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BD - EDUCATION

Divider Title: _____

THE DOLE-GINGRICH ANTI-EDUCATION BUDGET OF 1995

IN 1995, MAJORITY LEADER BOB DOLE TEAMED UP WITH NEWT GINGRICH TO FIGHT FOR THE MOST EXTREME EDUCATION BUDGET IN HISTORY. *The 1995 (FY96)*

Dole/Gingrich budget would have cut Education and Training by \$31 billion over 7 years. [CBO, Analysis of HR 2491, 11/16/95, FY96 Budget Resolution Conference Agreement; FY97 Budget Report, Chart 8-1]

- **2.5 Million Students Denied Direct Student Loan Opportunities.** The Gingrich-Dole budget would have capped Direct Lending at 10% of loan volume, denying Direct Loan opportunities to 2.5 million students in 1,350 colleges and universities. [Dole voted for H.R. 2491, the Republican Budget Reconciliation Bill, 11/17/95]
- **Bob Dole Wanted To Cut Student Loans Even More.** During consideration of the Republican Budget Resolution, the Senate *passed* an amendment to reduce the cut in student loans by \$9.4 billion over 7 years by eliminating corporate tax breaks -- but Bob Dole voted no. [CQ Almanac, 1995 (vote #231)]
- **Income-Contingent Loans Effectively Eliminated.** The Dole-Gingrich budget effectively eliminated the ability of students to repay their loans as a share of their income. [Dole voted for H.R. 2491, the Republican Budget Reconciliation Bill, 11/17/95]
- **380,000 Students Denied Pell Grants.** The Dole-Gingrich budget would have seriously underfunded the Pell grant program, denying Pell grants to 380,000 deserving students in 1996 alone, compared to the President's budget. [House-Passed FY96 Labor/HHS Appropriations Bill]
- **Bob Dole Voted Against \$9 Billion Amendment to Prevent Pell Grants From Being Underfunded.** On May 23, 1995, Dole voted to table an amendment that would have restored \$8.88 billion over 7 years for Pell Grants in order to ensure that Pell Grants keep up with inflation. [Dole Senate Vote #330, S.C.R. 13, 5/25/95]
- **100,000-200,000 Denied The Opportunity To Serve Their Communities While Earning Money Toward College.** In 1995, about 25,000 people participated in AmeriCorps. In 1996, nearly 25,000 will participate in the program. The Dole-Gingrich budget would have eliminated AmeriCorps, denying (based on conservative estimates) 100,000-200,000 youth the opportunity to serve their communities while earning money toward college over the next few years. [Vetoed FY96 VA/HUD Approps. Bill, 12/18/95]
- **150,000 Children Denied Head Start.** The Dole-Gingrich budget would have denied 150,000-180,000 children comprehensive Head Start education, health, and social services in the year 2002. [The Senate Budget Resolution -- which Dole voted for -- assumed a freeze in Head Start funding at 1995 levels, denying 150,000 opportunities in 2002. The House-passed Labor/HHS Bill cut Head Start to a funding level that would deny 180,000 children Head Start opportunities in 2002. Source: Department of Health and Human Services, October 25, 1995]
- **1 Million Denied Basic & Advanced Skills Assistance.** The Dole-Gingrich budget would have cut Title I by more than \$1 billion -- 1 million students cut from the program in 1996. [House-passed Labor/HHS FY96 Approps. Bill]
- **Goals 2000 Education Reforms Eliminated -- Cutting off 9,000 schools currently using Federal Funds to raise educational standards.** [House-passed FY96 Labor/HHS Approps. Bill] [Dole campaign Internet Web Site, "It was a bad idea when I voted against it in the Senate. It is a worse idea now." 7/6/96]
- **Safe And Drug Free Schools Funding Slashed More Than In Half -- Services Reduced For 23 Million School Children.** The Dole-Gingrich budget would have cut the Safe and Drug-Free Schools program by more than 1/2 in 1996, from \$466 million to \$200 million. [Based on House-passed FY96 Labor/HHS Approps. Bill. Dole voted for a 51% cut in FY95 Rescission Bill, President Clinton vetoed, June 1995.]
- **4 Million Youth Denied Summer Jobs Opportunities.** The Republican budget would have eliminated the Summer Jobs program., denying about 600,000 young people work opportunities next year and nearly 4 million over 7 years. [FY96 Senate Budget Resolution, May 1995]

BOB DOLE IS GUILTY OF CONSUMER FRAUD ON HIS PHONY "EDUCATION CONSUMER'S WARRANTY"

1. **BOB DOLE'S PRIVATE SCHOOL PLAN WOULD MAKE THE EXTREME DOLE-GINGRICH CUTS TO PUBLIC SCHOOLS EVEN MORE EXTREME.** The Dole-Gingrich balanced budget proposed \$31 billion in education and training cuts over 7 years -- the most anti-education budget in history. [FY96 Budget Resolution, conference agreement, H. Con. Res. 67, FY1996 Budget Reconciliation Bill, 11/16/95] Now Dole proposed to syphon off even more funds from public schools and programs like Head Start, Pell Grants, and basic math and reading skills for disadvantaged children in order to pay for his private school plan by "diverting existing federal education funds." [Washington Post, July 18, 1996]
2. **BOB DOLE'S NEW EDUCATION PLAN SAYS "ALL AMERICAN CHILDREN SHOULD EXPECT TO ATTEND A SAFE SCHOOL," BUT HE VOTED TO CUT SAFE AND DRUG FREE SCHOOLS.** The Dole-Gingrich budget would have cut the Safe and Drug-Free Schools program by more than 1/2 in 1996, from \$466 million to \$200 million and Bob Dole voted for a 51% cut in the FY95 Rescission Bill that President Clinton vetoed in June 1995. [House-passed FY96 Labor/HHS Approps. Bill. Dole voted for a 51% cut in FY95 Rescission Bill, President Clinton vetoed, June 1995.]
3. **BOB DOLE SAYS HE'S CONCERNED ABOUT LOW-INCOME CHILDRENS' EDUCATION, BUT HE VOTED AGAINST TITLE I BASIC AND ADVANCED SKILLS TRAINING, HEAD START PRESCHOOL OPPORTUNITIES, AND PELL GRANTS FOR HIGHER EDUCATION.**
 - **Dole Voted Against Title I Basic and Advanced Skills Training.** Bob Dole voted against the 1994 Improving America's Schools Act which reauthorized and strengthened Title I which provides funding to improve the skills of children in high-poverty schools, typically providing supplemental instruction in reading and math. [C.R. 10/5/94, Senate Vote #321]. The Dole-Gingrich budget would have cut Title I by more than \$1 billion -- 1 million students cut from the program in 1996. [House-passed Labor/HHS FY96 Approps. Bill]
 - **Dole Voted Against Head Start.** Bob Dole voted against the creation of the original Head Start in 1964 and fought for the Dole-Gingrich budget which would have denied 150,000-180,000 children comprehensive Head Start education, health, and social services in the year 2002. [The Senate Budget Resolution -- which Dole voted for -- assumed a freeze in Head Start funding at 1995 levels, denying 150,000 opportunities in 2002. The House-passed Labor/HHS Bill cut Head Start to a funding level that would deny 180,000 children Head Start opportunities in 2002. Source: Department of Health and Human Services, October 25, 1995]
 - **Dole Voted To Cut Pell Grant Scholarships.** The Dole-Gingrich budget would have cut the Pell grant program, denying Pell grants to 380,000 deserving students in 1996 alone, compared to the President's budget. [House-Passed FY96 Labor/HHS Appropriations Bill]. Bob Dole voted against a \$9 billion amendment to prevent Pell Grants from being underfunded. On May 23, 1995, Dole voted to table an amendment that would have restored \$8.88 billion over 7 years for Pell Grants in order to ensure that Pell Grants keep up with inflation. [Dole Senate Vote #330, S.C.R. 13, 5/25/95]

4. **BOB DOLE SAYS HE WANTS TO RAISE ACADEMIC STANDARDS, BUT HE VOTED AGAINST GOALS 2000 -- WHICH 48 STATES ARE NOW USING TO HELP RAISE ACADEMIC ACHIEVEMENT.** Dole voted against the creation of Goals 2000 Higher Education Standards. [HR 1804, C.R., March 26, 1994, Vote #86.] *The Dole-Gingrich budget would have eliminated Goals 2000 Education Reforms -- Cutting off 9,000 schools currently using Federal Funds to raise educational standards.* [House-passed FY96 Labor/HHS Approps. Bill].

Goals 2000 has received bipartisan praise:

Wisconsin Governor Tommy G. Thompson: "Although Goals 2000 has only been in effect a short time, the program has changed the face of education as we know it. I applaud your efforts to help children everywhere reach the high academic standard we have set for them." [letter to Michael Cohen, Senior Advisor to Secretary Riley, 9/18/95]

- **Terrel Bell, President Reagan's Education Secretary.** It makes no sense to abolish the Goals 2000: Educate America Act which is helping states and communities raise standards of achievement and discipline. Goals 2000 is far from being a partisan effort. This program is almost identical to a similar effort launched by Republican leadership during the administration of President George Bush. [statement released 7/13/95]
- **Louis Gerstner, CEO of IBM.** Goals 2000 is only a small portion of what I think we need, but it is a very critical portion... If we lose Goals 2000 it would be an incredibly negative setback for this country. [9/6/95]

5. **BOB DOLE SAYS HE'S FOR SCHOOL CHOICE, BUT VOTED AGAINST THE IMPROVING AMERICA'S SCHOOLS ACT AND GOALS 2000 WHICH HELP SUPPORT CHARTER SCHOOLS.**

- **Bob Dole Voted Against funding for Charter Schools.** Bob Dole voted against the 1994 Improving America's Schools Act which reauthorized and strengthened efforts to help localities improve the skills of children in high-poverty schools, typically providing supplemental instruction in reading and math. [C.R. 10/5/94, Senate Vote #321]. On September 22, 1995, President Clinton announced grants to provide start-up funds from the 1994 Act for Charter Schools in 11 states, including Minnesota, Michigan, California, Texas, and Massachusetts.
- **Bob Dole Voted Against Goals 2000 funding for Charter Schools.** Dole voted against the creation of Goals 2000 which 48 states are now using to help raise academic achievement. [HR 1804, C.R., March 26, 1994, Vote #86.] Any state can use Goals 2000 funds to support the development of charter schools, and at least three states are already doing so: Minnesota, Michigan, and Massachusetts. In Michigan, where Dole speaks Thursday, 8 charter schools were funded with Goals 2000 funds.

**CHECK THEIR RECORDS ON SCHOOL CHOICE:
PRESIDENT CLINTON HAS BEEN A LEADER IN PROMOTING
COMPETITION, ACCOUNTABILITY AND PARENTAL CHOICE**

"I challenge every state to give all parents the right to choose which public school their children will attend; and to let teachers form new schools with a charter they can keep only if they do a good job." -
President Bill Clinton, State of the Union Address, January 23, 1996

- I. AS GOVERNOR, BILL CLINTON PROPOSED AND WON PUBLIC SCHOOL CHOICE.**
Governor Bill Clinton proposed and signed the law in 1989 allowing parents to choose any public school in any school district -- making Arkansas among the first states to have such a law.
- II. AS PRESIDENT, BILL CLINTON HAS REPEATEDLY ACTED TO PROMOTE CHARTER SCHOOLS AND CHOICE -- BOB DOLE REPEATEDLY OPPOSED HIM:**
 - 1. PRESIDENT CLINTON WON PASSAGE OF LEGISLATION TO HELP ESTABLISH CHARTER SCHOOLS TO EXPAND PARENTAL CHOICE AND COMPETITION.** As part of his 1993 proposal to reauthorize the Elementary and Secondary Education Act, President Clinton proposed providing start-up funds for teachers, parents, and others to start charter schools - innovative public schools governed by teachers, parents and others that operate free of many district and state regulations but are held accountable for results through performance-based contracts. In 1995, President Clinton announced grants to provide start-up funds for Charter Schools in 11 states, including Minnesota, Michigan, California, Texas, and Mass.
⇒ BOB DOLE VOTED NO: Bob Dole voted against the Improving America's Schools Act that created the Charter School program. [Congressional Record 10/5/94, Senate Vote 321]
 - 2. PRESIDENT CLINTON MADE CHARTER SCHOOLS A CLEAR OPTION FOR SCHOOLS THAT DON'T PERFORM.** The President's proposal to reform and reauthorize Title 1 listed as a possible corrective action for low-performing high-poverty schools receiving Title 1 "making alternative governance arrangements such as the creation of a charter school."
⇒ BOB DOLE VOTED NO: Bob Dole voted against the Improving America's Schools Act that reformed Title 1, which helps improve reading and math skills. [CR 10/5/94, Senate Vote 321]
 - 3. PRESIDENT CLINTON FOUGHT FOR AND SIGNED GOALS 2000 TO RAISE ACADEMIC STANDARDS AND INCREASE ACCOUNTABILITY AND CHOICE.** 48 states -- including all but two Republican governors -- are using Goals 2000 to raise achievement and choice. Goals 2000 funds can be used to support the development of charter schools, and at least three states are already doing so: Minnesota, Michigan, and Massachusetts. In Michigan, 8 charter schools were funded in 1995 with Goals 2000 funds.
⇒ BOB DOLE VOTED NO: Even as the Senate voted bipartisanly to pass it (63-22), Bob Dole voted against Goals 2000: Educate America's Act. [HR 1804, 3/26/94] "It was a bad idea when I voted against it in the Senate, and it's still a worse idea now." [New York Times, 7/5/95]
 - 4. PRESIDENT CLINTON'S BALANCED BUDGET MORE THAN DOUBLES FUNDING FOR CHARTER SCHOOLS** to \$40 million in 1997, and increases funding over the next 5 years to fund start-up costs for up to 3,000 new charter schools. [OMB, FY97 Budget, 3/96]
⇒ BOB DOLE RESIGNED AND REPUBLICANS VOTED NO: The House-passed FY97 Labor-HHS appropriations bill provides less than half the funding requested for charter schools.

BOB DOLE FAILS EVEN THE MOST BASIC EDUCATION LEADERSHIP TEST

A QUICK HISTORY LESSON FOR BOB DOLE: Nothing Bob Dole says about education in a 35 minute campaign speech can erase Senator Dole's 35 years of anti-education votes, including:

- **1996:** **Voting to provide \$55 billion less funding for education and training than the President's balanced budget.** [FY97 Senate Budget Resolution]
- **1995:** **Voting for and leading the fight for the Dole-Gingrich budget that cut education by \$31 billion.** [FY96 Budget Resolution, conference agreement, H. Con. Res. 67, FY1996 Budget Reconciliation Bill, 11/16/95]
- **1994:** **Voting against Safe and Drug Free Schools, Head Start, Title I, Charter Schools, and Goals 2000 Higher Education Standards.**
[Safe and Drug Free Schools: CQ Almanac, 1994, (p. 55-S; Vote #321). Title I and Charter Schools: HR 6, October 5, 1994, Senate vote #2243. Goals 2000: HR 1804, C.R., March 26, 1994, Vote #86. Head Start: CQ Almanac 1994, Vote #34, HR1804, 2/8/94]]
- **1993:** **Voting against the creation of Direct Student Loans and National Service.** [Direct Lending: CQ Almanac, 1993, (p410) CQ Vote #190, HR 2264, passed 50-49, 6/23/93. National Service: CQ Almanac 1993, pg. 403, CQ Vote #231, HR 2010, passed 58-41, 8/3/93]]
- **1986:** **Fighting to cut \$1.5 billion from Pell Grants scholarships and cutting the maximum scholarship award for disadvantaged college students from \$2,400 to \$2,300.** [CQ Almanac, 1986 (Vote #109)]
- **1981:** **Voting for Reagan's Pell Grant Cuts which set spending limits below the operating cost of the program.** [CQ Almanac, 1981 (p. 493)].
- **1979:** **Voting against creation of the Department of Education.** [Senate Vote#1070, S. 210, 4/30/79]
- **1965:** **Voting against creation of the first federal student loans -- 1 of only 63 representatives to vote against the creation of the Higher Education Act which guaranteed federal student loans for undergraduate college students.** [CQ Almanac, 1965 (vote #169), 10/25/65.]
- **1964:** **Voting against the creation of Head Start.** [CQ Almanac, 1964]

REPUBLICAN AND PRIVATE SECTOR SUPPORT FOR GOALS 2000

Although Goals 2000 has only been in effect a short time, the program has changed the face of education as we know it. I applaud your efforts to help children everywhere reach the high academic standard we have set for them.

-- Governor Tommy G. Thompson [letter to Michael Cohen, Senior Advisor to Secretary Riley, 9/18/95]

I was really pleased that this legislation finally became the law of the land... Goals 2000 is the first Federal program to focus on improving the quality of education in this country... This law encourages states and localities to set high academic standards for America's children, and it makes it clear that we have high expectations for our future generations.

-- Congressman Bill Goodling, Chairman of the Economic and Educational Opportunities Committee [letter to the Chairman of the Senate Education Committee in Pennsylvania, 6/7/94]

I think Goals 2000 is an example of the federal government giving states more authority to be creative, to be innovative.

-- Senator Mark Hatfield, Chairman of the Senate Appropriations Committee [speech during the Oregon ceremony where his state became the first "Ed-Flex" demonstration state, 2/95]

It makes no sense to abolish the Goals 2000: Educate America Act which is helping states and communities raise standards of achievement and discipline. Goals 2000 is far from being a partisan effort. This program is almost identical to a similar effort launched by Republican leadership during the administration of President George Bush.

-- Terrel Bell, President Reagan's Education Secretary [statement released 7/13/95]

Goals 2000 is only a small portion of what I think we need, but it is a very critical portion... If we lose Goals 2000 it would be an incredibly negative setback for this country.

-- Louis Gerstner, CEO of IBM, 9/6/95

Without Washington's leadership and budgetary support education reform in America will die... Defunding Goals 2000 would be wrong and short-sighted.

-- David Whitwam, CEO of Whirlpool, 9/11/95

If we lose this, it would set back state education reform efforts by years. The value of Goals 2000 is that it's designed to spur systematic, break-the-mold reform and hold schools accountable to clear standards.

-- Joseph T. Gorman, President of TRW, Washington Post, 9/26/95

We are still in the early stages of communicating to the American public and, indeed, to many in the educational community, the importance of meeting high standards and taking accountability for doing so. Failure to continue the Goals 2000 Act would represent a tremendous setback for this effort.

-- John E. Pepper, CEO of Procter & Gamble, 9/8/95

Goals 2000 funding was used to get our grassroots folk involved in the education process. Fishermen and university presidents sat down at the same table and talked about what needs to happen for our students to be successful.

-- Elaine Griffin, Alaska teacher, National Teacher of the Year, 1995

**TOMMY G. THOMPSON****Governor
State of Wisconsin**

September 18, 1995

Michael Cohen
Senior Advisor to the Secretary
United States Dept. of Education
Washington, D.C. 20202

Dear Mr. Cohen:

Thank you for your letter, and the information regarding the technical assistance services available to the State of Wisconsin. I appreciate the time you took to write and your patience in awaiting a response.

Although *Goals 2000* has only been in effect a short time, the program has changed the face of education as we know it. I applaud your efforts to help children everywhere reach the high academic standards we have set for them. Your new technical assistance services sound like a wonderful way to continue down the road to successful education reform. Keep up the good work.

Thank you again for the letter and materials. I have forwarded them to my policy staff for their consideration. Should they have any questions or comments, they will contact you directly. Please do not hesitate to keep my office informed.

Sincerely,

A handwritten signature in cursive script, reading "Tommy G. Thompson".

TOMMY G. THOMPSON
Governor

TGT/bwl

c2007/12/10

GOALS 2000: A BIPARTISAN APPROACH

- o **Enacted with strong bipartisan support in 1994.** The House of Representatives approved Goals 2000 by a bipartisan vote of 306-121. The Senate passed Goals 2000 with a bipartisan vote of 63-22.
- o **Supported by every major business, education and parent organization.** Enactment of Goals 2000 was supported by a wide range of groups, including the U.S. Chamber of Commerce, The Business Roundtable, the National Alliance of Business, the National School Boards Association, the National PTA, the American Federation of Teachers, the National Education Association, and the National Association of Elementary School Principals.
- o **48 States -- Including All But 2 Republican Governors -- Are Using Goals 2000 To Raise Academic Achievement.** 48 states -- all but Virginia and Alabama -- are using Goals 2000 to support education reforms developed at local and state levels. More than 4,500 local school districts are participating in Goals 2000, as a result of the first two years of funding. Goals 2000 helps states and local communities improve academic achievement by raising academic standards, using technology to improve teaching and learning, increasing parental involvement in schools, providing training to teachers, and holding schools accountable for improved academic performance.
- o **Builds on bipartisan agreements between Nation's governors and Bush Administration at 1989 Charlottesville Education Summit.** The foundation for Goals 2000--federal support for state-led education reforms, a focus on challenging academic standards, accountability for results, flexibility in the use of federal funds--was developed at the 1989 Education Summit.
 - ***The National Governors' Association reiterated its bipartisan support for Goals 2000 on July 16, 1996 at its annual meeting in Puerto Rico.*** The Governors approved a policy on "Governors' Role in Achieving The National Education Goals" that says "the Governors believe that the federal government should support state efforts to achieve the National Education Goals...providing categorical aid to support state-based systemic reform efforts, such as...Goals 2000: Education America Act."
- o **No New Regulations.** States and local communities have tremendous flexibility in how Goals 2000 funds can be spent, so long as it fits within the state or community's own approach to improving education. Goals 2000 is being administered with no new regulations, and provides, for the first time in history, the Secretary of Education with the authority to waive requirements in other federal programs if they interfere with state or local approaches to improving education. At least 90% of Goals 2000 funds must be spent at the local community level.
 - o **Eight states -- Colorado, Kansas, Maryland, Massachusetts, Ohio, Oregon, Texas, and Vermont -- are participating in Goals 2000 Ed-Flex Demonstration Program.** This permits the state (rather than the Secretary of Education) to waive statutory and regulatory requirements of federal education programs if the requirements interfere with state or local approaches to education reform.

EXAMPLES OF HOW STATES ARE USING GOALS 2000 FUNDS

Minnesota has received nearly \$7 million under Goals 2000 in the last two years and another \$5 million this year to implement the State's Educational Improvement Plan, including high graduation standards for all Minnesota students.

