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

(House Floor)
May 15, 1997

STATEMENT OF ADMINISTRATION POLICY

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

H.R. 1469 – MAKING EMERGENCY SUPPLEMENTAL APPROPRIATIONS FOR RECOVERY FROM NATURAL DISASTERS, AND FOR OVERSEAS PEACEKEEPING EFFORTS, INCLUDING THOSE IN BOSNIA

(Sponsor: Livingston (R), Louisiana)

This Statement of Administration Policy provides the Administration's views on H.R. 1469, as reported by the House Appropriations Committee. The Administration appreciates the prompt action of the House Appropriations Committee on the President's supplemental requests. The bill contains $5.5 billion in urgently needed disaster assistance. To ensure an expeditious response to the tragic natural disasters that continue to afflict hundreds of thousands of citizens in 33 States, and for the efficient operation of our troops abroad, it is essential that this bill remain free of extraneous issues that could slow its progress.

The Administration continues to believe that the requested supplemental funding is for matters truly emergency in nature and, therefore, that the requested funding should not be offset with rescissions. However, recognizing that the House Committee has determined that offsets are to be included in the bill, the Administration has concerns with several of the specific offsets identified in the House Committee bill, which are discussed below. In addition, the Administration objects to certain language provisions, described below.

In the April 23, 1997 letter to the House Appropriations Committee providing the Administration's views on the draft Committee bill, OMB Director Raines described the Administration's concerns with a number of provisions in the Committee bill and urged that the bill be kept free of extraneous provisions. While the Committee bill continues to include a number of objectionable provisions, the Committee addressed several of the Administration's concerns and is free of provisions that would threaten approval of the bill. Regrettably, the rule makes in order an amendment, that if approved, would result in the President vetoing the bill.

"Automatic" Continuing Resolution

It is the Administration's understanding that an amendment will be offered that would create an automatic continuing resolution for FY 1998 based on the McCain-Hutchison language. While the goal of ensuring that the Government does not shut down again in the absence of enacted appropriations is a worthy one, such a provision is clearly extraneous to this emergency disaster relief legislation. The President has indicated that he would veto the bill if such a provision were included in it.

WIC

The President's budget requests a $100 million FY 1997 supplemental for WIC to maintain the FY 1996 year-end participation level of 7.4 million. Our most recent information from States suggests that a minimum of $76 million in new budget authority is necessary to maintain the FY 1996 year-end participation level. The funding level proposed by the House Committee would result in State agencies having to cut participation by 150,000 to 200,000 low-income women, infants, and children by year's end. The Administration remains firmly committed to fully funding the WIC program at a participation level of 7.5 million persons in FY 1998 and strongly supports the bipartisan amendment to provide the full $76 million this year.

Reductions to FEMA Disaster Relief and Other Non-Defense Programs

The Administration would oppose the amendment made in order in the rule which would eliminate $2.4 billion of FEMA Disaster Relief funds and require the President to reduce non-defense discretionary spending by $3.6 billion (-1.5%). Enactment of such a reduction two-thirds of the way through the fiscal year would result in reductions of nearly 5% in the final four months of the fiscal year.

Contingent Emergency Fund

On April 23rd, the President requested $300 million for funding additional emergency expenses arising from the consequences of the devastating flooding in North Dakota, South Dakota, and Minnesota. The President requested that $200 million of this amount be provided to the Unanticipated Needs account within Funds Appropriated to the President. The Administration appreciates the quick action of the House Committee in providing funding. However, in rejecting the Administration's proposal to provide the $200 million as a contingency fund in the Unanticipated Needs account, the Committee has failed to provide the flexibility that is essential for the President to respond appropriately to a variety of funding requirements that continue to emerge from the unfolding disaster. We urge the House to adopt the Administration's proposal, which recognizes the substantial uncertainty surrounding the Upper Midwest's enormous needs.

Community Development Block Grant Program

The Administration encourages the House to provide requested supplemental funding for the Community Development Block Grant (CDBG) program. These funds would enable CDBG to repeat its past successes of working in concert with FEMA and other agencies to help victims of disasters rebuild their lives and their homes. The complementary programs of CDBG, FEMA, and SBA hastened the recovery from the 1993 Midwest floods and many other disasters. CDBG programs serve different purposes than SBA and FEMA programs.

