, Florida, Virginia, Hawaii, Alabama, Idaho and Illinois.

Taking Executive Action On .08 BAC. President Clinton has already directed Transportation Secretary Slater to work with federal agencies, states, safety groups, and others to develop a plan to set a .08 BAC standard on federal property, such as national parks and military bases. The directive also instructs the Secretary to include in his plan other steps to promote the adoption of .08 BAC as the nationwide standard, including an education campaign to help the public understand

the risks associated with drinking and driving, and working with tribes to adopt .08 in Indian Country.

Leading The Fight Against Youth Drinking And Driving. The President and Vice President are committed to taking action to reduce the deaths and injuries brought about by alcohol use and driving by teens. The .08 BAC standard builds on the law President Clinton signed requiring all states to have "Zero Alcohol Tolerance" laws for youth by Oct. 1, 1998, or risk losing highway funds. To date, 49 states and the District of Columbia have enacted zero tolerance laws, which prohibit youths under age 21 to drive with any measurable amount of alcohol in their system.

COMPARISON OF TRANSPORTATION FUNDING PROPOSALS

Average annual transportation spending during Bush Administration	\$20 billion
Average during first four years of Clinton Administration	\$25.5 billion
Average spending proposed in President's FY99 Budget	\$28 billion
President's Budget -- proposed spending for FY2002	\$28 billion
President's New Proposal -- FY2002	\$33.8 billion
House bill -- FY2002	~~\$38.7~~ billion 38.7
Senate bill -- FY2002	\$37.9 billion 38.7

Talking Points:

Excessive House Transportation Spending To Force Major Cuts in Government

April 9, 1998

- The House Transportation Bill provides \$219 billion in new spending for highways and other transportation projects. This is a huge increase---\$53 billion --- above the President's budget request for transportation at \$166 billion dollars.
- The additional money in the House bill that goes to highway and other transportation spending will have to be paid for, under current budget rules. Tens of billions of dollars will be drained from critical national priorities including education, child-care, research, food safety, the environment, and even law enforcement and veterans' medical benefits.
- The President supports transportation spending. (His own budget request for transportation, which was fully paid for, is already an increase of nearly 40% percent above average annual transportation funding in the last administration.)
- However, the President believes transportation funding cannot be allowed to squeeze out our other national priorities. There must be a balance.
- On April 21, Congress will return to Washington to complete its work on the transportation bill. Congress should consider the consequences now, before a final vote on the transportation bill. It will be *too late* if Congress waits until later in this year's budget cycle to decide "we need one more classroom and one less road."
- It's time for Congress to face the trade-offs. The key question for members of Congress is "Do we decide to spend this much money on highways, to the exclusion of.....fill in the blank". It's a very long list.

Where the Money Comes From and Who Gets Hurt:

- The transportation funding in the House bill is \$53 billion more than in the President's budget. To pay for the extra transportation funding would require an average across-the-board cut of 6.7 percent in discretionary programs every year for the next five years. If this level of transportation spending goes forward, coupled with the level of total spending set forth in the Senate Budget Resolution, there will be major cuts in discretionary spending throughout the government.

Examples:

1) Education:

- **750,000 children of low-income families would be denied assistance under Title I;** and over five years, 2.7 million children would be denied assistance.
- **74,000 fewer low-income students would receive Pell grants in FY 1999, and 3.8 million students would see a \$170 decrease in their awards.** Over five years, 281,000 fewer low-income students would receive Pell grants, and grants would be reduced on average by \$123.
- **100 new Charter Schools could not be opened in FY 1999,** and over five years, 350 new Charter Schools could not be opened.
- **All funding for new discretionary initiatives would be eliminated,** (e.g. Education Opportunity Zones, High Hopes) ---preventing 175,000 at-risk middle school students from receiving mentoring and tutoring, denying additional assistance to poor schools in their efforts to undertake school reforms, preventing after-school programs from serving an additional 450,000 students, and preventing new efforts to improve teacher training and recruit 7,000 new teachers.

2) Health and Human Services:

- **Head Start: Over five years, cuts could result in 60,000 to 120,00 children being denied participation in the Head Start program.**
- **Child care assistance for 10,000 children would be eliminated in FY 1999** as part of the Child Care and Development Block Grant.
- **CDC funding would be reduced** by nearly \$100 million in FY 1999 and by \$820 million over five years, cutting childhood immunization funding, and reducing funding for HIV prevention and breast and cervical cancer screening.
- **Funding for NIH-supported medical research would be reduced** by over \$570 million in FY 1999 and by \$5.7 billion over five years. A reduction of this magnitude in funding for new research ideas would slow progress in developing treatment and prevention for life-threatening diseases such as cancer, cardiovascular disease, AIDS and diabetes.

3) Veterans' Affairs:

- **Veterans' access to medical care would be cut.** The VA would treat an estimated 72,000 fewer veteran patients in FY 1999, including 14,000 needing hospital care. Over five years, cuts would result in 1.1 million fewer veterans begin treated, including 154,000 needing hospital care.

4) Agriculture:

- **Undermines food safety.** An estimated 250 meat and poultry inspectors would be eliminated, resulting in slowdown of production, or even rotating shut-downs, in some

meat and poultry slaughter plants. There would also be a delay in the Federal modernization of the inspection system, and reduced funding for mandatory improvements in State inspection systems, including upgraded lab testing for pathogens.

- **Cuts in nutrition for low-income women and children:** Participation in the WIC nutrition program would be cut by 100,000 in FY 1999 and by 600,000 in FY 2003.

5) Labor:

- **Job training programs would be cut in FY 1999: (*All based on BA)**
 - 248,000 fewer dislocated workers would receive training, job search assistance and support services;
 - 238,000 fewer low-income adults would receive training and employment services;
 - 22,000 summer jobs for low-income youth would be cut;
 - 7,200 Job Corps residential training slots for extremely disadvantaged youth would be eliminated.

6) National Service:

- **National Service Program would be cut by \$190 million in FY 1999**, so that nearly all funding for AmeriCorps programs would be eliminated, including funding for 6,000 participants working with hundreds of thousands of volunteer tutors for the America Reads program.

7) Energy:

- **20-50 Percent Cut in Climate Change Technology Initiative:** Two of the largest components of the Initiative, energy conservation, and solar and renewable energy, would lack many of the technologies needed to reduce greenhouse gas emissions.

8) Interior:

- **Cuts Funds for Endangered Species Act program.** Cuts of \$32 million in FY 1999 would hamper the work of protecting endangered species by reducing the number of consultations on federal grazing permits, timber sales, and wetlands permits, preventing work on several large habitat conservation plans and stopping provision of incentives for new private landowners to conserve habitat.

9) Justice:

- **Eliminates Border Patrol agents.** 681 border patrol agents could be cut in FY1999, and as many as 2400 in FY 2003. They are needed to fill enforcement gaps and enhance border patrol presence along the Southwest border. Mandated detention and removal requirements could not be met, and the ability to respond to known border incursions would be significantly constrained.
(Based on BA)

- **Eliminates new Federal Bureau of Investigation agents and Drug Enforcement Administration Agents.** 673 FBI agents would be cut in FY 1999, and up to 2400 in FY 2003. 248 DEA agents would be cut in Fy 1999 and over 900 in 2003.
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- **Jeopardizes International Space Station deployment:** With its first launch scheduled for later this year, Space Station is entering a critical phase. The proposed cuts could lead to multi-year delays in deployment and raise costs in future by billions of dollars.

11) Commerce:

- **Threatens the accuracy of the Year 2000 Census:** Funding cuts would threaten the accurate results from the Constitutionally mandated census, which requires preparatory activities in FY 1999. Essential steps include finalizing the master address file, expanding the field infrastructure and producing questionnaires-- all of which are endangered.

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MAY-12-98 22:48 FROM:

ID:



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

May 12, 1998

THE DIRECTOR

The Honorable Bud Shuster
Chairman
Committee on Transportation
2165 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As the House-Senate conference on reauthorization of the *Intermodal Surface Transportation Efficiency Act* (H.R. 2400) proceeds, I write urging your consideration of a proposal the Administration has made to resolve the important budget issues raised by this legislation.

On April 30, I sent you a letter expressing the Administration's serious concerns about the excessive spending in the House and Senate bills; in particular, that the spending levels would either require unacceptable reductions in high priority discretionary program funding, or they would drain anticipated budget surpluses prior to fulfilling our commitment to save Social Security first.

These budgetary concerns were reiterated in a May 1 letter to conferees from Secretary Slater, along with a detailed review of other important policy issues that need to be resolved in an acceptable manner in order to bring this legislation to a conclusion. These issues include a stronger national standard for drunk driving and other safety concerns, maintenance of the historical balance in highway-transit funding, and ensuring protection of the environment as we carry out transportation programs.

