President Delivers First Balanced Budget Agreement in a Generation

Historic Agreement Promotes the Country's Values and Priorities

May 16, 1997

President Clinton has achieved a balanced budget agreement that promotes our values, providing critical funding for education, health care, and the environment while strengthening and modernizing Medicare and Medicaid. We have cut the deficit by 77%, from $290 billion in 1992 to roughly $67 billion this year. This historic achievement will finish the job, while meeting the President's goals.

GOAL: To achieve the first balanced budget in a generation.

- ✔ Budget balances by 2002 -- for the first time since 1969.
- ✔ Saves over $200 billion over five years and over $900 billion over ten years.

GOAL: To ensure that every 8 year-old can read, every 12 year-old can log on to the Internet, and every 18 year-old can go to college.

- ✔ A child literacy initiative consistent with the President's America Reads challenge to help children learn to read well and independently by the end of the third grade.
- ✔ Expands Head Start to 1998 level in the President's budget, which assumes path to one million kids in 2002.
- ✔ Fully funds Technology Literacy Challenge Fund with at least $425 million in FY 98.
- ✔ Largest single increase in higher education since the G.I. Bill in 1945.
- ✔ Provides largest Pell Grant increase in two decades -- four million students could receive a grant of up to $3,000, an increase of $300 in the maximum grant.
- ✔ $35 billion of tax cuts targeted to higher education to make college more affordable for America's families, consistent with the President's HOPE Scholarship and tuition tax deduction.
- ✔ Adopts President's full training and employment budget, including Job Corps.

GOAL: Expand health coverage for as many as 5 million uninsured children.

- ✔ Provides $16 billion for children's health care, including Medicaid improvements and investments, and/or a new capped mandatory grant program that supplements states' efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid.

- ✔ Extends the Medicare Trust Fund at least a decade through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and helps detect breast cancer and colon cancer earlier.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

GOAL: Strengthen environmental protection and enforcement.

- ✔ Provides $3.4 billion in 1998 -- a 9% increase over 1997 -- for EPA operations, research, and enforcement programs to protect public health from environmental threats.
- ✔ Provides funding to cover the expansion of the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Likely to double the pace of Superfund cleanups -- 500 additional sites cleaned up by the end of 2000.

GOAL: Move people from welfare to work and treat legal immigrants fairly.

- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients to get jobs.
- ✔ Provides funding to preserve food stamp benefits for people willing to work.
- ✔ Provides $3 billion to states and localities to move recipients in disadvantaged areas into jobs.
- ✔ Restores $10 billion in disability and health benefits for legal immigrants.

GOAL: Cut taxes for America's hard working families.

- ✔ A Child Tax Credit to make it easier for families to raise their kids.
- ✔ $35 billion of tax cuts targeted to higher education to make college more affordable
- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients get jobs.
- ✔ Establishes additional Empowerment Zones and Enterprise Communities.

Summary of Budget Savings

President Clinton has achieved a balanced budget agreement that provides funding for critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid -- just as he promised last year. We have cut the deficit 77% -- from $290 billion in 1992 to an expected $67 billion this year. This historic achievement will finish the job, giving the American people the first balanced budget in a generation, while meeting the President's goals:

- ✔ ***The First Balanced Budget in a Generation.***
- ✔ ***Saves over $200 Billion over 5 Years & over $900 Billion over 10 Years.***
- ✔ ***Largest Increase in Education Funding in 30 Years - including $35 billion in tax cuts to make college more affordable.***
- ✔ ***Entitlement Savings of Nearly a Half Trillion Dollars over 10 Years.***
- ✔ ***Strengthens and Modernizes Medicare -- extending the life of the Trust Fund more than a decade through long overdue structural reforms.***
- ✔ ***Expanded Health Coverage for as many as 5 Million Children.***

BUDGET AGREEMENT SAVINGS

AREA	5 Year Savings 1998-2002 ($ billion)	10 Year Savings 1998-2007 ($billion)
Discretionary Spending		
Defense	-77	-247
Nondefense	-61	-273
Subtotal	-138	-520
Mandatory Spending		
Medicare	-115	-434
Medicaid	-14	-66
Other	-40	-60
Subtotal	-168	-560
Net Interest	-14	-142
Gross Savings	-320	-1,221
Initiatives		
Children's Health	16	39
Welfare Reform	14	23
Tax Cut	85	250
Net Savings	-204	-906

FACT SHEET ON THE BUDGET AGREEMENT
May 16, 1997

DEFICIT REDUCTION

- **First balanced budget in a generation.** Budget balances by 2002 -- for the first time since 1969.

- **Finishes the job.** The 1993 Economic Plan has already reduced the deficit 77%, from $290 billion in 1992 to an expected $67 billion this year. This budget agreement finishes the job, balancing the budget by 2002 -- with $204 billion in net budget savings over the next 5 years.

- **Keeps budget balanced through 2007.** The agreement will maintain budget balance until 2007, and save $906 billion over the next 10 years.

CONSERVATIVE ASSUMPTIONS

- **Proven record on forecasts.** For four years in a row, growth has been higher and the deficit has been lower than predicted. For example, CBO predicted growth for 1996 of 2.0 percent and the Administration predicted 2.2 percent. Actual growth was 2.4 percent. CBO forecast a deficit of $197 billion, and the Administration forecast a deficit of $211 billion. The actual deficit was $107 billion.

- **Conservative assumptions.** The assumptions used in this agreement are similarly conservative. The real growth assumption over the next 5 years (2.2 percent per year), for example, is <u>lower</u> than the Blue Chip private sector consensus (2.3 percent). It is intended to reflect <u>average</u> growth over different stages of the business cycle. Since 1973, over several business cycles, growth has averaged 2.6 percent per year.

- **80% of the $225 billion in additional CBO revenue either already assumed or used for deficit reduction.** The majority of the $225 billion adjustment had already been assumed in the budget negotiations.

DISCRETIONARY SPENDING

- **Budget agreement achieves 99% of the President's budget for non-defense discretionary spending over the next 5 years.** $61 billion of savings in non-defense discretionary outlays over the next 5 years -- a 10% real cut by 2002. $77 billion of savings in defense spending over the next 5 years -- an 11% real cut by 2002.

TAX CUTS

- **$85 billion in net tax cuts.** $85 billion in net tax cuts over the next 5 years and $250 billion in net tax cuts over the next 10 years.

- **$35 billion for the President's education tax proposals.** The agreement includes a commitment to provide roughly $35 billion over 5 years for post-secondary education, including a deduction and tax credit.

- **Other commitments.** The agreement commits the House and Senate Leadership to seek approval of various proposals, including:

  -- $500 per child tax credit
  -- The welfare-to-work tax credit
  -- Capital gains tax relief for home sales
  -- The Administration's EZ/EC proposals
  -- Tax relief for brownfields legislation
  -- Tax relief for FSC software
  -- Tax incentives to spur DC growth

ENTITLEMENT SAVINGS

- **Extends life of Medicare Trust Fund for more than a decade.** Contains Medicare savings of $115 billion over 5 years including payment reductions and long overdue structural reforms, extending the life of the Trust Fund for at least a decade. Helps protect the Medicare Part A Trust Fund by reallocating a portion of home health care costs to Part B and phasing in these costs over 7 years into the Part B premium.

- **Modernizes Medicare.** Modernizes Medicare by:

  -- Increasing the number of health plan options such as preferred provider organizations and provider sponsored organizations;
  -- Implementing a new prospective payment system for skilled nursing home facilities, home health, and hospital outpatient departments; and
  -- Increasing financial incentives for managed care plans in rural communities.

- **New Medicare improvements.** Establishing new benefits including: helping detect breast cancer, colon cancer, and helping manage diabetes; and reducing excessively high outpatient hospital coinsurance.

- **Reforms Medicaid while maintaining Federal guarantee.** Medicaid savings of $13.6 billion through reductions in DSH payments and increased state flexibility, while maintaining the Federal guarantee. Setting aside $1.5 billion for low-income protections to help ease the impact of Medicare premiums.

CHILDREN'S HEALTH CARE

- Invests $16 billion to expand health care coverage to as many as 5 million children through one or both of the following: expanding Medicaid coverage by improving outreach initiatives and adding new options for coverage and/or a capped mandatory grant program.

EDUCATION

- **Largest increase in education investment in 30 years.**

- **Fully Funds Education and Training.** Adopts the President's FY 1998 request for discretionary education and training programs.

- **Higher Education Tax Cuts.** Provides roughly $35 billion over five years for postsecondary education tax cuts consistent with the President's HOPE Scholarship and tax deduction proposals.

- **Largest Pell Grant Expansion in Two Decades.** Increases the maximum Pell Grant for low-income college students to $3,000 -- the largest increase in two decades. Provides a $1.7 billion increase in funding -- a 25% increase in FY 1998.

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

WELFARE TO WORK

- **Fully funds the President's welfare-to-work jobs initiative.** Adds $3 billion, the full amount requested by the President for the Welfare-to-Work Jobs Challenge, to the TANF block grant to fund welfare-to-work efforts in high-poverty, high-unemployment areas. A share of the funding will go to cities and counties with large numbers of people in poverty.

- **Preserves food stamps for people willing to work.** Provides $750 million to create additional work slots for able-bodied unemployed childless adults subject to the time limit on food stamps. Also allows States to exempt a limited number of persons falling into this category who are willing to work but would otherwise be ineligible for food stamps.

- **Welfare-to-work tax credit.** The President and the Congressional leadership have agreed to seek a welfare to work tax credit to encourage employers to give welfare recipients the chance to work.

RESTORING BENEFITS TO LEGAL IMMIGRANTS

- **Benefits for legal immigrants.** Restores full SSI and Medicaid benefits for disabled legal immigrants currently receiving assistance; and for legal immigrants in the country prior to August 23, 1996 who are not now receiving benefits but subsequently become disabled.