The Department of Housing and Urban Development and OMB will work together to establish administrative procedures ensuring that CDBG funds are used to redevelop the affected communities to be viable and disaster-resistant, in a manner that complements other relief and recovery spending. For example, the additional funds could be used to buy out properties as part of a relocation effort and/or elevate structures out of the flood hazard; to relocate lower-income families from flood plains; and, to provide grants or loans to businesses and families who lack the income, savings, or credit history to qualify for an SBA loan.

Endangered Species Act

The Administration opposes the inclusion in the bill of a waiver of the Endangered Species Act (ESA). Current law already allows Federal agencies to implement effective emergency procedures in order to accommodate the ESA during emergency responses to floods, and these procedures are routinely used and have been used during the recent flood events. While the Administration believes that the February 1997 policy statement issued by the Fish and Wildlife Service adequately addresses emergency situations affected by flooding and that additional legislation is unnecessary, we conclude that the language in the House Bill, as revised in the version of the bill reported by the House Appropriations Committee, is acceptable because it is consistent with that policy and will provide essential flood protection to the American people while maintaining the capability to protect endangered species.

Conservation Reserve Program (CRP)

The Administration objects to language that would restrict CRP sign-ups in FY 1997 to 14 million acres. This action would deny willing landowners the opportunity to enroll land for which the environmental benefits exceed their agricultural production value. In light of the 25 million acres recently offered for CRP enrollment, the provision would at best delay the ability to enroll the optimum number of acres. This provision is also misplaced in this bill because it would not result in any FY 1997 savings. Federal payments on FY 1997-enrolled CRP acres would not begin until FY 1998.

Assisted Housing

The President's FY 1998 Budget requests that Congress appropriate funds sufficient to renew all expiring housing assistance contracts in FY 1998 and all future years. The Administration does not object to funding FEMA's Disaster Relief program through the rescission of $3.8 billion of recaptured excess reserves in HUD's assisted housing program, provided that the Congress is committed to approving sufficient resources to renew all expiring housing assistance contracts in FY 1998 and future years.

Concerns with Certain Offsets

The Dual Use Applications Program helps to develop and incorporate technologies used and tested by the cost-conscious commercial sector into military systems. By adopting these dual-use technologies, the Department will be able to take advantage of cost savings that flow from the production efficiencies of larger-scale commercial manufacturing lines. Reducing funding for this program would result in higher costs for future defense systems. This is an Administration priority, and the Administration strongly opposes the rescission contained in the Committee bill.

The Administration strongly objects to rescinding $1 million of unobligated balances from the Ounce of Prevention Council. Rescission of these funds, which represent roughly one-third of the Council's total funding, would substantially reduce the work of the Council in coordinating crime prevention efforts at the Federal level and assisting the communities to make their neighborhoods safer. The Council is in the process of awarding $1.8 million for youth substance use prevention grants and evaluating its existing grant programs. The Council has received over 300 applications from communities and community-based organizations from all across the country for these grants.

The Administration strongly objects to the House Committee action that would limit FY 1997 spending from the Fund for Rural America to $80 million, representing a $20 million, or 20 percent, reduction. The Fund's creation in the 1996 Farm Bill was a significant factor in the President's decision to sign that legislation because of its mandate to aid farmers, ranchers, and rural residents in their transition to reliance on a market economy. This provision would likely result in an over 40 percent reduction in the agricultural research portion of the Fund's activities this year, significantly reducing programs that would enhance needed information and technological assistance to rural areas.

Restoring Benefits for Certain Legalized Aliens.

The Administration has proposed legislation to restore SSI and Medicaid benefits for disabled legal immigrants and children of legal immigrants. To ensure that benefits for needy legal immigrants are not abruptly curtailed, the Administration would strongly support a simple extension of benefits through the end of the fiscal year to all legal immigrants currently receiving SSI. This approach would ensure that the Congress has sufficient time to enact the components of the Administration's legislative proposals, consistent with the recent bipartisan budget agreement, and that SSA has sufficient time to implement the legislation. The Administration supports the amendment made in order in the rule.

Federal Election Commission.

The Administration appreciates the provision of $1.7 million in additional funding for the Federal Election Commission (FEC) in the House Committee version of the bill and would oppose the elimination of these funds. The Administration encourages the House to remove the restrictions on these funds that would require their expenditure on automated data processing systems (ADP). The Administration requested these funds for the express purpose of supporting additional staff and related costs for investigations and audits pursuant to the Federal Election Campaign Act. While additional ADP costs are a component of these investigations, they are not the key purpose of the request.