Last week, during the course of ongoing discussions with conferees, the Administration proposed the attached framework for bridging some of the distance between the funding levels supported by the Administration, the House and the Senate. The framework is based on four principles: (1) the projected budget surplus shall not be used to pay for the legislation; (2) spending shall be offset fully, without lowering the caps on discretionary spending; (3) after a phase-in period, total budget resources spent each year should equal total receipts to the Highway Trust Fund (HTF); and (4) spending levels in the legislation shall be sustainable after the end of the authorization period.

This framework fulfills the objective of many in Congress that one hundred percent of Highway Trust Fund receipts be available for obligation. After an appropriate phase-in period, a new budget mechanism would require that total funding equal 100 percent of total HTF receipts. This funding guarantee would serve as both a floor and a ceiling for fiscal years 1999-2004. In exchange for the unprecedented guarantee of authority to spend all prior year Trust Fund

receipts, this framework also establishes that total surface transportation spending will not exceed receipts. Total funding over the reauthorization period would equal \$218.9 billion, which is between the amounts called for in the House and Senate bills. However, this funding would be provided over seven years, instead of six, in order to satisfy the Administration's core principles that the surplus not be depleted and the spending caps not be reduced.

The President's senior advisers would recommend that he veto a conference report that makes available an excessive level of budgetary resources if financed by spending the surplus, by reducing the domestic discretionary caps, by using unacceptable offsets, or by forcing cuts in domestic priorities. We would also recommend veto of a conference report that skews transportation priorities.

We need final action now on this critical legislation. The Administration strongly urges the conferees to seriously consider the framework discussed in this letter, which would ensure stable funding for surface transportation, in a manner that is both fiscally responsible and consistent with the President's pledge to save Social Security first.

Sincerely,



Franklin D. Raines
Director

Attachment

MAY-12-98 22:49 FROM:

ID:

Identical Letter Sent To:

The Honorable Bud Shuster
The Honorable James Oberstar
The Honorable Tom Petri
The Honorable Nick Rahall
The Honorable John Chafee
The Honorable Max Baucus
The Honorable John Warner
The Honorable William Roth
The Honorable Daniel Patrick Moynihan
The Honorable Alfonse D'Amato
The Honorable Paul Sarbanes
The Honorable John McCain
The Honorable Ted Stevens
The Honorable Ernest Hollings
The Honorable Pete Domenici
The Honorable Frank Lautenberg
The Honorable Tom Bliley
The Honorable George Brown
The Honorable John Dingell
The Honorable Jim Sensenbrenner

ISTEA REAUTHORIZATION

May 5, 1998

Core principles. Final legislation must be consistent with the following principles:

- The projected budget surplus shall not be used to pay for the legislation.
- Spending shall be offset fully, without lowering the cap on other discretionary spending.
- After a phase-in period, total budget resources spent each year should equal total receipts to the Highway Trust Fund (HTF).
- Spending levels in the legislation shall be sustainable after the end of the authorization period.

Aggregate Funding. Any agreement reached on funding issues is contingent on agreement regarding policy issues.

- Aggregate budgetary resources (obligation limitations plus any budget authority not subject to limitation) will total \$218.9 billion over the period 1998-2004.
- A new budget mechanism will provide, after an appropriate phase-in period, negotiated assurances that all receipts to the HTF will be obligated. Total budgetary resources in each year will equal estimated *prior year* receipts (as in the Chafee-Bond proposal) in order to provide States with certainty about spending levels.
- Assured spending will be distributed between highway spending and transit spending in the same proportions as total authorizations are distributed between highways and transit in the Senate bill. Within the total for highways, highway safety will be funded at the authorization levels contained in the Administration's NEXTEA proposal. This offer assumes that no demonstration projects are funded. If any demonstration projects are included in final legislation, they will need to be funded within the total for highways.
- Balances in the Highway Account of the HTF, except those amounts needed to pay for prior year spending, will be transferred to the General Fund. The Highway Trust Fund will not collect interest.

ID:

MAY-12-98 22:49 FROM:

In 1999 and 2000, total funding would equal the levels in the President's Budget; in 2001, total funding would equal 97 percent of total HTF receipts; in 2002 and beyond, total funding would equal 100 percent of total HTF receipts:

(In billions of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
<u>Prior-Year Receipts^{1/}</u>	23.9	32.3	32.4	33.2	33.8	34.4	35.1	225.2
<u>Total</u>								
Budget resources	28.0	27.8	27.7	32.1	33.8	34.4	35.1	218.9
Outlays	26.5	27.3	27.7	28.7	30.8	32.5	33.5	206.9
<u>Hwy Funding</u>								
BR	23.1	23.0	22.9	26.0	27.4	27.9	28.4	178.8
OL	22.3	23.4	23.4	24.1	25.6	26.7	27.4	173.1
<u>Transit Funding</u>								
BR	4.8	4.8	4.8	6.1	6.4	6.5	6.7	40.1
OL	4.2	3.9	4.3	4.6	5.1	5.7	6.0	33.8

^{1/} Receipts have been normalized to eliminate the '97 TRA one-time shift of deposits between '98 and '99.

All outlays above those called for in the President's Budget will be offset fully under CBO scoring by implementing, as part of the reauthorization, the "VA tobacco" proposal contained in the President's Budget. Outlays savings associated with the VA tobacco offset, *net of funds needed for the President's GI Bill initiative*, are as follows:

(In billions of dollars)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Total</u>
OMB scoring	n.a.	-0.7	-1.2	-2.1	-6.0	-6.0	-6.0	-21.8
CBO scoring	n.a.	-0.4	-0.8	-1.7	-2.6	-3.6	-4.6	-13.5

Talking Points :Transportation Veto Threat
May 13, 1998

1. The White House has now said it will veto the transportation bill. What made the President change his mind?

First, we have taken a position that is consistent with the concerns we've already expressed. We have made our concerns clear to Congress that the transportation bill as voted out of both the Senate and the House contains excessive levels of spending. We had offered to work with the Conference Committee in Congress, to work out a program that would be acceptable to all sides.

Our program included a way to bring spending to acceptable levels, by spreading out nearly \$219 billion (218.9 billion exactly) in funding over a period of seven years instead of six, guaranteeing that Congress' priorities for transportation would be met, while not unduly draining resources for domestic spending. We also met Congress's concerns by agreeing, as part of the overall plan, to phase in a commitment that new revenues from the gas tax going into the highway trust fund would be fully spent on highways and other transit spending the very next year.

We based this overall program on four basic principles:

- that the surplus shouldn't be spent,
- that spending should be fully paid for, and without lowering the caps on discretionary spending --meaning that they couldn't create a separate category for transportation spending that takes funds away from other domestic programs
- that the new revenues in the trust fund would be fully spent, after a phase in period of about 3 years and
- that the spending levels must be at levels that can be maintained, within budget rules, for the long-term.

However, our discussions with Congress made it clear that they planned to spend above acceptable levels, by using all the new gas tax money from the trust fund every year, and then --- contrary to what we proposed -- spend more on top of that. That would drain resources from domestic priorities, and violate our principles.

We had repeatedly told Congress that our core principles are that spending levels should not require unacceptable reductions in high priority domestic programs and should not drain anticipated budget surpluses prior to meeting our commitment to fix the long-term problems of Social Security.

In addition, other issues that need to be resolved in an acceptable manner are a stronger national standard for drunk driving, and maintaining the right balance in the proportion of funds for highway spending and for mass transit.

2) What exactly are the conditions under which the President will veto the bill?

The President's senior advisers recommend that he veto a conference report if it is financed by:

- spending the surplus
- reducing the domestic discretionary caps by using unacceptable offsets
- using unacceptable offsets or
- forcing cuts in domestic priorities.

The other case would be if the conference report:

- skews transportation priorities.

3) What does "skew transportation priorities" mean?

The Republicans came back to us with a plan for more spending, divided into three categories. They wanted to have much of the transportation spending in special protected categories, and other transportation spending in an "unprotected" category where be competing for limited resources. An example of skewing priorities would be to put all the demonstration projects, which we have concerns about, in the category of protected spending.

4) What do you consider to be "unacceptable offsets"?

It gets back to the way that Congress would pay for the extra transportation spending that goes above and beyond the limits that are acceptable. If Congress created a new category for transportation spending, and drained resources from other domestic programs to pay for that extra transportation spending, that's unacceptable. (It's called lowering the domestic discretionary caps). Such a move would not only endanger crucial new initiatives, like education, but would also jeopardize existing programs that Americans rely on.

To give some examples, it is unacceptable to pay for highways by cutting into crucial domestic programs, like Medicaid, food stamps, housing programs and others that the Republicans have considered using to finance their plans for excessive spending on highways.

5) Do you have the votes to override a veto?

This a serious veto threat that has been made because of the severe problems in the transportation bill. We expect Congress to look seriously at the issue we've raised with this veto threat.