Michigan was awarded \$18 million in the last two years under Goals 2000 to raise teacher quality, expand the use of technology in the classrooms, raise academic standards, and increase parental involvement.

- **Using Goals 2000 to Develop Charter Schools.** Minnesota, Michigan, and Massachusetts -- 3 states with Republican Governors -- are using Goals 2000 to support the development of charter schools.

Wisconsin has been awarded over \$6 million under Goals 2000. It will help 94 local school districts design strategies for increasing student achievement and parental and community participation education. For example, the Monroe School District uses Goals 2000 funds for a two-week math, science and technology teacher training institute to upgrade teachers' skills.

Ohio is targeting its Goals 2000 funds on those schools whose students are not making progress toward meeting academic standards, as a component of its approach to hold schools accountable for performance. The Goals 2000 funds are being used to help turn around low performing schools.

Texas is using Goals 2000 funds to support Gov. Bush's Academics 2000 program, by providing the resources needed to revise and update the state's curriculum, and by providing funds to local school districts to help student learn to read by the 4th grade.

California is using Goals 2000 funds for a new reading initiative designed by Gov. Pete Wilson and State Superintendent Delaine Eastin.

Delaware is using its funds to enable local schools to develop model curriculum that are aligned with the state's recently adopted academic standards.

Kentucky has used its Goals 2000 funds to promote greater parental involvement in its own reform effort, the Kentucky Education Reform Act (KERA).

6 QUESTIONS ON VOUCHERS

Q: Why is the President opposed to school vouchers?

A: ● The President's goal is to give true choice to all parents to send their children to good schools with high standards, competent and inspired teachers, opportunities for technology literacy. The President feels the best way to do that is to support charter schools, public school choice while supporting basic skills for disadvantaged students, technology literacy, high performance tests for graduating from elementary school, middle school and high school, and that we ought to provide choice and competition among public schools that open their doors to all students.

● This plan would hurt the choice for millions of parents to go to quality schools by draining the funds away from public schools that are needed to give all parents and students choice of a first rate education. The Dole-Gingrich budget proposed \$31 billion in education and training cuts -- the most anti-education budget in history -- and now this private school initiative could drain another \$10 billion away from programs like Head Start, Pell Grants and Title I over six years.

[● Want competition and choice among schools that open doors their to all students - not just the ones they hand pick for any arbitrary reason.]

[● This is an unnecessarily divisive approach that allows schools to hand-pick winners and losers, while the Church and State issues tend to lead to litigation that is long and too often divisive.

[● No accountability]

[● No evidence that it works. The University of Wisconsin-Madison has found no evidence of higher academic achievement, while there is evidence of schools closing and parents being stranded and the state being defrauded through the program.]

[Much will go to just subsidizing the 5.7 million who already go to private schools]

Follow up:

Q: Why are private school vouchers are different from giving training vouchers or Pell Grants to private schools, the difference is that public school education in this nation is not optional and is not charged for.

A: College is optional for students; all colleges charge tuition and all colleges can pick and choose who they want to accept or deny. In that environment, we decided as a nation to help all students out regardless of whether they are going to public or private schools. Public elementary and secondary school is different. It is universal; it is where our common values and sense of common citizenship is formed. Everyone is accepted and no one has to pay. That is special and we should preserve the strength of that system. When you have a Dole-Gingrich budget that cuts public education and then calls for siphoning off \$10 billion more in cuts to allow a few to pay less for private schools, we weaken that system and weaken the ability of all students to choose quality schools.

Q: Is our position that school vouchers are unconstitutional?

A: ● There is no clear cut answer there, but we know that it raises constitutional questions and that it is guaranteed to lead to years of unnecessary litigation and division.

Q: The President talks about giving poor children the same choices in education as the most well-off. They why is it okay for the President and Vice President to send their daughters to elite private schools but then oppose Bob Dole's effort to give millions of poor families the same choice?

A: ● The President's goal is to give all Americans as much choice as possible to go to the best schools possible. The question is what is the best way to do that. Yet, the fact is that the President feels the best way to strengthen our economy and give every child and every parent the choice to go a quality school is to strengthen the public schools and not to siphon funds off public funds for private schools scholarships for a few -- especially when these schools have no public accountability and do not open their doors to all students.

Q: The President called Polly Williams a visionary

A: ● The President was an early forerunner of school choice and competition. He wrote Polly Williams because he wanted to offer encouragement to the exploration of the few choice and competition ideas that existed at that time and he told her that he would "have his staff analyze it." After seriously studying different choice options, then Governor Clinton came to the conclusions that the right way to promote parental choice in education was through public school choice and charter schools -- and not private vouchers -- because he feared private school vouchers would siphon funds away from public schools and lead to unnecessary division at a time when he thought Americans should be pulling together. He has been consistent in the position and has acted as President to promote this view by praising public school choice efforts and finding new funds for charter school in two separate bills GOALS 2000 and Improve America Schools Act -- both of which gave funds to Minnesota and both of which Dole voted against.

Q: Has the Wisconsin proposal been successful?

A: The study by the University of Wisconsin shows no academic difference between those who are in the program and those who are not. (Study by Professor John Witte, University of Wisconsin-Madison, Milwaukee Journal, February 10, 1996). Furthermore, as Clarence Page reported for the Chicago Tribune, "two of the seventeen private Milwaukee schools participating in the voucher program have gone out of business, leaving students stranded and parents scrambling to find another

school. Two more have been put on the critical list with severe financial troubles." Page also reports that 200 of 1476 students have dropped out and the director of one school wrote \$47,000 in bad checks. A state audit found that two schools have exaggerated enrollments enough to overbill the state of Wisconsin by \$390,000. ("Reality Check on School Vouchers," Chicago Tribune, March 13, 1996 p.15

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BD – SMALL BUSINESS

Divider Title: _____

FALSE CLAIMS ON PRESIDENT CLINTON'S SMALL BUSINESS RECORD -- AND THE FACTS

CLAIM: *The President has threatened to veto legislation to require cost-benefit analysis of the regulations and vetoed regulatory reform as part of legislation to increase the debt ceiling.*

THE FACTS: **The Clinton Administration is reducing regulations and paperwork. SBA, OSHA, EPA, and IRS are all vigorously undertaking regulatory reform to aid small businesses.**

- **The Clinton Administration is eliminating 16,000 pages of obsolete regulations and streamlining another 31,000:**
 - The EPA has cut paperwork requirements by 25%.
 - USDA eliminated 3 million pages of government forms that America's farmers filled out each year.
 - The SBA has cut its own regulations by 50% and is streamlining those that remain, in response to the President's direction. For example, SBA has consolidated all business loan regulations, and made them easier to understand and more accessible by putting them on the SBA's Internet homepage (<http://www/sbaonline.sba.gov>). The SBA has also cut the application for small loans from an inch thick to a single sheet.

According to the GAO: "[a]ctions have been taken on all of the NPR recommendations on SBA, which should make SBA's programs significantly more responsive to the needs of small business."

- **President Directed Agencies to Take Into Account Regulatory Costs and Benefits.** President Clinton issued an Executive Order requiring agencies to take into account the costs and benefits of regulations on September 30, 1993 [Executive Order 12866].
- **New Approach to Regulatory Enforcement.** Small business owners can now avoid paying penalties for violations if they correct the problem within a appropriate period of time. For those violations that may take longer to correct, a small business may get up to 100% of the fine waived if that same money is used to correct the violation.
 - **Waiving Penalties For First-Time Violations When Acting in Good Faith.** President Clinton has directed agencies to waive all or part of punitive penalties against small businesses for first time offenses if they were acting in good faith. OSHA and the EPA have been taking vigorous steps to implement this directive.
- **President Clinton recently signed the Small Business Regulatory Enforcement Fairness Act of 1996** which incorporates several recommendation by the White House Conference on Small Business, including requiring small business input on all proposed rules by the EPA and OSHA.several to reform.

CLAIM: *Clinton proposal to "integrate" the women's business program under another SBA program would threatened the livelihood of vital women's business initiatives.*

THE FACTS:

- **The President's proposal will *increase* the number of states with a women's Demonstration Program from 28 today to 50 states.** The plan integrates the Women's Demonstration Program with each state's Small Business Development Center program, ensuring that at least one Women's Demonstration is established in each state and strengthening the support system for the program.
- **Under the President's reinvention plan, women's business development sites will continue to receive funding indefinitely, rather than for just 3 years under the current program.**
- **SBA lending to women has increased by over 300% since President Clinton took office.**

CLAIM: *President Clinton vetoed pension reforms to make it easier for small businesses to provide their workers with pensions.*

THE FACTS:

- **Both President Clinton and Senator Dole both put forward proposals to create a new simpler small business pension plan that makes it easier and cheaper for small businesses to offer their workers pensions.**
- **Senator Dole proposed his small business pension plan after President Clinton.** President Clinton proposed his small business "401(k) plan" in June 1995. Senator Dole did not offer a plan until last fall.
- **The President's proposal (NEST) is better than Senator Dole's (SIMPLE): it offers better coverage and better benefits, providing more workers with strong incentives to save for their retirement.**

CLAIM: *The President vetoed estate tax relief when he vetoed the Republican budget.*

THE FACTS:

- **The President's supports targeted estate tax relief for family farmers and small businesses and his balanced budget provides such relief** to make it easier to pass a family business or farm on to one's children. The proposal addresses the liquidity problems that can arise on the death of a small business owner of family farmer by making more taxpayers eligible to pay the estate tax in installments at favorable interest rates.
- **The Republican budget provided a huge estate tax cut for the wealthiest 1% by cutting Medicare, Medicaid, Education and the Environment.** The Republican budget provided an average of \$90,000 in estate tax relief to the wealthiest 1% of estates, at a cost of \$13 billion over 7 years paid for by devastating cuts in Medicare, Medicaid, Education and the Environment.

CLAIM ON ESTATE TAX PROVISION IN THE 1993 ECONOMIC PLAN

CLAIM: *The President's 1993 Economic Plan reinstated the 55% top estate tax rate that frequently forces families to liquidate or sell their businesses or farms just to pay the tax collector.*

THE FACTS:

- **The 1993 Plan did not increase the estate tax one penny -- it just extended the top rates on estates over \$2.5 Million - the top 0.2% of estates.** The President's Plan did not contain any new taxes on estates. None.
- **The only provision affecting estates was an extension of an estate tax rate that was maintained and extended in 1984 and 1987 in bipartisan bills supported by Republicans.** The Republican-controlled Senate and White House maintained and extended the top 53% and 55% rates in 1984.
- **Less than 0.2% of estates are affected by the extension.** The rates apply only to estates over \$2.5 million in value -- less than two-tenths of one percent (0.2%) of estates. The average worth of these estates is \$7.5 million. [Treasury Office of Tax Analysis, 4/96]
- **Estate planners expected that it would be extended.** Congress had passed an extension of the top estate tax in 1992, so estate planners around the country were well aware that the law would likely be extended in 1993.
- **The President's supports targeted estate tax relief for family farmers and small businesses and his balanced budget provides such relief** to make it easier to pass a family business or farm on to one's children. The proposal addresses the liquidity problems that can arise on the death of a small business owner or family farmer by making more taxpayers eligible to pay the estate tax in installments at favorable interest rates.

CLAIM ON RAISING TAXES ON MIDDLE CLASS SMALL BUSINESS OWNERS

CLAIM:

Clinton says he only raised taxes on the wealthy, but according to recently released IRS data from 1993, nearly 87 percent of the returns showing \$200,000 or more in income were filed by small businesses and family businesses.

THE FACTS:

1. **Only 4% of Small Business Owners Were Affected by The Individual Rate Increase and Over 90% of Small Businesses Eligible for Tax Cuts.** The Treasury Department estimates that the 1993 Economic Plan's increase in the individual income tax rate affected only 4% of small business owners -- sole proprietorships, partnerships, farms or S corporations. *These business owners have an average income well over \$500,000.*

And of the 4% of small business owners who will pay more, many are well-off doctors, law partners, investment bankers, and consultants with lucrative practices -- not traditional small businesses. 63% of the increased revenue from small business owners came from those with adjusted gross income over \$1 million. [Source: Treasury Department, Office of Tax Analysis. 4/96]

Wall Street Journal: "Only 4% of those taxpayers who report some business income on their tax returns -- and that includes partners in law firms and investment bankers as well as owners of small manufacturing companies -- make sufficient money to be hit by the higher rates." ["Foes of Clinton's Tax Boost Proposals Mislead Public and Firms on the Small Business Aspects," *Wall Street Journal*, July 20, 1993.]

2. **President Clinton's Economic Plan Helped Small Business.** It contained targeted pro-business investment incentives to promote small businesses:
 - **Small Business Expensing.** Increased the small business expensing limit by 75% -- from \$10,000 to \$17,500.
 - **Capital Gains.** Provided a targeted capital gains tax cut to promote the expansion and creation of small businesses. Investors who invest for more than 5 years in small businesses can get a 50% cut in their capital gains rate.
 - **Empowerment Zones.** Created empowerment zones that give businesses incentives to invest and create jobs in distressed economic communities.
3. **Record Number of Businesses Created, Business Failures Have Declined.** Since the President's Economic Plan went into effect, a record number of new businesses have been created each year and business failures have declined each year. [Source: Dun & Bradstreet.]
4. **President Clinton's Balanced Budget Provides Additional Assistance to Small Business.**
 - **Small Business Expensing.** Further increases the expensing limit to \$25,000.
 - **Estate Tax Relief.** Provides estate tax relief by allowing more small businesses and farmers to pay the estate tax in installments at favorable interest rates.
 - **Self-Employed Health Tax Deduction.** Gradually increases the self-employed tax deduction from 30 percent to 50 percent in 2002.
 - **New Small Business 401(k) Plan.** Creates a simple small business 401(k) plan to make it easier for small businesses to provide pension coverage to their workers.

CLAIM ON SMALL BUSINESSES HAVING TO PAY 44.5% TAX RATE

CLAIM:

President's Clinton's tax increase forces small businesses to pay individual rates of up to 44.5% -- more than the 35% corporate tax rate for big business.

THE FACTS:

The 1993 Economic Plan included a millionaires surtax which can be seen as effectively raising the top marginal income tax rate to 39.6% for those with incomes over \$264,000. This affects only the top 0.5% -- 1/2 of one percent.

This is the highest marginal income tax rate that resulted from the 1993 plan. Of course, people can add in other taxes -- payroll, excise, state and local -- but 39.6% is the highest marginal income tax rate and it affects only the top 0.5%.

1. **The Top Rate Is 39.6% and It Applies To Only The Top 0.5% of Taxpayers.** The 1993 Plan's 10% "millionaire's surtax," brings the top rate up to 39.6%. It applies only to taxpayers with taxable incomes over \$264,000 -- the top 0.5%. [Source: Treasury Department, Office of Tax Analysis, 4/96]
2. **Only 4% of Small Business Owners Were Affected At All By The Individual Rate Increase.** The Treasury Department estimates that the 1993 Economic Plan's increase in the individual income tax rate affected only 4% of small business owners -- sole proprietorships, partnerships, farms or S corporations. *These business owners have an average income well over \$500,000.* [Source: Treasury Department, Office of Tax Analysis, 4/96]
3. **Over 90% of Small Businesses Eligible for Tax Cuts Under The 1993 Plan's Increased Small Business Expensing Limit and the Capital Gains Tax Cut Targeted to Small Businesses.**
4. **A Record Number of Businesses Have Been Created and Business Failures Have Dropped.** Since the higher rates went into effect, a record number of new businesses have been created each year and business failures have declined each year. [Source: Dun & Bradstreet.]

CLINTON GORE

PRESS RELEASE

***For Immediate Release:
July 24, 1996***

***Contact: Joe Lockhart
National Press Secretary
202/496-5063***

STATEMENT BY JOE LOCKHART NATIONAL PRESS SECRETARY

Bob Dole is reportedly inching toward announcing his economic plan for America's future. Today's installment -- criticizing small business growth under President Clinton despite 3 straight years of record breaking growth. What's Bob Dole so worked up about?

- More small business growth than ever before
- More opportunities for women business owners
- A smaller, more efficient Small Business Administration
- Tax cuts for small business which were opposed by Senator Dole

As we've come to expect, Bob Dole has a knack for finding fault with record breaking performances. In fact, when Bob Dole watched the Olympics last night he probably criticized gymnast Kerri Strug for landing on only one foot.

###

WHAT BOB DOLE FAILED TO TELL YOU ABOUT PRESIDENT CLINTON'S RECORD ON SMALL BUSINESS

July 24, 1996

- **More Small Businesses Than Ever Before.** After falling during the Bush Administration, we have had a record number of new small businesses in each of the last three years.

Number of New Small Business Incorporations

1988	683,808
1989	678,653
1990	646,702
1991	629,886
1992	669,519
1993	707,410
1994	741,059
1995	775,000*

Source: Dun & Bradstreet. * = through November at an annual rate

- **More Opportunities for Women Business Owners.** Under President Clinton, SBA lending to women has increased by 300%. We now have an estimated 8 million women-owned businesses -- the most in history. [Source: Small Business Administration and National Foundation of Women Business Owners]
 - **Before Bob Dole called for a new conference for women business owners, he should check his facts.** The President established the Interagency Committee on Women's Business Enterprise that issued its major report on "Expanding Business Opportunities for Women" in January 1996 which describes new and existing assistance for women entrepreneurs. In May 1996, the National Women's Business Council in partnership with this interagency committee held Summit '96, a conference involving 250 leaders of national women business organizations and top women business owners in the country to develop an action plan that reflects the priorities of women in business.
- **A Smaller, More Efficient Small Business Administration.** The SBA has doubled its loan volume to small businesses under President Clinton -- from 27,000 loans in 1992 to 57,000 loans in 1995 -- while it has cut its own staff by a quarter. [Source: Small Business Administration]

- **Again Bob Dole should check the record. President Clinton proposed and won enactment of a targeted small business capital gains tax cut -- Bob Dole Voted No.** President Clinton 1993 Economic Plan made 90% of small businesses eligible for tax cuts by raising the small business expensing limit 75% -- from \$10,000 to \$17,500 -- and establishing a targeted capital gains tax cut for investments in small and expanding businesses that are held for five years. Bob Dole voted no.
- **Bob Dole should check the record on pensions as well.** President Clinton announced his small business pension plan in June 1995 at the White House Conference on Small Business. Bob Dole later followed with his own proposal in the fall. There is now bipartisan support to create a small business pension plan, and if Congress will send the President the minimum wage bill, will can enact a small business pension plan.

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WELFARE

Divider Title: _____

MAJOR OUTSTANDING ISSUES IN THE WELFARE BILL

With action on welfare hurtling forward, it is worth examining what problems the House and Senate bills pose. Serious problems mark the bills in three areas: food stamps, how the welfare block grant works, and legal immigrants.

The Overall Depth of the Cuts: Despite a perception the legislation has become more moderate in both chambers, the House bill cuts low-income programs *more than the bill vetoed in January* — the House bill contains \$63 billion in cuts according to CBO, compared to \$59 billion in the vetoed bill. The Senate bill includes \$61 billion.¹ Without moderation in the depth of the cuts in the food stamp and immigrant areas, the bill's impact on increasing the extent and depth of poverty will not be lessened materially.

1. **Food Stamps:** The depth of the food stamp cuts is stunning.

- The House bill cuts food stamps nearly \$31 billion over six years, including the food stamp legal immigrant cuts. This is nearly *\$3 billion more than the food stamp cuts in the welfare bill vetoed in January*. (Excluding the immigrant cuts, the House bill's food stamp cuts are \$2 billion deeper than those in the vetoed bill.) The Senate bill cuts food stamps as much as the bill vetoed in January — and over *\$4 billion more than the Senate welfare bill of last fall*.
- Under both the House and Senate bills, families with incomes below *half* of the poverty line would absorb half of these cuts. Families with children would absorb 70 percent of the cuts.
- The average household with income below *half* of the poverty line would lose more than \$600 a year in food stamp benefits under the Senate bill by 1998 and \$750 a year under the House bill.

The average family with children would lose nearly \$500 in food stamp benefits in 1998. The average working poor family would lose nearly \$400. Under the bill, the food stamp cuts grow deeper with each passing year. For example, those below half of the poverty line would lose an average of nearly \$1,000 a year in food stamps in 2002 under the House bill.

- The most severe cut is a provision in both bills that would terminate food stamps after just a few months for unemployed adults who are not elderly or disabled or raising children *without offering them a work slot or other opportunity to work*. The House bill is particularly draconian in this area — it limits food stamps for these individuals to three months while unemployed out of their adult lifetimes up to age 50. A factory worker who receives food stamps for three months while unemployed during a recession, then works for 10 or 15 years and is laid off in a later recession, would be ineligible for food stamps — the worker would have exhausted his or her three months of food stamps during the initial recession. Waivers would be provided only in limited circumstances.

¹ If EITC compliance cuts are excluded, the House bill has \$62 billion in cuts, and the Senate has \$59 billion.

In addition, the contingency fund is badly designed. States qualifying for the fund for part rather than all of a calendar year will have to put up \$2, \$3, or \$4 in additional *state* funds for each \$1 they receive in federal contingency funds. Requiring states to put up 70 percent or 80 percent of the cost of such assistance, especially during recessions, is unprecedented. The likely result is that *many states will fail to access the contingency funds when their economies falter because they will not expend the funds needed to meet these unrealistic matching requirements.* Serious hardship is likely to result.

Adding to these problems, the House bill would deny the federal government the right to enforce federal law in this area. States could violate federal rules — and even their own state plans — with impunity.

3. Legal Immigrants: The legal immigrant cuts are deeper in both the House and Senate bills than in the vetoed welfare bill. The vetoed welfare bill had \$22 billion in benefit cuts in this area. The Senate bill has \$23 billion, and the House bill now has \$29 billion.

The House and Senate bills both ban most legal immigrants from receiving basic subsistence benefits. Among those banned are poor legal immigrants who have no place else to turn because they have no sponsor, their sponsors are impoverished, or their sponsors have died. And while the original House welfare bill last year exempted legal immigrants who are over 75 or severely disabled from these bans, the current House and Senate bills contain no such exemption. Castle-Tanner would exempt poor legal immigrant children from most of these bans; neither the House nor Senate bills do that either.

Particularly egregious are the provisions that would deny Medicaid to legal immigrants. Most poor elderly and disabled immigrants are likely to find purchase of individual health insurance prohibitively expensive. Imagine an 80-year old poor legal immigrant with a heart condition trying to buy a policy.