Supplementals Not Approved

The Administration has requested a $22.8 million emergency supplemental appropriation for NOAA to fund both hatchery repair and fishery habitat restoration. We are disappointed with the House Committee's view that NOAA's proposed fishery habitat restoration activities are not directly connected to disaster assistance and that only funding for hatchery repair is proposed. The flooding in the Northwest has resulted in direct damage to important fishery habitat. NOAA's proposed habitat restoration activities are intended to address this damage and to mitigate the impact of damage from future floods.

Supplemental funding of $6.25 million is needed to restore funding for the Nutrition, Education, and Training program of the Department of Agriculture. This funding was unintentionally eliminated when permanent mandatory funds for the program were deleted after Congress had already passed the FY 1997 appropriations act. These funds help to provide basic nutrition education to teachers, food service workers, parents, and children.

Other Issues

- Brookhaven National Laboratory. On April 23rd, the President proposed $19.7 million for the Department of Energy's Brookhaven National Laboratory for activities relating to remediation of groundwater contamination. Appropriate offsets were included in the proposal. The Administration encourages the House to support this proposal.

- Devils Lake. The Administration strongly urges the House to include the requested authorization language and construction funding for an emergency outlet at Devils Lake, North Dakota. With the lake at unprecedented levels and having the potential to cause high additional damages, an accelerated emergency process is necessary to reduce the risks of potential flood damages.

- Restrictions on Navy Financial Management. The Administration strongly objects to section 2105 of the House Committee bill, which would place extreme restrictions on the conduct of the Navy's financial management. This provision takes the unprecedented step of requiring congressional approval for the hiring of civil service employees within the Department of the Navy, a clear infringement on the Executive Branch's authority to manage its employees. In addition, the provision would require the Navy to submit all reprogrammings for prior approval by the Appropriations Committees, regardless of dollar value. The length of time required to submit such documents and obtain approval would impose an undue burden on the Navy and prevent efficient management of its programs and resources. Further, this provision would condition the President's authority -- and the authority of certain agency officials -- to use funds appropriated by this Act on the approval of Congressional committees. The Administration would interpret such provisions to require notification only, since any other interpretation of such provisos would contradict the Supreme Court Ruling in INS vs. Chadha.

- River Basin Appointments. The Administration is pleased that the House Committee has included language to allow continued Federal participation on the Susquehanna and Delaware River Basin Commissions. However, the Administration opposes the requirement that the Federal representatives to these Commissions be military officers of the Corps of Engineers. This requirement is overly prescriptive. The President should have the discretion, as he does under the existing compacts, to choose the Federal representatives on these Commissions.

EXAMPLES OF PROBLEMS CONTAINED IN THE SENATE-PASSED VERSION OF THE FY 1998 AUTOMATIC CONTINUING RESOLUTION

- It is premature and is inconsistent with the funding levels contained in the bipartisan budget agreement.

- Funding would be reduced by $25 billion from the President's request and is significantly below the levels in the bipartisan budget agreement.

- It would cut such critical services and functions as Veterans Medical Care, food assistance for Women, Infants and Children (WIC), education (e.g., Head Start and Pell Grants), the environment (e.g., cleaning up Superfund sites and maintaining and improving our national parks), and research and technology (NIH).

- Specific examples of problems follow (compared to President's FY 1998 Budget):

  -- An average of 500,000 fewer women, infants and children per month would receive food and other services through WIC.

  -- College aid would be cut by $1.7 billion from the FY 1998 request, allowing a maximum Pell grant level of only $2,660 -- compared with the $3,000 proposed by the President -- and eliminating nearly 375,000 students from the program. No new aid would be available to older students.

  -- Educational services for over 483,000 children would be cut from grants to local educational agencies.

  -- GOALS 2000 would be cut $129 million from the FY 1998 request, eliminating aid to 2,000 school districts across all States.

  -- NIH would be cut $337 million (2.6 percent) from the proposed FY 1998 funding level of $13.1 billion. The number of NIH-funded new research projects could be cut by over 774 in FY 1998 from the proposed FY 1998 funding level.