Go back to our mode

our 12. 16. 18

NEXT

Strong trans. bit that protects
health care educ

US.

an increase in the
transitions —

What's just compare
trans.; will compare

Educ., etc

We need to figure out
how to describe our

bill

—
—
—

Get out good

~~MAANBB~~ The ^{the} Balanced budget debate

New f strengthened laws
bill that protects. --
vs.

Put out as stark choices.

- Our record
- This proposal meets
Concerns

- doesn't drain surplus
 - allows I
-

Their proposal will
require cuts in

Creative side by side

- School com &
 - Educ.
-

Use TP & to need. IT &
Educ, ^{health care} GP's, etc.

Went Maria & Mickey
to be able to get on
phone.

Time for noon
3

VP Event at 11 am
- too early

" We support spending 100%

" They old set a floor that
(spend, as a min.)

Their floor is way above
any reasonable ceiling

- O'Brien - mdy. to agree on what we say today
- 1hr.
- call from Frank to 4 - DEX's threat

O'Brien described it as the 3-block proposal we saw this

- 18-21B in offsets; mand. spending that will be offset
- but they're #7-14B off, depending on who's scoring you use for VA - tobacco

- NHTSA -

This is an in-your-face document: i.e., the way they handle NHTSA

Call to JH last note from Hoagland was consistent

They're spending all h/way rept's on h/ways.

" " " transit " if done on transit.

They gave us our transit # & went up on every ring & so.

Mark. box is deems + $\frac{1}{3}$ of NATSA

Will Jen. buy this?

- Chapel sounds bought in

- Bances

Not clear why transit guys upset -

- their transit # is same as ours - but % is lower

To find NATSA - have to complete under the cap 5

BESTED 34B

this prop. 22-25B

Transportation Talking Points

May 8, 1998

1. There are reports that the Administration has a new proposal for transportation spending on the Hill. What details can you give us?

- We've expressed concerns about excessive levels of transportation spending, and Congress has heard that message. We are working with them now to come up with acceptable levels of funding.
- Our proposal meets their core objective that transportation spending each year should equal the gas tax receipts in the trust fund, while addressing our concerns about fiscal discipline and the need to provide funds for highways and transit at a level that permits funding for other crucial national priorities, like education, child care, medical research, the environment.
- Our plan brings down the annual levels of spending by allocating the total amounts proposed by Congress *over seven years, rather than six*. Transportation spending still comes in the original Congressional number of 218.9 billion, but because it is stretched out over an additional year, it would effectively bring down the amount of money spent on highways in a given year, leaving room for spending on other important domestic programs, so that Congress is not forced to make a choice, for example, of highways over classrooms.
- Regarding the highway trust fund: We understand that the overriding concern in Congress is that the receipts from the gas tax that go into the trust fund each year should be spent quickly on highways and transit. We agree with that fully, and have proposed a phased-in *plan by which the annual spending on transportation equals exactly the amount of the receipts that have come from the trust fund from the prior year*. This is an unprecedented guarantee for the use of funds in the trust fund, rather than the existing system where money in the trust fund would be spent on transportation at some time in the indefinite future. We believe it meets Congress's goal, and provides for the appropriate use of the funds in the highway trust fund. Our proposal also stipulates that there must be an *equitable split* between highways and mass transit.
- In summary, we believe firmly that our principal must be met: First, *that any new spending must be fully offset, without lowering the caps on domestic spending, and without spending the surplus*. Second, *that the legislation must include appropriately balanced funding for both highways and transit*. This proposal allows for that, while still meeting Congress's key objectives.

Q: How does this proposal fix your complaints that Congress's transportation spending would be \$34 billion above the President's Budget? Under this proposal, is transportation fully paid for?

- One of the key points about this plan is that it is fully paid for, allowing us to preserve our commitment to fiscal discipline. It is fully offset (paid for) because the funding stretches out over seven years, thereby taking down the annual expenditures. There is also the intention to use proceeds from the changes in VA tobacco benefits toward the transportation spending.
(IF PRESSED)

This new proposal is \$8 billion above our budget request over six years, and represents a serious approach to meeting Congress's concerns. It is \$26 billion dollars below the Congressional level of spending. But the key thing is that it addresses Congressional concerns about the highway trust fund, and sets up a new guaranteed system to insure for transportation spending.

Q: The VA tobacco provision is very controversial. Aren't you pinning your hopes on something with very thin chances?

As you know, the current tobacco provision is the result of an administrative ruling in 1997 that gave veterans disability benefits for smoking-related disabilities acquired after service, and due solely to nicotine dependence begun in the military. The Administration strongly supports veterans compensation but these are not traditional VA benefits. Reinstating the previous approach is part of our FY 99 budget. We believe the use of these funds for transportation spending is appropriate.

Q: It's been reported that your proposal has had a cool reception on the Hill. What are its chances?

Actually, I wouldn't agree with that description. This is a serious proposal that manages to preserve our priorities, while meeting Congress' key objectives. I am encouraged that it is being considered seriously on the Hill.

Q: There have been Republican complaints that this proposal doesn't adequately fund highways in the first few years (because the funding levels match those of the President's budget). They complain that this is because the guarantee that money the highway trust fund doesn't take place until the out-years.

What we've presented is an overall seven year package that funds highways at acceptable levels, while leaving room for funding of other domestic priorities. It meets the key principles we've set forth, while also meeting Congress concern about guaranteed spending from the highway trust fund. We think this is a solid

proposal that addresses the issues of both sides.

Q: What makes you think that Congressman Shuster should support this, when the legislation he sponsored that passed the House took the highway trust fund off budget?

It is the goal of Congressman Shuster and others to make sure that the new funds that go into the highway trust fund be spent, without much delay, on transportation. Our plan allows that to happen, and meets Congressman Shuster's goals. You don't need to take the trust fund off budget in order to make sure the new funds coming into it are spent appropriately on transportation.

On the question of the balances in the Trust Fund, neither we nor Shuster propose spending these amounts. His legislation did not take the surplus in the highway trust fund off budget. In fact, in that legislation, much of the balance of the trust fund (the surplus accumulated over the years) was distributed back into the general spending in the budget. We have adopted this House provision of making a fresh start, by transferring much of the balance in the trust fund back to the general fund*, and by making sure the new funds coming into the highway trust fund are spent on transportation in the next year.

(FYI: Shuster and the Admin transfer more or less the same amount back from the balance of the highway trust fund back into the general fund.)

(*Please use "the general fund". It's not accurate to say "general spending", because this transfer creates no additional ability to spend. It also helps feed the arguments of some Republicans who want to create some sort of credit account to compensate for the transfer of the trust fund.)

Q: Where do you stand with your veto threat?

Obviously, we're hopeful that our proposal will lead to a level of spending and provisions that everyone can live with. That's why we're encouraged its being seriously considered. But our active consideration of a veto is still there, and depends on what the final package looks like.

Economic Trends

BY MIKE McNAMEE

WILL ASIAN WOES TAR U.S. PROFITS?

Not likely. But exports may suffer

Six months into the Asian crisis, economists are still debating how the financial meltdown will affect growth in the U.S. Two new studies present a mixed picture: While the collapse of Asian currencies may have a larger-than-expected impact on American exports, profits of U.S. companies could weather the storm. The reason? Foreign subsidiaries of U.S. multinationals make the lion's share of their sales in Europe, not Asia.

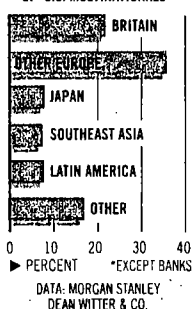
Exports' vulnerability emerges in a study done by Andrew B. Bernard of Yale University and J. Bradford Jensen of Carnegie Mellon University of America's recent export boom. From 1987 to 1994, inflation-adjusted U.S. exports grew at 8.2% a year. That surge, coming as American manufacturers streamlined and cut costs, has powered a wave of optimism about U.S. productivity and competitiveness.

But the export boom was not mainly driven by greater competitiveness, Bernard and Jensen conclude. Using plant-level data, they find that rising productivity at U.S. factories accounts for only 10% of the increase in exports. Instead, the dollar's late-1980s depreciation and strong income growth overseas "were the dominant source of the export boom." With the dollar now gaining strength—and Asian consumers on the ropes—their results suggest that U.S. exports could be hit harder than many forecasters anticipate.

Falling exports, however, may not drive down U.S. profits. Economist Joseph P. Quinlan of Morgan Stanley Dean Witter & Co. notes that exports account for only 24% of overseas sales by American multinationals. Those companies sell three times as much through overseas affiliates. And Europe accounts for a whopping 58% of such in-country sales

WHY EUROPE IS STILL IMPORTANT

SHARE OF SALES BY FOREIGN AFFILIATES OF U.S. MULTINATIONALS*



by U.S. affiliates, vs. just 8% for Japan and 8% for Southeast Asia. With Europe poised for an investment-led upswing, "a number of American companies are positioned to escape the pain of Asia via greater sales growth in Europe," Quinlan says.