The House bill is most severe in this area. The House changed its bill last week to make the Medicaid legal immigrant cuts *more than twice as deep* as they were previously. The House bill now bans virtually all legal immigrants — including immigrants already in this country, the very old, and the severely disabled — from receiving Medicaid until they work 40 quarters (i.e., at least 10 years) or become citizens. For those too old or infirm to naturalize, this is effectively a lifetime ban.

Under the House bill, nursing homes across the country would begin discharging elderly and disabled legal immigrants onto the streets within a year, since Medicaid reimbursement for these individuals would be cut off.

Overall Effects

As is well known, one effect would be a large increase in poverty, especially among children. Most children who would be pushed below the poverty line are in families that are already working; their families would be pushed into poverty by the food stamp cuts or by a loss of benefits because they are legal immigrants. Welfare families that are not working are already poor; most of them would be made poorer by the bill, especially by the food stamp cuts.

DRAFT

Possible Sense of the Senate Resolution

Work should be encouraged, and people who are working for low wages and living below the poverty line should not have their taxes increased. Therefore, it is the Sense of the Senate that the conference report on this legislation should not contain measures increasing the federal tax burdens of poor workers.

 **CENTER ON BUDGET
AND POLICY PRIORITIES**

June 26, 1996

EITC CUT IN CHAIRMAN ROTH'S "MARK"

The Roth mark includes \$5 billion in EITC cuts. Included is a provision that would end the indexation of the EITC for workers without children. *This would lead to a tax increase on millions of low-income workers without children* — a category of workers with an already disproportionately high federal tax burden. Moreover, this tax increase would increase each year.

- In 1997, some 2.9 million workers without children would see their EITC cut.
- By 2006, the Treasury Department estimates that some 3.4 million workers without children would lose an average of \$114 dollars. Some 1.4 million workers without children would lose their EITC entirely.
- The EITC for workers without children serves only to offset a portion of the federal taxes these workers pay. No worker without children receives an EITC that is larger than the federal payroll taxes these employees pay. Therefore cutting the EITC for these workers results in an increase in their federal taxes.
- If a worker's income simply rises to keep pace with inflation, he will see his payroll taxes *increase* and his EITC *decrease* under this proposal.
- Every year that the credit is not indexed the tax increases on these low-income workers rises. In short, this proposal leads to a "creeping" tax increase.
- It should be noted that the Roth mark did not include an Administration proposal that would save \$1.4 billion by reducing taxpayer errors. The Roth mark substitutes for this proposal several EITC reductions that could raise taxes on honest low-income working households.

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MEDICARE

Divider Title: _____

Responses to Questions on
MEDICARE, SENIORS, & BUDGET REFORM

DRAFT
7-25-96

Q: How does the Administration defend against charges that it has been inaccurately portraying the Republican Medicare proposals that the President vetoed as "cuts" when actual spending per beneficiary actually would have increased from \$4,900 to \$7,100 between 1996 and 2002?

A: By any measure, the Republican proposal represented a cut of unprecedented proportions. For most Americans, the true test of a cut is measured by the degree to which any given proposal threatens services or quality and/or increases costs for Medicare beneficiaries. The Republican proposal clearly failed all of these tests.

The Republican budget, which would have reduced (or cut) spending by \$270 billion, more than doubled the savings proposed by the President's balanced budget (\$124 billion) and would have tripled any cut ever previously enacted. Compared to current law, the proposal would have reduced (or cut) spending by over \$1,300 for each Medicare beneficiary in 2002 (CBO March 1995 baseline: \$8,400 in 2002 vs. CBO projection of \$7,100 for the Republican proposal off of the same baseline). The Republican proposal would have held Medicare spending per beneficiary to a growth rate that was over 30 percent below what CBO assumed for the private sector. As a result, virtually every respected health care provider group (the American Hospital Association, the National Association for Home Care, the American Health Care Association) and aging advocate (the American Association of Retired Persons, the National Council of Senior Citizens, Families USA, etc.) in the nation concluded that cuts of this magnitude would almost certainly threaten the level and quality of services available to beneficiaries.

Moreover, in increasing the required premium to account for 31.5 percent of Part B costs (rather than 25 percent), the Republicans would have required beneficiaries to pay at least \$850 (\$1,700 for couples) more in premiums than what was included in the President's balanced budget proposal. Combined with the excessive health care provider cuts, Republicans were actually directing Medicare beneficiaries to pay more for less. Without question, the Republican proposal was a cut by any measure.

Q: Do Medicare premiums actually double under the Republican budget proposal?

A: Yes. Under the Republican budget proposal that the President vetoed, premiums would have more than doubled from \$42.50 under current law to \$88.90 in 2002. In fact, in 1996 alone, the Republicans' plan would have increased premiums by over 20% to \$51.40 per month compared to only \$42.50 under the President's proposal to maintain current law. As a result, the President's opposition to the Republican proposal to increase Medicare premiums from 25 percent to 31.5 percent of Part B costs will save \$107 per Medicare beneficiary (\$214 for couples) THIS YEAR.

Limiting the analysis of out-of-pocket health cost burden on beneficiaries to premium increases does not even begin to show the whole picture of what the Republican Medicare proposals would have meant to beneficiaries. For example, the Republican proposal to allow physicians to join certain plans and charge whatever fee they wish for services would have clearly been another financial burden on the 38 million Medicare beneficiaries. The Republican proposal to eliminate the so-called "balance billing" protections for these doctors would have also significantly increased beneficiaries' financial risk for the cost of their medical care.

Q: How did the Republican premiums that the President vetoed compare to any anticipated premium increases as a result of the Administration endorsed/proposed/approved budgets?

A: There are no new Medicare premium increases under the President's budget. The President's budget maintains current policy and permanently sets Part B premiums to finance 25 percent of program costs. The Republican Medicare proposal, which was vetoed by the President in December 1995, raised the premium to 31.5 percent of program costs.

Q: Various reports have suggested that the Administration's budget proposals would also raise Medicare premiums on seniors. If this is true, by how much would those premiums be raised?

The Medicare Part B premium is set to a percentage (25 percent) of program costs; therefore the actual premium amount will change with projected changes in expenditures. Since, over time, overall health care costs almost always rise, so too will Part B premiums. For example, in 2002, the projected Medicare premium under the President's current Medicare FY '97 balanced budget proposal would be \$63.60. (The Republicans have not released their specific proposals for their FY '97 budget, so it is impossible to know what their premium would be. As mentioned above, the premium proposal that the President vetoed in December (scored under CBO's March 1995 baseline) would have set the Part B premium in 2002 at \$88.90.

Q: Why did the press report that one of the Administration budget plans only kept the increase in Medicare premiums at \$7 less than the GOP budget?

There was never only a \$7 difference between the premiums proposed by the Republicans and the premiums proposed in the President's balanced budget proposal. The official arbitrators of premium estimates -- the Office of Management and Budget and the Congressional Budget Office -- never produced an estimate that came anywhere close to only a \$7 difference. The primary explanation for why some within the media incorrectly used the \$7 premium comparison is that their viewers had a desire to compare the premiums of the two plans. Unfortunately, the changing and different baselines made it virtually impossible until after the initial veto of the Republican budget to make "apples to apples" comparisons.

Q: Beyond the Medicare premium debate, how have the Administration's budget efforts increased or decreased costs for seniors. Are there specific cost savings the Administration can point to and can discuss which prove that the Administration has been fighting to maintain low Medicare/healthcare costs for seniors?

A: The President's budget would achieve balance without any new beneficiary cost increases. The Administration's proposal has specific and scorable policy changes that assure program efficiency and produce \$124 billion in savings (according to OMB). This is achieved without undermining the structural integrity of the program, imposing new costs on beneficiaries, or arbitrarily capping the program's growth to an index that has nothing to do with health costs.

The Clinton Administration cracks down on fraud and abuse. The President's plan continues aggressive policies to stamp out Medicare waste, fraud, and abuse. For example, the plan expands "Operation Restore Trust" -- the Administration's successful anti-fraud program -- making it nationwide in scope. It also maintains both the current standards of proof for civil penalties -- to ensure swift punishment -- and the protections against "self-referrals" -- to ensure that profits don't cloud medical judgement. In the last three years, anti-fraud and abuse efforts have saved almost \$15 billion in Medicare and Medicaid costs. Operation Restore Trust alone has produced \$42.3 million in recoveries. This is a return of \$10 in recoveries for every \$1 spent on the program.

Following please find suggested language to talk about Republican proposals to repeal Federal nursing home standards and to undermine financial protections for spouses of nursing home residents.*

- **President Clinton vetoes measure to repeal Federal nursing home standards.** The Republicans wanted to repeal key enforcement measures that protect nursing home residents from abuses and inadequate treatment. Excessive Medicaid cuts combined with the elimination of Federal enforcement of nursing home quality standards may have led to inadequate and inconsistent enforcement of quality.
- **Republicans would eliminate financial protections for families.** Under the Republican plan, some Medicaid beneficiaries could be forced to sell their home in order to qualify for nursing home benefits. States would have the option to count some people's homes as assets in determining Medicaid eligibility, which could force older Americans and people with disabilities to sell their home or family farm in order to qualify for nursing home benefits.

* Please note that the Republicans modified their budget bill before the President vetoed it to reinstate current law's spousal impoverishment protections. However, the vetoed bill would still have left families in financial jeopardy as described above.

KASSEBAUM-KENNEDY HEALTH INSURANCE BILL -- 7/5/96

Q: Is there a deal on MSAs? (*The New York Times* Ed Board hates MSAs)

A: We have not come to an agreement, but we are working hard to see if an acceptable compromise can be reached.

Q: What would be an acceptable deal on MSAs?

A: The President has consistently said that an acceptable compromise would be a true study on MSAs, which includes adequate consumer protections, and that requires a separate Congressional vote to expand the concept. He is unwilling to accept an unconstrained, untested MSA. While he is working hard to seek common ground, it is important to remember that the Senate passed the Kassebaum-Kennedy bill on a 100 to 0 vote without any MSA provision.

Q: What is so wrong with Medical Savings Accounts (MSAs)?

A: The untested MSA proposal passed by the House -- and rejected in the Senate -- would grant a new tax deferred designation to high deductible plans. Because of their design, they could attract only healthy and wealthiest in our society and therefore lead to premium increases for everyone else. **In fact, recent studies by the Urban Institute and the American Academy of Actuaries have concluded that premiums could increase by as much as 60% if MSAs were introduced into the market.** Even though this version of MSA has never even been tested and has such potential to harm the market, many Republicans are insisting that it be applied to the whole nation. The President thinks this is just plain wrong.

Follow-up: But didn't a recent RAND study conclude that MSAs would not have a major adverse risk selection on the insurance market?

A: That wasn't the conclusion reached by the respected American Academy of Actuaries and the Urban Institute. And, in fact, RAND only came to the conclusion they did by assuming design structures not in the Republican MSA proposal.

RAND assumed a much lower catastrophic plan deductible AND also assumed that costs above the deductible would be totally paid by the catastrophic health benefit. In the Republican plan, for example, there are absolutely no protections against the use of lifetime caps and high copayments. These provisions would significantly increase the potential of risk selection problems. **Ironically, the RAND study also concluded that MSAs would not contain costs -- the very reason its advocates cite as why we should use them.**

Q: Many consumer advocates, editorial boards, and Democratic Members of Congress say that the President is too willing to agree to a deal that could undermine the insurance market. How do you respond?

A: It is simply not true. The President will accept no compromise that he believes has significant potential to harm the marketplace. That is why he is insisting on a true experiment with appropriate consumer protections before considering expanding this concept.

Q: The Republicans say that they have moderated their position. Why don't you just agree to their compromise and sign the Kassebaum-Kennedy bill into law? Aren't you politicizing this issue to the detriment of millions of Americans?

A: The President has moderated his initial position against MSAs and has worked in good faith to work out an acceptable compromise. But he will not gamble on an untested, potentially detrimental concept as the price for enacting the underlying Kassebaum-Kennedy legislation. Having said this, we will continue to work to find common ground between the Administration, Republicans and Democrats on Capitol Hill.

Q: Why is the President insisting on a cap of the number of people who could get MSAs under the "experiment" the Republicans are currently advocating (limiting the MSAs to firms with 50-100 employees and the self-employed)? Isn't it true that Joint Tax Committee and the Treasury Department have very similar projections of users, which are relatively small (around 1 million people), and capping the number of users would be administratively complex if not impossible?

A: The truth is we simply do not know how many MSA users there would be. There are over 40 million workers and their families who have health insurance who would be eligible for the MSA provision advocated by the Republicans. Many health policy experts believe that the Joint Committee on Taxation (JCT) and the Treasury Department projections are unrealistically small. It is worth pointing out that the utilization rates of IRAs were at least 5 times greater than what was originally projected by both JCT and the Treasury Department. The risks of undermining the insurance market are too great to justify an uncapped MSA.

Q: Over 20 House Democrats recently wrote a letter to the President urging the President to accept the Republican's MSA compromise. Doesn't this clearly illustrate significant bipartisan support for MSAs?

A: Let's not forget that every Republican and every Democrat in the Senate voted for the Kassebaum-Kennedy bill without MSAs. Like the President, the Democrats who wrote this letter want to see a health reform bill enacted this year. The President has indicated his willingness to go the extra mile with an MSA experiment and will continue to work on a compromise. However, the so-called Republican compromise is open-ended and would automatically extend MSAs to the whole nation. Given the many uncertainties of MSAs, this is simply not an acceptable course of action.

Q. Is the President willing to let this legislation die if he doesn't get an acceptable MSA compromise from the Republicans?

A: The President is an eternal optimist. He strongly believes that the underlying Kassebaum-Kennedy legislation should not be held hostage to the MSA debate. He understands that many Republicans feel strongly about MSAs, which is why he has been willing to work out a compromise. If Republicans do not moderate their position, however, he will urge them to vote on the Kassebaum-Kennedy bill without the MSA provision and not make Americans wait another year for this bill. He feels there is no excuse for Congress to not pass all the other important provisions of this bill, including portability, the elimination of pre-existing condition exclusions, the increase in the self-employed tax deduction, the long-term tax clarification, and the strengthening of our Medicare fraud and abuse enforcement activities.

MENTAL HEALTH PARITY Q & A's

Q. The Republican agreement dropped the Domenici/Wellstone parity amendment, rejected a compromise position proposed by Senator Domenici, and relegated this issue to a study. Do you support this position and would you veto the Kassebaum-Kennedy legislation with only a study?

A. We've always supported moving to mental health parity and we are very disappointed about the reports that even Senator Domenici's compromise position was rejected. As we understand it, Senator Domenici's approach would have limited the parity protections to life time cap provisions in insurance and other health plans. It would have allowed these plans to have differential copayment and deductible structures and, in so doing, would have little or no cost impact on these plans. We think that his proposal is not an unreasonable way to address the business community's concerns and hope that the conference will give it second look.

Follow-up: Would you veto this legislation over the study?

We have a ways to go before we get a final bill and we will continue to be optimistic that the final bill presented to the President will have an improved mental health parity provision. As to vetoing the legislation, the President will do what he always does: he will evaluate the entire bill and its benefits and drawbacks before taking a final position. We have not yet arrived at that point. As we try to address discriminatory practices in the health care system, it is important to note that all mental health advocates strongly endorse the underlying insurance reform provisions in the Kassebaum-Kennedy legislation, particularly limitations on preexisting conditions.

Q. Why do you object to a study on a controversial mental health parity provision when you have, at the same time, been calling for a study on MSAs?

A. We welcome any additional information on complex health issues, including mental health care. However, the difference is the potential negative impact on our health care system. In the case of MSAs, if its critics are anywhere close to being correct, we could see a major segmentation of the market between healthy and sick, and witness very large premium increases (as much as 60 percent) for those who opt to stay in traditional plans. In the case of the Domenici compromise, the worst that could happen would be that premiums could increase by about half a percent.

Q&A on Medicare Common Savings and Policy Changes

July 2, 1996

Q: *What are the common Medicare savings and policy changes that the President called on Republicans to pass?*

A: There are at least \$116 billion in Medicare savings in both the President's balanced budget plan and the Republican balanced budget plan. Both plans extend the Trust Fund for a decade. (The Medicare Trust Fund's Chief Actuary estimates that the President's savings and policy changes would extend the Trust Fund until 2006.)

The President's balanced budget demonstrates that the Republicans' excessive \$168 billion cut and damaging structural changes are not necessary to guarantee the life of the Trust Fund for 10 years. Their \$168 billion cut is 45% more than CBO scored the President's Medicare plan.

Republicans should accept the President's call to immediately pass the common savings *and policy changes* to strengthen the Trust Fund and leave their additional cuts and structural changes for the campaign trail.

Q: *Is it true that CBO estimates the President's budget would only extend the trust fund one year -- until 2002 -- without the home health care shift?*

A: When asked to evaluate the President's entire Medicare plan, CBO estimated it would extend the life of the Trust Fund to 2005, and the Medicare Trust Fund's Chief Actuary estimated it would extend the Trust Fund until 2006. *So the only real difference is whether the President's plan guarantees the Trust Fund by 9 or 10 years.*

Follow-up: *But is it true that it would only extend the trust fund for one year without the policy change? Isn't it just a gimmick?*

- A:
1. The question is how long the entire President's plan extends the trust fund.
 2. The home health shift is sensible policy. It simply restores prior policy and is similar to the provision included in the House-passed Republican budget last fall -- the budget that Newt Gingrich and John Kasich voted for and said was gimmick-free.
 3. When Republicans dropped it from their budget, they instead proposed excessive cuts in payments to health care providers that will threaten the viability of hospitals, and especially rural and urban hospitals which depend on Medicare and Medicaid for a large share of their revenues.
 - The American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed" by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]

Q: *How does the President's plan extend the life of the Medicare Trust Fund the same length as the Republican plan with \$52 billion less savings? (\$116 billion vs. \$168 billion)*

A: 1. **The President's budget strengthens the Trust Fund through a combination of savings and policy changes.** [Note: it is important to say "savings and policy changes."]

- By contrast, the Republican budget strengthens the Trust Fund through excessive reductions in payments to providers that threaten the viability of many hospitals and especially urban and rural hospitals.
- The Republican policy changes, such as MSAs and allowing overcharging in new private plans, *would either have no impact on the Trust Fund or a negative impact on the Trust Fund.* CBO estimates that MSAs will increase Medicare costs by more than \$4 billion over 7 years.

2. **The President's budget strengthens the Trust Fund partly by restoring the previous treatment of home health care costs -- financing only those home health care costs related to hospital stays from the Hospital Insurance Trust Fund.** It is a sensible policy change:

- Prior to 1980, only home health care services related to hospital stays were financed by the Hospital Insurance (Part A) Program. In 1980, the law was changed and nearly all home health costs were shifted to Part A.
- The President's proposal restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles *because we do not want to increase costs on beneficiaries.*)

3. **The home health care policy is part of the common savings and policy changes because the 1995 Republican budget that passed the House and that Newt Gingrich and John Kasich voted for also shifted some home health costs from Part A to Part B.** The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget.

Background on Medicare Common Savings and Policies: The President's plan has \$128 billion in Part A savings through a combination of savings and policy changes; they have \$124 billion through savings only:

	President's Budget (CBO scoring)	Republican Budget (FY97 Budget Resolution)
Total Medicare savings:	\$116 billion	\$168 billion
Total Part B Savings:	\$44 billion	\$44 billion
Total Part A Savings:		
Part A savings	\$72 billion	\$124 billion
Home Health shift	<u>\$55 billion</u>	
	\$128 billion	\$124 billion

MEDICARE TRUST FUND

Q: *The Treasury Department reported that the Medicare Trust Fund lost \$6.6 billion last month. What do you plan to do about it?*

A:

1. WHAT IS IMPORTANT IS NOT THE MONTHLY VARIATION IN THE TRUST FUND, BUT THE NEED FOR CONGRESS TO STRENGTHEN THE TRUST FUND.

- **Monthly changes in the Trust Fund are normal.** This month's Treasury statement shows a decrease in revenue; last month's showed a large increase. These monthly changes do not change the underlying need to strengthen the Trust Fund.
- **Monthly changes in the Trust Fund's balance should not be used to scare people.** There is over \$120 billion in the Trust Fund.
- **This month's results reflect several unusual factors: the effect of a transfer that is required by law once every five years, and the fact that payments normally made on June 1 were made May 31.** The "quinquennial" transfer is an adjustment to compensation for wage credits arising from military service and results in a \$2.4 billion transfer from the Trust Fund to the General Fund in May. [The transfer accounts for \$2.4 billion of the \$6.6 billion reduction in the level of the Fund in May.] The wage credit's effects were included in the financial projections in this year's Trustees Report. [See p. 20&32-33 of the Trustees Report on the HI Trust Fund.]

2. THE TREASURY REPORT ONLY CONFIRMS WHAT WE ALREADY KNEW: REPUBLICANS SHOULD ACCEPT THE PRESIDENT'S CALL TO IMMEDIATELY PASS THE COMMON SAVINGS IN OUR BALANCED BUDGET PLANS WHICH WOULD STRENGTHEN THE MEDICARE TRUST FUND.

- **We could strengthen the Trust Fund tomorrow if Republicans agreed to come back to the table,** put aside their structural changes that would segment the Medicare population and weaken the program, and pass the common savings in the two budget plans.
- **The President's balanced budget guarantees the life of the Trust Fund for a decade -- the same of the Republican budget plan.** In a June 4th letter, the Medicare Trust Fund's Chief Actuary confirmed that the life of the trust fund would be extended until "mid-calendar year 2006 under the Administration's proposal."
- **The President's plan shows we can extend the life of the Trust Fund for a decade without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.**

MEDICARE TRUSTEES REPORT CAUSE FOR ALARM?

Q: *Isn't the new Trustees report cause for alarm -- it runs out of money in only 5 years?*

1. **The Trustees Report should not be used to scare older Americans.**
 - **Over \$125 billion remains in the Trust Fund.** While incoming revenues are somewhat less than outgoing payments, the current balance in the Trust Fund means that there is absolutely no danger that claims will not be paid.
2. **But we strongly believe that the Medicare Trust Fund must be strengthened, and we could do it tomorrow if Republicans agreed to come back to the table and pass the common savings in our plans.**
3. **We should pass the common savings now, and leave for the campaign the policies on which we disagree and which we believe will be harmful.**
 - The President's plan shows we can extend the life of the Trust Fund for a decade without imposing devastating provider cuts, increasing beneficiary costs, or enacting structural changes that hurt the program and the people it serves.
 - Republicans should leave the for the campaign trail their structural changes that we believe would segment the Medicare population -- dividing the wealthy and healthy from other beneficiaries -- and cause Medicare to "wither on the vine." (e.g., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost \$4 billion.)