  -- Ryan White AIDS Treatment Grants would be cut 4 percent from the proposed FY 1998 funding level, cutting resources to provide protease inhibitors, other drugs and medical treatment, and support services to people suffering from AIDS.

  -- Up to 56,000 fewer children would participate in Head Start (presuming that the quality of the program is maintained).

  -- 7,000 fewer Direct Single Family Rural Housing Loans (-35 percent) would be issued.

  -- The Federal crop insurance program would be terminated.

-- New national parks and heritage areas authorized in the 1996 Omnibus Parks bill could not move forward in Kansas, Massachusetts, Oklahoma, West Virginia, Virginia, Tennessee, Georgia, Pennsylvania, Iowa, South Carolina, Ohio and New York.

-- Cuts in the Indian Health Service would undermine direct health care services for Native Americans, while cuts in the Bureau of Indian Affairs would impair reservation-based programs -- e.g., elementary and secondary education, law enforcement, child welfare, general assistance, and other social services. These BIA programs are already under significant pressure due to continued three percent per year school enrollment growth and the effects of welfare reform as tribal members lose State benefits and return to their reservations.

--40,000 economically disadvantaged adults and 26,000 dislocated workers would be denied employability services and training.

--VA Medical Care would be denied to 60,000 veterans.

-- The CR would effectively preclude meeting the President's goal to clean up 900 Superfund sites by the year 2000.

- By blindly applying an across-the-board freeze, this CR would undermine our ability to respond to problems that are peculiar to 1998 -- e.g., preparing for the Decennial Census and correcting the government's computers for the year 2000 transition.

- Such an automatic CR would make it very unlikely that a Foreign Operations bill could be enacted into law. Funding at a level $1.4 billion below the request would undermine America's global leadership.

- It would undermine core functions of government.

-- Many of the 1,000 new border patrol agents being hired this year would have to be RIFed, and the proposal to hire another 500 in FY 1998 would be blocked.

-- The FAA would be unable to hire the additional 500 air traffic controllers, 258 aviation safety inspectors, and 173 security personnel proposed in the FY 1998 budget, and the number of existing air traffic controllers would decline to the lowest level since 1988. Aviation safety inspections also would be reduced.

-- Reduced IRS tax law enforcement would result in $350-$500 million in lost revenues.

-- The proposed increase of 544 FBI agents would be blocked, and planned prison activations would be curtailed.

-- Social Security processing time for initial disability claims could increase by roughly 24 days (+18 percent) beyond the currently-projected 135 days -- and about 31,000 fewer appeals decisions (-5 percent) may be reached.

PRESIDENT CLINTON DELIVERS THE FIRST BALANCED BUDGET IN A GENERATION

THIS HISTORIC AGREEMENT PROMOTES THE COUNTRY'S PRIORITIES

TABLE OF CONTENTS

President Clinton Delivers the First Balanced Budget in A Generation
Historic Agreement Promotes the Country's Priorities

President Clinton has achieved a balanced budget agreement that includes critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid — just as he promised last year. We have cut the deficit 63% — from $290 billion in 1992 to $107 billion last 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.

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.

- ✔ Largest Pell Grant increase in two decades -- 4 million students will 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.
- ✔ An America Reads initiative to mobilize a million tutors to help three million children learn to read by the end of the third grade.
- ✔ Expansion of Head Start -- to achieve goal of one million kids in 2002.
- ✔ Doubles funding to help schools integrate innovative technology into the curriculum.

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

- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007 through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

GOAL: Strengthen environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

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.
- ✔ Restores disability and health benefits for legal immigrants.
- ✔ Restores Medicaid coverage for poor legal immigrant children.
- ✔ Preserves food stamp benefits for people willing to work.
- ✔ Provides States and cities with additional resources to move disadvantaged recipients into jobs.

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.

An Historic Return to Sound Fiscal Footing
Deficit Reduction During the Clinton Administration

- **The President inherited a budget deficit of $290 billion that was expected to explode to over one-half trillion dollars in 2002.** The economy's growth was stagnant and jobs for many Americans were hard to find. A decade of large deficits had weakened the foundation of our economy, cast doubt on the country's ability to self-govern, and sapped our power and prestige abroad.