ENVIRONMENT

- **EPA operations, enforcement, and research.** Provides a 9 percent increase, to $3.4 billion, for EPA's operating program -- which finances most of EPA's research, enforcement, and regulatory programs.

- **Doubles the pace of Superfund cleanups.** Pending agreement on detailed policies, adopts the President's proposals for Superfund cleanups of an additional 500 sites by the end of the year 2000.

- **Brownfields initiative.** Boosts funding by $75 million in 1998 to provide grants to communities for site assessment and development planning and to leverage state, local, and private funds to foster redevelopment.

- **National Parks.** Provides a 6 percent increase for operation of the National Parks, and an 89 percent increase ($234 million) for Everglades Restoration.

THE WHITE HOUSE AT WORK
Monday, May 5, 1997

A BALANCED BUDGET THAT INVESTS IN AMERICA'S FUTURE

President Clinton and Congressional leaders have reached a bipartisan agreement that will balance the budget for the first time since 1969 to keep the economy growing, while also protecting and advancing America's values:

- It protects Medicare and Social Security -- extending the life of the Medicare trust fund, until, at least, 2008, and extending new benefits to our parents (including preventive benefits such as annual mammograms for women over forty, a diabetes self-management benefit, colorectal screening, and preventive injections). It protects and extends the life of Social Security as well.

- It opens the doors to education wider than ever with the largest increase in education funding in 30 years: increasing Pell Grants by the largest amount in three decades, funding America Reads, and cutting taxes to help pay for college.

- It extends health insurance to up to 5 million uninsured children, and helps move people from welfare to work -- giving businesses incentives to hire people off welfare, and restoring benefits to legal immigrants and excessive cuts in food stamps.

- It protects our environment -- cleaning up 500 of the most dangerous toxic waste dumps and boosting enforcement -- and includes modest tax relief to spur business investment, to help families raise children, and to help pay for college.

This new balanced budget agreement builds on President Clinton's success in cutting the deficit by nearly two-thirds over the past four years, to revitalize the economy:

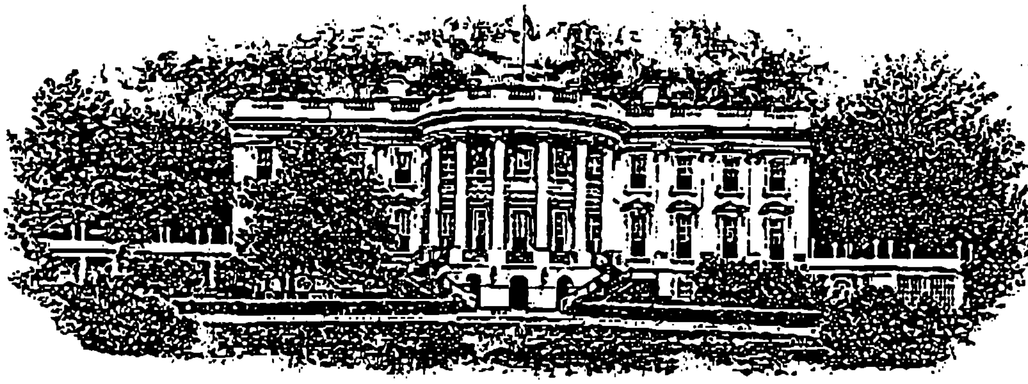
- When President Clinton took office, the economy was stagnating, job growth was sluggish, the budget deficit threatened to drown our economy.

- President Clinton changed America's course with a new economic strategy: invest and grow, cut the deficit, sell more products overseas through tough trade agreements, and invest in the skills of our people.

- Now, the deficit has been cut for four years in a row. Unemployment is at its lowest in 24 years, economic growth is at its highest in a decade, we've seen the largest decline in income inequality since the 60's, and 12 million jobs have been created. This balanced budget agreement will help keep the economy growing, steady and strong.

TODAY: PRESIDENT CLINTON TRAVELS TO LATIN AMERICA TO BRING HEMISPHERE CLOSER TOGETHER

- The President leaves today for a week-long trip to Mexico, Costa Rica and Barbados, to strengthen an emerging alliance based on democratic government, open markets to promote growth and create jobs, and cooperation to resolve common problems such as drugs, crime and corruption, and migration.



Balanced Budget

THE WHITE HOUSE
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MESSAGE:

For Your Information.

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

THE DIRECTOR

July 2, 1997

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

Dear Mr. Chairman:

As the Conferees begin to consider this year's budget reconciliation bill, I am writing to transmit the Administration's views on the House and Senate versions of the spending bill on reconciliation, H.R. 2015. The Administration will separately transmit its views on the tax provisions.

We are pleased that the House and Senate adopted many provisions that are consistent with the Bipartisan Budget Agreement, reflecting the continuing bipartisan cooperation that we will need to fully implement the agreement and balance the budget. In several areas, however, the House and Senate bills violate the agreement. In other areas outside the scope of the agreement, we have very strong concerns about the reported provisions. We have raised a number of these issues in letters to you and to the authorizing committee chairmen and ranking members throughout House and Senate consideration of the separate reconciliation spending bills.

On the pages that follow, we have outlined noteworthy provisions of the House and Senate bills with which we agree, others that we believe violate the budget agreement, and still others about which we have concerns.

We expect and will insist that the final budget legislation conform to the budget agreement. In addition, we look forward to working with you to craft a final conference report that is free of objectionable provisions, resolves the other major policy differences between us, and balances the budget by 2002 in a way that we can all be proud of. We hope to meet that goal before the August recess.

We look forward to working with you.

Sincerely,

Franklin D. Raines
Director

Enclosure

cc: Senate Conferees
House Committee Chairmen and Ranking Members

Identical letter sent to Honorable Pete V. Domenici,
Honorable John M. Spratt Jr., and Honorable Frank R. Lautenberg

THE ADMINISTRATION'S DETAILED VIEWS:

THE HOUSE AND SENATE RECONCILIATION BILLS ON SPENDING

Medicare

We applaud the House and Senate for reporting bills that largely conform to the underlying principles of the budget agreement. Both bills achieve the necessary level of Medicare savings -- although we still await final scoring of the Senate provisions from the Congressional Budget Office (CBO) -- and would extend the life of the Hospital Insurance Trust Fund by at least 10 years; provide structural reforms that will give beneficiaries more informed choices among competing health plans; establish prospective payment systems for home health agencies, skilled nursing facilities, and hospital outpatient departments; incorporate prudent purchasing reforms; and provide the funds to establish a wide array of cost-effective preventive benefits, including mammography and colorectal screening. We look forward to working with your staffs on the many technical issues related to ensuring that these provisions are implemented correctly.

We are pleased that the Senate has included provisions in its bill to require managed care and fee-for-service demonstrations of Medicare reimbursement to the Departments of Defense (DOD) and Veterans Affairs -- a concept known as Medicare subvention. We are encouraged that these provisions are similar to our own Medicare subvention legislation, which we transmitted to Congress on February 7, 1997. We look forward to working with the Conferees to develop a bill that addresses Administration concerns about the fee-for-service and payment rate components of the DOD demonstration.

Notwithstanding these achievements, both the House Ways and Means and Senate bills contain a provision that we believe is inconsistent with the budget agreement. During our negotiations over the agreement, we discussed at great length the reallocation of home health expenditures to Medicare Part B. All sides clearly understood that the reallocation would be immediate. Both bills, however, phase in the reallocation, which costs two years of solvency in the Part A trust fund -- two years that we can ill afford to lose. We urge the Conferees to incorporate the provisions in the House Commerce Committee title of the House bill, reallocating home health spending consistent with the budget agreement.

The Administration has significant concerns with other provisions of the two bills, concerns that we urge the Conferees to address.

Beneficiary Contributions to a Balanced Budget. We worked very hard during the budget negotiations to set a beneficiary contribution to a balanced budget that was fair and equitable -- applying the Part B premium, over several years, to the home health reallocation and maintaining the Part B premium equal to 25 percent of program costs. Other provisions of the Senate bill, however, would go beyond the budget agreement and introduce new, inadequately developed proposals.

- *Raising the Medicare Eligibility Age.* The Senate bill raises the eligibility age for Medicare from 65 to 67 over a period of years. Raising the eligibility age is not necessary to balance the budget, and consideration of this policy should be part of a bipartisan process to address the long-term financing challenges facing Medicare. Moreover, early retirees between 65 and 67 may not be able to obtain affordable insurance in the private market. The Administration is concerned about the potential loss of coverage for any American, and we urge the Conferees to drop the provision as part of this bill.

- *Imposing Home Health Copayments.* The Senate bill would impose a Part B home health copayment of $5 per visit, capped at an amount equal to the annual hospital deductible. Most home health users who lack Medigap or Medicaid protections are poor and will face financial burdens that may result in reduced access to needed care. Those beneficiaries who have Medigap or Medicaid will have no real incentive to reduce utilization. We do not need to impose a home health copay to balance the budget, and any further consideration of this policy should be part of a bipartisan process to address the long-term financing challenges facing Medicare. We urge the Conferees to drop this provision as part of this bill.

- *Income-relating the Part B Premium.* The Senate bill would income-relate the Medicare Part B premium. While we do not oppose income-relating Medicare in principle, we have a number of concerns about this proposal. First, we do not need income-related beneficiary contributions to Medicare to balance the budget. Second, we have serious concerns about how an income-related premium will be administered. Administration by the Department of Health and Human Services (HHS), which has no access to individual beneficiary income data, would be impractical and very expensive, and we have previously said that only the Treasury Department could administer such a policy in the short run. Moreover, the administering agency would require substantial additional resources to undertake this new responsibility. Finally, we believe that this provision, which completely eliminates any Part B premium subsidy for the highest-income beneficiaries, could lead these beneficiaries to drop Medicare coverage, thus leaving poorer, typically less healthy, beneficiaries in the Medicare risk pool and thereby increasing their premiums. While we have serious concerns about this proposal as drafted, we remain interested in discussing it, or proposals like it, in the broader context of reforms to address the long-term financing and structural challenges facing the program.