→ Rep (L) ~ Hpl M

→ Rep (L) ~ Mch L
Gunter

→ \$15

MEDICARE'S LONG-TERM SOLVENCY

Q: *Both the Republican and Democratic Medicare proposals only extend the life of the Trust Fund until 2006. What do you propose to do so Medicare is around when the Baby Boomers begin to retire in 2010?*

1. **We need to address the short-term problem first, and we could do it quickly if Republicans would come back to the table.**
 - We have tens of billions of dollars in common Medicare savings that we could agree on tomorrow to strengthen the Trust Fund.
 - All the Republicans need do is set aside their structural changes that would segment the wealthy and healthy from other beneficiaries and cause Medicare to *"wither on the vine."* (e.g., the Republican Medical Savings Account would actually weaken the Medicare Trust Fund, as it would cost \$4 billion.)
2. **Once we have addressed the short-term problem, we should work together on a bipartisan basis to address the longer-term issues.**
3. **The Medicare Trustees have recommended that an advisory group be formed to help recommend changes to address the long-term issues not addressed by either the Republican or Democratic proposals. But we need to address the short-term problems first.**

MEDICARE DIFFERENCES ARE SMALL NOW

Q: *Isn't the President just demagoguing on Medicare. Aren't the differences really pretty small now?*

1. **Republicans are still insist on excessive medicare cuts that would move medicare toward second class health care.**
 - **44% larger cuts.** The Republican budget reduces Medicare spending by \$167 billion -- \$51 billion or 44% more than CBO scored the President's balanced budget.
2. **While House Republicans have finally agreed not to raise Medicare premiums, they did not lower their total cuts -- they just increased their provider cuts..** Rather than raising costs on beneficiaries directly they now do it indirectly through even deeper cuts in payments to the hospitals and home health providers that serve beneficiaries, jeopardizing quality and access to health services.
 - **Extreme Cuts Threaten Viability of Many Hospitals.** Their \$167 billion cut could mean hospitals get lower payments tomorrow than today--even in nominal terms--and will result in cost-shifting, undermine quality, and threaten the financial viability of many rural and urban hospitals. According to the American Hospital Association, nearly 700 hospitals derive *67% or more* of net patient revenues from Medicare & Medicaid.
 - **American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed"** by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]
3. **More than dollars are at stake -- their damaging structural changes would force Medicare to "wither on the vine."** The Republican budget still contains the damaging structural changes that President Clinton vetoed last year. These changes would segment the Medicare population, leaving the traditional program with fewer dollars and sicker beneficiaries.
 - **Medical Savings Accounts (MSAs).** Republicans insist on the immediate adoption MSAs that appeal to the healthiest and wealthiest beneficiaries, leaving the sickest and most costly beneficiaries in a weakened fee-for-service program. CBO projects that MSAs will *increase* Medicare costs by \$4 billion over seven years.
 - **Over-charging in private plans.** Republican proposals permit physicians to charge beneficiaries extra -- through "balance billing" -- in private Medicare plans, increasing out-of-pocket costs for beneficiaries and slowly draining the fee-for-service system of both doctors and dollars.
 - **Hard spending cap.** Republicans impose a hard cap on Medicare spending. If costs increase faster than projected, spending would no longer keep up -- leading to cuts exceeding \$167 billion.
4. **President Clinton's budget shows that their deep cuts and damaging structural changes are not necessary to balance the budget and guarantee the life of the Medicare Trust Fund for 10 years.**

BREAUX-CHAFEE MEDICARE PLAN

Q: *You say the Republicans' Medicare cuts are excessive, but over 20 Democratic Senators voted for the bipartisan Breaux-Chafee bill which had nearly as much Medicare savings as the Republican bill.*

1. The sponsors of the Breaux-Chafee plan are to be complimented for trying to find common ground on Medicare and the budget. And they do it with somewhat smaller Medicare savings than the Republican budget.
2. But we feel strongly that it is not necessary to raise Medicare premiums or raise the Medicare eligibility age in order to balance the budget or strengthen the Medicare Trust Fund. The President's budget shows it is not necessary to extend the life of the Trust Fund for a decade.
3. So while we respect the sponsors of the bipartisan Senate plan and believe they are well intentioned, we believe their plan would unnecessarily harm Medicare beneficiaries.

HOME HEALTH SHIFT IS A GIMMICK

Q: *Isn't it true that the President's proposal without the home health care shift only extends the life of the Trust Fund by one year.*

Not True.

1. **The President's balanced budget guarantees the life of the Medicare Trust Fund for a decade -- the same as the Senate Republican budget.** The Medicare Trust Fund's Chief Actuary confirmed that the life of the Trust Fund is extended until "mid-calendar year 2006 under the Administration's proposal."
 - **CBO estimates 2005:** When asked to evaluate the President's entire Medicare plan, CBO estimated it would extend the life of the Trust Fund to 2005 -- so the only real question is whether the President's plan guarantees the Trust Fund by 9 or 10 years.
2. **His budget strengthens the Trust Fund through a combination of savings and policy changes.** The Republican's do it through excessive reductions in payments to providers.
 - **The American Hospital Association and National Association of Children's Hospitals are "gravely concerned about the level of reductions proposed"** by Republicans in Medicare and Medicaid. [May 10, 1996 letter to Chairmen Roth, Archer, and Bliley from ten hospital associations.]
3. **The President's budget restores the previous treatment of home health care costs, financing only those home health care costs related to hospital stays from the Hospital Insurance Trust Fund. This is NOT a gimmick:**
 - Prior to 1980, only home health care services related to hospital stays were financed by the Hospital Insurance (Part A) Program.
 - In 1980, the law was changed and nearly all home health costs were shifted to Part A.
 - The President's proposal restores the pre-1980 law because home health care expenditures unrelated to hospital stays should not be financed by the Part A Trust Fund. (This shift will not affect the Part B premiums, coinsurance or deductibles *because we do not want to increase costs on beneficiaries.*)
4. **REPUBLICANS ARE BEING HYPOCRITICAL: *The 1995 House Republican budget that John Kasich voted for and said was gimmick-free also shifted some home health costs from Part A to Part B.***
 - The House-passed Republican reconciliation bill also transferred certain home health care expenditures from Part A to Part B -- similar to the proposal in the President's balanced budget. *So if Republicans say it's a gimmick, it's a gimmick every Republican in the House voted for.*

SOCIAL SECURITY'S LONG-TERM SOLVENCY

Q: *The Trustees Report also shows that Social Security runs out of money in 2029. What does the Administration propose to address the solvency of the Social Security Trust Fund?*

1. **As the President has long said, there are long-term financing concerns, but we have time.** The Social Security system is sound well into the next century; it will be able to pay benefits *through the year 2030*.
2. **We should take advantage of the time we have to address the issue in a reasoned and bipartisan context in the least political atmosphere possible.**
3. **It would be counterproductive to comment on specific aspects of proposals now -- in the middle of an election year.**

SOCIAL SECURITY ADVISORY COUNCIL REPORT

Q: *Will the Administration even consider the proposals in the Social Security Advisory Council's report?*

1. **The Social Security Advisory Council seems to have failed to reach a bipartisan, common ground plan to Secure Social Security's long-term viability.** Despite months of discussion, the Social Security Advisory Council reportedly cannot reach a bipartisan consensus on a plan to ensure the program's long-term solvency.
2. **Social Security's long-term viability should be addressed within a bipartisan process in the least political context possible.** Securing Social Security's long-term financing while maintaining the existing broad national support for the program will require a bipartisan common ground plan developed within a process that includes elected officials in the least political context possible.
3. **It would be counterproductive to comment now -- in the middle of an election year -- on specific elements of proposals.** Any discussion of specific proposals should take place *in the least political context possible* where elements are judged in the context of overall bipartisan plans to secure Social Security.

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DEFICIT REDUCTION

Divider Title: _____

PRESIDENT CLINTON CUT THE DEFICIT MORE THAN IN HALF -- ON THE WAY TO BALANCING THE BUDGET

July 16, 1996

Today's Mid-Session Review, the Office of Management and Budget projects the deficit will drop to \$117 billion this fiscal year, down from its projection of \$146 billion just four months ago -- far less than the \$290 billion deficit when Clinton took office in January 1993.

PRESIDENT CLINTON HAS MORE THAN KEPT HIS PROMISES

- ★ **Deficit Cut More Than in Half.** Both CBO (\$130 billion) and OMB (\$117 billion) now project the deficit to be more than cut from the record \$290 billion when Clinton took office.
- ★ **10 Million New Jobs.** President Clinton promised his economic strategy would create 8 million jobs in 4 years -- and it has now created 10 million jobs in 3 1/2 years.
- ★ **Smallest Government in Three Decades.** President Clinton promised to cut 100,000 unnecessary positions from the bureaucracy -- and he has already reduced the federal workforce by 230,000.

DEFICIT CUT MORE THAN IN HALF

1992: Record Deficit. The deficit was \$290 billion -- the highest dollar level in history.

Today: Deficit Cut 60%. Both CBO and OMB agree that the deficit will be cut more than in half in 4 years. CBO projects the deficit will be about \$130 billion this year and OMB now projects it will be \$117 billion. [CBO 5/96, OMB 7/96]

- **Smallest Deficit in Over 20 Years as a Share of the Economy.** OMB projects the deficit will be 1.6% of the economy -- lower than any year since 1974.
- **Smallest Deficit Than Any Major Economy In the World As A Share of GDP.** In 1992, the U.S. had a larger budget deficit as a share of the economy than Japan, Germany, and France. Today, the U.S. has the lowest deficit as a share of the economy of any major economy in the world. [OECD, 12/95]
- **President Clinton is the first President to cut the deficit 4 years in a row since the 1840s.**

BALANCING THE BUDGET

- **President Clinton Is the First President in 17 Years To Submit a CBO-Certified Balanced Budget.**
- **Republican Budgets Would Not Balance Without President Clinton's 1993 Deficit Reduction Plan.** Without the 1993 deficit reduction plan -- which every Republican voted against -- the GOP budget would not even come close to reaching balance in 2002. Rather than repeal it, Republicans depend on it.

CUTTING SPENDING

- **Government Spending Is Down.** President's Clinton's 1993 plan cut spending by \$255 billion -- one of the largest cuts in history. After spending as a share of GDP increased from 22.1% to 23.3% under President Bush, spending as a share of the economy has now declined from 23.3% to 21.7% of GDP and is lower than at any time during the previous two Administrations. [OMB, Fiscal Year 1997 Budget: Supplement and Historical Tables.]

CUTTING THE SIZE OF GOVERNMENT

- **Smallest Workforce in 3 Decades.** After increasing from when Reagan took office to when Bush left office, the federal workforce has been cut by 230,000 workers under President Clinton to the smallest level in three decades. Closing over 2,000 unnecessary field offices, eliminating 16,000 pages of unneeded regulations, and proposed terminating over 400 programs and projects.

CLAIM ON NOT DESERVING CREDIT FOR DEFICIT REDUCTION

CLAIM: *President Clinton's policies are responsible for less than 40% of the deficit reduction between fiscal 1993 and 1996.*

THE FACTS:

1. **Any way you slice it, the President's 1993 Economic Plan and the resulting impact on the economy are responsible for the overwhelming majority of the deficit reduction.** The deficit had quadrupled in the previous 12 years and was projected to soar to \$455 billion in FY2000 and to \$579 billion in FY2002. Now, thanks to the President's plan, the deficit has been cut in half and come down four years in a row under one President for the first time since before the Civil War.
2. **The Most Respected Republican Experts Acknowledge President Clinton's Impact on the Deficit.** If you look at what the most respected experts say -- including Republicans -- nearly all acknowledge that the President's deficit reduction plan reduced the deficit, lowered interest rates, and spurred economic growth:
 - **Paul Volcker**, Federal Reserve Board Chairman (1979-1987) : "The deficit has come down, and I give the Clinton Administration and President Clinton himself a lot of credit for that....and I think we're seeing some benefits." [*Audacity*, Fall 1994]
 - **Alan Greenspan**, Federal Reserve Board Chairman, "The deficit reduction [from 1993]...was an unquestioned factor in contributing to the improvement in economic activity that occurred thereafter." [2/20/96]
 - **Congressional Budget Office**: "The dramatic improvement [in the deficit] since last January is largely the result of the enactment in August of...the Omnibus Budget Reconciliation Act of 1993." [*Economic and Budget Outlook*, January 1994, p. xiii]
3. **Republicans Are Being Petty:** After quadrupling the deficit in 12 years (and tripling it under a Republican-controlled Senate and White House 1980-1986), and saying the President's Plan would be 100% to blame for hurting the economy and increasing the deficit, it is rather petty and pathetic for them to argue about credit now.
 - **Representative Newt Gingrich**: "The tax increase will kill jobs and lead to a recession, and the recession will force people off of work and onto unemployment and **will actually increase the deficit.**" [Atlanta Journal-Constitution, 8/6/93]
 - **Senator Pete Domenici**: "April Fool. America. This Clinton budget plan will not create jobs, will not grow the economy, and **will not reduce the deficit.**" [Dallas Morning News, 4/2/93]
 - **Representative John Kasich**: "...We're going to find out whether we **have higher deficits**, we're going to find out whether we have a slower economy, we're going to find out what's going to happen to interest rates, and it's our bet that this is a **job killer...**" [GOP Press Conference, 8/3/93]
4. **We will compare our records on deficit reduction and the economy any day.**
 - President Clinton is the first President to cut the deficit 4 years in a row since before the Civil War.
 - Smallest Deficit in Over 20 Years as a Share of the Economy.
 - Smallest Deficit Of Any Major Economy In the World As A Share of GDP.
 - Republican Budgets Would Not Balance Without President Clinton's 1993 Deficit Reduction Plan.



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

July 19, 1996

MEMORANDUM FOR PAULINE ABERNATHY

FROM:

Barry Anderson

SUBJECT:

"The budget would be balanced today if not for interest on deficits run up in the 12 years before 1993."

The subject sentence from page 1 of the Mid-Session Review is supported by the first of the two attached tables, which show Clinton Administration deficits without certain interest payments. Table 1 shows that after deleting the interest used to pay all of the debt incurred during the Reagan/Bush Administrations (including the debt incurred to pay interest on the debt they inherited), the 1995 budget would have a surplus of \$12.6 billion. Table 2 is the same as Table 1, except it does not delete interest on Reagan/Bush debt incurred to pay for inherited debt. In this case, deficits are reduced, but balance is not reached until 1999.

As I have stated previously, I have the following concerns with statements based on these tables:

1. The above statement assumes that the President has sole responsibility for deficits when in fact budgets are largely controlled by Congress, which was mostly in Democratic hands between 1981-1992.
2. Table 1 attributes the current deficit in part to interest used to finance debt inherited by Reagan/Bush, which included financing such things as the New Deal and World War II.
3. The subject sentence implies that all deficit spending from 1981-1992 should have been avoided, even though much of it was arguably to finance Democratic initiatives.

I previously recommended against using this information given the potential problems with this analysis. I continue to make that recommendation. I understand that this claim continues to be used by the President and others in the Administration. Nevertheless, I fear that the Administration's critics may discover the flaws in the "would be balanced today" claim if it continues to be stressed in the future.

An alternative to the subject sentence that at least avoids the second problem above is: "The budget would be balanced today if not for interest on debt inherited by the Clinton Administration."

Attachments

cc: Jack Lew
Joe Minarik

Larry Haas
Jill Blickstein

Gene Sperling

**Table 1.--Clinton Administration Deficits, Adjusted for Interest on All Debt Incurred
during Reagan-Bush Administrations
(Policy)
(Billions of Dollars)**

Fiscal Year	Debt held by the public (end of fiscal year)			Net interest on the public debt			Deficits	
	Total	incurred before 1982 and during current Administration (see note 1)	incurred during Reagan-Bush Administrations (see note 1)	Total (see note 2)	on debt incurred before 1982 and during current Administration (see note 3)	on debt incurred during previous Reagan-Bush Administrations (see note 3)	Unadjusted Deficit	Deficit Adjusted for inherited debt costs (see note 4)
1981	784.8							
1993	3,247.2							
1994	3,432.1	816.3	2,615.8	210.6	57.2	153.4	203.1	49.7
1995	3,603.4	811.0	2,792.4	239.2	62.7	176.6	163.9	-12.6
1996	3,747.1	767.7	2,979.4	247.0	59.9	187.1	116.8	-70.3
1997	3,894.1	723.1	3,171.0	246.4	54.9	191.5	125.7	-65.8
1998	4,013.3	646.5	3,366.8	244.1	48.3	195.8	94.1	-101.7
1999	4,096.7	528.3	3,568.4	241.8	40.1	201.6	54.9	-146.8
2000	4,138.0	362.6	3,775.4	236.7	29.7	207.0	11.3	-195.7
2001	4,141.8	150.6	3,991.2	233.4	17.6	215.7	-25.8	-241.5
2002	4,108.1	-108.1	4,216.2	228.4	3.4	225.0	-60.9	-285.9

Sources: Mid-Session Review of the Budget for the United States Government, FY 1997

1. Debt incurred during fiscal years 1982 through 1993 was \$2,462 billion. Because the interest paid on this debt requires further borrowing, the debt grows by the amount of these interest costs. The remaining debt is by subtraction.
2. These are gross interest on the public debt, less interest paid to trust funds. It is close to interest on debt held by the public.
3. Interest on debt incurred during 1982-1993 is estimated from the effective rate on the debt held by the public, compounded semiannually. Interest costs on pre-1982 debt and debt incurred during the current administration are by subtraction.
4. The adjusted deficit is the total deficit, less the interest on debt incurred during 1982-1993.
5. Year-to-year changes in debt outstanding differ from deficits because of means of financing other than borrowing.

**Table 2.--Clinton Administration Deficits, Adjusted for Interest on Debt Incurred
During Reagan-Bush Administrations for Purposes other than Paying Interest on their Inherited Debt
(Policy)
(Billions of Dollars)**

Fiscal Year	Debt held by the public (end of fiscal year)			Net interest on the public debt			Deficits	
	Total	incurred before 1982 and during current Administration (see note 1)	incurred during Reagan-Bush Administrations (see note 1)	Total (see note 2)	on debt incurred before 1982 and during current Administration (see note 3)	on debt incurred during previous Reagan-Bush Administrations (see note 3)	Unadjusted Deficit	Deficit Adjusted for inherited debt costs (see note 4)
1981	784.8							
1993	3,247.2							
1994	3,432.1	2,335.8	1,096.3	210.6	146.3	64.3	203.1	138.8
1995	3,603.4	2,433.1	1,170.3	239.2	165.2	74.0	163.9	89.9
1996	3,747.1	2,498.4	1,248.7	247.0	168.6	78.4	116.8	38.3
1997	3,894.1	2,565.1	1,329.0	246.4	166.2	80.3	125.7	45.5
1998	4,013.3	2,602.3	1,411.0	244.1	162.0	82.1	94.1	12.1
1999	4,096.7	2,601.2	1,495.5	241.8	157.3	84.5	54.9	-29.6
2000	4,138.0	2,555.7	1,582.3	236.7	149.9	86.8	11.3	-75.4
2001	4,141.8	2,469.1	1,672.7	233.4	143.0	90.4	-25.8	-116.2
2002	4,108.1	2,341.1	1,767.0	228.4	134.1	94.3	-60.9	-155.2

Sources: Mid-Session Review of the Budget for the United States Government, FY 1997

1. Debt incurred during fiscal years 1982 through 1993 was \$2,462 billion, of which \$1,430 was accumulated interest on debt incurred before FY 1982, leaving \$1,032 attributable to the Reagan-Bush years. Because the interest paid on this debt requires further borrowing, the debt grows by the amount of these interest costs. The remaining debt is by subtraction.
2. These are gross interest on the public debt, less interest paid to trust funds. It is close to interest on debt held by the public.
3. Interest on debt incurred during 1982-1993 is estimated from the effective rate on the debt held by the public, compounded semiannually. Interest costs on pre-1982 debt and debt incurred during the current administration are by subtraction.
4. The adjusted deficit is the total deficit, less the interest on debt incurred during 1982-1993.
5. Year-to-year changes in debt outstanding differ from deficits because of means of financing other than borrowing.