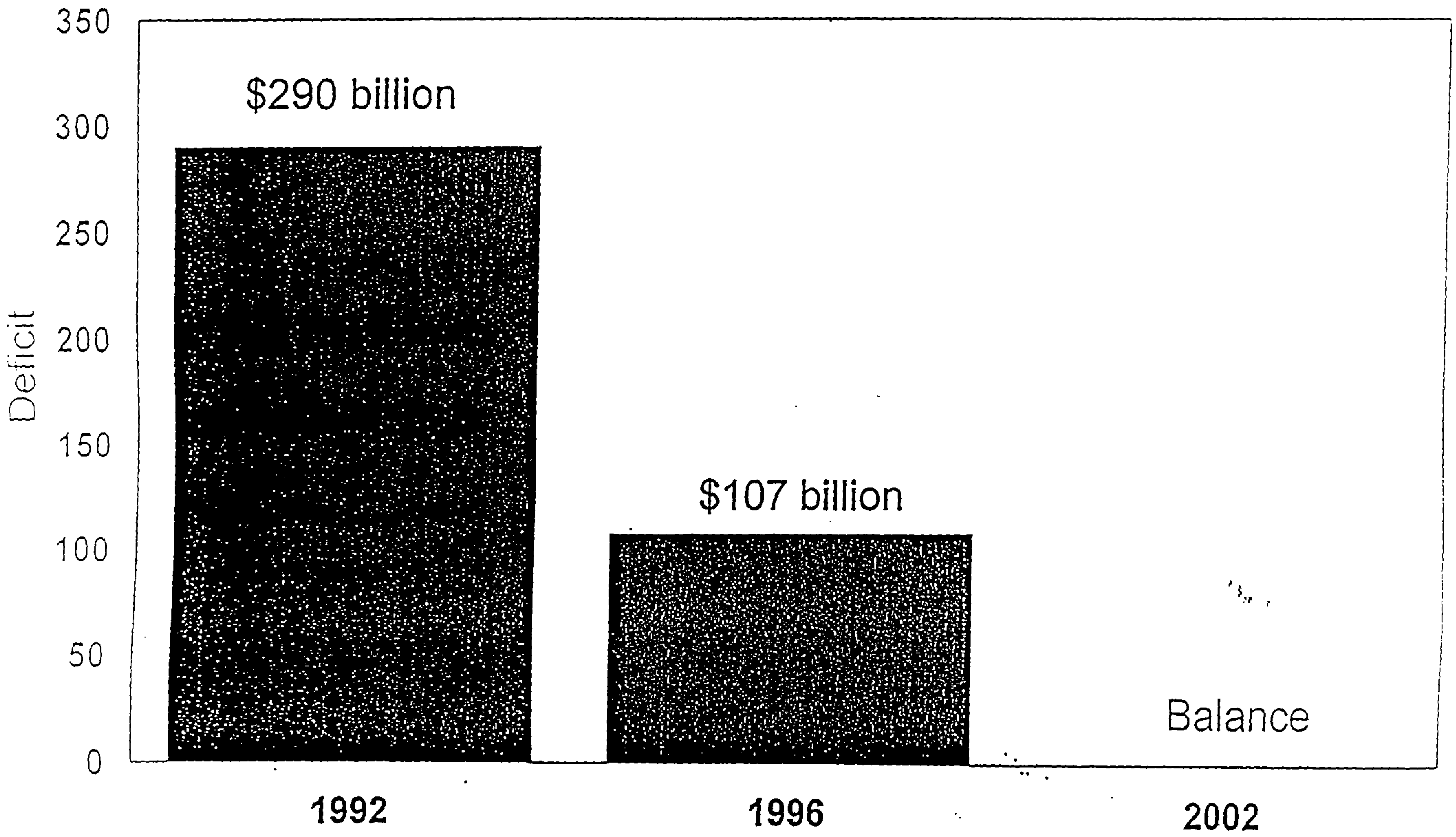
- **President Clinton addressed this problem of fiscal instability immediately, moving during the first days of his Presidency on a pledge to cut the deficit in half.** Working with Democrats in Congress, he implemented an economic program designed to reduce the deficit and to invest in critical priorities, such as education and training. That economic program also instilled in law a fundamental principal of the President's: no Americans who work hard at their jobs should have to raise their families in poverty.