Threat to Beneficiary Protections. The Administration strongly supports the introduction of new options for Medicare beneficiaries in both the fee-for-service and managed care sectors. We also believe, however, that any new options must both provide value beyond that offered by the traditional Medicare program and include beneficiary protections. The Senate bill includes several provisions that violate these principles, and we urge the Conferees to drop them.

The first provision allows beneficiaries to choose a so-called "private fee-for-service" option under the Medicare Choice program. We are concerned that private fee-for-service plans in Medicare Choice represent bad policy, particularly given the fact that these plans will be subject to no balance billing or quality protections. We are also concerned that this option will attract primarily healthy and wealthy beneficiaries and leave sicker and poorer beneficiaries in the more expensive, traditional Medicare program. In addition, it could disproportionately attract rural beneficiaries if the few providers in their area choose to leave traditional Medicare and form private fee-for-service plans.

The second provision would allow physicians to obtain private contracts from beneficiaries whereby the beneficiary would agree to pay whatever the physician charged (i.e., waive balance billing limits) and agree not to submit a bill to or collect anything from Medicare. The beneficiary would be totally responsible for out-of-pocket expenses for the physician's entire bill, even though the service would be covered by Medicare if the bill were submitted to Medicare. As a result, we are concerned that private agreements could become licenses for physicians to coerce beneficiaries, exposing beneficiaries to unlimited liability and making meaningless the Medicare coverage they have paid for.

The third provision would allow Durable Medical Equipment (DME) suppliers to bill Medicare beneficiaries for amounts beyond cost-sharing for "upgraded" DME items, while still accepting assignment. Beneficiaries already have the option of choosing upgraded DME under current law. We are concerned that this new option undermines limits on beneficiaries' out-of-pocket payments and, as a result, could permit suppliers to take advantage of beneficiaries.

Medical Savings Accounts. We believe that any demonstration of this concept should be limited in order to minimize potential damage and costs to Medicare. We commend the Senate for limiting the demonstration to 100,000 participants, but we believe a successful demonstration could be structured with fewer participants. In any case, we want this demonstration to be as small as possible. We also commend the Senate for limiting cost-sharing and deductibles to amounts enacted under the Health Insurance Portability and Accountability Act (HIPAA). But, we still prefer a geographically-limited demonstration that applies current law limits on balance billing to protect beneficiaries from additional provider charges. We urge the Conferees to limit this demonstration numerically (within the numbers outlined above) and geographically for a trial period (two States for three years), enabling us to design the demonstration to answer key policy questions.

Preventive Benefits. We are pleased that the preventive benefits in the House and Senate bills are largely the same as those in the President's budget. Unlike the budget, however, the House and Senate bills do not waive all cost sharing (coinsurance and deductibles) for mammograms. Research shows that copayments hinder women from fully taking advantage of this benefit. We urge the Conferees to modify the House and Senate provisions to waive all cost sharing for mammograms.

Medigap. The President's budget advanced a number of important Medigap reforms, including annual open enrollment, community rating, initial open enrollment for disabled and kidney dialysis beneficiaries, and various portability provisions. We are disappointed that neither the House or Senate adopted certain of these reforms. The Senate bill took the largest strides toward these important reforms, providing for an initial open enrollment period for disabled beneficiaries and a trial period for managed care enrollees. We urge the Conferees to adopt at least the Senate provisions, and to fully consider the President's suggested additional reforms.

Medical Malpractice. The House bill includes malpractice provisions that are extraneous to the budget agreement. The Administration has consistently made it clear that we find these provisions objectionable, and we urge the Conferees to delete them.

Provider Sponsored Organizations. Another step forward in both bills is their inclusion of provider sponsored organizations (PSOs) as Medicare options. We are concerned, however, about the lack of minimum private enrollment requirements and aspects of the PSO definition, and we look forward to working with the Conferees on these issues.

Managed Care Payments. We agree that the current unjustifiable geographic variation in payments to managed care plans should be remedied as part of the reconciliation bill. We prefer the House proposal, which mitigates the geographic variation in payments and maintains the link to fee-for-service payments, along with an adjustment for adverse selection. Various payment provisions in the Senate bill, some of which are individually justifiable, together have a significant negative impact on areas with a high managed care enrollment and could lead to abrupt changes in additional benefits now provided to Medicare enrollees. The Senate proposal also ties growth in managed care payments to growth in gross domestic product (GDP). We prefer a less disruptive payment proposal and one that ties growth in payments to growth in fee-for-service Medicare. Limiting managed care payment growth to GDP effectively creates two growth rates for Medicare payments, leading to an erosion of the value of the Medicare Choice benefit package and exposing beneficiaries to increased premiums.

Managed Care Risk Adjustment. The Senate bill includes immediate implementation of an untried, "new enrollee" risk adjustment methodology that would be applied in an inequitable manner (exempting some plans) and that would be replaced by a different revised methodology two years later. We prefer to implement a managed care risk adjustment methodology once -- and sooner. Therefore, we support the House provisions on risk adjustment, modified to authorize the collection of hospital discharge data immediately and to authorize implementation of the risk adjustment methodology in 2000.

Medical Education/Disproportionate Share (DSH) Carve-out. The President's 1998 budget proposed to move medical education (indirect and direct) and DSH adjustments out of managed care payment rates and redirect them to eligible hospitals that provide services to Medicare managed care enrollees. This important proposal would ensure that the Nation's teaching hospitals and those that serve low-income populations receive the Medicare payments to which they are entitled. The Senate and the House Commerce Committee adopted these provisions, and we urge the Conferees to adopt them as well.

Managed Care Enrollment. We urge adoption of the Senate provisions with regard to open enrollment. The House bill permits beneficiaries to be locked into a MedicarePlus plan for as long as nine months, after a lengthy transition period. We continue to support the monthly disenrollment option as an important safety valve for managed care enrollees who are dissatisfied with their managed care plan.

Managed Care Quality. Both the House and Senate bills go far to ensure quality in Medicare managed care. The House bill, however, has an objectionable provision allowing external quality review requirements to be met through accreditation. The House bill also contains a similar provision in its Medicaid title. We prefer maintaining a true requirement for external quality review to protect beneficiaries in this rapidly changing marketplace, as the Senate bill provides.

Medicare Commission. Both the Senate and House bills would establish a Medicare commission. We believe strongly that a mutually agreeable, bipartisan process is essential to successfully address the long-term financing challenges facing Medicare. We look forward to working with you to develop the best possible bipartisan process to address those challenges while simultaneously ensuring the sound restructuring of Medicare to continue to provide high-quality care for our Nation's senior citizens.

Office of Competition. The Senate bill would create an Office of Competition within HHS to administer competitive pricing demonstrations. We believe this provision would create unnecessary duplication of staff and resources within HHS and become a potential source of confusion for Medicare beneficiaries and plans. We are also concerned about certain aspects of the competitive pricing demonstration, and we look forward to working with the Conferees to ensure that the demonstration authority would lead to valid and verifiable results.

First, the budget agreement includes a provision to restore Medicaid for current disabled children losing Supplemental Security Income (SSI) because of the new, more strict definition of childhood eligibility. The Senate bill does not include this proposal. The House bill allows, but does not require, States to provide Medicaid benefits for about 30,000 children who could lose their health care coverage in fiscal 1998. We strongly urge the Conferees to conform to the budget agreement by including the provision from the President's budget that would guarantee coverage to these children, and allocate the necessary funds for this purpose.

Second, the budget agreement includes a 70 percent Federal matching payment for Medicaid in the District of Columbia. We are pleased that the Senate bill includes a higher matching payment, but we are concerned that it is not sufficient; it sunsets at the end of fiscal 2000 and is 10 percentage points lower than the 70 percent that the budget agreement called for. A 60 percent matching rate would still leave the District paying a higher share of its Medicaid program than any other local government. We urge the Conferees to include the provision from the agreement.

The budget agreement also includes adjustments for the Medicaid programs in Puerto Rico and the territories. We are pleased that the Senate includes adjustments for those programs, but we would prefer that the Conferees include the language in the President's 1998 budget.

The Administration has significant concerns with other House and Senate provisions that we urge the Conferees to address.

Assistance for Low-Income Medicare Beneficiaries. The Senate bill includes $1.5 billion in premium assistance for low-income beneficiaries through a Medicare block grant to States. The House provides $1.5 billion to expand eligibility to Medicaid but does so, in part, through an administratively complex formula subsidizing only a portion of the Part B premium. We prefer a simpler approach that would finance the cost of the full Part B premium through Medicaid. In addition, we object to the Senate provision that sunsets this assistance in 2002; low-income senior citizens will still need this assistance after that date.

Medicaid Cost Sharing. The Senate bill would allow States to require limited cost sharing for optional benefits. We are pleased that a Senate amendment would bar States from imposing cost sharing on children under 18 in families with incomes below 150 percent of poverty. But, we are still concerned that the bill may compromise beneficiary access to quality care. Low-income elderly and disabled Medicaid beneficiaries may forgo needed services if they cannot afford the copayments.

Disproportionate Share Hospitals -- Allocation to States. We have concerns about the House and Senate allocations and levels of DSH payment reductions among States. As in the DSH policy of the 1993 budget reconciliation bill, this year's policy should address past abuses without causing undue hardship on any State. We are seriously concerned, however,

<u>Hospital Payment Systems</u>. We have several concerns with various House and Senate provisions relating to hospital payments, including: the Senate provision to move the hospital update to a calendar year basis while leaving all other changes to PPS payments on a fiscal year basis, thus requiring two separate payment rules; the Senate provision on hospital transfers, which does not include home health agencies and which we believe creates a strong, unjustified payment bias to use home health services for post acute care; and the Senate provision to provide large bonus payments for certain PPS-exempt facilities, which could lead to a significant redistribution of funds among PPS exempt facilities.