Sources of Deficit Reduction

	<u>FY93-96</u>	<u>FY96</u>
Total Deficit Reduction	\$476	\$182
Reductions in Spending		
Discretionary savings from OBRA93 only	\$45	\$18
Mandatory savings from OBRA93 only	\$40	\$18
Net interest savings directly due to OBRA93 policy changes	<u>\$16</u>	<u>\$10</u>
Subtotal spending cuts from OBRA93 policy:	\$101	\$46
Lower spending from economic growth including net interest savings from lower interest rates	\$23	\$7
Lower S&L spending due to strong econoy	\$60	\$22
Other factors, primarily Medicare and Medicaid	<u>\$93</u>	<u>\$22</u>
Total reductions in spending:	<u>\$277</u>	\$98
Alternative Approach (includes spending and revenues):		
OBRA93 policy changes (spending and revenues)	\$230	\$101
Savings from stronger economy	\$49	\$21
Higher than expected receipts in 1996	\$27	\$27
Higher than expected receipts from spectrum auctions	<u>\$6</u>	<u>\$6</u>
Subtotal:	\$311	\$154 85%
Savings other than those directly from policy changes or economic ("technical")	\$189	\$27
Legislation other than OBRA93	(\$23)	\$1
Total Deficit Reduction	\$476	\$182

Based on OMB estimates updated for the July 1996 Mid-Session Review
defic796.wk4

Explanation of attached table on sources of deficit reduction:

1. **President Clinton's 1993 Plan cut spending by \$101 billion FY93-FY96 -- not \$26 billion:**
 - ⇒ The \$26 billion claim excludes lower debt service spending due to policy changes; uses a baseline that ignores over \$40 billion in discretionary spending cuts contained in OBRA93 FY94-96; and is based on the outdated CBO baseline that predicted a \$144 billion deficit in fiscal 1996 rather than CBO's current estimate of \$115-\$130 billion.
2. **President Clinton's policies have helped reduce spending an additional \$176 billion for a total of \$277 billion -- over half (58%) of the \$476 billion in deficit reduction FY93-FY96.** Higher revenues from OBRA93, stronger economic growth, and other factors account for the remaining deficit reduction.
 - ⇒ **Economic growth due to President's policies reduced spending another \$23 billion for a total of \$124 billion.** Experts from Alan Greenspan and Paul Volcker to the CBO acknowledge the President's role in strengthening the economy. This stronger economy has reduced spending, including net interest costs, by \$23 billion from FY93-96.
 - ⇒ **Lower S&L Costs Due to the Strong Economy Reduced Spending Another \$60 Billion.**
 - ⇒ **Another \$93 Billion Saved Due Primarily From Lower Medicare and Medicaid Costs.** Medicare and Medicaid spending was lower than projected because of a lower inflation, a healthier economy, and better management. Many experts also credit the President's proposing comprehensive Health Care Reform legislation for the subsequent reduction in health care costs.
3. **FY96 appropriations reduced the fiscal 1996 deficit by \$8 billion -- not \$19 billion -- and other legislation *increased* the FY96 deficit by nearly the same amount.** OMB estimates the FY96 appropriations bills reduced the deficit by \$8.2 billion in FY96 -- not the \$19 billion claimed. The FY95 rescissions bills reduced spending in FY96 by another \$3.5 billion for a total savings of \$11.7 billion in FY96 -- not \$19 billion.
 - ⇒ **Other legislation *increased* the deficit, for a net reduction of only \$0.9 billion in FY96.** Other legislation passed by the Congress, such as emergency spending bills and the Farm Bill, *increased* the deficit by nearly the same amount as the FY96 appropriations and FY95 rescissions reduced the deficit in FY96. The net effect of Congressional action subsequent to the President's 1993 Economic Plan on the FY96 deficit (most passed by the Republican Congress) was to reduce the FY96 deficit by only *\$0.9 billion -- just 0.19% of the \$476 billion of deficit reduction over FY93-FY96.*
4. **As experts acknowledge, the President's 1993 Plan is clearly responsible for the overwhelming majority of deficit reduction (at least 85%).** Looking at the total deficit reduction from the 1993 Plan, and not just spending cuts, it is clear that the President's plan is responsible for the overwhelming majority of the deficit reduction. Savings directly from policy changes in the President's Plan, the resulting stronger economy, the increase in 1996 receipts which many attribute to the stronger economy, and the higher than expected receipts from spectrum auctions combined *account for 85% of the total deficit reduction* in fiscal 1996 alone. Legislation other than OBRA93 accounts for less than \$1 billion or less than 1% of the savings in fiscal 1996. The remaining deficit reduction is from other factors, such as lower health care spending, which is arguably also due in part to the stronger economy and low inflation. (Note that looking at FY93-96 combined understates the share of savings due to policy changes alone because OBRA93 policies were not scored in fiscal 1993; they were scored over the five years FY94-98.)

Clinton Presidential Records Digital Records Marker

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This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Minimum Wage

Divider Title: _____

ing on similar of WebTV. Start-up...
 ding software for net-cruising TVs...
 1, due in August...
 Cupertino, Calif.,...
 with BellSouth to in-
 net access in TV set...
 or a trial in Atlanta...
 rs are joining the...
 q Computer is hud-
 Thomson Electron-

the Web via TV.
 While the companies ap-
 proach the market in different
 ways, they face the same ques-
 tion: Will consumers want to
 look at the Web on a TV
 screen, which doesn't offer the
 same quality as a PC screen.
 Forrester Research analyst
 Josh Damrell says "no." The
 reason: Web sites are designed
 for PC screens. When viewed

PCs, WebTV has eliminated
 the flicker problem and made
 screens easier to read by in-
 creasing text sizes. Users can
 quickly jump from one site to
 the next and back to regular
 TV. With a \$50 keyboard, elec-
 tronic mail is a breeze.

Perhaps most important is
 that WebTV goes into pause
 mode when a phone call needs
 the line.

THE PRESIDENT HAS SEEN

Wage bill eases saving for retirement

By Anne Willette
 USA TODAY

The minimum wage bill passed by the Senate Tuesday reaches far beyond workers earning \$4.25 an hour.

Besides raising the wage to \$5.15, the bill would make it easier for millions of Americans to save for retirement.

Many of the bill's retirement provisions also are in the House version passed last spring. So they're likely to survive the House-Senate committee that now must resolve differences between the two bills. President Clinton is expected to sign the final version.

It's been a long road for the retirement provisions. Though not controversial, they've been vetoed three times — twice by President Bush and once by Clinton — because they were part of budget bills. The provisions would:

► Let workers earn \$80,000 a year, up from \$66,000 now, before the IRS considers them "highly compensated" and limits their 401(k) savings plan contributions. The IRS wants to make sure that higher income workers don't get more tax benefits from 401(k) plans than their lower paid co-workers. So contributions by highly compensated employees are based on the average amount contributed by the company's employees who earn less.

► Eliminate the above test,

and lots of administrative costs, if companies make generous contributions to employees' 401(k) accounts. Companies would have two choices: Contribute 3% of pay for all employees whether or not they participate in the 401(k), or match employees' contributions dollar for dollar on the first 3% of pay and then 50 cents per \$1 on the next 2%.

► Extend 401(k) plans to nonprofit groups.

► Let spouses who don't have earned income make contributions of up to \$2,000 a year to individual retirement accounts. Now, they and their spouse combined can contribute no more than \$2,250.

► Establish simplified 401(k)-type plans for businesses with 100 or fewer workers. Employees could contribute up to \$6,000 a year; employers would match up to 3% of pay.

Other provisions the House and Senate generally agree on:

► Reinstate a tax deduction for workers whose continuing education is paid for by their employer. Those payments are considered income by the IRS. Workers would be able to subtract up to \$5,250 of such assistance from taxable income.

► Increase the tax write-off small businesses get for new equipment to \$25,000 a year by 2003 from \$17,500 now.

► Minimum wage hike, 1A
 ► Spousal IRA, Street Talk, 3B

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THE PRESIDENT HAS SEEN

If we get a min wage bill,
 should also simplify the retirement/
 savings system which we supported
 & have Phil [unclear] get
 reps of groups here who supported
 (also A. Patrick of [unclear] Conf. on
 Small Business)

Be

CC:
 Gene Sperry
 Rahm Emanuel

their habit," and
 r, she says. "We
 oppose."

neral C. Everett
 danger, which
 was [unclear]

age, had expected [unclear].

Revenue dipped to \$6.83 bil-
 lion from \$6.88 billion.

The news creamed Motorola
 stock in after-hours trading.

was [unclear] [unclear] [unclear] [unclear]
 bad earnings was obvious in
 other tech stocks Tuesday.

► Dialogic plunged 18 to
 \$28 after the maker of tele-

STREET TALK

Wage bill expands homemaker IRAs

NEW YORK — Buried in the minimum wage bill that looks increasingly likely to get to President Clinton this summer is a provision that, at long last, recognizes the value of work performed in the home.

The homemaker IRA is "neither complicated nor controversial but makes a belated lot of sense," says Mimi Tessier, press secretary for Sen. Kay Bailey Hutchison, R-Texas, who along with just about every other woman in the Senate co-sponsored the legislation. The provision will allow roughly 10 million spouses who work at home to increase their tax-deductible individual retirement account (IRA) contributions from \$250 to \$2,000 a year. It also throws an unintentional bone to the wealthy. More on that later.

First, a brief look at how IRA rules have discriminated against homemakers from the start. When IRAs came into being in 1974, the idea was to promote savings by allowing a tax deduction for long-term investments up to \$2,000 a year. Originally, it was envisioned that nearly all adults would be eligible. But lawmakers backtracked, fearful that the government would lose too much tax revenue. So they allowed the \$2,000 IRA contribution for wage earners only.

That was fine for two-earner families, which could contribute \$4,000 a year, tax-deductible, to their IRAs. But it penalized families with only one earner. In a feeble nod to that inequity, lawmakers allowed a \$250 contribution for spouses at home, bringing the total one-earner household to \$2,250 a year in eligible tax-deductible IRA contributions. The difference never sat well with those mostly women spouses whose work in the home was belittled. There have been IRA changes over the years, including major limitations on deductions. But the premise that homemakers aren't as valuable as wage earners has endured.

That will change if the current minimum wage bill is signed into law (stories, 1A, 1B). It provides that married couples with at least one wage earner are eligible for an annual \$4,000 IRA contribution, effectively granting the at-home spouse equal IRA status. "It's very significant," says Bruce Thompson, political analyst at Merrill Lynch. "We're having a savings crisis generally, and for women it's even worse." On average, women earn less, have fewer pension benefits, and live longer than men, Thompson says. So it's critical that those at home be allowed to deduct savings for retirement in at least equal numbers to wage earners.

Currently, only households with annual incomes under \$40,000 can be considered for full tax deductions on IRA contributions. That threshold wouldn't change, and it poses an interesting question: Can the 10 million households that would be newly eligible to benefit deduct IRA savings afford to do so? An extra \$1,750 a year can be tough to find, especially way below the \$40,000 mark. "In reality," says financial planner Stephen Minix in Monroe, La., "a lot of people won't have the money. They're just fighting to live."

And that brings me back to the bone for the wealthy. You can bet well-to-do professionals with at-home spouses will find the money. Such couples have been limited to the same \$2,250 annual IRA contributions all along — albeit non-deductible because of income limits. But even after-tax IRAs have the advantage of compounding tax-free until retirement. After stashing money in tax-favored things like municipal bonds, 401(k) plans and Keoghs, the wealthy can now put another \$1,750 a year in tax-deferred IRAs. "About half my clients will take advantage of this — the doctors and their wives," Minix says.

Speaking for Sen. Hutchison, Tessier says that's fine with her. "We're in favor of everyone saving more," she says. "Our goal is to level the playing field for spouses at home." Households that take full advantage of the homemaker IRA by contributing \$4,000 a year and earning, say 6% a year, will have a nest egg of \$335,000 after 30 years. That compares with \$188,000 by investing only \$2,250 a year.

EXCLUSIVE ON LINE: See Daniel Kadlec's Market Talk column at <http://www.usatoday.com>. Ask questions via on line or e-mail him at kdlec@usatoday.com. Include name, address and day phone. Street Talk runs Tues.-Fri.



By Daniel Kadlec



H. Dan Baker, USA TODAY
Homemakers backed the provision.

Nike

By Jeff Mangum
USA TODAY

Wall Street heard a s Tuesday.

Shares of athletic-shoe Nike surged 4 1/2% to \$108 1/2 after the company said earnings jumped 39% in its fiscal 1st quarter. Revenue from athletic shoes and clothing in USA alone topped \$1 billion the first time in any quarter.

"This is a quarter that knocked everyone's socks off," says Smith Barney analyst Faye Landes.

The company earned \$1 million, or \$1.06 per share, the three months ended 31 vs. \$113.4 million, or 60 cents a share, a year earlier. Revenue climbed to \$1.1 billion, up 36% from \$1.41 billion in the year-ago quarter.

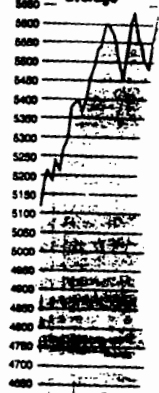
Marketing experts attributed the revenue jump to big sales of women's athletic shoes, the company's growth

Dow Jones

STOCK MARK

NEW YORK STOCK EXCH.
New High: 61
New Low: 60
Bk. Index: 6,911
Up Vol: 188M
Down Vol: 154M
Total Volume: 378M

6000 — Dow Jones
5750 — Industrial
5700 — Average



KEY INDICATORS

Indicator	Tu
STOCKS	
S&P 500	221
Dow Jones	212
Dow Transp.	212
Dow Indus.	212
NYSE Comp.	35
Amex Comp.	115
Nasdaq Comp.	115
Russell 2000	32
BONDS	
Long-Term Gov.	456
10-yr. Yld.	5.3
1 - 30-yr. Yld.	5.3

IT'S TIME TO RAISE THE MINIMUM WAGE

July 9, 1996

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REWARDING WORK: THE CASE FOR INCREASING THE MINIMUM WAGE

The President's proposal would increase the minimum wage from \$4.25 to \$5.15 over two years. The last increase, passed by an overwhelming, bipartisan vote in 1989, and implemented in 1990 and 1991, was also a 90-cent increase. For a full-time minimum wage worker, a 90-cent increase would raise their yearly income by \$1,800 -- as much as the average family spends on groceries in over 7 months.

YOU CAN'T RAISE A FAMILY ON \$4.25 AN HOUR. The minimum wage is approaching its lowest real value in 40 years. The minimum wage has lost nearly all of its real value since its last increase in April 1991. The first half of the President's proposal would not even restore the minimum wage to its real value when it was last increased.

- **Ensuring No Parent Has To Bring Up Their Kids In Poverty.** The dramatic extension of the Earned Income Tax Credit (EITC) helped lift hundreds of thousands of working families out of poverty. With a 90-cent minimum wage increase and the expanded EITC, we can ensure that no parent who works full-time would have to bring up their kids in poverty.
- **Helping Adult Workers Trying To Support Their Families.** According to the Bureau of Labor Statistics:
 - ▶ 69% of those workers who would benefit from an increase are adults, age 20 or over;
 - ▶ Almost two-fifths (39%) are the only wage earner in their household; and
 - ▶ The average minimum wage worker brings home half of their family's earnings.
- **Giving A Pay Raise To The More Than 10 Million Workers At or Near The Minimum Wage.** An estimated 10 million hourly workers earn between \$4.25 and \$5.14 and would directly benefit from the President's proposal. An increase in the minimum wage could also have a "ripple" effect on the over 3 million workers who earn within 60 cents of the new minimum wage.

EMPIRICAL EVIDENCE SHOWS THAT RAISING THE MINIMUM WAGE WILL NOT COST JOBS. Nearly two dozen empirical studies have found that moderate increases in the minimum wage do not have a significant impact on employment. These studies include state-specific research in California, Texas, and New Jersey that shows that state minimum wage increases did not result in any job loss.

- **101 Economists Including 3 Nobel Prize Winners Agree That A Minimum Wage Increase Won't Cost Jobs.** In the fall of 1995, 101 economists -- including 3 Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin -- signed a letter supporting the President's proposal to raise the minimum wage, affirming that it would not have a significant effect on employment, and concluding that "*overall effects [of an increase] on the labor market, affected workers, and the economy would be positive.*"
- **A Minimum Wage Increase Will Not Cost Jobs For African-American Teenagers.** Study after study finds that a minimum wage increase will not cost jobs for adults, teens, or African-American teens. Recent claims that the unemployment rate of African-American teens rose after the last minimum wage increase are false; the increase was a result of the Bush recession, not the minimum wage increase. In one of the most thorough reviews of the economic literature, Professor Charles Brown and coauthors stated: "*While it is often asserted that blacks are more adversely affected than whites by the minimum wage... we conclude from the body of literature that such an assertion must rest on theoretical rather than empirical grounds.*"

THE LAST MINIMUM WAGE INCREASE -- ALSO 90 CENTS -- GARNERED STRONG BIPARTISAN SUPPORT. In 1989, the minimum wage was passed by votes of 382 to 37 (135 Republicans) in the House, and 89 to 8 in the Senate (36 Republicans) and was supported by Senator Dole, Senator Lott, and Rep. Gingrich.

IT'S TIME TO RAISE THE MINIMUM WAGE

THE SENATE REPUBLICAN LEADERSHIP SHOULD DROP THEIR POISON PILL AMENDMENT

IT'S TIME FOR SENATE REPUBLICANS TO JOIN THE MAINSTREAM AND MAKE THE MINIMUM WAGE A LIVING WAGE. President Clinton's minimum wage increase would ensure that -- along with his expanded Earned Income Tax Credit -- no parent who works full-time would have to raise their children in poverty. A bipartisan group in the House has done their part and voted to raise the minimum wage. The time for the Senate Republicans to do the same is long overdue.

MAIN STREET AMERICA DESERVES AN HONEST VOTE ON THE MINIMUM WAGE WITHOUT ANY POISON PILLS. The Senate should pass an increase in the minimum wage -- with no poison pills and no gimmicks. As Republican Congressman Amo Houghton said: *"This is not a complicated issue. It should not be a partisan issue. It's timely. It's right, and I think we should do it."*

DON'T LET REPUBLICAN LEADERS FOOL YOU -- THEIR POISON PILL AMENDMENT TO A GOOD MINIMUM WAGE BILL WILL DENY A PAY RAISE TO MILLIONS OF WORKERS. The Senate Republican leadership offers the American people nothing more than a cruel shell game: claim that you are raising the minimum wage, but stick millions of first-rate workers with second-rate pay.

IF THE REPUBLICAN LEADERSHIP INSIST ON INCLUDING ANY OF THE FOLLOWING POISON PILL PROVISIONS, THE PRESIDENT WILL VETO THE BILL:

- ▶ **Workers In Two-Thirds Of All Businesses Would Be Denied The Benefits Of A Higher Minimum Wage.** The Republican leadership would deny workers in two-thirds of all firms in the United States -- all business with revenues of less than \$500,000 annually -- an increase in the minimum wage. For these workers, this provision would lock in, for an indefinite period, a minimum wage that will be at a 40-year low in real terms. It doesn't matter the size of your employer, you can't raise a family on \$4.25 an hour.
 - **SBA Administrator Phil Lader Does NOT Support This Exemption For Small Businesses.** A year and a half ago as part of internal deliberations, Administrator Lader received a recommendation from his Office of Advocacy, an independent office within the SBA, advocating the idea of an exemption for small businesses from a minimum wage increase. Administrator Lader chose to personally write Labor Secretary Reich to suggest this idea. Since then, Administrator Lader has studied the empirical evidence more thoroughly, taken part in the White House Small Business Conference, and met independently with many small business owners and workers. Especially considering the fact that this bill includes a Small Business Tax Cut package, Administrator Lader is now convinced that raising the minimum wage for all workers is the right thing to do for the following three reasons:
 - The evidence shows that a minimum wage increase will not significantly affect small business;
 - During state meetings leading up to the White House Small Business Conference, participants and delegates did not even mention a higher minimum wage as one of the top 430 policy priorities; and
 - He believes that we should not let the minimum wage's real value fall to a 40-year low.
- ▶ **Over 4 Million Hard-Working Americans Would Be Denied A Pay Raise.** The Republican's so-called "Opportunity Wage" provision would deny the opportunity of a higher minimum wage to the 4.1 million workers at or near the minimum wage who have been with their employer for less than six months. In industries with high turnover -- like retail -- this would create the opportunity for employers to drop workers after six months, so that they would never graduate from the sub-minimum wage.
- ▶ **Low-Wage Workers Would Have To Wait Until Next Year For Pay Hike.** As the real value of the minimum wage approaches a 40-year low, the Republican leadership wants to force America's lowest-paid workers to wait until next year to see any minimum wage increase. While President Clinton says now is the time to raise the minimum wage, the Republicans are telling America's workers to wait. The Republican's six-month delay will cost a full-time minimum wage worker \$878. When you're making only \$8,500 a year, \$878 makes a big difference.

**DON'T LET REPUBLICAN LEADERS FOOL YOU:
THEIR POISON PILL MINIMUM WAGE AMENDMENT WILL STICK MILLIONS
OF FIRST-RATE WORKERS WITH SECOND-RATE PAY**

INSTEAD OF JUST PASSING A CLEAN, SIMPLE MINIMUM WAGE INCREASE, THE SENATE REPUBLICAN LEADERSHIP WANTS A POISON PILL AMENDMENT THAT WILL DENY MILLIONS OF WORKERS A PAY RAISE. President Clinton is determined to raise the minimum wage for all workers who deserve and need it. If they send him a bill with any of the following three poison pills, he will veto it:

► **Workers In Two-Thirds Of All Businesses Would Be Denied The Benefits Of A Higher Minimum Wage.**

- The Senate Republican leadership's amendment would deny workers in two-thirds of all firms in the United States -- all business with revenues of less than \$500,000 annually -- an increase in the minimum wage.
- This provision is *far more extreme* than any previous small business exemption. It is true that prior to 1989 there was an exemption for employees in small retail and service establishments. But the Republican's current proposal would not only exempt workers in small retail and service firms, but would deny a higher minimum wage to *all* workers in two-thirds of America's businesses, including many garment industry sweatshop workers, farmworkers, and janitorial workers.
- For workers in small businesses, this provision would lock in, for an indefinite period, a minimum wage that will be at a 40-year low in real terms. It doesn't matter the size of your employer, you can't raise a family on \$4.25 an hour.
- A year and a half ago as part of internal deliberations, Administrator Lader received a recommendation from his Office of Advocacy, an independent office within the SBA, advocating the idea of an exemption for small businesses from a minimum wage increase. Administrator Lader chose to personally write Labor Secretary Reich to suggest this idea. Since then, Administrator Lader has studied the empirical evidence more thoroughly, taken part in the White House Small Business Conference, and met independently with many small business owners and workers. Especially considering the fact that this bill includes a Small Business Tax Cut package, Administrator Lader is now convinced that raising the minimum wage for all workers is the right thing to do for the following three reasons:
 - The evidence shows that a minimum wage increase will not significantly affect small business;
 - During state meetings leading up to the White House Small Business Conference, participants and delegates did not even mention a higher minimum wage as one of the top 430 policy priorities; and
 - He believes that we should not let the minimum wage's real value fall to a 40-year low.

► **Over 4 Million Hard-Working Americans Would Be Denied A Pay Raise:**

- The Senate Republican's so-called "Opportunity Wage" provision could deny a higher minimum wage to the 4.1 million workers at or near the minimum wage who have been with their employer for less than six months. Under this provision any new hire of any employer, regardless of prior work experience, could be paid a sub-minimum wage for the first six months of employment.
- This is a more extreme provision than the House-passed minimum wage increase. The House-passed bill -- which the Administration strongly opposes -- applied a sub-minimum wage for workers under age 20 for their first 90 days with an employer. This amendment, by contrast, would deny a higher minimum wage to all workers for the first 180 days of employment.
- In industries with high turnover -- like retail -- this would create the opportunity for employers to drop workers after six months, so that they would never graduate from the sub-minimum wage. And the anti-displacement provisions, intended to prohibit employers from dropping workers in a perpetual "churning" fashion, will prove to be extremely difficult to enforce.

► **Low-Wage Workers Would Have To Wait Until Next Year For Pay Hike.**

- The Republican leadership would put off the first stage of a minimum wage increase until January 1, 1997. As the real value of the minimum wage approaches a 40-year low, the Republican leadership wants to force our lowest-paid workers to wait until next year to see any minimum wage increase. President Clinton is determined to not let the minimum wage reach a 40-year low and will veto any bill that will let that happen.