A CASE FOR CUTTING PORK

States keep a sharper eye on costs

Budget hawks on Capitol Hill are trying—with little success—to block a \$217 billion highway-and-transit bill. For example, House Budget Committee Chairman John R. Kasich (R-Ohio) would even cut the federal gas tax and let states raise their own levies to fund roads, arguing that this would force states to focus on the best projects.

A new paper from the National Bureau of Economic Research suggests Kasich is on the right track. Alison F. DelRossi of the University of Wyoming and Robert P. Inman of the University of Pennsylvania studied a 1986 law that forced local governments to pay for a larger share of big water projects such as shipping channels and shoreline protection. The result: Overall spending fell 35%, and the federal outlay dropped 48%. DelRossi and Inman suggest that the shift results from "a more efficient balancing of budgetary costs and benefits." Translation: The pork disappears, and only the good stuff remains.

HIGH SCHOOL GREENSPANS

How kids would handle Fed policy

It won't replace varsity football anytime soon. But a growing number of high school students are participating in an annual competition, started in 1995, to see who can propose the best monetary policy. This year the "Fed Challenge"—sponsored by the Federal Reserve Board and Citibank—drew entries from 208 schools. The five members of the winning team will each collect a \$10,000 scholarship, while their school receives a \$50,000 grant to establish an "economics laboratory."

Each team must recommend whether the Fed ought to raise interest rates, cut them, or stand pat. Federal Reserve Board Vice-Chair Alice M. Rivlin and two of her colleagues will judge the

May 4 national finals, which will require teams to make presentations modeled on meetings of the policy-making Federal Open Market Committee.

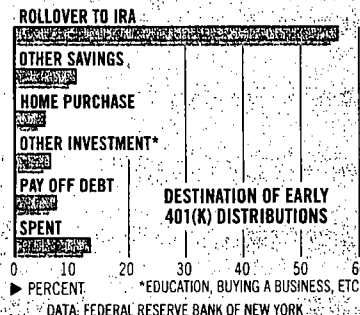
Some schools take it seriously. For example, last year's national champion, Bryan (Tex.) High School—one of six finalists again this year—draws support from a schoolwide effort: Trained by their economics teacher, team members get coaching from the drama department and design help for their slides from art and computer students. The team even gets a pep rally as it heads for Washington. Can letter-sweaters for economics students be far behind?

THE FLAW IN PRIVATE SAVINGS

Early withdrawals shrink 401(k)s

Last year's tax bill was supposed to encourage retirement savings by creating a new form of individual retirement account and new small-business pension plans. But at the same time, legislation has made it easier to tap into

CASHING OUT EARLY



those accounts before retirement for home purchases, college expenses, and other purposes.

New data published by the Federal Reserve Bank of New York may give Congress reason to rethink those early-withdrawal policies. Among workers with 401(k) retirement plans, nearly half report having taken a lump-sum distribution before retirement—and almost half of that is spent or invested outside retirement accounts. Low-income workers are least likely to hang on to their savings until retirement: Among workers earning less than \$15,000, only 31% of pre-retirement distributions were rolled over into other retirement accounts. That's why some pension advocates warn that without strict limits on pre-retirement use of such accounts, low-income retirees could end up with few resources and no safety net.

PHOTOCOPY
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- Dom. is shopping an idea that ^{is} less than a year.

Gingrich Halts Plan to Kill Ethanol Subsidy

Political Worries in Midwest Override Archer's Drive Against \$600 Million-a-Year Program

By ERIC PIANIN
Washington Post Staff Writer

Wary of angering midwestern corn growers in an election year, House Speaker Newt Gingrich (R-Ga.) yesterday squelched a drive by Ways and Means Committee Chairman Bill Archer (R-Tex.) to eliminate a \$600 million-a-year subsidy on the production of ethanol-based fuel.

The move was an extraordinary rebuke to a powerful chairman and loyal ally as well as a reversal of a recent decision by the House to allow the subsidy to expire in two years. Gingrich sided with the Senate and farm-state interests in continuing the tax break for the gasoline additive well into the next century.

"Archer exercised his prerogatives as chairman and I exercised my prerogatives as speaker," Gingrich told reporters. "As leader of the overall party in the House . . . one of my jobs is to try to balance regional interests. . . . It was a very difficult discussion."

The controversial but resilient program—a relic of the international oil crisis of the late 1970s—has been touted by its farm-state champions as crucial to reducing U.S. dependence on foreign oil and stimulating the farm economy. But Archer and scores of House critics have attacked the subsidy—which has cost the Treasury more than \$7 billion over the past 16 years—as the "poster child" for corporate welfare.

Ethanol has been a financial

boon to corn farmers, the Archer Daniels Midland Co. food conglomerate that produces half of it, and the companies that produce gasohol that competes with gasoline in the Midwest. A General Accounting Office study last year concluded that ethanol has done little to reduce the flow of oil imports or diminish air pollution.

While the Senate voted earlier this year to extend the 5.4 cents per gallon tax credit through 2007, the House, at the behest of Archer and the Ways and Means Committee, voted last month to phase out the subsidy as part of its version of the highway and mass transit reauthorization bill.

Archer, one of the most influential politicians from a major oil-producing state, had planned to carry on his fight as a member of the House-Senate conference committee that is negotiating a compromise highway bill. While seniority dictated that Archer participate in the conference, Gingrich put off appointing him for nearly two weeks. Yesterday Gingrich said he was willing to allow Archer his seat—but would stack the conference with two other pro-ethanol members who would side with the Senate.

A perturbed Archer said he'll boycott the conference and oppose the final version of the highway bill. "At a time when we should eliminate inappropriate subsidies and reduce the size of government, I regret that Congress will now extend a \$600 million a year subsidy," Archer said. "Politics will tri-

umph over policy."

The ethanol dispute is a small aspect of the overall \$214 billion to \$217 billion highway bill, but one with important political ramifications in upcoming congressional races and the presidential campaign beyond. Fifty-four House Republicans and Democrats have signed a letter in support of continuing the subsidy. Reps. Kenny Hulshof (Mo.), John Thune (S.D.) and other GOP freshmen have deemed approval of an extension of the subsidy important to their reelection prospects.

"There are a number of members from corn districts who are very concerned about ethanol, and the speaker is sensitive to their concerns," said Arne L. Christenson, Gingrich's chief of staff. Gingrich yesterday appointed Hulshof and Rep. Jim Nussle (R-Iowa) to the highway conference.

Moreover, politicians with an eye on the 2000 presidential campaign are reluctant to do anything to displease voters in corn-rich Iowa, a presidential bellwether state. Gingrich, Senate Majority Leader Trent Lott (R-Miss.), House Minority Leader Richard A. Gephardt (D-Mo.) and Vice President Gore all have enthusiastically endorsed an extension of the ethanol subsidy.

Earlier yesterday Gephardt denounced Archer as "a threat to the economic well-being of the heartland" and urged Gingrich to "rein in Archer and get this program back in gear." Sen. Tom Harkin (D-Iowa) praised Gingrich and

added, "Backers of big oil have stood too long in the way of giving ethanol a fair opportunity in the marketplace."

Rep. Bud Shuster (R-Pa.), the chairman of the Transportation Committee who is presiding over the conference, said that while he agrees with critics that "the ethanol approach is dead wrong, it's unfair," he understands "the political realities. . . . We ought to stop wasting time on the issue, swallow hard, accept it and get on to other issues."

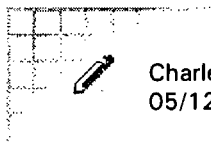
On the overall bill, House and Senate leaders met to thrash out critical funding issues—including Shuster's demand for moving the highway trust fund "off budget" and hence off-limits for government spending other than new highway construction.

Senate Environment and Public Works Committee Chairman John H. Chafee (R-R.I.) has floated a proposal designed to satisfy Shuster's demand but without technically moving the trust fund off-budget. Shuster described the plan as a "reasonable compromise that I would seriously consider." White House officials also expressed interest, said a Senate GOP source.

FOR MORE INFORMATION

To read about pork-barrel spending in the highway bill, click on the above symbol on the front page of The Post's Web site at www.washingtonpost.com

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Charles R. Marr
05/12/98 01:02:52 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP
cc: Dorothy Robyn/OPD/EOP
Subject: ISTEA Update

At the meeting this morning with staff of House and Senate ISTEA conferees, Shuster's and Chafee's staff presented us with a counter-proposal.