<u>Medicare Disproportionate Share Payments (DSH)</u>. We look forward to working with Congress to develop a new adjustment for hospitals that serve a disproportionate share of low-income individuals. We want to improve the current adjustment to create a better measure of services to indigent populations so that we can better target DSH payments. But, we oppose any cuts to the current DSH adjustment in the interim. We have proposed to freeze the adjustment for the next two years to ensure that vulnerable hospitals serving large numbers of uninsured and under-insured patients are not burdened with excessive cuts.

<u>Medicare Secondary Payer (MSP)</u>. Both the House and Senate bills limit the time period for MSP recovery to three years after the date of service. We urge the Conferees to adopt a five-year time limit, consistent with the President's proposal. The IRS/SSA data match does not provide information in a timely enough manner to be able to recover overpayments within a three-year window. We also urge the Conferees to adopt our insurer reporting proposals.

<u>Implementation Issues</u>. We are concerned about how the full scope of the House and Senate provisions would affect HHS' administrative abilities and resources necessary to implement them. We urge the Conferees to consider changes in the effective dates of the provisions so they are consistent with the funding levels that the budget agreement provided to the Health Care Financing Administration (HCFA).

Medicaid

We commend the House and Senate for reporting bills that conform to many of the Medicaid reform principles of the budget agreement. Both achieve savings through lower disproportionate share hospital payments (DSH) and greater State flexibility. Both bills give States more flexibility to manage their Medicaid programs by repealing the Boren amendment, allowing managed care without Federal waivers, and eliminating unnecessary administrative requirements. We also commend the Senate for including managed care quality standards that are consistent with the President's consumer protection framework.

Nevertheless, the House and Senate bills contain provisions that are inconsistent with the budget agreement.

that the House and Senate bills may have unintended distributional effects among States. We urge the Conferees to adopt the President's 1998 budget proposal, which takes an equal percentage off of States' total DSH spending up to an "upper limit," ensuring that States with the highest DSH spending do not bear most of the impact.

Disproportionate Share Hospitals --Targeting to Hospitals. The House bill does not retarget DSH funds. The Senate bill would require States to develop DSH targeting plans, but it does not include a Federal DSH targeting standard. As we have said previously, we believe that significant DSH savings should be linked to a Federal standard for targeting the remaining DSH funds to needy hospitals. Without such standards, providers with high-volume Medicaid and low-income utilization may not be sufficiently protected from DSH reductions.

In addition, the House bill would require States to make DSH payments directly to qualifying hospitals, and would not allow States to make DSH payments through capitation payments to managed care organizations. The Senate bill does not include this provision. We urge the Conferees to adopt the House provision, ensuring that all eligible hospitals receive a Federal DSH payment regardless of their contract, or lack of a contract, with a particular HMO.

§1115 Extensions and Provider Tax Waiver. The House and Senate bills would extend expiring §1115 Medicaid waivers. The Senate would deem approved §1115 waivers without regard to whether they will increase spending. In addition, the Senate bill would deem provider taxes as approved for one State. We have serious concerns about these provisions and would like to work with the Conferees to address the underlying problems.

Return to Work. We are pleased that the Senate bill would allow States to allow workers with disabilities to buy into Medicaid. But we urge the Conferees to adopt the version of this proposal from the President's 1998 budget, which would not limit eligibility for this program to people whose earnings are below 250 percent of poverty. We believe that the Senate-proposed limit would not give States enough flexibility to remove disincentives to work for people with disabilities.

Criminal Penalties for Asset Divestiture. The Senate bill would amend Section 217 of the Health Insurance and Portability and Accountability Act 1996 (HIPAA) to provide sanctions against those who help people to dispose of assets in order to qualify for Medicaid. We prefer to repeal section 217 because we believe that the Medicaid laws in effect before HIPAA are sufficient to protect Medicaid against inappropriate asset divestiture.

Management Information. The President's 1998 budget included a major reduction in unnecessary administrative burdens on the States, but ensured that States collect sufficient information to effectively manage their Medicaid programs. The House approach would require States to show that their State-designed systems meet outcome-based performance standards and would permit the collection and analysis of person-based data. The Senate did not include this provision. We urge the Conferees to adopt the House provision.

Alaska FMAP Change. The Senate bill would increase Alaska's Federal Medical Assistance Percentage (FMAP) above the level of the current law formula. While we have consistently supported efforts to examine alternatives to the current Medicaid matching structure, we believe that changing the FMAP for Alaska alone is unwarranted and does not address the underlying inequities in the current system.

Children's Health

We are pleased that the children's health initiative is in both the House and Senate bills. In fact, the Senate bill goes beyond the $16 billion that the budget agreement provides, adding another $8 billion, which is a portion of the revenue from a 20-cent increase in the tobacco tax.

We support a 20-cent increase in the tobacco tax – we agree that it complements the budget agreement – and we endorse the idea of using all of the revenues raised by such an increase for initiatives that focus on the needs of children and health. We urge the Conferees to invest all of these funds wisely in order to ensure meaningful coverage for millions of uninsured children. In addition, we especially support the Senate provisions for benefits and cost sharing.

Notwithstanding these achievements, we have serious concerns about the following House and Senate provisions, which we urge the Conferees to address.

Sunset of Tobacco Tax Revenue for Children's Health. Although we commend the Senate for supporting the use of the tobacco tax for children's health, we urge the Conferees to continue this funding after 2002. A sudden drop in funding in 2003 would cause many of the newly-insured children to lose their coverage.

Meaningful Benefits, Cost Sharing/Direct Services. The budget agreement calls for the children's health investment to go for health insurance coverage. Thus, we support the Senate's definition of benefits and its limits on cost sharing, the latter of which will ensure that low-income children do not shoulder unrealistically high costs that could lead to reduced access to needed health care. We do not support the direct services option of the House bill because we are concerned that a State could spend all of its money on one benefit or to offset the effects of the DSH cuts on certain hospitals, and that children would not be assured appropriate coverage. In our view, this provision does not fulfill the commitment of the budget agreement to provide "up to five million additional children with health insurance by 2002."

Funding Structure. We support the straightforward funding structure of the House bill. But its proposal for different matching rates for Medicaid and the grant option could discourage States from choosing Medicaid. We believe Medicaid is a cost-effective approach to covering low-income children, and we support using the same matching rates for both options. In addition, we support the House provision that gives States the flexibility to spend their grant money on Medicaid, a grant program, or a combination of the two. The Senate bill requires States to choose between Medicaid and a grant option.

Eligibility. The Senate bill includes a ceiling of 200 percent of poverty. We agree that the funds should first go for insurance coverage for low-income uninsured children, but we believe income ceilings would limit States' flexibility to design programs that best fit their needs.

Use of Funds. We want to ensure that the investment in children's health goes to cover children who currently lack insurance, rather than replace existing public or private funds for children's health insurance. Thus, we support a strong maintenance of effort provision and the prohibition on using provider taxes and donations to fund the State share of the program. In addition, we want to ensure that the funds are used in the most cost-effective manner to provide coverage to as many children as possible. Therefore, we do not support provisions that allow States to pay for family coverage or pay the employee's share of employer sponsored insurance.

Expansion of the "Hyde Amendment"

Both the House and Senate bills would expand the Hyde Amendment prohibitions on Medicaid payment for abortion services to include spending on the children's health initiative, and to codify these prohibitions in permanent law. This provision could deny access to abortion services to poor women to the extent that States choose to use the children's health funding to offer family coverage, as the House bill would permit. As we have repeatedly said, we do not support limiting access to medically necessary benefits, including abortion services.

In addition, the Senate bill contains a provision that redefines the term "medically necessary services" in the context of managed care sanctions to exclude abortion services except under certain circumstances. We oppose this attempt to further constrain the availability of abortion services through this provision, and we strongly urge the Conferees not to begin writing into the Medicaid law permanent, restrictive definitions of what are "medically necessary" services -- an issue that is more appropriately decided by health professionals.

Multiple Employer Welfare Arrangements (MEWAs)

The House bill allows for Multiple Employer Welfare Arrangements (MEWAs) by including language from H.R. 1515, the "Expansion of Portability and Health Insurance Coverage Act of 1997," while the Senate bill includes no such provisions. We strongly oppose including provisions from H.R. 1515 because the bill has inadequate consumer protections and could lead to premium increases for small businesses and employees who may bear the burden of adverse selection. H.R. 1515 would transfer the regulation of a large health insurance market away from the States by preempting State laws under the Employee Retirement Income Security Act ("ERISA"). This far-reaching proposal demands much greater analysis and discussion. We also oppose the provision of the House and Senate bills that would allow a religious fraternal benefit society plan to establish a Medicare Choices plan; it would set a precedent for allowing association health plans (such as those allowed under the House MEWA language) to become Medicare Choice providers.

Continued SSI and Medicaid Benefits for Legal Immigrants

We are pleased with several provisions in the House and Senate bills. Both bills would grandfather immigrants who were receiving SSI benefits as of August 22, 1996, as the President indicated he would support in a June 20 letter to Budget Committee Chairman Kasich and Ranking Member Spratt. Both bills also extend the exemption period from five to seven years for refugees, asylees, and those who are not deported because they would likely face persecution back home.

We are pleased that the Senate bill, which restores SSI and Medicaid eligibility for all legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996, implements the budget agreement. The House bill, however, does not. It fails to fully restore SSI and Medicaid benefits for all legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996. As the President stated in his June 20 letter, he will not sign legislation that does not include the policy, as the budget agreement calls for, that protects disabled immigrants. Compared to the budget agreement, the House bill would protect 75,000 fewer immigrants by 2002. We strongly urge the Conferees to adopt the Senate approach.

In addition, if resources are available, we urge the Conferees to support several other Senate provisions. The Senate bill restores Medicaid coverage for future immigrant children; provides SSI and Medicaid to immigrants who are too disabled to satisfy the requirements to naturalize; and provides the same exemption period for Amerasian and Cuban Haitian immigrants as for refugees. We look forward to working with you on these matters.