- **The 1993 economic plan has exceeded all expectations: the economy has produced over 12 million new jobs, the unemployment rate is at its lowest point in 24 years, and the deficit has fallen by 63 percent, falling four years in a row to $107 billion in 1996.** Mounting evidence suggests the deficit will fall again this year, lengthening the streak of declining deficits to five years -- the longest in 50 years. Private sector growth has averaged a robust 3.5 percent, benefitting from the improved investment climate to which deficit reduction has heavily contributed. Most recently, during the first quarter of this year, the economy surged ahead at a 5.6 percent rate, the fastest growth in a decade.

- **The President began his second term determined to fulfill his goal of balancing the budget.** With this bipartisan balanced budget agreement, working with both Republicans and Democrats, the President finishes the job.

- **As we head into the next century, this bipartisan balanced budget agreement solidifies the nation's economic foundation, restores faith in our ability to govern ourselves, and bolsters our preeminent position in the world economy.**

President Clinton Finishes The Job: First Balanced Budget in a Generation



Fact Sheet on the Budget Agreement

- Budget balances by 2002 -- for the first time since 1969

New Initiatives

- Agreement provides $34 billion over 5 years for new initiatives, including:

    -- $14 billion for restoring medical and disability benefits to legal immigrants and other improvements to the welfare bill, including funding for communities to help welfare recipients move to work

    -- Provides $16 to $17 billion to provide health coverage for up to 5 million children by 2002

Discretionary Spending

- Non-defense discretionary outlays are within 1 percent of the President's FY 1998 Budget request over 5 years -- protecting education, the environment, international and other priorities

- Defense spending meets President's FY 1998 Budget request (on budget authority)

Medicare & Medicaid

- Medicare savings of $115 billion over 5 years, extending the life of the Trust Fund until at least 2007

    -- Modernizes Medicare by providing new health plan choices such as PPOs and PSOs and new preventive care benefits, including annual mammograms without co-payments, diabetes self-management, and colorectal screenings

    -- Reforms outdated payment methodology for home health, skilled nursing facilities, outpatient departments, and HMOs

    -- Phases in, over time, cost of home health care into Part B premium with expanded low income protections

- Medicaid: Imposes new cost constraints (e.g., on disproportionate share hospital payments), while maintaining the Federal guarantee. The agreement responds to States' concerns by dropping the per capita cap proposal, and allowing States more flexibility to manage their Medicaid programs.

Education

- Largest increase in education spending in 30 years

- $35 billion for education tax cuts, including the Hope Scholarship and the $10,000 tax deduction

- Increases maximum Pell grant award to $3,000

- Fully funds the President's America Reads initiative

Environment

- Full funding for the President's priority areas, including Superfund and brownfields
- Full funding for national parks and Federal land management

Tax Cuts

- $85 billion in net tax cuts, including $135 billion in gross tax cuts and $50 billion of revenue raisers and extenders ($30 billion of which is the extension of the airline ticket tax)
- A majority of the $135 billion in tax cuts are dedicated to the President's priorities for middle-income tax relief, including education tax cuts and the $500 per child tax credit

COLAs

- No legislated change in COLAs. Congress will incorporate into its economic assumptions the expected effect of ongoing improvements at the Bureau of Labor Statistics.

Welfare Reform

- A welfare-to-work tax credit to help long-term welfare recipients get jobs
- New flexibility for states and localities to provide benefits for poor families

President Clinton Worked to Expand Educational Opportunity for All

President Clinton would not accept any balanced budget agreement that does not expand educational opportunities in America.

TO OPEN THE DOORS OF COLLEGE, THIS BUDGET AGREEMENT INCLUDES:

- **Pell Grant Expansion.** Includes the largest increase in two decades -- a funding boost of 25%. The maximum award will reach $3,000, an increase of $300. In the 1998 budget alone, an additional 348,000 students will receive grants: 130,000 young people from moderate-income families, and 218,000 low income students over the age of 24.

- **Tax cuts for higher education.** To help make college affordable for all American families.

- **Work-Study.** Will continue to expand the availability of work-study jobs, including an increasing number of community service positions, moving closer to the President's commitment to 1 million work-study jobs by the year 2000.

EXPAND ACCESS TO HEAD START AND EARLY HEAD START

- **A Commitment to Enrolling 1 million children in Head Start in 2002.** The President has long been committed to making Head Start, and now Early Start, available to more children. The agreement adopts that goal, accepting the President's proposal for increases from 1998 to 2002.