It has three main building blocks:

- 1) Discretionary firewall for transportation at freeze levels -- the first thing they do is back out of the discretionary caps transportation at freeze levels (which is essentially what we have in our budget in aggregate). Within this firewall, there is a sub-wall dividing line (although not completely clear from paper, this is what Shuster's guy said) between highways and transit. (The transit ratio is below ours not surprisingly).
- 2) Additional transportation guaranteed and offset -- on top of the freeze firewall, they propose using the mandatory offsets to bring transportation spending up to amount of gas tax receipts. They contend that CBO will score this portion at \$18 to \$21 billion over the 1998-2003 period. (Note: over this same time period VA tobacco raises \$15.8 billion according to OMB and \$8.9 billion according to CBO -- there is a hole to fill even under OMB scoring). They say that the leadership is coming up with the offsets and they disavowed the Pear story, which says that a series of offsets, including social services block grant and Medicaid, are being targetted.
- 3) Additional transportation spending subject to appropriation -- in essence, their transportation firewall (as supplemented with additional from offsets) is a **floor not a ceiling**. Appropriators could not cut highways and fund education, but they could cut education and fund more highways.

Major Concerns:

- 1) Squeezed priorities -- while their proposal locks in with certainty high level of highway spending, it still leaves our priorities completely exposed. Every dollar of additional highways comes out of the NDD pot. (While I want to stress that no matter how this is constructed it is objectionable, there is the potential to game this to make it even more egregious -- under the walled portion, for example, they could conceivably leave a must fund program unfunded and go into the appropriation process and say we need to fund this out of NDD pot).
- 2) Funding levels -- the insufficiency of VA tobacco to pay for their proposal will lead them to go after our other offsets, such as community services block grant and medicaid that instead should go to things like child care and health.
- 3) Transit -- Whereas we provide a guaranteed 19% for transit, they appear to be much lower, somewhere around 15-17 percent. Senate Banking conferees, who have transit jurisdiction,

made a point of saying that they are not on board this offer. (I talked to D'Amato's top Banking Committee guy afterwards and he was livid at Shuster and company).

Potential Avenues of attack (if end up having to fight this):

- 1) The principle that they get to spend what they take in with the gas tax is a compelling one. Our agreeing with that puts us in position of being the reasonable ones -- now here they come and want to spend **more than gas tax revenues** at the expense of education, environment etc.
- 2) While we will have to see, there maybe a vulnerability for them on the projects. Shuster envisions that the block financed with mandatory offsets would be mandatory spending seemingly in his authorizing committee's control and not in hands of appropriators -- it is unclear, but one could see them using this pot to fund projects. If so, they could be vulnerable to the VA tobacco for pork charge.

Potential Allies:

- 1) Transit folks
- 2) Appropriators -- this is the group that needs to be energized against --- each one of the nontransportation appropriation subcommittee chairs, save Defense temporarily, would be at risk of losing money under this proposal. Highways get a guarantee at a high level and the other appropriators bear all the risk if highways succeed in getting any more. To date not much has been heard from this group and given the tremendous support for the bill overall, opposition will be hard to drum up, but there is a story today in Congressdaily today that is reason for some hope -- the gist is that appropriators and budget types are cool to the Shuster proposal (though Gingrich and Lott on board).

Where to go from here:

- 1) We need to try and energize some opposition to this from a powerful countervailing force -- ie appropriators. I talked to Larry after meeting - he was going to check in with Byrd's guy to see where they are (he fears the worst) and then go from there (I spoke with Daschle's staff and pointed out the problems of Shuster's proposal).
- 2) Negotiating back and forth -- there is room to work with the first two pieces of the Shuster construction -- the firewall plus the additional spending offset. We can convey that we are willing to work on this but the third bite at the apple they have (the NDD squeeze) violates a core principle of ours (note: at the outset Shuster's guy said he accepted our principles).



EXECUTIVE OFFICE OF THE PRESIDENT
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WASHINGTON, DC 20503

F A C S I M I L E C O V E R S H E E T

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Dorothy Robyn

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- ☐ Andrew Kleine
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COMMENTS:

State letter per your request of Tornquist.
dm



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

May 1, 1998

The Honorable Bud Shuster
Chairman, Committee on Transportation
and Infrastructure
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As conferees meet on H.R. 2400 to resolve differences between the *Intermodal Surface Transportation Efficiency Act of 1998* and the *Building Efficient Surface Transportation and Equity Act of 1998*, I write to offer the Administration's views on major programmatic issues raised by this extremely important, time-sensitive legislation. I congratulate Members for their bipartisan efforts to achieve enactment of a reauthorization bill, and I pledge the Administration's assistance throughout the conference process to achieve legislation the President can sign.

Office of Management and Budget Director Raines, in a separate letter, has communicated the Administration's serious concerns about the excessive funding levels in this legislation. I want to emphasize that, while there are many positive aspects to this legislation, the excessive funding levels in both bills remain a paramount concern of the Administration. The funding levels in these bills fail to give due consideration to other priorities in the budget: either they would require an unacceptable reduction in high priority discretionary program funding, or they would drain anticipated budget surpluses prior to fulfilling our commitment to save Social Security first. Both of these outcomes would have unacceptable consequences for the American people. We look forward to working with the conferees to develop legislation that reflects sound transportation policies and that is funded at appropriate levels consistent with preserving the surplus and meeting our nation's other pressing priorities.

Just over a year ago, the President announced a 6-year, \$175-billion investment program for America's surface transportation system, which I am pleased to see is incorporated in large part in your bills. We said we needed to put a stronger emphasis on safety programs, and proposed increasing funding for highway safety by about 25 percent. We said we needed to continue to rebuild America, and proposed increasing core highway program spending by 30 percent, with comparable increases for transit. We said we needed to invest more in protecting the environment, for research and development, and to help in moving Americans from welfare to work. All of these elements are found in the two bills.

We need final action now on H.R. 2400. The obligation authority for highway spending ends this week, and carry-over balances in many of our highway safety programs will not sustain them for any extended period. We have been prepared

for more than a year and at all stages to participate in completing this urgently needed bill, and we remain fully prepared to work for early enactment.

The President's proposal was for a record level of investment in the nation's infrastructure, accommodated within the framework of a balanced budget. The House and Senate bills retain ISTEA's core programs for transit and highways, which will allow us to continue our progress in rebuilding America and competing effectively in the global economy. Moreover, important safety and environmental programs are continued and enhanced. Both bills expand opportunity through continuation of an effective Disadvantaged Business Enterprise program, preservation of important labor standards and employee protection provisions, creation of a new program to address the transportation needs of those making the transition from welfare rolls to payrolls, establishment of border crossing and trade corridor provisions crucial for international commerce, and designation of intermodal connectors as part of a National Highway System.

The Administration is pleased by these positive developments. However, we have previously indicated our concerns about certain provisions. While progress has been made, some of the Administration's most serious concerns have not yet been addressed. I believe it is possible for a good bill to emerge from conference if we can work together to accomplish that aim.

Program Funding. As we work together to resolve the specific funding issues, I wish to emphasize that transit programs must continue to receive an equitable share of the bill's total funding and, at a minimum, the same proportion of funds as the Administration recommended in its NEXTEA proposal. With respect to other programs, while the Administration is committed to working with the conferees to craft a bill with acceptable spending levels, we urge the conferees to support adequate funding within these lower overall totals for several key programs. These include NHTSA, other safety areas, the Federal Lands Highway Program, Research and Technology, and the Bureau of Transportation Statistics.

We also urge adequate funding — a 1.5 percent takedown from the base of programs in the House bill — for Federal Highway Administration administrative costs, and an equivalent percentage for Federal Transit Administration administrative costs within the total transit authorization. These funds are necessary to provide sound oversight of these programs.

Safety. Transportation safety is everyone's top concern. The Senate bill requires States to enact legislation establishing a .08 percent blood alcohol content as the national standard for drunk driving. This is a positive step supported strongly by the President to help reduce the terrible loss of life on our highways due to drinking and driving. Further, it is consistent with the approach Congress endorsed in the "zero tolerance" provision contained in the National Highway System Designation Act of 1995 and the 1984 legislation establishing the minimum drinking age nationally. We support the Senate bill provision to carry out drugged driving research and related programs, and the Senate provision on banning "open containers" of alcohol in motor vehicles. We also support

measures that will encourage the introduction of advanced air bags in a timely manner.

The bills provide selective exemptions from Federal truck size and weight limitations that would further complicate enforcement, discourage compliance, and pose a substantial hazard to all motorists. These exemptions are ill-advised, and we strongly oppose them. We would also oppose any statutory restriction on access to electronic or global positioning system data for enforcement of motor carrier safety regulations, including drivers' hours of service. Driver fatigue is a major safety problem, and there is no justification for placing more restrictions on federal authorities' ability to assure compliance with hours-of-service standards.