Additional Work Slots for Individuals Subject to the Food Stamp Time Limits

The budget agreement included $1.5 billion in additional Food Stamp funding to encourage work and give States the flexibility to exempt individuals from Food Stamp time limits due to hardship. The agreement specifically states that existing Food Stamp Employment and Training funds will be redirected and new capped mandatory funding added "to create additional work slots for individuals subject to the time limits," and it provides $1 billion for this purpose.

We appreciate that the House and Senate bills would implement the 15 percent hardship exemption, consistent with the agreement. But, we are concerned that both bills create significantly fewer job opportunities than the five-year target of 350,000 slots -- 70,000 a year -- that the negotiators discussed. We are particularly concerned about the House bill, which would create 100,000 fewer slots than the President's proposal and about 40,000 fewer than the Senate approach over five years. The House bill also does not reflect the agreement because it does not target the funding to workslots for individuals facing the time limits. We believe the final bill should follow the Senate approach in targeting funds to work slots that meet the welfare reform law's tough requirements for Food Stamp recipients, and establishing performance standards to reward States that create additional work opportunities. We urge the Conferees to follow the Senate approach, with the House maintenance of effort provision, to make it fully consistent with the budget agreement.

Welfare to Work

We are pleased that the House and Senate bills would address many of our priorities for the welfare-to-work program to some degree, including: the provision of formula grant funds to States based on poverty and adult welfare recipients; a sub-State allocation of the formula grants to ensure targeting on areas of greatest need; appropriate flexibility for grantees to use the funds for a broad array of activities that offer the promise of permanent placement in unsubsidized jobs; some funds awarded on a competitive basis; and a substantial set-aside for evaluation. We look forward to working with the Conferees to refine these provisions.

We continue to be concerned, however, about several priority issues. In some cases, only one Chamber has adequately addressed our concerns; in others, neither has. The issues that concern us the most are highlighted below, and we urge the Conferees to address them.

<u>Targeting Welfare-to-Work Funding to Cities and Counties with Large Poverty Populations</u>. The challenge of welfare reform -- moving welfare recipients into permanent, unsubsidized employment -- will be greatest in large urban centers, especially those with the highest number of adults in poverty. Recognizing this fact, the budget agreement provided that funds be allocated and targeted to areas with high poverty and unemployment. While

both the House and Senate bills include formulas to target funds to these areas to some degree, of the three provisions in conference, the Ways and Means provision of the House bill best accomplishes this goal through its division of funds between formula (50 percent) and competitive (50 percent); its formula grant sub-State allocation factors and method of administration; and its reserving of 65 percent of competitive grants for cities with large poverty populations. We urge the Conferees to adopt the Ways and Means proposal.

Local Program Administration. The budget agreement provided not only that welfare-to-work funds be targeted to high-poverty and high unemployment areas, but that a share of them go to cities and counties. We strongly believe that cities and other local areas should manage a substantial amount of all welfare-to-work funds. These entities can most effectively move long-term welfare recipients into lasting unsubsidized employment that cuts or ends dependency. Recognizing this fact, the House provisions use existing structures to help accomplish this goal. We urge the Conferees to adopt these provisions.

Federal Administering Agency. Both bills would require consistency with Federal TANF strategies and focus resources on achieving the goal of moving long-term welfare recipients into lasting jobs. We agree with the need for consistency and with the goal, and we believe we can most effectively achieve it if we closely align welfare-to-work activities with the workforce development system that the Secretary of Labor oversees. Thus, we believe the Secretary should administer this program in consultation with the Secretaries of HHS and HUD, as included in titles V and IX of the House bill.

Performance Fund. We are pleased that the Senate recognized the value of a performance bonus concept. The Senate performance approach, however, simply augments the existing TANF performance fund in 2003, with no link to the performance that welfare-to-work funds achieve. We want to work with the Conferees to develop an effective mechanism to provide needed incentives and rewards for placing more of the hardest-to-serve in lasting unsubsidized jobs that promote self-sufficiency. A possible approach could include requiring the Governors to use a share of their discretionary funds to reward high-achieving welfare-to-work programs.

Distribution of Funds by Year. The House provides for a two-year program, with $1.5 billion in 1998 and in 1999. The Senate bill provides for a three-year program. We want to work with the Conferees to ensure that the final bill includes an outlay pattern consistent with an estimate of zero outlays in fiscal 2002, as the budget agreement calls for. Congress could modify the Senate proposal, for instance, by requiring that no resources are spent after fiscal 2001.

Minimum Wage and Workfare

We applaud the Senate for not modifying current law with respect to applying the minimum wage and other worker protections for working welfare recipients under TANF. The minimum wage and welfare work requirement proposals in the House-passed bill were not part of the budget agreement and, had they come up in the negotiations, we would have strongly opposed them. We believe strongly that everyone who can work must work, and everyone who works should earn at least the minimum wage and receive the protections of existing employment laws -- regardless of whether they are coming off welfare.

As a result, we continue to have serious concerns that certain welfare recipients would not enjoy the status of employees under the House bill and, thus, would not receive worker protections. Although the House bill moves toward ensuring that welfare recipients in work experience and community service receive the minimum wage, it fails to provide an effective enforcement mechanism. Also, while the House bill contains some protections against discrimination and threats to health and safety, we believe that its limited grievance procedures are inadequate to ensure welfare recipients receive the same protections as regular employees, and regular employees receive protection against displacement. In addition, the Administration strongly believes that we must retain the welfare law's strict emphasis on work and oppose provisions to permit States to count additional time spent in activities such as job search toward the work requirements.

We urge the Conferees to adopt the Senate position on the minimum wage, which makes no changes to current law, and to extend the Senate provisions on grievance procedures and worker protections to all working welfare recipients under TANF.

Non-Displacement

While we support the Senate provisions that include worker displacement language from H.R. 1385 (the House-passed job training reform bill), we urge the Conferees to apply these enhanced non-displacement protections to all welfare recipients moving from welfare to work, as the House does, not just to welfare-to-work funds. In addition, we urge the Conferees to accept the House provision that ensures that the Federal Government will not pre-empt State non-displacement laws that provide greater worker protections than Federal law.

Unemployment Insurance

We are pleased that the House and Senate have included the Unemployment Trust Fund ceiling adjustment and special distribution to the States that were part of the budget agreement.

The House bill also includes the provision of the agreement that achieves $763 million in mandatory savings over five years by authorizing an increase in discretionary spending for unemployment insurance "program integrity" activities of $89 million in 1998 and $467 million over five years. We urge the Conferees to adopt the House language. In addition, we are seeking budget process provisions to allow for discretionary funding for these activities and the resulting savings.

Repeal of Maintenance of Effort Requirement on State Supplementation of SSI Benefits

We are pleased that the Senate bill does not repeal the maintenance of effort requirement on State supplementation of SSI benefits. We strongly oppose the House provision, which would let States significantly cut, or even eliminate, benefits to nearly 2.8 million poor elderly, disabled, and blind persons. Congress instituted the maintenance of effort requirement in the mid-1970s to prevent States from effectively transferring Federal benefit increases from SSI recipients to State treasuries. The House proposal also could put at risk low-income elderly and disabled individuals who could lose SSI entirely and possibly then lose Medicaid coverage. We opposed this proposal during last year's welfare reform debate, and we urge the Conferees to follow the Senate approach and not repeal the State maintenance of effort requirement for State supplementation of SSI benefits.

Spectrum

We support a number of the spectrum-related provisions in the Senate and House bills. We believe, however, that the Senate bill is more consistent with the goals and targets in the budget agreement, and we urge the Conferees to use it as the basis for conference negotiations. Specifically, the Senate bill provides for reimbursing Federal agencies for the costs of relocating to new spectrum bands, so that the Federal Communications Commission (FCC) can auction, for commercial use, the spectrum that they are now using. This key provision is essential to prevent agencies from making future multi-billion dollar requests for additional discretionary funding.

We have other significant concerns with both bills. First, they fall over $6 billion short of the savings targets of the budget agreement. They both fail to include two proposals that the agreement specifies -- the auction of "vanity" toll-free telephone numbers (which would raise $0.7 billion) and the spectrum fee (which would raise $2 billion). In addition, neither bill contains a firm date for terminating analog broadcasting (as the budget agreement assumed), which reduced the CBO's scoring of the House bill by $2.9 billion, and of the Senate bill by $3.4 billion. Any delay in returning analog broadcast spectrum will likely impede the rapid build-out of digital technology, delay job creation and consumer benefits, and reduce revenues from spectrum auctions. We urge the Conferees to conform the final bill to these provisions of the budget agreement.

We also request that the Conferees delete the House language that specifies spectrum bands and bandwidth for reallocation; repeals the FCC's fee retention authority; waives the duopoly/newspaper cross-ownership rules; and accelerates payments from the universal service fund. These provisions conflict with good telecommunications policy, and with sound and efficient spectrum management policy. We also urge the Conferees to amend the overly expansive definition of "public safety" of the bills; to delete mandated minimum bid requirements; and to include provisions that would authorize the FCC (1) to revoke and reassign licenses when an entity declares bankruptcy, and (2) to use economic mechanisms (such as user fees), other than auctions. We support Senate provisions requiring the FCC to explain its rationale if it cannot accommodate relocated users in commercial spectrum and to consult with the Secretary of Commerce and the Attorney General on assigning new spectrum made available for public safety.

TANF Transfers to Title XX

We oppose the House provision to allow States to divert TANF funds away from welfare-to-work efforts to other Title XX social service activities. The Senate bill includes no such provision. The budget agreement did not address making changes in the Title XX transfers provisions, and we strongly urge the Conferees to drop these provisions.