PRESIDENT CLINTON ALSO STRONGLY OPPOSES REPUBLICAN MEASURES TO DENY PAY INCREASES TO OTHER WORKERS:

► **"Tipped Employees" Such As Waiters and Waitresses Would Be Denied A Pay Raise.**

- The Republican leadership would freeze the minimum wage for "tipped employees" such as waiters, waitresses, and delivery people at \$2.13 an hour, thus denying any current or future minimum wage increase to these workers.
- The impact of this tip credit amendment hits women particularly hard; about 80 percent of tipped workers are women.
- Tipped workers would receive a 45-cents an hour pay increase with the President's proposal. To many of these workers struggling to make ends meet, this small sum can make the difference between getting by and slipping through the cracks.

QUICK RESPONSES TO FALSE REPUBLICAN CLAIMS ON MINIMUM WAGE

CLAIM: *The evidence is clear: a boost in the minimum wage will increase unemployment.*

THE FACTS: **The majority of recent studies show that a modest minimum wage increase -- like a 90-cent raise -- would not cost jobs. And nearly every recent study that comes to a different conclusion is in some way connected with the restaurant lobby.**

- **101 economists including 3 Nobel Prize winners agree that a minimum wage increase won't cost jobs.** In the fall of 1995, 101 economists -- including 3 Nobel Prize-winners Kenneth Arrow, Lawrence Klein, and James Tobin -- signed a letter supporting the President's proposal to raise the minimum wage and affirming that it would not have a significant effect on employment. The letter concluded that *"overall effects [of a minimum wage increase] on the labor market, affected workers, and the economy would be positive."* [Center on Budget and Policy Priorities and the Economic Policy Institute, Statement of Support for A Minimum Wage Increase, October 2, 1995.]
- **Empirical evidence shows the President's proposal can increase wages without costing jobs.** Nearly two dozen empirical studies have found that moderate increases in the minimum wage would not cost jobs. As Nobel Laureate Robert Solow stated: *"[T]he employment effect of a moderate increase in the minimum wage would be very, very small."*

CLAIM: *Time magazine quotes President Clinton as saying the minimum wage "is the wrong way to raise the incomes of low-wage earners."*

THE FACTS: **THE 10-WORD TIME MAGAZINE QUOTE DOES NOT EXIST.** The President never said that the minimum wage is an ineffective tool to raise wages. The statement *Time* refers to does not appear in any transcript, tape, or speech text.

PRESIDENT CLINTON HAS ALWAYS SUPPORTED RAISING THE MINIMUM WAGE -- FROM THE CAMPAIGN IN 1992 TO THE PRESENT. He specifically proposed a 90-cent increase 17 months ago in February 1995.

- **In *Putting People First*, Bill Clinton and Al Gore proposed to "increase the minimum wage to keep pace with inflation." (p. 127)**

CLAIM: *Joe Stiglitz--the President's Chief Economist--wrote in his textbook that "There are others, who might have been employed at the lower market equilibrium wage, who cannot find employment and are worse off."*

THE FACTS: **JOE STIGLITZ SUPPORTS A MINIMUM WAGE INCREASE BECAUSE THE MAJORITY OF RECENT STUDIES SHOW THAT A MODEST MINIMUM WAGE INCREASE -- LIKE A 90-CENT RAISE -- WOULD NOT COST JOBS.**

- **Joe Stiglitz argued in his textbook -- in cases where the minimum wage was low in real terms -- moderate increases would have little effect on unemployment. (p. 131)** Since the real value of the minimum wage is approaching a 40-year low, it is not surprising that the President's proposal to increase the minimum wage wouldn't cost jobs.

CLAIM: *Most people who would benefit from the minimum wage increase are teenagers.*

THE FACTS: **THIS IS FLAT WRONG.** According to the Bureau of Labor Statistics:

- Over two-thirds (69%) of the workers who would get a pay raise from a minimum wage increase are adults, age 20 or over.
- Almost two-fifths (39%) are the sole breadwinners in their households.
- The average minimum-wage earner brings home half of their family's earnings.

CLAIM: *The President did not propose a minimum wage increase in 1993 and 1994 when the Democrats controlled Congress.*

THE FACTS: **For four years now President Clinton has fought for provisions that would raise the standard of living of hard working families.** These provisions include: increasing the minimum wage, expanding the Earned Income Tax Credit, and providing health care coverage for working families.

President Clinton pursued a comprehensive strategy aimed at raising workers' incomes and increasing economic security. The first step focused on an expansion of the Earned Income Tax Credit and health care reform.

1. **President Clinton expanded the EITC as a first step to make work pay during his first year as President:**
2. **The President maintained his support for a minimum wage increase even as he was fighting for health care reform:**
3. **President Clinton proposed minimum wage increase to fulfill commitment to make work pay and ensure that no parent who works full-time has to bring up their children in poverty.**

CLAIM: *The study that found when New Jersey raised their minimum wage and it didn't cost jobs in the fast food sector is fatally flawed.*

THE FACTS: **THIS IS NONSENSE.** The restaurant lobby's vitriolic attacks on the New Jersey minimum wage study have rarely been based on facts. The results in the New Jersey minimum wage study are consistent with a majority of the recent studies on the minimum wage which show that a moderate increase -- in the range of the President's proposal -- would not cost jobs.

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PUTTING PEOPLE 1st

Divider Title: _____

Putting People First

*A National
Economic Strategy
for America*

Governor Bill Clinton

SUMMARY

During the 1980s, our government betrayed the values that make America great: providing opportunity, taking responsibility, rewarding work. While the rich got richer, the forgotten middle class — the people who work hard and play by the rules — took it on the chin. They paid higher taxes to a government that gave them little in return. Washington failed to put people first.

No wonder our nation has compiled its worst economic record in fifty years.

Our political system isn't working either. Washington is dominated by powerful interests and an entrenched bureaucracy. Americans are tired of blame. They are ready for a leader willing to take responsibility.

My national economic strategy puts people first by investing more than \$50 billion each year for the next four years while cutting the deficit in half. These investments will create millions of high-wage jobs and help America compete in the global economy. They include:

- Putting America to work by rebuilding our country, converting from a defense to a peacetime economy, revitalizing our cities, encouraging private investment, and opening up world markets.
 - Rewarding work by providing tax fairness to working families, ending welfare as we know it, providing family leave and cracking down on deadbeat parents.
 - Supporting lifetime learning by bringing parents and children together, improving schools, training high school graduates, offering every American the chance to borrow money to go to college and serve our nation, and retraining workers.
 - Providing quality, affordable health care by radically controlling costs, reducing paperwork, phasing in universal access to basic medical coverage, and cracking down on drug manufacturers and insurance companies.
-

• Revolutionizing government by cutting 100,000 federal jobs, eliminating wasteful spending, limiting special interests, stopping the revolving door from public office to private lobbying, and reforming campaign finance and practices.

To pay for these investments and reduce our national deficit, I will save nearly \$300 billion by cutting spending, closing corporate tax loopholes, forcing the very wealthy to pay their fair share of taxes, and implementing rigorous health care cost control. My plan will cut the deficit in half within four years, and assure that the deficit continues to fall each year after that.

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PUTTING PEOPLE FIRST

It's time to put people first.

That is the core of my national economic strategy for America. And that will be the fundamental idea that guides my Presidency.

America is the greatest nation on earth. But for more than a decade our government has been rigged in favor of the rich and special interests. While the very wealthiest Americans get richer, middle-class Americans pay more to their government and get less in return. Our government has betrayed the values that make us great — providing opportunity, taking responsibility and rewarding hard work.

For twelve years, the driving idea behind American economic policy has been cutting taxes on the richest individuals and corporations and hoping that their new wealth would “trickle down” to the rest of us.

This policy has failed.

The Republicans in Washington have compiled the worst economic record in fifty years: the slowest economic growth, slowest job growth, and slowest income growth since the Great Depression. During the 1980s the wealthiest one percent of Americans got 70 percent of the gains. By the end of the decade, American CEOs were paying themselves 100 times more than their workers. Washington stood by while quick-buck artists brought down the Savings and Loan industry, leaving the rest of us with a \$500 billion bill.

While the rich cashed in, the forgotten middle class — the people who work hard and play by the rules — took it on the chin. They worked harder for lower incomes and paid higher taxes to a government that failed to produce what we need: good jobs in a growing economy, world-class education, affordable health care, and safe streets and neighborhoods. The working poor had the door of opportunity slammed in their face.

Ten years ago, Americans earned higher wages than

anyone else in the world. Now we're tenth, and falling. In Europe and Japan our competitors' economies grew three and four times faster than ours — because their leaders decided to invest in their people and our government did not.

In the emerging global economy, everything is mobile: capital, factories, even entire industries. The only resource that's really rooted in a nation — and the ultimate source of all its wealth — is its people. The only way America can compete and win in the 21st Century is to have the best educated, best trained workforce in the world, linked together by transportation and communication networks second to none.

I believe in free enterprise and the power of market forces. I know economic growth will be the best jobs program we'll ever have. But economic growth does not come without a national economic strategy to invest in people and meet the competition. Today we have no economic vision, no economic leadership and no economic strategy.

Our political system has failed us, too. Washington is dominated by powerful interests and an entrenched bureaucracy. Too many public officials enter the revolving door and emerge as high-priced influence peddlers. Too often those we elect to lead seem to respond more quickly to special interests than to the real problems of real people.

No wonder all of us have had enough. Our government doesn't work. People who pay the bills but get little value for their dollar have no voice in Washington. They are tired of hearing politicians blame each other. They are eager for someone to take responsibility and ready for a leader who will challenge all of us to be Americans again.

The strategy outlined in the pages that follow is not all-inclusive. There are many other crucial challenges that await the next President: healing the divisions that threaten our society, restoring law and order to our streets and communities, protecting a woman's right to choose, launching a war on AIDS, leading the world in protecting our environment, and securing our interests and human rights around the globe.

But we will reach our goals only if we focus on our

country's greatest resource. That is why putting people first is the heart and soul of my national economic strategy — and the key to the American future.

My strategy puts people first by investing more than \$50 billion each year over the next four years to put America back to work — the most dramatic economic growth program since World War II. My strategy recognizes that the only way to lay the foundation for renewed American prosperity is to spur both public and private investment. To reclaim the future, we must strive to close both the budget deficit and the investment gap.

These investments will create millions of high-wage jobs and provide tax relief to working families. They will also help move people from welfare to work, provide lifetime learning, and ensure affordable health care coverage for every citizen.

To pay for these investments and reduce our national deficit, I will save nearly \$300 billion by cutting spending, closing corporate tax loopholes, requiring the very wealthy to pay their fair share of taxes, and implementing rigorous health care cost controls. My plan will cut the deficit in half within four years, and assure that the deficit continues to fall each year after that.

No American will agree with all the details of my plan. But you have a right to know what I'll do and where I stand.

PUTTING AMERICA TO WORK

Putting people first demands, above all, that we put America back to work.

For the last twelve years Washington has penalized hard work and sold out American families. As the recession sends working families into poverty, the Republicans throw up their hands instead of rolling up their sleeves.

The results have been devastating. Record numbers of

Americans are unemployed and millions more must settle for insecure, low-wage, no-benefit jobs. Small businesses — which create most of the new jobs in this country — are starved for capital and credit. Washington continues to grant tax deductions for outrageous executive pay and reward American corporations who move their plants and jobs overseas.

The corrupt do-nothing values of the 1980s must never mislead us again. Never again should the government reward those who speculate in paper, instead of those who put people first. Never again should we sit idly by while the plight of hard-working Americans is ignored. Never again should we pass on our debts to our children while their futures slide silently through our fingers.

My national economic strategy will reward the people who work hard creating new jobs, starting new businesses and investing in our people and our plants here at home. To restore economic growth, we need to help free enterprise flourish, put our people back to work and learn again how to compete. My plan would:

- Shut the door on the “something for nothing” decade by:
 - Making the wealthiest Americans pay their fair share in taxes;
 - Ending tax breaks for American companies that shut down their plants here and ship American jobs overseas;
 - Eliminating deductions for outrageous executive pay;
- and
- Cracking down on foreign companies that prosper here and manipulate tax laws to their advantage.
- Rebuild America. The 1980s saw the concrete foundations of the United States crumble as the investment gap widened between America and our global competitors. By the decade’s end, Japan and Germany were investing more than 12 times what we spend on roads, bridges, sewers and the information networks and technologies of the future. No wonder they threaten to surpass America in manufacturing by 1996. No wonder we are slipping behind.

To create millions of high-wage jobs and smooth our transition from a defense- to a commercial-based economy, we will rebuild America and develop the world's best communication, transportation and environmental systems. As a prominent part of our commitment to put people first, we will create a Rebuild America Fund, with a \$20 billion Federal investment in each year for four years, leveraged with state, local, private sector and pension fund contributions. User fees such as road tolls and solid waste disposal charges will help guarantee these investments.

Just as constructing interstate highways in the 1950s ushered in two decades of unparalleled growth, creating the concrete foundations of the 21st century will help put Americans back to work and spur economic growth. States and localities will be responsible for project development and management. The creation of large predictable markets will stimulate private industry to invest in these new markets and create new high-wage jobs.

We will focus on four critical areas:

- Transportation, including renovation of our country's roads, bridges and railroads; creation of a high-speed rail network linking our major cities and commercial hubs; development of "smart" highway technology to expand the capacity, speed and efficiency of our major roadways; and development of high-tech short-haul aircraft.

- A national information network to link every home, business, lab, classroom and library by the year 2015. To expand access to information, we will put public records, databases, libraries and educational materials on line for public use.

- Environmental technology to create the world's most advanced systems to recycle, treat toxic waste and clean our air and water. Funds will also be directed to the development of new, clean, efficient energy sources.

- Defense conversion to ensure that the communities and millions of talented workers that won the Cold War don't get left out in the cold. Many of the skills and technologies required to rebuild America are similar to those now used in our defense industries. We will encourage

companies that bid on projects to rebuild America to contract work to, or purchase, existing defense facilities; order the Pentagon to conduct a national defense jobs inventory to assist displaced workers; and provide special conversion loans and grants to small business defense contractors.

- Investing in communities. While America's great cities fall into disrepair, the Republicans in Washington continue to ignore their fate. Private enterprise has abandoned our cities, leaving our young people with few job prospects and declining hopes. To restore urban economic vitality and bring back high-paying jobs to our cities, I will:

- Target funding and Community Development Block Grants to rebuild America's urban roads, bridges, water and sewage treatment plants and low-income housing stock, stressing "ready to go" projects. Require companies that bid on these projects to set up a portion of their operations in low-income neighborhoods and employ local residents.

- Create a nationwide network of community development banks to provide small loans to low-income entrepreneurs and homeowners in the inner cities. These banks will also provide advice and assistance to entrepreneurs, invest in affordable housing, and help mobilize private lenders.

- Fight crime by putting 100,000 new police officers on the streets. We will create a National Police Corps and offer unemployed veterans and active military personnel a chance to become law enforcement officers here at home. We will also expand community policing, fund more drug treatment, and establish community boot camps to discipline first-time non-violent offenders.

- Create urban enterprise zones in stagnant inner cities, but only for companies willing to take responsibility. Business taxes and federal regulations will be minimized to provide incentives to set up shop. In return, companies will have to make jobs for local residents a top priority.

- Ease the credit crunch in our inner cities by passing a more progressive Community Reinvestment Act to prevent "redlining"

and require financial institutions to invest in their communities.

- Encouraging private investment in America. Ten years ago, the United States spent about \$400 more per person than Japan in capital investment. Today the Japanese invest more than twice as much in their nation as we do. We must either change directions or continue to slide.

To help American business create new jobs and compete in the global economy, we must dramatically increase private investment. My plan would:

- Provide a targeted investment tax credit to encourage investment in the new plants and productive equipment here at home that we need to compete in the global economy.

- Help small businesses and entrepreneurs by offering a 50 percent tax exclusion to those who take risks by making long-term investments in new businesses.

- Make permanent the research and development tax credit to reward companies that invest in groundbreaking technologies.

- Create a civilian research and development agency to bring together businesses and universities to develop cutting-edge products and technologies. This agency will increase our commercial research and development spending, and focus its effort in crucial new industries such as biotechnology, robotics, high-speed computing, and environmental technology.

- Opening up world markets. Because every \$1 billion in expanded American exports will create 20,000 to 30,000 new jobs, we will move aggressively to open foreign markets to quality American goods and services. We will urge our trading partners in Europe and the Pacific Rim to abandon unfair trade subsidies in key sectors like ship building and aerospace — and act swiftly if they fail to respond. We will:

- Pass a stronger, sharper “Super 301” trade bill. If other nations refuse to play by our trade rules, we’ll play by theirs.

- Seek more open markets for American products by

negotiating a free trade agreement with Mexico that ensures a more level playing field and protects basic worker rights and environmental standards.

— Create an Economic Security Council, similar in status to the National Security Council, with responsibility for coordinating America's international economic policy.

— Reform the office of the U.S. Trade Representative by issuing an executive order banning trade negotiators from cashing in on their positions by serving as representatives of foreign corporations or governments. We must transform this office into a corps of trade experts whose primary aim is to serve their country, not sell out for lucrative lobbying paychecks from foreign competitors.

REWARDING WORK AND FAMILIES

Putting our people first means honoring and rewarding those who work hard and play by the rules. It means recognizing that government doesn't raise children — people do. It means that we must reward work, demand responsibility and end welfare as we know it.

The Republicans who run the federal government have abandoned working families. Millions of Americans are running harder and harder just to stay in place. While taxes fall and incomes rise for those at the top of the totem pole, middle-class families pay more and earn less. Wages are flat, good jobs have become scarce, and poverty has exploded. Health care costs have skyrocketed, and millions have seen their health benefits disappear.

Today almost one of every five people who works full time doesn't earn enough to support his or her family above the poverty line. Deadbeat parents owe \$25 billion in unpaid child support, and have left millions of single-parent families in poverty.

In the 1980s the Republicans once again used welfare as a wedge to divide Americans against each other. They silently hacked away

at the programs that keep disadvantaged children healthy and prepare them for school. They talked about "family values," but increased the burden on American families.

My national economic strategy will strengthen families and empower all Americans to work. It will break the cycle of dependency and end welfare as we know it. It includes:

- Expanding the Earned Income Tax Credit. To ensure that no one with a family who works full-time has to raise their children in poverty, we will increase the Earned Income Tax Credit to make up the difference between a family's earnings and the poverty level. The credit will also be expanded for part-time workers, giving them a greater incentive to work.
- Middle class tax fairness. Virtually every industrialized nation recognizes the importance of strong families in its tax code; we should, too. We will lower the tax burden on middle class Americans by forcing the rich to pay their fair share. Middle class taxpayers will have a choice between a children's tax credit or a significant reduction in their income tax rate.
- Welfare-to-work. We will scrap the current welfare system and make welfare a second chance, not a way of life. We will empower people on welfare with the education, training and child care they need for up to two years so they can break the cycle of dependency. After that, those who can work will have to go to work, either by taking a job in the private sector or through community service.
- Family and medical leave. Parents should not have to choose between the job they need and the family they love. I will immediately sign into law the Family and Medical Leave Act. This bill will give American workers the right to take 12 weeks of unpaid leave in order to care for a newborn child or sick family members — a right enjoyed by workers in every other advanced industrial nation.
- Child support enforcement. We will crack down on

deadbeat parents by reporting them to credit agencies, so they can't borrow money for themselves when they're not taking care of their children. We'll use the Internal Revenue Service to collect child support, start a national deadbeat databank, and make it a felony to cross state lines to avoid paying support.

LIFETIME LEARNING

Putting people first demands a revolution in lifetime learning, a concerted effort to invest in the collective talents of our people. Education today is more than the key to climbing the ladder of opportunity. It is an imperative for our nation. Our economic life is on the line.

Government fails when our schools fail. For four years we have heard much talk about "the Education President" but seen no action by government to close the gaps between what our people can achieve and what we ask of them. Washington shows little concern as people pay more and get less for what matters most to them: educating their children.

Millions of our children go to school unprepared to learn. The Republicans in Washington have promised — but never delivered — full funding of Head Start, a proven success that gives disadvantaged children a chance to get ahead. And while the states move forward with innovative ways to bring parents and children together, Washington fails to insist on responsibility from parents, teachers, students — and itself.

The 1980s witnessed the emergence of immense education gaps between America and the world, and among our own people. Test scores went down while violence in the schools went up. Too many children did bullet drills instead of fire drills, and too many teachers were assaulted. High school graduates who chose not to go to college saw their incomes drop by 20 percent. While college tuition and living costs skyrocketed, the Republicans tried to slash assistance for middle class

families. By the decade's end, nearly one of every two college students was dropping out, most because they simply could no longer afford it.

In an era when what you earn depends on what you learn, education too often stops at the schoolhouse door. While our global competitors invest in their people, American companies spend seven of every ten dollars for employee training on those at the top of the corporate ladder. Top executives float on golden parachutes to a cushy life while hard-working Americans are grounded without the skills they need.

My national economic strategy for America will invest in our people at every stage of their lives. It will put children first by dramatically improving the way parents prepare their children for school, giving students the chance to train for jobs or pay for college, and providing workers with the training and retraining they need to compete in tomorrow's economy.

The main elements include:

- Parents and Children Together. We will inspire parents to take responsibility, and empower them with the knowledge they need to help their children enter school ready to learn. As we do in my state, we will help disadvantaged parents work with their children to build an ethic of learning at home that benefits both parent and child. We will fully fund programs that save us several dollars for every one we spend — Head Start, the Women, Infants and Children (WIC) program, and other critical initiatives recommended by the National Commission on Children.

- Dramatically improve K-12 education. We will overhaul America's public schools to insure that every child has a chance for a world-class education. We will establish tough standards and a national examination system in core subjects like math and science, level the playing field for disadvantaged students, and reduce class sizes. We will give every parent the right to choose the public school his or her child attends, as we have done in Arkansas. In return, we will demand that parents work with their children to keep them in school, off drugs and

headed toward graduation.

- Safe Schools Initiative. We will provide funds for violence-ridden schools to hire security personnel and purchase metal detectors. We will help cities and states use community policing to put more police officers on the streets in high-crime areas where schools are located.