We oppose the Senate bill's "anti-lobbying" provision. This provision would curtail the Department's informational and educational activities for every surface transportation program. Our efforts to implement important highway safety programs, in particular, would be severely affected, since the Department carries out its statutory responsibility to assist the States in developing strong highway safety programs by providing safety information to its State and local partners. The Department's obligation to assist State and local governments in improving highway safety should in no way be compromised, or made ambiguous. We strongly urge you to eliminate this provision from the final bill.

We support the Senate provision to reauthorize the hazardous material transportation safety program that is so important to safe transport of these materials, but object to exceptions from key safety provisions. We also support the Senate provision to help States improve "one-call" systems, and oppose any exceptions from the requirement.

We support the Senate language increasing the flexibility for the highway-rail grade crossing program. However, we believe the proportion of the STP (Surface Transportation Program) safety set-aside allocated to the grade-crossing program should more closely reflect the Administration's proposal. Additionally, we strongly support continuation of current law governing transfers out of the grade-crossing and hazard-elimination programs, as retained by the House legislation.

Environment. Both bills contain provisions that seek to make the integration of environmental review and transportation decision-making processes established under the National Environmental Policy Act (NEPA) more efficient. The Senate provision, which would continue to emphasize integration of these processes, most closely reflects Administration views. We cannot support the many House provisions that compromise fundamental aspects of the NEPA decision-making process. In particular, we strongly oppose delegating NEPA responsibilities to eight states on a pilot basis. The Department of Transportation, in coordination with the states, should continue to be responsible for ensuring that the environmental impacts of Federally funded projects are considered from a national perspective. We generally prefer the Senate provisions related to NEPA, which would continue to emphasize integration of transportation and

environmental decision-making. However, for this reason, we will not support the Senate provision that would prevent states from conducting an environmental review of their Metropolitan and statewide plans.

In addition, we have serious concerns about the House provisions that address conflict of interest, time extensions, and "closing the record." We believe these provisions may actually increase the potential for litigation and delay the NEPA review process. While we support streamlining, we believe that the Senate bill does so in a more responsible manner.

The Administration supports the House language that makes new nonattainment areas designated under the recently promulgated Clean Air Act Standards, maintenance areas, and particulate matter nonattainment areas eligible for funding under the Congestion Mitigation and Air Quality Improvement (CMAQ) program. We also support the House language that adds maintenance areas and particulate matter nonattainment and maintenance areas to the formula calculation. In addition, we support inclusion of the newly designated nonattainment areas in this calculation.

The House bill also permits a portion of the increase in CMAQ funding levels to be used for other surface transportation projects. As under current law, we do not object to such transfers in States that do not have non-attainment or maintenance areas. We do, however, object to allowing States that have air quality non-attainment or maintenance areas to transfer funds because it could slow our progress in achieving national environmental objectives. Therefore, we oppose both the House and Senate provisions related to CMAQ transferability.

Transit. We urge the Conferees not to adopt the House cap limiting preventive maintenance and operating assistance to \$400 million per year. This limitation will particularly hurt the larger urbanized areas—over 200,000 population—and will reduce the flexibility that all areas now have under current law.

To advance our clean air objectives, we must provide incentives to use transit that are similar to those already provided for automobile drivers. We urge that the final bill include the Senate provision that allows employers to offer their employees transit and vanpool benefits in lieu of compensation, thus equalizing the tax treatment of transit and vanpool benefits with those for parking and eliminating the bias in favor of automobiles.

Demonstration Projects and Other Earmarking. We are extremely concerned about the soaring number of "demonstration" projects—more than 1500 highway projects totaling \$9 billion over six years (plus unknown additional costs in the outyears)—all of which circumvent the usual processes for State and local planning, environmental review, and public participation. We also object to the House earmarking of Intelligent Transportation System deployment funds. Allocation can be best accomplished in a competitive manner. While we support the consolidation of the University Research Institutes and University Transportation Centers programs, we do not support earmarking.

Intelligent Transportation Systems. We support eligibility for Intelligent Transportation System capital investments under the highway and transit funding categories.

Mid-Course Correction. We object to the potential suspension of highway and transit funding in 2001 under the House bill's "mid-course correction" provisions, because it could delay the release of program funds and thus disrupt the continuity of these important programs.

Welfare to Work. The House bill limit on the number of projects will make it difficult for States and communities to succeed in meeting their targets for moving people from welfare to work. We urge support of the Senate provision on access to jobs. Both bills authorize \$150 million annually for these projects, which can support many more than 10 projects over six years, and the limitation on the number of projects should be deleted. In addition, we urge the conferees to support employment opportunities for welfare recipients and people in empowerment zones and enterprise communities, as well as outreach and support activities to promote skill improvement for under-represented groups.

Prevailing Wage Standards. The Administration has consistently taken the position that prevailing wage standards should continue to cover construction under programs where such standards historically have applied, and should apply to any new federally assisted construction that may be authorized by the legislation. The Administration does not support the authorization of appropriations for the following projects. However, if any of the following authorizations are enacted, prevailing wage standards should be applied: in the House bill—section 902 (Light Density Rail Lines Pilot Projects), section 903 (the Miami-Orlando-Tampa Corridor project), and section 904(a) (Grants to Alaska Railroad)—and in the Senate Bill—section 1119 (Magnetic Levitation Transportation Technology Deployment Program), and section 3701 (Light Density Rail Line Pilot Projects).

In addition, the Administration does not support the high priority projects listed in section 127 of the House bill. However, if any of these projects are enacted, it should be clarified that prevailing wage standards apply.

Innovative Financing. The Senate bill authorizes State Infrastructure Banks (SIBs) and other innovative financing and credit enhancement provisions. The Administration supports the goal of increasing the ability of States to leverage their transportation resources. However, the Administration strongly opposes the Senate credit provisions for several reasons. We oppose any provision that would permit direct or indirect Federal guarantees of tax-exempt obligations that are prohibited by current tax law and Federal financial policies. The Administration also opposes the subordination of any Federal loans, because it would contravene Federal policy and would put the Federal Government at undue financial risk. Moreover, the proposed credit provisions could become a bad precedent for other Federal credit programs. In addition, the Administration strongly urges that the bill apply Federal labor standards and employee protection provisions to all projects funded through SIBs and other innovative

financing and credit enhancement provisions. The Administration opposes repealing or limiting these critical labor protections afforded to working people on federally assisted highway and transit projects.

Ethanol. The bill should extend the excise tax incentives for ethanol, as the Senate bill does, but without phasing down the rates. This extension is critical to encouraging the use of alternative fuels to improve air quality. Ethanol is a clean-burning, made-in-America fuel that has created thousands of jobs and provided a multi-billion dollar boost to our rural communities and family farmers.

Intermodalism; Planning. The Senate bill allows Surface Transportation Program funds and National Highway System funds to be used for inter-city passenger rail and bus projects. It also allows the National Highway System funds to be used for publicly owned intermodal surface freight transfer facilities (other than airports and seaports), but it does not authorize expenditure of Surface Transportation Program funds for publicly owned rail freight infrastructure. Experience under ISTEA demonstrates that State and local officials used the project-selection authority wisely, thereby securing the maximum enhancement of our surface transportation system at the least cost. We urge that Congress support, at a minimum, the flexibility that the Senate bill provides and consider applying to the Surface Transportation Program the same flexibility to assist publicly owned freight facilities that the Senate bill creates in the NHS category. In addition, we urge support for an intermodal research and development program to ensure that investments in highways and transit facilities are balanced by investment in research that leverages multi-modal opportunities.

We strongly support requiring consideration of the seven planning categories, as proposed by the Administration and included in the Senate bill, to promote comprehensive and consistent local planning and decision making for highway and mass transit projects. We oppose the House language that makes consideration of planning factors voluntary and the Senate provision that weakens existing fiscal constraint requirements.

Federal Lands Highways Program/Cooperative Federal Lands Transportation Program. We urge the conferees to delete section 1115 of the Senate bill, which is a new program and is not in the President's budget. This program would provide money directly to States and counties for highways that cross, lead or are adjacent to federally-owned land or Indian reservations, and provides no role for land management agencies on these projects that could be incompatible with the agencies' management plans and responsibilities. These funds could be redirected into other FLHP program categories.

Frequency Spectrum. The Administration opposes language contained in the Senate bill directing the Federal Communications Commission and the Department of Commerce to assign spectrum to the Intelligent Transportation System. The Administration urges the conferees to use the language contained in the House version of the bill, which is consistent with the Administration's proposal. Under the House language, the Department of Transportation will

work within the Inter-Department Radio Advisory Committee to satisfy spectrum requirements in an efficient and effective manner.