Vocational Education in TANF

We are concerned with the House and Senate provisions on vocational education in TANF. The House bill includes two sets of provisions -- one from the Ways and Means Committee, the other from the Education and Workforce Committee -- which narrow the base of eligible recipients against which the cap on vocational education applies. The Ways and Means Committee excluded teen parents in school from the cap, and set the cap at 30 percent of the narrower base. The Senate bill maintains the existing base, but removes teen parents who attend school from the 20 percent cap on vocational education. The budget agreement did not address changes in TANF work requirements regarding vocational education and educational services for teen parents, and we urge the Conferees to drop these provisions.

State SSI Administration Fees

The House bill includes a provision, consistent with the budget agreement, to raise the fees that the Federal Government charges States for administering their State supplemental SSI payments and to make the increase available, subject to appropriations, for SSA administrative expenses. This proposal would collect about $380 million over five years, to be spent upon receipt for this purpose. The Senate bill does not reflect this provision of the budget agreement, and evidently assumes that the Appropriations Committee will implement the proposal. The agreement, however, anticipated revenue from this proposal over the full five years and, as part of the reconciliation bill, Congress should raise the fees and make the increased revenue available, subject to appropriations. Consequently, we urge the Conferees to adopt the House provision.

Housing

We are pleased that the House and Senate bills include provisions to produce savings by reforming the FHA Assignment program and making appropriate reductions to Section 8 annual adjustment factors. We are concerned, however, about two additional provisions of the Senate bill.

The Senate bill would not transform FHA multifamily housing restructuring in the most efficient, effective fashion. By ruling out the possibility of portable tenant-based assistance, the bill would limit tenants' ability to find the best available housing and prevent projects from developing a more diverse mix of income levels. By establishing a preference for delegating restructuring tasks to housing finance agencies, the bill places an unnecessary constraint on HUD's ability to design the most effective partnerships. Finally, since Congress did not address tax issues explicitly, the Senate bill does not resolve impediments that could discourage owners from participating in a restructuring process.

We oppose the inclusion, in the reconciliation bill, of Section 2203 of the Senate bill, which repeals Federal preferences for low-income or disadvantaged individuals for the Section 8 tenant-based and project-based programs. We have supported such repeals only if they come with income targeting that would replace the Federal preferences. That targeting would ensure: (1) that the tenant-based program continues to mostly serve extremely low income families, with incomes below 30 percent of the area median income, and (2) that all developments in the project-based program are accessible to a reasonable number of extremely low-income families. We are working with Congress on this issue in the broader context of separate public housing reform legislation.

Privatization of Welfare Programs

The House bill would allow for privatizing eligibility and enrollment determination functions in Medicaid and Food Stamps. While certain program functions, such as computer systems, can now be contracted out to private entities, the certification of eligibility for benefits and related operations (such as obtaining and verifying information about income and other eligibility factors) should remain public functions. Thus, we strongly oppose the House provision, and we urge the Conferees to drop it.

Student Loans

We are pleased that both bills bill include $1.8 billion in outlay savings, including $1 billion in Federal reserves recalled from guaranty agencies, $160 million from an end to the fee paid to institutions in the Direct Loan program, and $603 million in reduced Federal student loan administrative costs. All of these provisions are consistent with the budget agreement, and the savings are achieved without raising costs on, or reducing benefits to, students and their families.

But, we oppose a provision in both bills, unrelated to the budget agreement, requiring administrative cost allowances (ACAs) to guaranty agencies in the Federal Family Education Loan (FFEL) program at a rate of .85% of new loan volume – paid from mandatory funding authorized under Section 458 of the Higher Education Act of 1965 (HEA) from 1998 to 2000. This provision would create a new Federal entitlement, and it would inappropriately limit the funds available to the Secretary to effectively manage the FFEL Program. Any allowance to these agencies should bear some relationship to the costs these agencies incur, and should not be based on an arbitrary formula. This is an issue more appropriately left for the Higher Education Act (HEA) reauthorization.

We strongly prefer the House language for cutting student loan administrative costs. It specifies that the Education Department may use administrative funds authorized under section 458 of the HEA to operate the FFEL program and the Direct Loan program. Under the Senate language, the Secretary would lack adequate funds to administer the FFEL program effectively.

We also oppose a House provision that would stipulate that an 18.5 percent guaranty agency retention allowance on default collections that result from defaulted loans reentering repayment through loan consolidation. This provision, now specified in regulation and letters as "up to" 18.5 percent, would codify this share at 18.5 percent without regard to the actual expenses that the guaranty agencies incur. This issue also should be resolved in the upcoming HEA reauthorization.

Smith-Hughes

We are pleased that the House bill would repeal the Smith-Hughes Act of 1917 and is consistent with the budget agreement. The Senate bill does not include such a provision, although it finds the agreed-upon $29 million savings from the student loan programs. In light of the $1.2 billion annual appropriation under the Carl D. Perkins Vocational and Applied Technology Education Act, we see no justification for $7 million in mandatory spending a year under Smith-Hughes. We urge the Conferees to adopt the House provision.

Budget Process

On budget process, the House and Senate bills generally follow the budget agreement. We appreciate the provisions to extend the discretionary caps to 2002 at the levels in the agreement, to create a firewall between defense and non-defense spending for 1998-99, to provide an adjustment for international arrears and for an IMF quota increase and the New Arrangements to Borrow, and to otherwise extend and update the Budget Enforcement Act along the lines of the budget agreement.

In some respects, however, the House or Senate bills are not fully consistent with the budget agreement. For instance, both bills provide that only net deficit increases in the prior year, rather than both increases and decreases, would count under the paygo "lookback" procedure. In addition, the House bill is inconsistent with the agreement (and with the Senate bill) with regard to "paygo" requirements.

In other respects, the bills include provisions about which we have serious concerns. For instance, the House bill does not provide for the transportation reserve funds that the budget resolution established for highways, Amtrak and transit. Also, one or both of the House and Senate bills do not include several technical changes to fully extend the Budget Enforcement Act. These changes include a budget authority allowance for technical estimating differences between CBO and OMB, as current law provides; a reserve fund for unemployment integrity to carry out the mandatory savings of the agreement; and a technical change to the existing Continuing Disability Reviews (CDR) adjustment to account for the conversion of obligation limitations to budget authority. In addition, the House bill would require a cumbersome notification procedure for the detailed scoring of each paygo or appropriations bill.

Copy All DPC STAFF

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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Budget

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TO: EOP Internal Distribution List

DATE: 7/22

SUBJECT: FY 1998 Appropriations Letter from Franklin D. Raines, Director

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2. Senate Military Construction FY98 Approps. SAP
3. Senate Interior FY98 Approps. Letter
4. House Treasury/Postal FY98 Approps. Letter

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

July 22, 1997

THE DIRECTOR

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20515

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on the Department of Transportation and Related Agencies Appropriations Bill, FY 1998, as reported by the Senate Subcommittee. As the Committee develops its version of the bill, your consideration of the Administration's views would be appreciated.

The Administration is pleased with many aspects of the Subcommittee bill, particularly funding support provided for transportation safety and transportation infrastructure programs. As discussed below, the Administration will seek restoration of certain of the Subcommittee's reductions from the President's request. We recognize that it will not be possible in all cases to attain the Administration's full request and will work with the Committee toward achieving acceptable funding levels.

The Administration is committed to working with the Committee to identify reductions in the bill in order to find offsets for the restoration of funds that the Administration seeks. The Administration suggests that virtually all of its priorities could be funded through limited reductions in infrastructure programs, which the Subcommittee has funded at levels in excess of the Administration's requests. We urge the Committee to reduce funding for lower priority programs, or for programs that would be adequately funded at the requested level, and to redirect funding to programs of higher priority.

<u>NEXTEA</u>

The Administration realizes that the Subcommittee has not funded several requested programs because they have not yet been authorized as part of the National Economic Crossroads Transportation Efficiency Act (NEXTEA). The Administration reiterates its support for State Infrastructure Banks, the Transportation Credit Enhancement program, and the Access to Jobs and Training program. These programs will significantly increase the impact of Federal transportation investment and help to make "welfare to work" a reality. They can be accommodated within the overall funding levels agreed to by the Subcommittee.

Amtrak

The Administration strongly objects to the Subcommittee's proposed funding level for the National Railroad Passenger Corporation. The provision of $283 million in operating assistance falls $61 million short of the level requested in the President's budget. The Federal operating subsidy supports Amtrak's day-to-day operations. Even at the funding levels proposed by the President, Amtrak will be able to remain solvent only by further increasing revenues and reducing costs. If Congress appropriates an amount for operating grants that is less than the $344 million requested by the President, it is questionable whether Amtrak would have cash reserves or short term credit sufficient to meet its obligations. In light of these considerations, we strongly urge the Committee to provide Amtrak with operating grants of $344 million in FY 1998.

The Administration supports the request for $222 million in general capital funding and objects to the Subcommittee's decision to provide no funding. The Subcommittee did not provide Amtrak with general capital funding assuming that a proposal for an Intercity Passenger Rail Fund, currently in the Senate version of the Reconciliation bill, would provide Amtrak with over $600 million in general capital funding in FY 1998. The Intercity Passenger Rail Fund may not be enacted.

Federal Aviation Administration

The Committee is encouraged to provide additional funding for the deployment of security enhancement equipment, with offsets from other infrastructure spending. The Administration also urges the Committee to provide the $100 million in advance appropriations requested for this equipment in FY 1999 so that continuity can be assured in the procurement process.

Earmarking

The Administration commends the Subcommittee for not funding highway demonstration projects. However, the Administration objects to the Subcommittee's earmarking of 25 transit projects for which Full Funding Grant Agreements (FFGAs) have neither been signed nor are expected to be signed. Many of these projects have yet to complete required planning and engineering studies to determine their costs and benefits. Any future funding for these projects would be in addition to the $3.7 billion outstanding Federal share of projects with existing FFGAs. Such earmarking risks creating expectations that may be difficult to meet under a balanced budget. The Committee is urged to redirect theses funds to higher priority items.