- Youth Opportunity Corps. To help teenagers who drop out of school, we will help communities open centers that give dropouts a second chance. Teenagers will be matched with adults who care about them, and given a chance to develop self-discipline and skills.

- National Apprenticeship Program. As President, I will bring business, labor and education leaders together to develop a national apprenticeship system that offers non-college bound students training in a valuable skill, with the promise of a good job when they graduate.

- National Service Trust Fund. To give every American the right to borrow money for college, we will scrap the existing student loan program and establish a National Service Trust Fund. Those who borrow from the fund will be able to choose how to repay the balance: either as a small percentage of their earnings over time, or by serving their communities for one or two years doing work their country needs as teachers, law enforcement officers, health care workers, or peer counselors helping kids stay off drugs and in school.

- Worker retraining. We will require every employer to spend 1.5 percent of payroll for continuing education and training, and make them provide the training to all workers, not just executives. Workers will be able to choose advanced skills training, the chance to earn a high school diploma, or the opportunity to learn to read. And we will streamline existing programs by combining the confusing array of publicly-funded training schemes.

QUALITY, AFFORDABLE HEALTH CARE

The American health care system costs too much and does not work. Instead of putting people first, the government in Washington has favored the insurance companies, drug manufacturers, and health care bureaucracies. We cannot build the economy of tomorrow until we guarantee every American the right to quality, affordable health care.

Washington has ignored the needs of middle class families and let health care costs soar out of control. American drug companies have raised their prices three times faster than the rate of inflation, forcing American consumers to pay up to six times more than Canadians or Europeans for the same drugs. Insurance companies routinely deny coverage to consumers with "pre-existing conditions" and waste billions on bureaucracy and administration. Twelve years ago Americans spent \$249 billion on health care. This year we'll spend more than \$800 billion.

Health care costs are now the number one cause of bankruptcy and labor disputes. They threaten our ability to compete, adding \$700 to the cost of every car made in America. Our complex system chokes consumers and providers with paper, requiring the average doctor to spend 80 hours a month on paperwork. It invites fraud and abuse. We spend more on health care than any nation on earth and don't get our money's worth.

Our people still live in fear. Today almost 60 million Americans have inadequate health insurance — or none at all. Every year working men and women are forced to pay more while their employers cover less. Small businesses are caught between going broke and doing right by their employees. Infants die at rates that exceed countries blessed with far fewer resources. Across our nation older Americans live in fear that they will fall ill — and lose everything or bankrupt their children's dreams trying to pay for the care they deserve.

America has the potential to provide the world's best, most advanced and cost-effective health care. What we need are leaders who are willing to take on the insurance companies, the drug companies, and

the health care bureaucracies and bring health care costs down.

My health care plan is simple in concept but revolutionary in scope. First, we will move to radically control costs by changing incentives, reducing paperwork and cracking down on drug and insurance company practices. As costs drop, we will phase in guaranteed universal access — through employer or public programs — to basic medical coverage. Companies will be required to insure their employees, with federal assistance in the early years to help them meet their obligations. Health care providers will finally have incentives to reduce costs and improve quality for consumers. American health care will make sense.

My plan will put people first by guaranteeing quality, affordable health care. No American will go without health care, but in return everyone who can must share the cost of their care. The main elements include:

- National spending caps. The cost of health care must not be allowed to rise faster than the average American's income. I will scrap the Health Care Financing Administration and replace it with a health standards board — made up of consumers, providers, business, labor and government — that will establish annual health budget targets and outline a core benefits package.

- Universal coverage. Affordable, quality health care will be a right, not a privilege. Under my plan, employers and employees will either purchase private insurance or opt to buy into a high-quality public program. Every American not covered by an employer will receive the core benefits package set by the health standards board.

- Managed care networks. Consumers will be able to select from among a variety of local health networks, made up of insurers, hospitals, clinics and doctors. The networks will receive a fixed amount of money for each consumer, giving them the necessary incentive to control costs.

- Eliminate drug price gouging. To protect American

consumers and bring down prescription drug prices, I will eliminate tax breaks for drug companies that raise their prices faster than Americans' incomes rise.

- Take on the insurance industry. To stand up to the powerful insurance lobby and stop consumers from paying billions in administrative waste, we need to streamline the industry. My health plan will institute a single claim form and ban underwriting practices that waste billions to discover which patients are bad risks. Any insurance company that wants to do business will have to take all comers and charge every business in a community the same rate. No company will be able to deny coverage to individuals with pre-existing conditions.

- Fight bureaucracy and billing fraud. To control costs and trim the "paper hospital," my plan will replace expensive billing, coding and utilization review functions with a simplified, streamlined billing system. Everyone will carry "smart cards" coded with his or her personal medical information. We will also crack down on billing fraud and remove incentives that invite abuse.

- Core benefits package. Every American will be guaranteed a basic health benefits package that includes ambulatory physician care, inpatient hospital care, prescription drugs, and basic mental health. The package will allow consumers to choose where to receive care and include expanded preventive treatments such as pre-natal care, mammograms and routine health screenings. We'll provide more services to the elderly and the disabled by expanding Medicare to include more long-term care.

- Equal costs. All businesses, regardless of size, will pay a set amount per person they employ. This system, known as "community rating," will protect small businesses and spread the risk evenly among all companies.

A REVOLUTION IN GOVERNMENT

We cannot put people first and create jobs and economic growth without a revolution in government. We must take away power from the entrenched bureaucracies and special interests that dominate Washington.

We can no longer afford to pay more — and get less — from our government. The answer for every problem cannot always be another program or more money. It is time to radically change the way government operates — to shift from top-down bureaucracy to entrepreneurial government that empowers citizens and communities to change our country from the bottom up. We must reward the people and ideas that work and get rid of those that don't.

It's long past time to clean up Washington. The last twelve years were nothing less than an extended hunting season for high-priced lobbyists and Washington influence peddlers. On streets where statesmen once strolled, a never-ending stream of money now changes hands — tying the hands of those elected to lead.

Millions of hard-working Americans struggle to make ends meet while their government no longer fights for their values or their interests. Washington deregulated the Savings and Loan industry and then tried to hide when it collapsed, leaving taxpayers to foot the bill. Political action committees and other special interests funnel more than \$2.5 million every week to Congress, giving incumbents a 12-1 financial advantage over challengers.

During the 1980s the White House staff routinely took taxpayers for a ride to play golf or bid on rare stamps. High-level executive branch employees traded in their government jobs for the chance to make millions lobbying their former bosses. Experts estimate that nearly one of every two senior American trade officials has signed on to work for nations they once faced across the negotiating table.

This betrayal of democracy must stop.

To break the stalemate in Washington, we have to attack

the problem at its source: entrenched power and money. We must cut the bureaucracy, limit special interests, stop the revolving door, and cut off the unrestricted flow of campaign funds. The privilege of public service ought to be enough of a perk for people in government.

I will take the following steps:

- Staff reductions. I will reduce the White House staff by 25 percent and challenge Congress to do the same.

- Eliminate 100,000 unnecessary positions in the bureaucracy. I will cut 100,000 federal government positions through attrition.

- Cuts in administrative waste. I will require federal managers and workers to achieve 3 percent across-the-board administrative savings in every federal agency.

- Cut wasteful government spending programs. To get rid of spending programs that no longer serve their purpose, I will eliminate taxpayer subsidies for narrow special interests, reform defense procurement and foreign aid, and slash boondoggle projects.

- Line item veto. To eliminate pork-barrel projects and cut government waste, I will ask Congress to give me the line item veto.

- Special interest tax. To help put government back in the hands of the people, I will ask Congress to eliminate the tax deductions for special interest lobbying expenses. I will also urge Congress to close the "lawyers' loophole," which allows lawyer-lobbyists to disguise lobbying activities on behalf of foreign governments and powerful corporations.

- Stop the revolving door. I will require all my top appointees to sign a pledge that, if they work in my Administration, they will refrain for five years after leaving office from lobbying government agencies within their responsibilities. I will require senior officials to pledge never to become registered agents on behalf of any foreign

government. I will then challenge members of Congress to do the same.

- Lobbyists. I will push for and sign legislation to toughen and streamline lobbying disclosure. The new law will require all individuals and groups to register with the Office of Government Ethics within 30 days after contacting a federal official, lawmaker or lawmaker's aide. Lobbyists will be required to report twice a year on their contacts and expenses. I will instruct the Justice Department to strictly enforce disclosure laws and collect fines.

- Campaign finance reform. I will push for and sign strong campaign finance legislation to cap spending on House and Senate campaigns; cut political action committee (PAC) contributions in any race to the legal limit for individuals of \$1,000; lower the cost of air time so that TV becomes an instrument of education, not a weapon of political assassination; and require lobbyists who appear before a Congressional committee to disclose the campaign contributions they've made to members of that committee.

INVESTMENTS AND SAVINGS

(in billions of dollars)

NEW INVESTMENTS

	1993	1994	1995	1996
Putting America to work	28.3	34.6	35.4	35.4
Rewarding work and families	3.5	5.5	6.5	7.0
Lifetime learning	10.1	14.25	17.27	21.7
Total	41.9	54.35	59.17	64.1

NEW SAVINGS

Spending Cuts	26.09	32.42	36.81	44.98
Entitlement Reform	0.6	1.0	1.0	1.8
Tax Fairness	19.8	22.7	23.9	25.3
Closing Corporate Loopholes	11.3	14.4	15.3	17.3
Total	57.79	70.52	77.01	89.38

DEFICIT PROJECTIONS

(in billions of dollars)

	1993	1994	1995	1996
Current deficit*	323.0	268.0	212.0	193.0
Clinton Plan: moderate growth	295.7	243.0	174.0	141.0
Clinton Plan: strong growth	282.6	207.02	125.54	75.84

**Based on Congressional Budget Office growth assumptions.*

BREAKDOWN OF SAVINGS

(in billions of dollars)

	1993	1994	1995	1996
<u>SPENDING CUTS</u>				
Defense cuts				
(beyond Bush)	2.0	8.5	10.5	16.5
Intelligence cuts	1.0	1.5	1.5	1.5
Administrative savings	2.0	5.0	6.5	8.5
100,000 federal workers	2.0	4.3	4.5	4.5
Cut White House staff by				
25 percent	0.01	0.01	0.01	0.01
Reform debt financing	0.0	2.0	2.0	2.0
Cut Congressional				
staff by 25 percent	0.1	0.1	0.1	0.1
Line-item veto to cut				
pork barrel projects	3.8	2.0	2.0	2.0
Reform Defense Department				
procurement management	5.7	0.0	0.0	0.0
Reform Defense Department				
inventory system	2.3	2.5	2.5	2.5
Create comprehensive				
federal agency energy				
conservation program	0.0	0.85	0.85	0.85
Reducing overhead on				
federally-sponsored				
university research	0.73	0.76	0.79	0.82
Streamline USDA field				
offices	0.035	0.075	0.13	0.14
Special purpose HUD				
grants	0.12	0.12	0.13	0.13
Index nuclear waste disposal				
fees for inflation	0.02	0.04	0.06	0.08
RTC management reform	4.0	4.0	4.5	4.6
End taxpayer subsidies for				
honey producers	0.02	0.02	0.0	0.0
Consolidate overseas				
broadcasting system	0.08	0.18	0.26	0.27
Freeze spending on				
federal consultants	0.17	0.19	0.21	0.21
Consolidate social service				
programs	0.0	0.27	0.27	0.27
Reform foreign aid pipeline	2.0	0.0	0.0	0.0
Total	26.09	32.42	36.81	44.98

ENTITLEMENT REFORM

Increase Medicare-B costs for those with incomes of more than \$125,000	0.6	1.0	1.0	1.8
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TAX FAIRNESS

Increase rates on top 2%, raise AMT, surtax on millionaires	17.8	20.5	21.6	23.0
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Prevent tax fraud on un- earned income for the wealthy	2.0	2.2	2.3	2.3
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Total	19.8	22.7	23.9	25.3
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CLOSING CORPORATE LOOPHOLES

Limit corporate deductions at \$1 million for CEOs	0.1	0.4	0.4	0.4
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End incentives for opening plants overseas	0.3	0.4	0.4	0.4
---	-----	-----	-----	-----

Prevent tax avoidance by foreign corporations	9.0	11.0	11.5	13.5
--	-----	------	------	------

Increased fines and taxes for corporate polluters	1.8	2.5	2.9	2.9
--	-----	-----	-----	-----

Eliminate tax deduction for lobbying expenses	0.1	0.1	0.1	0.1
--	-----	-----	-----	-----

Total	11.3	14.4	15.3	17.3
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TOTAL NEW SAVINGS	57.79	70.52	77.01	89.38
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Clinton Presidential Records Digital Records Marker

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SCHOOL CONSTRUCTION

Divider Title: _____

SUMMARY OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

July 11, 1996

PRESIDENT CLINTON PROPOSES A NEW INITIATIVE TO HELP LOCAL COMMUNITIES AND STATES REBUILD THE NATION'S SCHOOLS. As America moves into the 21st century, our students, teachers, and schools should too. If our schools are in no shape for the future, our students won't be either. The facts are clear:

- **One-Third Of All Schools -- Serving 14 Million Students -- Need Extensive Repair Or Replacement.** According to a recent General Accounting Office report, about 60 percent of schools have at least one major building feature in disrepair, such as inadequate plumbing. Over 50 percent have at least one environmental problem, such as poor indoor air quality. [Source: General Accounting Office Report: "School Facilities: America's Schools Report Differing Conditions," June 14, 1996]
- **Schools Do Not Have The Physical Infrastructure To Allow Our Students To Take Advantage of the 21st Century.** Many schools do not have the physical infrastructure to make the best use out of computers, printers, and other equipment. Almost half (46 percent) of the schools report inadequate electrical wiring for computers and communications technology, and over half (52 percent) of schools report six or more insufficient technology elements (such as fiber optics cabling, phone lines for modems, and wiring for computers). [Source: General Accounting Office, "School Facilities: America's Schools Not Designed or Equipped for 21st Century," April 4, 1995]
- **Expected Enrollment Growth Imposes Additional Burdens.** Many school districts also face the need to build new schools to accommodate enrollment growth. Public school enrollment in grades K-12 is expected to rise 20% between 1990 and 2004. [Source: U.S. Department of Commerce, *Statistical Abstract of the United States, 1995*, p. 151]

KEY ELEMENTS OF PRESIDENT CLINTON'S NEW SCHOOL CONSTRUCTION INITIATIVE

- **Up to 50% Interest Subsidy for New School Construction and Renovation.** The initiative will reduce interest costs on new school construction and renovation projects by up to 50%, with a sliding subsidy scale depending on need.
- **\$20 Billion in School Construction Spurred by \$5 Billion in Federal Jump-Start Funding Over 4 Years.** The interest reduction is equivalent to subsidizing \$1 out of every \$4 in construction and renovation spending. \$5 billion in federal funding over 4 years -- with most of the money administered by the States -- would support \$20 billion in construction and renovation. One of the key criteria in distributing funds to projects will be the extent to which the spending is incremental -- above what would have occurred without this initiative.
- **Goal of 25% Increase in School Construction Over 4 Years.** National spending on school construction and renovation is currently about \$10 billion a year or \$40 billion over 4 years. By focusing on incremental or net additional construction projects, this initiative aims to ensure that at least half of the \$20 billion supported by federal subsidies would not have otherwise occurred. This would increase school construction by at least \$10 billion to a total of \$50 billion over 4 years -- increasing school construction by 25%.
- **One-Time Construction Initiative Fully Paid For By One-Time Spectrum Auction:** A one-time auction of portions of the spectrum between channels 60-69 will fully fund this jump-start proposal.
- **State and Local Governments Maintain Responsibility and Control.** States would administer the bulk of the subsidies, while the largest school districts would apply directly to the U.S. Department of Education.

BACKGROUND ON PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

July 11, 1996

50% INTEREST SUBSIDY FOR NEW CONSTRUCTION AND RENOVATION: President Clinton's new School Construction Initiative provides up to a 50% interest subsidy to school districts repairing existing K-12 schools or building new schools to replace old ones or to accommodate increased enrollments. Subsidies would be awarded according to several criteria, including need and evidence that the funding will support construction or renovation that would otherwise not have occurred.

- School construction is typically funded through tax-exempt bonds that currently carry interest rates of about 6%. The interest subsidy would be as large as 50% of the interest rate -- reducing the interest rate from 6% to 3%.
- The interest subsidy would generally be 50%, but could be administered on a sliding-scale with the communities most in need receiving the full 50% interest subsidy and communities with less need receiving a smaller subsidy.

\$20 BILLION IN STATE AND LOCAL SCHOOL CONSTRUCTION SPURRED BY \$5 BILLION FEDERAL JUMP-START:

- The President's plan provides \$5 billion in federal subsidies over the next four years.
- The initiative would be a four-year, capped mandatory proposal that would be fully funded by auctioning a portion of the spectrum between channels 60-69.
- Given the subsidy rate, the \$5 billion should support \$20 billion in school construction and renovation. Since the initiative is time-limited, school districts would have an incentive to act within the 4-year window.

GOAL OF 25% INCREASE IN SCHOOL CONSTRUCTION OVER NEXT FOUR YEARS:

- Currently, about \$10 billion a year is spent on school construction each year -- or roughly \$40 billion over 4 years.
- With up to a 50% interest subsidy, \$5 billion in federal funding over 4 years should support a total of \$20 billion in school construction.
- An important selection criteria is that communities undertake *additional* projects. If the targeting criteria work perfectly, the entire \$20 billion in construction supported by the federal jump-start will be incremental -- roughly a 50% increase over the \$40 billion currently projected to be spent over the next 4 years.
- Our goal is to ensure that at least half of the \$20 billion will be additional net construction and renovation. This \$10 billion in additional spending would represent a 25% increase over the projected level of spending over 4 years (\$40 billion).

STATE AND LOCAL GOVERNMENTS MAINTAIN CONTROL AND RESPONSIBILITY: The President's initiative seeks to aid and strengthen the hand of local governments to build and rebuild their schools. But they must still take responsibility for their proposals and most of the cost.

- The initiative will make it easier for state and local governments to do the right thing by cutting their interest costs in half.
- States would administer the bulk of the credit subsidies to local communities. States would need to show that they have a plan to use selection criteria that would encourage net additional construction based on historical averages and past effort.
- The 100 largest school districts by poverty count, plus approximately 25 other school districts the Education Department determines have exceptional needs, would apply directly to the Department of Education for credit subsidies to ensure that major cities which have the most significant needs receive appropriate treatment.

ONE-TIME SCHOOL CONSTRUCTION INITIATIVE FULLY-PAID FOR BY ONE-TIME AUCTION OF PORTIONS OF THE SPECTRUM BETWEEN CHANNELS 60-69: The initiative is fully paid for through a new proposal to auction a portion of the spectrum between channels 60-69 that is not currently being used for TV broadcasting. This one-time auction is expected to raise the \$5 billion needed to fully pay for this school construction kick-start.

- For several years the FCC has been studying the possibility of auctioning unused or underutilized portions of the broadcast spectrum in between existing TV stations. The FCC has now concluded that with the development of digital wireless technology, the space around the TV stations can be auctioned and used without disturbing these broadcast stations.
- Therefore, this new proposal -- not contained in any previous Administration budget -- would auction a portion of the spectrum around the TV stations using channels 60-69. This spectrum is not currently being used for TV broadcasting, and its quality and location make it very desirable for exciting new personal communication services applications.

TECHNICAL ASSISTANCE PROVIDED TO HELP STATES AND LOCALITIES: Where there is a request for technical assistance, the Education Department or designated outside experts will be available to provide local and state government officials and other interested parties with information to assist them with school construction and renovation.

- States and localities will be provided with information and referrals relating to issues such as how to survey building needs, to accurately project enrollment, unconventional financing strategies, successful contract bidding strategies, and effective preventive maintenance strategies.

PURPOSES OF SUBSIDIZED PROJECTS: The credit subsidy will be used to lower the cost of additional construction or renovation projects with one of the following purposes:

- 1) Fixing or upgrading classrooms or structures related to academic learning, including fixing leaking roofs, crumbling walls, inadequate plumbing, poor ventilation, and heating or light problems
- 2) Increasing physical safety at the school
- 3) Enhancing access for students, teachers, and other people with disabilities
- 4) Improving energy efficiency
- 5) Addressing environmental hazards, such as poor ventilation, indoor air quality, or lighting
- 6) Providing the basic infrastructure that facilitates educational technology, such as communications outlets, electrical systems, power outlets, or a communication closet
- 7) Constructing new schools to meet the needs imposed by enrollment growth, and to create community schools and charter schools.

**PRESIDENT
CLINTON'S**

**SCHOOL
CONSTRUCTION
INITIATIVE**

7/11/96

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July 11, 1996

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PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

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Case Study: How Typical Communities Will Benefit	3-5
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- Given the subsidy rate, the range of subsidy rates, \$5 billion should support \$20 billion or more in school construction and renovation. Since the initiative is time-limited, school districts would have an incentive to act within the 4-year window.

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- The 100 largest school districts by poverty count, plus approximately 25 other school districts the Education Department determines have exceptional needs, would apply directly to the Department of Education for credit subsidies to ensure that major cities which have the most significant needs and which actually implement a large share of all school construction receive appropriate treatment.

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- 4) Improving energy efficiency
- 5) Addressing environmental hazards, such as poor ventilation, indoor air quality, or lighting
- 6) Providing the basic infrastructure that facilitates educational technology, such as communications outlets, electrical systems, power outlets, or a communication closet
- 7) Constructing new schools to meet the needs imposed by enrollment growth, and to create community schools and charter schools.

HOW TYPICAL COMMUNITIES WILL BENEFIT FROM PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

CITY OF METROPOLIS

TYPICAL PROBLEMS:

Like cities across the nation, Metropolis has large school construction and renovation needs. Two of its schools need major renovations, including plumbing and new roofs, and an additional elementary school is needed to accommodate a rapidly growing school age population.

TYPICAL COSTS:

The repairs and two new school buildings are expected to cost \$10 million (\$2 million each for the major renovations to the two existing schools, and \$6 million for the new elementary school).

TYPICAL OBSTACLES:

Despite the clear need for the repairs and two new schools, the school board has been reluctant to propose issuing a bond when it could be rejected as too costly. As a result, only emergency repairs -- funded out of an operations account -- have been undertaken.

IMPACT OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

Reduces Local Cost of School Construction. The President's proposal could cut interest payments in half, saving Metropolis \$5 million in interest costs over the life of their \$10 million bond. This is equivalent to saving \$2.9 million immediately -- savings of 29% off of face value.