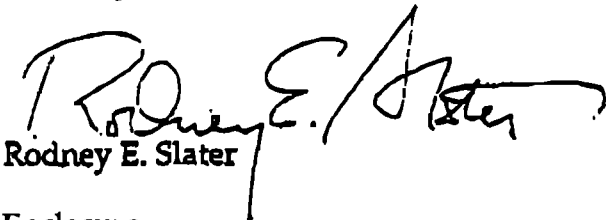
Rail loans: The Administration strongly opposes establishing a separate program for providing credit to private railroads. Further, a number of provisions in Title IX are either inconsistent with the Federal Credit Reform Act of 1990 or conflict with Administration guidance for budgeting and managing credit programs. We urge the conference to delete the provisions in Title IX authorizing the Secretary to provide direct loans and loan guarantees totaling \$5 billion for rail purposes.

You have the opportunity to shape a surface transportation reauthorization measure that reflects the years of cooperative, productive efforts by all levels of government, the private sector, and transportation users. Congress, this Administration, States and communities have all been involved in the development of these policies and programs and they will serve us well into the 21st Century. I hope that the most contentious issues, especially the ones that threaten the achievement we have made in balancing the budget, will be resolved so that this legislation can be signed expeditiously by the President.

On behalf of the Administration, let me express our willingness to provide assistance during the conference committee's deliberations. This legislation is critically important, and I look forward to working with you to help draft a compromise that can be successfully enacted. An identical letter has been sent to each of the ISTEA conferees.

The Office of Management and Budget advises that, from the standpoint of the Administration's program, it has no objection to the submission of these views for the consideration of Congress.

Sincerely,



Rodney E. Slater

Enclosure

ADDITIONAL TRANSPORTATION ISSUES TO BE RESOLVED BY THE CONFEREES

TRANSIT

Transit Project Management Oversight: We support the House language that allows transit funds to be used for technical assistance to remedy deficiencies.

Transit Asset Disposition: We support the Senate language that would allow operators to keep sales proceeds, but would urge that it require Department of Transportation approval.

Transit Revenue Bonds: We support the Senate provision permitting transit agencies to use fare-backed revenue bonds for the local match.

Local Share: We strongly oppose the Senate provision that permits transit fare revenues to be used as the local match, which is a long-standing prohibition under the Federal transit laws. This change could seriously undermine State and local public support for transit.

Clean Fuels: We oppose the Senate provision to establish a clean fuels program because all of the activities under this proposed program are eligible under current law. In addition, current law already provides an incentive for the purchase of alternative fueled vehicles.

ADA Eligibility: We support the Senate bill provision that allows paratransit that meets the requirements of the Americans with Disabilities Act as an eligible capital expense.

ENVIRONMENT

NEPA Conflict-of-Interest Considerations: Regarding NEPA conflict of interest provisions, the Administration prefers the Senate bill. In addition, the language should expressly preserve the federal government's obligation to address any objectivity and accuracy concerns by including the following language:

This section shall not relieve the Federal official of his or her responsibilities for the scope, objectivity and content of the entire statement or of any other responsibility under 42 U.S.C. 4321 et seq.

Enhancements. The Administration also opposes the House provision that allows Enhancements funds to be transferred to other highway program categories.

PLANNING

Fiscal constraint: We support retaining ISTEA's current financial feasibility requirements for transportation plans, as the House bill does.

ADMINISTRATION AND MANAGEMENT

Penn Station and Union Station Boards: We support the Senate provision that would authorize the Secretary of Transportation, the Federal Railroad Administrator, and their designees to serve as ex officio members of the Boards of Directors for the Pennsylvania Station Redevelopment and Union Station Redevelopment Corporations.

Metric: The Administration opposes the provision in the Senate bill that would give States the option of using or not using the metric system in connection with highway construction contracts. This provision would create significant confusion, result in costly duplication in the preparation of engineering documents, contracts advertisements and other materials used in highway projects, and reverse the progress that the majority of States have already made in converting to the uniform metric system.

FINANCING

Boating Safety: The Administration supports the Senate provision to ensure adequate funding for the Coast Guard's Boating Safety Grant program. The Boating Safety Grant program should be treated like the mandatory Sport Fish Restoration Program, with which it splits the deposits into the Aquatic Resources Trust Fund. A strong, stable Boating Safety program is critical to reducing the approximately 800 annual boating fatalities. The Administration objects to the House bill's shifting of motorboat and small engine fuel tax receipts from the General Fund to the Aquatic Resources Trust Fund, which would require a large PAYGO offset.

Border Projects: The Administration is pleased at the inclusion of funds to support border projects in both the House and Senate bills. However, neither bill makes funds available directly to Federal agencies for projects that improve the movement of people and goods across the border. We urge the conferees to adopt language consistent with the Administration's proposed authorization making funding available to Federal agencies for these purposes.

COALFIELDS EXPRESSWAY

We strongly oppose the provision in the Senate bill that would make the Coalfields Expressway in Virginia eligible for Appalachian Development Highway System (ADHS) funds. This provision would add \$1 billion to the cost to complete the ADHS, thereby delaying other existing ADHS projects.

EMPLOYEE PROVISIONS

Occupational Safety and Health Protection: The Senate bill contains a provision regarding Occupational Safety and Health Administration (OSHA) authority over worker protections in the transportation of hazardous materials that became a source of confusion for involved parties, and we instead support an alternative approach that clarifies OSHA's and DOT's authority.

Whistleblower Protection: Section 406 of the House bill would expand 49 U.S.C. 31315 to authorize exemptions from commercial motor vehicle safety regulations without requiring that workers be notified of such exemptions. Such exemptions without notification could reduce, without their knowledge, workers' whistleblower protections against adverse employment actions. Accordingly, we propose that section 406 be revised to require meaningful worker notification of any exemption that may affect a worker's whistleblower protections. In addition, although section 402 of the bill appropriately changes the definition of commercial motor vehicle in 49 U.S.C. 31101 for purposes of state grants, the section's inadvertent exclusion of many employees from whistleblower protections needs to be remedied.

On-the-job Training: The Senate bill would repeal section 23 U.S.C. 140(b) and enact, in section 2009, a similar provision at 23 U.S.C. 506(d). The Administration favors retaining the On-the-Job Training Supportive Services provisions at section 140(b) and amending Section 140(a) to permit States to reserve training slots for welfare recipients, as in the House bill, Section 129.

The Administration also favors the strongest possible words of encouragement to States to participate in the 0.5% discretionary funding On-the-Job Training Supportive Services, which benefit all trainees, including welfare recipients. The House and the Senate bills use the words "may be utilized" or "may be made available," respectively. We favor "should be utilized" or similar language.

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Chuck Karpisberg (53729)

☒ MICHAEL DEICH, Associate Director, General Government &
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☐ Pat Romani (202-395-3120)

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Comments:

Lji

**SURFACE TRANSPORTATION REAUTHORIZATION
ADMINISTRATION FUNDING OFFER vs. CONFERENCE FUNDING OFFER**

DRAFT

ADMINISTRATION OFFER

Total Funding: \$218.9 billion Budget Authority (Avg=\$31.3)
(7 years: 1998-2004) \$206.9 billion Outlays

Guaranteed spending ceiling = receipts in 2001 and beyond.

New budget mechanism would provide, beginning in 2001 that all receipts to the Highway Trust Fund will be obligated, through a singular funding category.

Highway spending substantially above current levels.

19% transit funding

Highway safety funding at Administration proposed levels.

Paid for by VA Tobacco offset.

CONFERENCE OFFER

Total Funding: \$201 billion Budget Authority (Avg=\$33.5)
(6 years: 1998-2003) \$188 billion Outlays

Total spending above receipts, with spending floor.

Same concept that all receipts to the Highway Trust Fund be obligated, but beginning in 1999. Existing spending baseline, adjusted, would be firewalled as a spending floor. New mandatory spending of \$30 billion above current levels.

17% transit funding

Highway safety funding not fully guaranteed, thereby ignoring the major transportation problem of the decade.

Paid for by VA Tobacco offset plus other, significant, yet-to-be identified offsets.

RESULTS:

- Unpaid for spending would force dramatic cuts in important national priorities, like education and saving Social Security.
- Critical highway safety problems would be ignored.



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OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, DC 20503

F A C S I M I L E C O V E R S H E E T

TO: Dorothy

TELEPHONE: _____ FAX: _____

FROM: TCJS/Transportation Branch

- ☐ Jonathan Ball
- ☐ Sharon Barkeloo
- ☐ Andrew Kleine
- ☒ Diane Montgomery
- ☐ Kim Nakahara
- ☐ Desiree Noble
- ☐ Mark Schwartz
- ☐ William Stroud
- ☒ David Tornquist
- ☐ David Worzala

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COMMENTS:

Draft surface #s. DOT is checking to confirm. 2002 offer is also included.
Diane/David

HISTORICAL SURFACE TRANSPORTATION SPENDING
(\$ in billions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Average Bush (1990-1993)	Average Clinton 1 (1994-1997)	Average Clinton 2 (1998-2001)
FHWA															
Disc. BR	13.689	14.701	17.281	16.033	19.194	17.583	18.097	19.882	22.109	21.850	21.850	21.850	15.426	18.689	21.915
Mand.+Disc.	13.789	14.801	19.134	18.586	21.694	20.252	19.702	21.729	22.999	22.624	22.533	22.478	16.578	20.844	22.659
FTA															
BR	3.047	3.258	3.767	3.799	4.583	4.606	4.049	4.383	4.843	4.776	4.776	4.776	3.468	4.405	4.793
NHTSA															
BR	0.236	0.249	0.261	0.27	0.298	0.277	0.277	0.299	0.333	0.406	0.406	0.406	0.254	0.288	0.388
Total, Surface	17.072	18.308	23.162	22.655	26.575	25.135	24.028	26.411	28.175	27.806	27.715	27.660	20.299	25.537	27.839

Offer = \$33.8 in 2002

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~~NOTE~~

Fyi

This doc is from DOT
& MD does not believe it
should be used.