The Subcommittee has provided substantial funding to conduct several earmarked operational tests within the Intelligent Transportation Systems (ITS) program. The Administration has requested funding in NEXTEA to support operational tests and would prefer that, rather than setting aside funds for specific projects, these projects compete on an equal basis with other potential proposals. Furthermore, the ITS program's focus is shifting from operational testing to integrated deployment. NEXTEA provides $100 million for a new Deployment Incentives program to encourage integrated deployment. The operational tests funded by the Subcommittee could be duplicative of previous tests.

Language Provisions

The Subcommittee bill would direct the Department of Transportation to interpret section 29 of Public Law 96-192 (the Wright Amendment) so that it would not preclude operations with any aircraft configured or reconfigured with 56 passengers or less. This provision is intended to reverse an interpretation made by the Department after thorough analysis. That issue is currently in litigation. The Administration is concerned that this provision would interfere with this litigation.

Additional Administration concerns with the Subcommittee bill are contained in the enclosure. We look forward to working with the Committee to address our mutual concerns.

Sincerely,

Franklin D. Raines
Director

Enclosure

Identical Letter Sent to The Honorable Ted Stevens,
The Honorable Robert C. Byrd, The Honorable Richard C. Shelby,
and The Honorable Frank R. Lautenberg

Enclosure
(Senate Committee)

ADDITIONAL CONCERNS
DEPARTMENT OF TRANSPORTATION
APPROPRIATIONS BILL, FY 1998
(AS REPORTED BY THE SENATE SUBCOMMITTEE)

The Administration looks forward to working with the Congress to address the following additional concerns:

Coast Guard

- NEXTEA. The Subcommittee has not supported the Administration's NEXTEA proposals for fully mandatory funding for the Boating Safety program and for funding the Alteration of Bridges program from the Highway Trust Fund. The Administration reiterates its support for these proposals. Mandatory funding for Boating Safety would put it on equal footing with the Sport Fish Restoration program, which is also funded from the Aquatic Resources Trust Fund and is entitled to funds not appropriated to Boating Safety. Under the Alteration of Bridges proposal, $17 million from the Highway Bridge Replacement and Rehabilitation Program (HBRRP) would be set aside annually for the purpose of repairing bridges deemed hazardous to navigation. The funding would be administered in accordance with the Truman-Hobbs Bridge Act, rather than the HBRRP. The Coast Guard would continue to select the projects and determine their funding levels.

- Governors Island. The Subcommittee has not provided $8.3 million requested in the Operating Expenses account for the FY 1998 protection and maintenance of Governors Island, New York, which the Coast Guard will excess in late FY 1997. Also, the Subcommittee has included bill language that would relieve the Coast Guard of responsibility for maintenance of the property under caretaker status. Pursuant to Section 483(b) of the Federal Property and Administrative Services Act of 1949, the Administrator of GSA has established that disposing agencies will fund protection and maintenance of excessed property for the quarter in which the property is reported as excessed and for not more than 12 months thereafter. During this period, GSA requests funding for follow-on protection and maintenance costs. The Administration has not requested funding in the GSA appropriation for the protection and maintenance of Governors Island in FY 1998. Therefore, this language would force GSA to absorb Governors Island protection and maintenance costs within a budget that is already stretched thin.

Federal Highway Administration

- National Motor Carrier Safety Program. The Subcommittee has provided $84.3 million for the National Motor Carrier Safety Program, $15.7 million below the Administration's request. This funding shortfall would delay the progress DOT continues to make in reducing commercial motor vehicle crashes and fatalities and would hobble efforts to move the program towards performance-based criteria.

National Highway Traffic Safety Administration

- Airbag Regulation. The Administration objects to the requirement, as part of report language, to issue a notice of proposed rulemaking on the deactivation of airbags or the installation of an on/off switch for airbags. A notice of proposed rulemaking has already been issued on this subject. Additional proposed rules may be necessary, but the Administration objects to the mandate of the Committee to issue such a notice. While we commit to thoroughly reviewing the difficult issues surrounding airbag deactivation, a direction to submit a notice by a date certain is unrealistic and may be unnecessary.

- Youth, Drugs, and Driving Initiative. The Administration objects to the failure to fund the Youth, Drugs, and Driving Initiative. This demonstration program will develop and implement effective pre-licensure drug testing to deter drug use, reduce drug-impaired driving, and promote public safety. The Subcommittee's decision is unfortunate, and the Administration would like to work with the Committee to restore this program.

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

July 22, 1997
(Senate Floor)

STATEMENT OF ADMINISTRATION POLICY

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

H.R. 2016 – MILITARY CONSTRUCTION APPROPRIATIONS BILL, FY 1998

(Sponsors: Stevens (R), Alaska; Burns (R), Montana)

This Statement of Administration Policy provides the Administration's views on H.R. 2016, the Military Construction Appropriations Bill, FY 1998, as reported by the Senate Appropriations Committee. Your consideration of the Administration's views would be appreciated.

The Administration objects to the reallocation of national defense funds from Department of Energy programs to Department of Defense programs, including military construction programs, an action that we believe is an unacceptable deviation from our understanding of the Bipartisan Budget Agreement.

Unrequested Programs Added by the Committee

The Committee has added $955 million to the President's request, for 103 specific unrequested projects and other programs, partially offset by $155 million in reductions to requested programs and other adjustments. Although much of the unrequested funding is for items that are consistent with DOD's long-range military construction plans, $116 million would be used for low priority items that are not in DOD's long-range plans. It is particularly unfortunate that funding for the projects that are not in DOD's long-range plans has been added at the expense of higher priority programs in the President's request. The Administration believes that unrequested funding should be deleted, and funding for requested programs should be restored.

Other Objectionable Features

The Administration objects to the Committee's:

- Appropriation of only $36 million of the $63 million requested for construction of the U.S. Disciplinary Barracks at Ft. Leavenworth, Kansas. The Administration opposes incremental funding of this project and urges the Senate to provide the full amount of the request.

- Failure to include requested authority that would enable the Secretary of Defense to transfer appropriations within the appropriation accounts in the Military

Construction Appropriations Act. Similar transfer authority in Defense Appropriations Acts has been used with great success to meet unplanned requirements, without reducing the opportunity for congressional oversight.

- Reduction of $11 million from the $30 million request for Defense-wide planning and design. This reduction would delay construction of many of the strategic fuel storage projects that are required to meet operating plans.

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

July 22, 1997

THE DIRECTOR

The Honorable Ted Stevens
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on H.R. 2107, the Interior and Related Agencies Appropriations Bill, FY 1998, as reported by the Senate Subcommittee. As the Committee develops its version of the bill, your consideration of the Administration's views would be appreciated. These views are based on incomplete information and are, therefore, necessarily preliminary.

The Subcommittee has developed a bill that provides requested funding for many of the Administration's priorities. The Administration recognizes and appreciates that the Senate Subcommittee bill eliminates some of the more objectionable provisions included in the bill as passed by the House. Unfortunately, some new objectionable provisions have been added by the Subcommittee that would infringe on Native American sovereignty and potentially have severe consequences for other tribal programs. Should these provisions remain in the bill presented to the President, the Secretary of the Interior would recommend that he veto the bill.

The Administration will seek restoration of certain of the Subcommittee's reductions to the President's requests. We recognize that it will not be possible in all cases to attain the Administration's full request and will work with the Committee toward achieving acceptable funding levels. The Administration is committed to working with the Committee to identify reductions in the bill in order to find offsets for the restoration of funds that the Administration seeks.

Department of the Interior

Land Acquisition. The Administration commends the Subcommittee for providing the $700 million in FY 1998 budget authority from the Land and Water Conservation Fund as agreed to in the Bipartisan Budget Agreement (BBA). The Subcommittee's action provides the funding mechanism for acquisition of the Crown Butte Mining property (MT) on the border of Yellowstone National Park and the purchase of Headwaters Forest, the last great stand of ancient redwoods in private hands in California. It will also allow the Federal land managing agencies to address other critical land acquisition needs. A list of proposed acquisitions will be provided to the Committee shortly. The Administration does not believe that additional authorizing language is required for Yellowstone and Headwaters, and strongly objects to the fact that the funding of these acquisitions is made contingent on the enactment of specific authorizing legislation. The Subcommittee's authorization requirement is unnecessary and could indefinitely delay the completion of these critical projects.

Native American Program Riders. The Bipartisan Budget Agreement specifies that the Bureau of Indian Affairs (BIA) Tribal Priority Allocation funds (TPA), used to support basic services on Indian reservations across the Nation, are protected. The Administration, therefore, strongly objects to section 118, which would require a means-test distribution formula of TPA, and section 120, which would require tribes to waive sovereign immunity in order to accept TPA funds. The Administration objects to both sections, which would restrict the use of TPA funds.

Bill language requiring a needs-based distribution of TPA funds beginning in FY 1999 is contrary to U.S. trust and treaty obligations and tribal sovereignty. In addition, the $76.5 million TPA increase in FY 1998 would be withheld until BIA develops a means-test distribution formula. Some programs in TPA are already allocated based on need, and the Department is willing to continue to examine the basis for allocating other program funds. However, the proposal to means test all TPA funding is based on the false premise that many tribes have sizable independent revenues.

Equally objectionable is the section providing that tribal acceptance of TPA funding shall "waive any claim of immunity by that Indian tribe" and subject the tribe to Federal court jurisdiction. Sovereign immunity protects governments from involuntary depletion of their treasuries, and waivers of sovereign immunity are ordinarily fashioned in a manner that protects government operations. The proposed categorical waiver of tribal sovereign immunity would undermine the ability of tribes to perform government functions and jeopardize their solvency.

As noted above, if these two provisions were contained in the bill presented to the President, the Secretary of the Interior would recommend that he veto the bill.

National Foundation on the Arts and the Humanities

The Administration appreciates the Subcommittee's commitment to funding for the National Endowment for the Arts (NEA). The Administration would like to work with the Congress to increase funding up to the President's requested level as the bill moves through the process.