TOWN OF RURALTOWN

TYPICAL PROBLEMS:

The town of Ruraltown has three schools in need of major renovations, to improve indoor air quality, ventilation, and roofs.

TYPICAL COSTS:

The repairs of the 3 school buildings are expected to cost \$5 million.

TYPICAL OBSTACLES:

Ruraltown faces difficult challenges in renovating its schools. Its tax base is too small to pay for the necessary renovations, and bond financing is too expensive.

IMPACT OF PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

Reduces Local Cost of School Construction. The President's proposal could cut the interest rate paid by Ruraltown in half. This would save Ruraltown more than \$1.7 million in interest costs over the life of their \$5 million bond. This is equivalent to saving \$1.2 million immediately -- savings of 23% off of face value.

[SEE ATTACHED TABLES FOR SPECIFIC SAVINGS UNDER PRESIDENT CLINTON'S INITIATIVE]

THE CASE OF THE CITY OF METROPOLIS
Clinton Initiative Saves City 29% of Construction Cost

**COST OF CONSTRUCTION
AND RENOVATION:**

\$10 million (\$2 million each for the major renovations to the two existing schools, and \$6 million for the new elementary school).

FINANCING:

Financed with 30-year bond with interest rate of 6%.
Principal repayments begin after second year.

	CURRENT LAW	CLINTON INITIATIVE	SAVINGS
INTEREST RATE	6%	3%	3%
AVERAGE ANNUAL INTEREST PAYMENT	\$330,000	\$165,000	\$165,000
TOTAL ANNUAL INTEREST PAYMENTS OVER 30 YEARS	\$9.9 million	\$4.95 million	\$4.95 million

SAVINGS AS A PERCENTAGE OF FACE VALUE	
Face Value of School Construction	\$10 million
Present Value of Interest Subsidy Under Clinton Initiative	\$2.9 million
<i>Clinton Initiative Savings as a Percentage of Face Value</i>	29%

CASE OF THE TOWN OF RURALTOWN
Clinton Initiative Saves City 23% of Renovation Cost

COST OF CONSTRUCTION

\$5 million (1.7 million each for the major renovations to

AND RENOVATION:

the three existing schools).

FINANCING:

Financed with 20-year bond with interest rate of 6%.
 Principal repayments begin after second year.

	CURRENT LAW	CLINTON INITIATIVE	SAVINGS
INTEREST RATE	6%	3%	3%
AVERAGE ANNUAL INTEREST PAYMENT	\$172,500	\$86,250	\$86,250
TOTAL ANNUAL INTEREST PAYMENTS OVER 30 YEARS	\$3.45 million	\$1.73 million	\$1.73 million

SAVINGS AS A PERCENTAGE OF FACE VALUE	
Face Value of School Renovation	\$5 million
Present Value of Interest Subsidy Under Clinton Initiative	\$1.2 million
<i>Clinton Initiative Savings as a Percentage of Face Value</i>	23%

PAYING FOR PRESIDENT CLINTON'S SCHOOL CONSTRUCTION INITIATIVE

Spectrum Auctions

Overview: President Clinton's School Construction Initiative is completely paid for through a new proposal to auction a portion of spectrum between channels 60-69 that is not currently being used for TV broadcasting. This one-time auction is expected to raise the \$5 billion need to completely pay for this one-time kick-start of school construction. The school construction funded with the proceeds of this spectrum auction will help prepare our children and schools for the Information Era.

Background on Spectrum Auctions: The Omnibus Reconciliation Act of 1993 gave the Federal Communications Commission (FCC) authority to auction spectrum licenses, instead of giving them away. The subsequent auctions have been very successful, efficiently allocating a scarce resource and raising \$20 billion to date -- more than either the Administration or the Congressional Budget Office projected. The auctions have made quality portions of the spectrum available to private technological entrepreneurs, stimulating the development of new uses of the spectrum, such as personal communications services (e.g., two-way paging, digital cellular phones, and wireless connections to the Internet), which were not even imagined a few decades ago.

Spectrum Auctions Already in The President's FY 1997 Balanced Budget: The President's budget includes further auctions of broadcast and non-broadcast spectrum that the FCC will free-up in order to get more spectrum into the hands of the private-sector firms that can use it most effectively. The following spectrum auctions are already contained in the President's FY97 balanced budget:

1. **Broaden and Extend Auctions of Non-Broadcast Spectrum:** This proposal was also included in the Republican reconciliation bills and is expected to raise \$19 billion.
2. **Auction of "Analog" Spectrum:** This proposal auctions the unneeded analog spectrum the FCC will reclaim after broadcasters have migrated to a new digital channel, and is expected to raise \$17 billion through an auction of the analog and if necessary also a digital spectrum fee.
3. **Auction of "888" Toll-Free Numbers:** This proposal authorizes the FCC to award through an auction a new generation of toll-free "888" vanity telephone numbers, raising \$700 million.
4. **Auction of DARS Spectrum To Help Pay for \$1,500 HOPE Scholarships:** This auctions a portion of the spectrum previously allocated for digital audio radio services (DARS), but which is unsuitable for DARS because of interference problems, raising \$2.1 billion.

New Proposal: Auction a Portion of Spectrum Between Channels 60-69 Which Will Fully Pay for the New School Construction Initiative. The President's School Construction Initiative is fully paid for by a new proposal -- not contained in any previous Administration budget -- to auction an additional portion of the spectrum. For several years the FCC has been studying the possibility of auctioning unused or underutilized portions of the spectrum located between existing TV stations. The FCC has now concluded that with the development of digital wireless technology, the space around TV stations can be auctioned and used without affecting these broadcast stations. Therefore, this new proposal would auction portions of the spectrum between channels 60-69 that are not being used for TV broadcasting. This portion of the spectrum was allocated free-of-charge to UHF television, but there are fewer than 100 stations across the United States using it, leaving a significant and valuable portion of spectrum between the stations that could be used for other wireless technologies. This new proposal would reallocate and auction these underutilized portions of the spectrum without disrupting the current broadcast stations. These portions of the spectrum could be used for exciting new PCS applications, such as mobile video, imaging, and other advanced voice and data services.

School Conditions By State

	Share of Schools With At Least One Building In Need of <u>Extensive Repair</u>	Share of Schools With At Least One Unsatisfactory Environmental <u>Condition*</u>	Share of Schools That Need To Spend Over The National Average To Bring Their Facilities <u>Into Good Condition</u>	Share of Schools That Lack Telephone <u>Lines For Modems</u>
NATION	33%	58%	21%	56%
Alabama	39.1%	57.7%	20.9%	55.4%
Alaska	44.6	72.5	42.6	53.8
Arizona	40.8	56.8	29.7	58.1
Arkansas	24.9	51.5	8.3	56.4
California	42.9	77.0	25.7	68.1
Colorado	32.2	53.2	20.2	56.8
Connecticut	30.0	60.0	29.7	51.9
Delaware	40.5	52.8	31.7	82.9
District of Columbia	49.3	68.3	48.8	52.7
Florida	31.2	71.6	33.8	63.2
Georgia	26.2	39.5	14.6	53.0
Hawaii	21.4	65.6	18.7	79.5
Idaho	31.9	53.2	13.3	58.8
Illinois	31.0	57.6	28.2	63.4
Indiana	29.2	55.6	36.3	55.0
Iowa	18.8	51.4	12.6	43.8
Kansas	38.3	67.0	17.2	44.4
Kentucky	30.9	53.0	26.2	55.7
Louisiana	38.6	56.5	23.6	65.5
Maine	37.5	59.0	11.8	63.8
Maryland	30.7	63.3	34.1	66.7
Massachusetts	40.8	71.3	18.4	66.9
Michigan	21.6	56.6	8.8	58.1
Minnesota	38.5	55.2	19.3	41.0
Mississippi	28.5	49.1	7.2	55.8
Missouri	27.3	51.2	13.7	59.1
Montana	20.4	55.1	6.0	37.5
Nebraska	35.2	55.5	18.4	45.7
Nevada	23.2	39.5	13.1	26.2
New Hampshire	38.4	70.6	15.4	58.6
New Jersey	19.1	46.1	16.4	33.5
New Mexico	29.9	63.2	25.8	58.5
New York	32.8	60.4	38.6	55.3
North Carolina	36.1	58.7	16.6	62.6
North Dakota	23.0	54.9	6.7	36.5
Ohio	38.0	68.0	22.8	70.5
Oklahoma	30.5	53.4	8.4	57.7
Oregon	38.9	73.8	16.9	65.1
Pennsylvania	21.0	48.3	21.2	44.2
Rhode Island	29.3	61.1	9.9	52.1
South Carolina	36.9	46.5	28.0	50.3
South Dakota	21.3	40.5	9.4	35.4
Tennessee	27.2	52.4	12.5	65.6
Texas	27.1	49.5	15.8	38.4
Utah	34.1	58.2	19.8	71.0
Vermont	21.4	51.3	13.3	61.4
Virginia	27.4	48.1	28.9	52.9
Washington	44.2	65.5	42.3	61.1
West Virginia	41.9	71.8	18.1	51.5
Wisconsin	32.8	50.5	13.2	46.4
Wyoming	24.4	54.8	8.5	33.8

*Environmental conditions include lighting, heating, ventilation, indoor air quality, acoustics for noise control, and physical security.

Source: General Accounting Office, June 14, 1996.

SUMMARY OF FINDINGS OF RECENT STUDIES ON THE SCHOOL INFRASTRUCTURE PROBLEM

I. GAO REPORTS

The General Accounting Office has released a series of reports on the condition of public school facilities, including a most recent report released on June 14, 1996, summarizing key findings and outlining the disparity between states.¹ The GAO studies have some limitations -- they are based on self-reported information from a sample of local school officials -- but they provide the best data currently available on the problem.

Scope of the Problem

- **\$112 Billion Needed To Bring All Schools Into Good Overall Condition.** Based on its sample, GAO estimates that \$112 billion is needed to bring all schools in the Nation to good overall condition (meaning that only routine maintenance and minor repairs would be required).
- **One-Third Of All Schools Need Extensive Repair Or Replacement.** GAO estimates that about one-third of all schools, serving 14 million students, need extensive repair or replacement.
 - ▶ About 60 percent of schools have at least one major building feature, such as plumbing, in disrepair;
 - ▶ Over half the schools reported at least one unsatisfactory environmental condition, such as poor ventilation, heating, or lighting problems;
 - ▶ Almost half (46 percent) of the schools reported inadequate electrical wiring for computers and communications technology, and
 - ▶ Over half (56 percent) reported insufficient phone lines for modems.

State and Regional Variation

- **There Are School Infrastructure Problems Across The Country.** Schools in almost all areas of the country report physical infrastructure problems, with somewhat more severe conditions in central cities, in the West, and in schools with high proportions of minority and poor students.
 - ▶ In central cities, 38 percent of schools reported needing extensive repair or replacement, relative to 29 percent in large towns.
- 65 percent of central city schools reported at least one unsatisfactory

¹ General Accounting Office, "School Facilities: Conditions of America's Schools," February 1995; "Technology: America's Schools Not Designed Or Equipped for 21st Century," April 1995; "School Facilities: States' Financial and Technical Support Varies," November 1995; "School Facilities: America's Schools Report Differing Conditions," June 1996; and "School Facilities: Profiles of School Condition by State," June 1996.

- ▶ The West generally had more severe conditions. For example, only 22 percent of schools in Michigan reported needing extensive repair or replacement, relative to 43 percent of schools in California.
 - 18 percent of schools in Georgia reported inadequate plumbing; 40 percent in Arizona did.
 - At least 70 percent of the schools in Alaska, California, Florida, Massachusetts, New Hampshire, Oregon, and West Virginia reported at least one unsatisfactory environmental condition.
- ▶ Over 40 percent of schools in which minority students represent more than half the student body reported needing extensive repair or replacement, relative to 29 percent for schools with less than 5.5 percent minority enrollment.
 - 70 percent of schools with large minority student bodies reported at least one unsatisfactory environmental condition, relative to 54 percent for schools with minimal minority enrollment.

Readiness of Facilities for Technology and Other Reforms

- **Schools Do Not Have The Physical Infrastructure To Take Advantage Of Computers And Technology.** Many schools do tend not have the physical infrastructure to make optimum use of computers, printers, TVS, and other equipment.
 - ▶ Over half (52 percent) of schools reported six or more insufficient technology elements (such as fiber optics cabling, phone lines for modems, and electrical wiring for computers).
 - ▶ In central cities, over 60 percent of schools report insufficient networks, modems, phone lines, conduits and fiber optic cables. Over half reported insufficient electrical wiring for computer technology.

Factors Contributing to Poor Conditions

- **Deferred Maintenance Cited As Reason For Poor School Conditions.** While numerous factors contributed to the poor condition of school facilities, many of the GAO survey respondents stressed the role of deferred maintenance.
 - ▶ This fact is supported by a recent Department of Education study of school spending, which indicated that school districts in central cities spend a greater portion of their budgets on instruction and less on buildings and equipment than other schools. [Disparities in Public School District Spending 1989-90. NCES 95-300, February 1995]
- **Other Causes For Poor Conditions Are Possible.** The concentration of facilities problems in the West and in poor areas suggests that other factors may be at work as well, such as structural problems in financing mechanisms, constraints on taxes, or competition with other community priorities.

Variation in State Support

- **Almost All States Have Some Role In School Construction and Maintenance.** While school construction and maintenance have traditionally been a local responsibility, almost all States now have some role, and 13 States have established comprehensive facilities programs.
 - ▶ States reported providing about \$3.5 billion for school capital spending during fiscal year 1994 -- about a fifth of total school capital spending (including construction and purchases of land and equipment). However, the level of support varies widely by State, from \$6 per student to more than \$2,000 per student.

II. OTHER REPORTS CONFIRM GAO FINDINGS

- **Recent Study Finds 74 Percent Of All School Buildings Have Outlived Their Predicted Useful Lives.** A few years ago, the American Association of School Administrators released a study -- *Schoolhouse in the Red: A Guide for Cutting our Losses*. The study reported that 12 percent of all school buildings were "inadequate places for learning" and that 74 percent of all buildings had "outlived their predicted useful life." The report also cited a 1991 *School Business Affairs* article which estimated that deferred maintenance exceeded \$100 billion.
- **1989 Study Found That 25 Percent Of The Nation's Schools Were Inadequate.** A 1989 report -- *Wolves at the Schoolhouse Door* -- by the Education Writers Association based on a survey covering half of the nation's schools, found that 25 percent of the Nation's schools were shoddy places for learning.

III. CURRENT CONSTRUCTION ACTIVITY

- **Total School Capital Spending -- on Construction, Renovation, Land, and Equipment -- Was \$20 billion in 1994.** About half of this was for construction and renovation.
- **Spending on Construction and Renovation was \$10 Billion in 1995.** According to *School Construction Report*, school districts completed \$10.3 billion worth of construction in 1995. This figure is based on a survey of current construction activity conducted by *School Planning and Management* magazine and Dun and Bradstreet [*School Construction on the Rise*, Paul Abramson, CEFPI].
- **More Than Half Of Construction Spending Is For Renovating Or Upgrading -- The Rest Is For New Schools.** Just over half of construction spending is for renovating or upgrading existing buildings, rather than building new structures. In 1995, \$5.3 billion was spent on additions and upgrades, while \$5.0 billion was spent on new schools.

PRIMER ON FINANCING SCHOOL CONSTRUCTION AND RENOVATION

What do schools spend money on?

Capital spending on new buildings and renovation, equipment, and land accounts for about one tenth of annual public elementary and secondary school spending. In 1994, \$20 billion was spent on public school capital projects, \$6 billion on interest payments, and \$235 billion on current expenses, such as teachers' salaries and administrative costs. Roughly half of total capital spending -- or about \$10 billion -- is for construction and renovation of buildings, rather than purchases of equipment and land. [Source: *Statistical Abstract of the U.S.*, 1995, pp. 161 & 167]

How do schools finance construction and renovation?

School districts typically finance their current spending with a mix of local, state and federal funds, and finance their capital spending with tax-exempt bond issues. In most districts, bond issues must be approved through a referendum -- and sometimes a supermajority is required to pass the referendum. Bonds for school construction typically have 30-year maturities. Bonds issued for other school capital expenses, such as major renovations, often have 20-year maturities.

Some school districts finance capital expenses out of operating funds rather than bond issuance. But a recent Department of Education report documents that in districts with low property assessments and large school-age populations, most operating funds must go toward meeting minimum requirements for instructional expenditures per pupil, leaving less for physical plant. And even in some districts with relatively high property assessments, funds for school construction may be limited.

What is the role of state governments?

While financing school construction and renovation is predominately a local function, states provide roughly one-fifth of annual spending on local capital expenses, including land and equipment purchases. Most states play some role in financing school construction, although the extent of that role varies widely across states. These states often provide funds for local capital expenses through the sale of state bonds. In other states, funding is channelled through counties or townships, cities or towns, or special purpose local school districts.

What is the role of the federal government?

The Federal government currently provides a tax-exemption for local and state bonds -- reducing the interest rate on those bonds by roughly a third. The Federal government offers limited additional assistance for school construction and renovation, for example through the Impact Aid program which provides assistance to areas with military installations and Indian reservations.

How does tax-exempt status reduce interest costs?

The tax-exempt status of bonds -- often referred to as municipal bonds -- reduces interest costs for local and state governments, since investors care about after-tax returns and are therefore willing to accept a lower interest rate on a tax-exempt bond than on a taxable bond. For a taxpayer in the 28 percent tax bracket, a taxable bond paying 8 percent has an after-tax interest rate of 5.8 percent. Such an investor would thus prefer a tax-exempt bond with a interest rate of 5.9 percent (with a 5.9 percent after-tax interest rate) to a taxable bond with a interest rate of 8 percent (with a 5.8 percent after-tax return). If interest rates on comparable taxable bonds are 8 percent, a tax-exempt municipal bond can therefore be issued with a interest rate just over 5.8 percent. The current interest rate on a 30-year tax-exempt bond is roughly 6 percent, well under the current 30-year Treasury interest rate.

What is the average size of an education bond issue?

The average amount of the most recently passed bond issue in the school districts surveyed by the GAO was \$7 million. Of this \$7 million, 54 percent was spent on school construction; 38 percent for repairing and modernizing schools; 5 percent for computers and telecommunications equipment; and 3 percent for meeting Federal mandates. [Source: GAO, "School Facilities: Condition of America's Schools," February 1995, p. 18]

Special problems faced by small districts.

Small school districts face special problems in bond financing. First, their low tax bases often make it difficult to pay financing costs. Second, their bond issues are relatively small and unfamiliar to investors, making them less attractive. State bond banks can help these entities by pooling their needs and issuing a single state bond. Many states, such as Arkansas and Indiana, have programs that fulfill this role.

How much does it cost to build or fix a school?

According to the GAO, the average school in America reported needing \$2 million to repair and upgrade to good overall condition. The average new elementary school costs about \$6 million to construct, and the average secondary school costs about \$15 million. [Source: GAO, "School Facilities: America's Schools Report Differing Conditions," June 1996, pp. 3 & 12.]

SCHOOL CONSTRUCTION AND TECHNOLOGY: Preparing Our Schools for the Information Era

PRESIDENT CLINTON'S NEW SCHOOL CONSTRUCTION INITIATIVE WILL HELP CONNECT ALL CLASSROOMS TO THE INFORMATION HIGHWAY: Technological literacy is a "new basic" of American education and the Internet is the blackboard of the future. Yet thousands of schools find it difficult to provide the powerful learning opportunities afforded by technology because they lack the basic electrical wiring and phone lines necessary to plug in computers and connect them to the Internet. As we repair and replace dilapidated and unsafe schools, we must ensure that they are "21st century schools." This means wires, electrical capacity, electrical outlets, and cable and telephone lines that will allow students to take full advantage of the learning opportunities that technology offers.

The School Construction Initiative will support the President's vision of connecting all classrooms to the information superhighway by the year 2000 by helping those schools with the worst conditions efficiently upgrade their technology infrastructure as they repair other problems, such as leaky roofs, plumbing, wiring, or heating and air conditioning.

EVEN SCHOOLS WITH POOR INFRASTRUCTURE CAN MAKE SOME PROGRESS IN ADOPTING EDUCATION TECHNOLOGY.

- New wireless solutions, for example, will help schools with inadequate infrastructure take advantage of educational technology immediately.

BUT THE BASIC INFRASTRUCTURE OF OUR SCHOOLS REMAINS A MAJOR BARRIER TO BROADER USE OF EDUCATIONAL TECHNOLOGY IN THE CLASSROOM:

- 54% of schools report that too few telecommunications access points are a major barrier to networking their computers and accessing the Internet; even the majority of the schools that already have Internet access report that an insufficiency of telecommunications access points is a major barrier to upgrading or maximizing the use of their computers. (Advanced Telecommunications and U.S. Public Elementary and Secondary Schools, 1995, National Center for Education Statistics)
- 46% of schools (35,700 schools serving 19.3 million students) lack the electrical wiring necessary for computers and telecommunications technology. (GAO, School Facilities: America's Schools Not Designed or Equipped for 21st Century)
- 55.5% of schools (42,700 schools serving 22.5 million students) lack phone lines for modems necessary to connect to the Internet. (GAO)
- In central cities, over 60% of schools report insufficient networks, modems, phone lines, conduits, and fiber optic cables; over 50% report insufficient electrical wiring for computer technology. (GAO)

THE SCHOOL CONSTRUCTION INITIATIVE SUPPORTS A BROADER ADMINISTRATION STRATEGY ON EDUCATIONAL TECHNOLOGY

- The President has launched a national mission to make all children technologically literate by the dawn of the 21st century. His initiative rests on four "pillars" that will: provide all teachers the training and support they need to help students learn using computers and the information superhighway; develop effective and engaging software and on-line resources; provide access to modern computers for all teachers and students; and connect every school and classroom to the information superhighway.
- To help states and communities build all four pillars, the President has proposed the creation of a \$2 billion, five year, Technology Literacy Challenge Fund to catalyze and leverage state, local and private sector efforts.
- To help connect more classrooms to the Internet, the President has fostered an historic effort by volunteers to wire schools. During California's Net Day on March 9, 1996, more than 20,000 volunteers installed and tested 6 million feet of wire to connect classrooms in thousands of schools to the Internet. Since California's successful "electronic barnraising," over 30 states have embarked on their own efforts.