DRAFT

**SURFACE TRANSPORTATION REAUTHORIZATION
ADMINISTRATION FUNDING OFFER vs. CONFERENCE FUNDING OFFER**

ADMINISTRATION OFFER	CONFERENCE OFFER
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Highway spending substantially above current levels.	
19% transit funding	17% transit funding
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Paid for by VA Tobacco offset.	Paid for by VA Tobacco offset plus other, significant, yet-to-be identified offsets.

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19% transit funding	17% transit funding
Highway safety funding at Administration proposed levels.	Highway safety funding <i>not guaranteed fully - hereby not addressing the major transportation problem of the decade.</i>
Paid for by VA Tobacco offset.	Paid for by VA Tobacco offset plus other, significant, yet-to-be identified offsets.

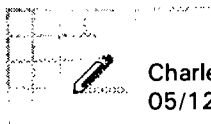
RESULTS :

(your talking points)

- Would force ~~cuts~~ ^{dramatic} cuts in important national priorities - education, etc.

Surface Transportation Reauthorization Funding
Comparison of Congressional and Administration Proposals
(Mandatory and Discretionary \$ in billions)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>1998-2003</u> <u>Total</u>	<u>1998-2004</u> <u>Total</u>
President's Budget									
BR	28.0	27.8	27.7	27.7	27.7	27.6	27.7	166.5	194.2
OL	26.5	27.3	27.7	27.8	28.0	28.1	28.1	165.4	193.5
<i>Highway/Safety</i>									
BR	23.1	23.0	22.9	22.9	22.8	22.8	22.8	137.6	160.4
OL	22.3	23.3	23.4	23.3	23.2	23.1	23.2	138.7	161.9
<i>Transit</i>									
BR	4.8	4.8	4.8	4.8	4.8	4.8	4.9	28.7	33.6
OL	4.2	3.9	4.3	4.5	4.8	4.9	4.9	26.5	31.4
HR 2400, BESTEA									
BR	29.3	35.0	38.9	38.8	38.9	38.8	--	219.7	--
OL	26.6	28.8	32.9	35.7	37.2	37.9	--	199.1	--
<i>Highway/Safety</i>									
BR	24.5	29.0	32.5	32.4	32.4	32.4	--	183.0	--
OL	22.4	24.9	28.2	30.5	31.2	31.6	--	168.8	--
<i>Transit</i>									
BR	4.8	6.0	6.5	6.5	6.5	6.5	--	36.7	--
OL	4.2	4.0	4.7	5.3	5.9	6.3	--	30.3	--
S 1173, ISTEA2									
BR	27.8	36.7	37.4	38.0	38.7	39.5	--	218.0	--
OL	26.4	29.4	33.4	35.5	36.9	38.0	--	199.6	--
<i>Highway/Safety</i>									
BR	22.9	29.8	30.4	30.9	31.4	32.0	--	177.5	--
OL	22.3	25.3	28.4	29.7	30.4	31.0	--	167.1	--
<i>Transit</i>									
BR	4.8	6.9	7.0	7.1	7.3	7.5	--	40.5	--
OL	4.2	4.1	5.0	5.7	6.5	7.0	--	32.5	--
Offer									
BR	28.0	27.8	27.7	32.1	33.8	34.4	35.1	183.8	218.9
OL	26.5	27.3	27.7	28.7	30.8	32.5	33.5	173.4	206.9
<i>Highway/Safety</i>									
BR	23.1	23.0	22.9	26.0	27.4	27.9	28.4	150.3	178.8
OL	22.3	23.4	23.4	24.1	25.6	26.8	27.4	145.7	173.1
<i>Transit</i>									
BR	4.8	4.8	4.8	6.1	6.4	6.5	6.7	33.5	40.1
OL	4.2	3.9	4.3	4.6	5.1	5.7	6.0	27.7	33.8



Charles R. Marr
05/12/98 01:02:52 PM

Record Type: Record

To: Melissa G. Green/OPD/EOP
cc: Dorothy Robyn/OPD/EOP
Subject: ISTEA Update

At the meeting this morning with staff of House and Senate ISTEA conferees, Shuster's and Chafee's staff presented us with a counter-proposal.

It has three main building blocks:

- 1) Discretionary firewall for transportation at freeze levels -- the first thing they do is back out of the discretionary caps transportation at freeze levels (which is essentially what we have in our budget in aggregate). Within this firewall, there is a sub-wall dividing line (although not completely clear from paper, this is what Shuster's guy said) between highways and transit. (The transit ratio is below ours not surprisingly).
- 2) Additional transportation guaranteed and offset -- on top of the freeze firewall, they propose using the mandatory offsets to bring transportation spending up to amount of gas tax receipts. They contend that CBO will score this portion at \$18 to \$21 billion over the 1998-2003 period. (Note: over this same time period VA tobacco raises \$15.8 billion according to OMB and \$8.9 billion according to CBO -- there is a hole to fill even under OMB scoring). They say that the leadership is coming up with the offsets and they disavowed the Pear story, which says that a series of offsets, including social services block grant and Medicaid, are being targetted.
- 3) Additional transportation spending subject to appropriation -- in essence, their transportation firewall (as supplemented with additional from offsets) is a **floor not a ceiling**. Appropriators could not cut highways and fund education, but they could cut education and fund more highways.

Major Concerns:

- 1) Squeezed priorities -- while their proposal locks in with certainty high level of highway spending, it still leaves our priorities completely exposed. Every dollar of additional highways comes out of the NDD pot. (While I want to stress that no matter how this is constructed it is objectionable, there is the potential to game this to make it even more egregious -- under the walled portion, for example, they could conceivably leave a must fund program unfunded and go into the appropriation process and say we need to fund this out of NDD pot).
- 2) Funding levels -- the insufficiency of VA tobacco to pay for their proposal will lead them to go after our other offsets, such as community services block grant and medicaid that instead should go to things like child care and health.
- 3) Transit -- Whereas we provide a guaranteed 19% for transit, they appear to be much lower, somewhere around 15-17 percent. Senate Banking conferees, who have transit jurisdiction,

made a point of saying that they are not on board this offer. (I talked to D'Amato's top Banking Committee guy afterwards and he was livid at Shuster and company).

Potential Avenues of attack (if end up having to fight this):

- 1) The principle that they get to spend what they take in with the gas tax is a compelling one. Our agreeing with that puts us in position of being the reasonable ones -- now here they come and want to spend **more than gas tax revenues** at the expense of education, environment etc.
- 2) While we will have to see, there maybe a vulnerability for them on the projects. Shuster envisions that the block financed with mandatory offsets would be mandatory spending seemingly in his authorizing committee's control and not in hands of appropriators -- it is unclear, but one could see them using this pot to fund projects. If so, they could be vulnerable to the VA tobacco for pork charge.

Potential Allies:

- 1) Transit folks
- 2) Appropriators -- this is the group that needs to be energized against --- each one of the nontransportation appropriation subcommittee chairs, save Defense temporarily, would be at risk of losing money under this proposal. Highways get a guarantee at a high level and the other appropriators bear all the risk if highways succeed in getting any more. To date not much has been heard from this group and given the tremendous support for the bill overall, opposition will be hard to drum up, but there is a story today in Congressdaily today that is reason for some hope -- the gist is that appropriators and budget types are cool to the Shuster proposal (though Gingrich and Lott on board).

Where to go from here:

- 1) We need to try and energize some opposition to this from a powerful countervailing force -- ie appropriators. I talked to Larry after meeting - he was going to check in with Byrd's guy to see where they are (he fears the worst) and then go from there (I spoke with Daschle's staff and pointed out the problems of Shuster's proposal).
- 2) Negotiating back and forth -- there is room to work with the first two pieces of the Shuster construction -- the firewall plus the additional spending offset. We can convey that we are willing to work on this but the third bite at the apple they have (the NDD squeeze) violates a core principle of ours (note: at the outset Shuster's guy said he accepted our principles).