Department of Energy

Energy Conservation. The Administration strongly objects to the Subcommittee's reduction of $80 million to the request for Energy Conservation. This program provides positive benefits for the economy by achieving savings far greater than the program's cost, increases the Nation's technological competitiveness, and supports major climate change and environmental initiatives such as the Partnership for a New Generation of Vehicles.

Strategic Petroleum Reserve. The Administration objects to the Subcommittee's proposed non-emergency sale of oil from the Strategic Petroleum Reserve in FY 1998 in order to fund routine operations and maintenance at the Reserve. The Strategic Petroleum Reserve is the cornerstone of the Nation's energy security. The Administration is conducting a study of policy issues related to the Reserve, which will be completed this Fall. The study will include analysis of the appropriate use of the Reserve in emergency and non-emergency situations and will be used to guide Strategic Petroleum Reserve policies in future years.

Clean Coal Technology. The Administration recommends that the Committee rescind $136 million in balances within the Clean Coal Technology program. (The FY 1998 Budget requested that $153 million be rescinded, and P.L. 105-18 included a rescission of $17 million of that amount.) The Administration objects to the Subcommittee's decision not to advance appropriate $50 million in FY 1999 funds for a demonstration project in China. This project would demonstrate a coal-based technology that can greatly reduce CO2 and other pollutants, thereby limiting the environmental impacts of industrialization in developing countries with large coal reserves.

We look forward to working with the Committee to address our mutual concerns.

Sincerely,

Franklin D. Raines
Director

Identical Letter Sent to The Honorable Ted Stevens,
The Honorable Robert C. Byrd, and The Honorable Slade Gorton

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

July 22, 1997

THE DIRECTOR

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

Dear Mr. Chairman:

The purpose of this letter is to provide the Administration's views on S. 1023, the Treasury, Postal Service, and General Government Appropriations Bill, FY 1998, now pending in the Senate. As the House Subcommittee develops its version of the bill, your consideration of the Administration's views would be appreciated.

The Senate Committee bill, as modified on July 17th, provides requested funding for many of the Administration's priorities. However, as discussed below, the Administration will seek restoration of certain of the Senate's reductions to the President's request. We recognize that it will not be possible in all cases to attain the Administration's full request and will work with the House toward achieving acceptable funding levels. The Administration is committed to working with the Subcommittee to identify reductions in the bill in order to find offsets for the restoration of funds that the Administration seeks. We urge the Subcommittee to reduce funding for lower priority programs, or for programs that would be adequately funded at the requested level, and to redirect funding for programs of higher priority.

Federal Election Commission

The Administration urges the House Subcommittee to provide the President's request of $34.2 million for the Federal Election Commission. The Administration further urges the House to adopt the appropriations language proposed in the President's budget.

Year 2000 Compliance

The Administration is extremely concerned about the need for all departments and agencies to bring their information systems to a state of Year 2000 compliance during calendar year 1998, in order to assure adequate time for testing and making needed final modifications. We urge the Subcommittee to address fully the needs of the Internal Revenue Service and other agencies in meeting Year 2000 compliance requirements.

Internal Revenue Service

The Administration is concerned that the Senate bill would delay projects that will immediately affect important taxpayer service. In addition, the Senate bill would jeopardize the completion of key compliance projects already underway, such as the Integrated Collection System (ICS), which has already improved revenue collection by 15-20 percent where it has been implemented.

Congress clearly shares the Administration's desire to bring IRS service up to the level expected by the American people and to ensure that the Federal Government maximizes revenue collection. We hope that the House will continue to support these crucial priorities, as well as committing the necessary resources to meet IRS' Year 2000 requirements.

"Winstar" Funding

The Administration is very concerned that the Senate bill does not include the President's request to authorize the Secretary of Treasury to transfer $33.7 million from the Federal Deposit Insurance Corporation's FSLIC Resolution Fund to the Department of Justice for expenses related to the ongoing Winstar litigation. This funding is vital to the Government's defense in this litigation, which involves over 120 cases and potential claims against the Government of about $20 billion. Without sufficient litigation support, the taxpayers are likely to be held liable for larger damages.

Bureau of Alcohol, Tobacco and Firearms

The Senate bill leaves unfunded $19.0 million in mandatory labor costs and equipment expenses, while providing an unrequested earmark of $4 million for additional CEASEFIRE/IBIS systems. ATF intends to use these funds to support efforts to reconcile competing technologies and to expand the acquisition of ballistics technology consistent with inter-operability standards.

Government Agency Provision of Commercially Available Goods and Services

The Administration strongly opposes the Thomas amendment adopted during Senate Floor consideration of S. 1023. The Administration fully supports cost comparison requirements in an agency's decision to obtain commercially available goods and services. This support is amply demonstrated in the recently issued Revised Supplemental Handbook to OMB Circular No. A-76, which requires cost comparisons for the conversion of work to or from in-house or contract (private sector) performance. In addition, inter-service support agreements (ISSAs) between agencies are also subject to cost comparison requirements, except for consolidations of work prior to October 1, 1997. Over 40,000 FTE are currently under OMB Circular No. A-76 review in the Department of Defense alone. As a result of constrained discretionary budget resources, we expect this effort to expand in the near future.

By codifying a requirement for OMB to prescribe regulations stipulating cost comparison requirements (and cost and performance benchmarks) in the provision of property or services by one Government agency to another, this amendment, as adopted, could very well result in a significant new level of litigation. Such litigation would be caused by the conversion of what are currently management implementation decisions (already guided by the cost comparison requirement of OMB Circular No. A-76) into a statutory obligation that could be subject to judicial review. Rather than increasing contracting out to the private sector, the potential litigation resulting from this unnecessary codification could well impede both the current large-scale cost-comparison efforts in the Department of Defense and the anticipated increase in cost-comparison competitions throughout the Federal Government.

We urge the Subcommittee not to include this provision in its version of the bill.

Cooperative Purchasing

The Administration opposes section 410 of the Senate bill, which would repeal section 1555 of the Federal Acquisition Streamlining Act (FASA) of 1994. This section of FASA would allow State and local governments, non-profit organizations, and Indian tribes to buy products off of the General Services Administration's Federal supply schedule contracts, often at advantageous prices. We urge the House to support a compromise provision that would permit such purchases for a limited number of specified product categories in demand by State and local governments and whose affected producers have not objected. We would further urge that this authority include a limited pilot program for pharmaceuticals, beginning with drugs used to treat HIV and HIV-related conditions and, following a study on the impact of this pilot, possible expansion to drugs used to treat other life- threatening conditions. GSA's total collection of administrative fees will not increase by more than the incremental increase in the cost of administering the program.

Office of National Drug Control Policy (ONDCP)

The Administration appreciates the Senate's support for ONDCP's national media campaign to prevent drug abuse among America's youth. However, we are concerned that the funding level provided is not adequate to accomplish our goals. The Administration has requested $175 million for ONDCP's Special Forfeiture Fund (SFF), which could be applied, in full, to this program. Full funding of the requested level is required to impact youth attitudes about drug abuse significantly. The request is based upon four media exposures per week to the 9-17 age group. The Administration developed this figure in consultation with experts in the field, particularly the Partnership for a Drug-Free America. Funding the SFF at significantly lower levels than requested would limit the number of media exposures to youth and hinder the success of the national media campaign.

Unites States Secret Service

The Administration believes that the requests for White House security improvements should be fully funded. The Senate's recommended funding level falls short of providing for all security requirements. Full funding of the request is necessary to implement all of the recommendations of the White House Security Review.

Executive Office of the President

The Senate bill fences funds for information technology in the Executive Office of the President pending the submission of an information technology architectural blueprint. The Office of Administration has devoted significant personnel and fiscal resources to complying with the wishes of the Congress in this regard. A plan has been submitted that we believe will fully satisfy the Appropriation Committees' requirements.

Unanticipated Needs

The Senate bill fails to provide the requested $1 million to enable the President to meet unanticipated needs in furtherance of the national interest, security, or defense. We urge the House to include this amount to ensure that the President has the same ability to meet such needs as previous Presidents have had.

Infringement on Executive Authority

There are several provisions in the Senate bill that purport to require congressional approval before Executive Branch execution of aspects of the bill. The Administration will interpret such provisions to require notification only, since any other interpretation would contradict the Supreme Court ruling in INS vs. Chadha.

Additional Administration concerns with the Senate bill are contained in the enclosure. We look forward to working with the House to address our mutual concerns.

Sincerely,

Franklin D. Raines
Director

Enclosure

Identical Letter Sent to The Honorable Bob Livingston,
The Honorable David R. Obey, The Honorable Jim Kolbe,
and The Honorable Steny H. Hoyer

Enclosure
(House Subcommittee)

ADDITIONAL CONCERNS
S. 1023 – TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS BILL, FY 1998
(AS PASSED BY THE SENATE)

The Administration looks forward to working with the House to address the following additional concerns:

Office of National Drug Control Policy

- National Media Campaign. The Administration strongly supports the Drug-Free Communities Act of 1997. However, funding for this program should not come from within the $175 million requested for ONDCP's Special Forfeiture Fund as it would reduce the amount available for the national media campaign. The Administration intends to keep Congress fully informed on progress made in implementing this campaign and steps taken to measure the effectiveness of this critical drug abuse prevention effort.

Department of the Treasury

- Office of Foreign Asset Control. The Administration opposes the Senate earmark of $6.7 million for the Office of Foreign Assets Control. The Administration would prefer that the House bill include neither the earmark, nor the 60 FTE floor, nor the restriction on hiring.

- Departmental Offices. The Departmental Offices component accounts for only one percent of Treasury's total budget, yet it plays a critical management and policy-making role. At present, Treasury's policy responsibilities have stretched the Departmental Offices to their limits. The $1.5 million reduction to the request included in the Senate bill would disproportionately inhibit Treasury's ability to serve the Administration and the Congress.

- United States Customs Service. The Administration is concerned that it be able to move ahead on the Automated Commercial Environment (ACE) in FY 1998. Senate restrictions could jeopardize this effort.