- **Over the past 4 years, the President, working with allies in Congress, has secured a 43% increase in funds for Head Start.** The program will serve 800,000 in 1997, and the 1998 budget will bring in 86,000 more children.

America Reads Challenge

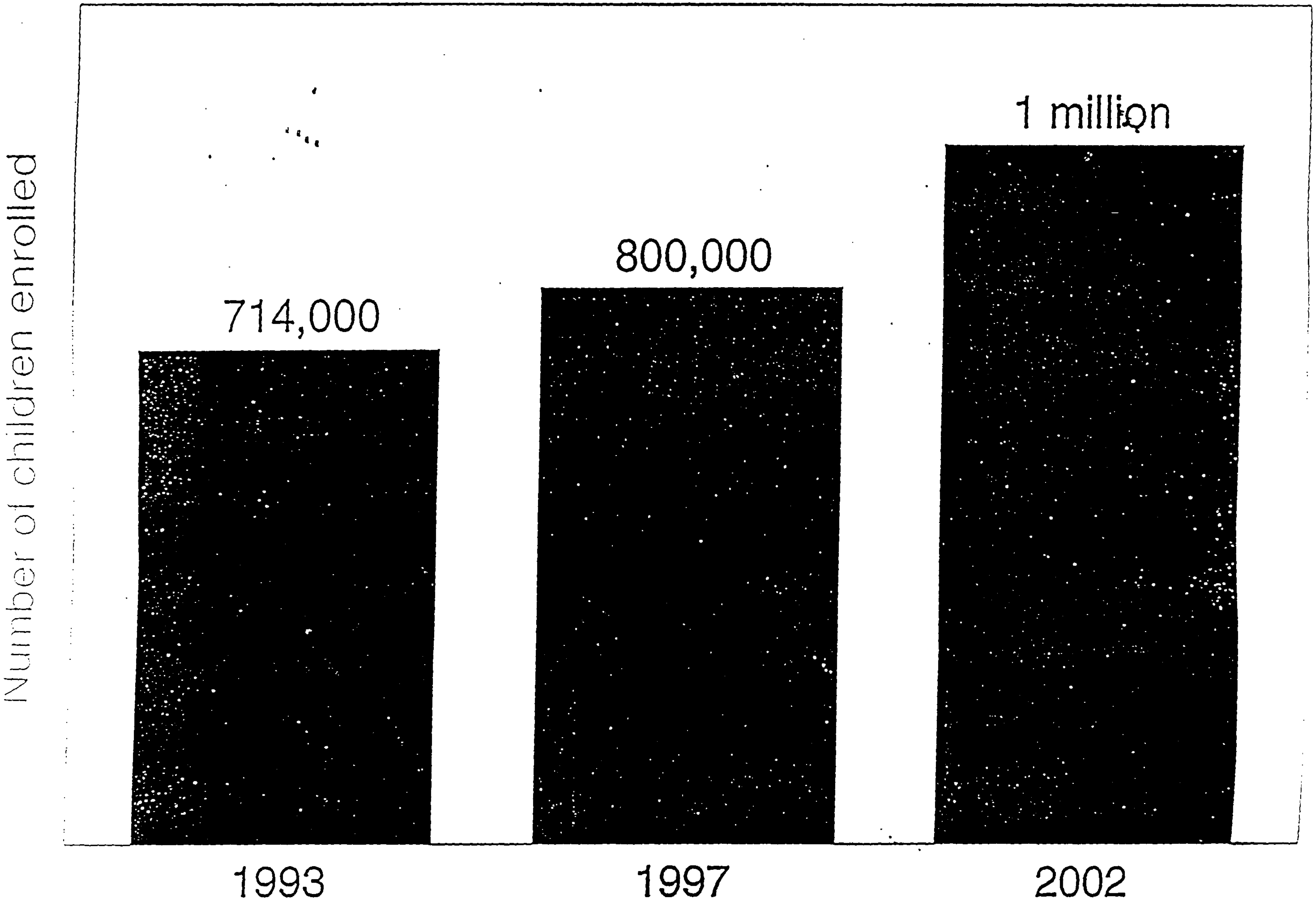
- **The President has launched the America Reads Challenge to ensure that all kids read well and independently by the end of the third grade.** This commitment includes:

✔ **America's Reading Corps.** Will provide individualized after-school and summer help for over three million children in grades K-3. Federal aid would be used to help communities recruit and train over 1 million tutors.

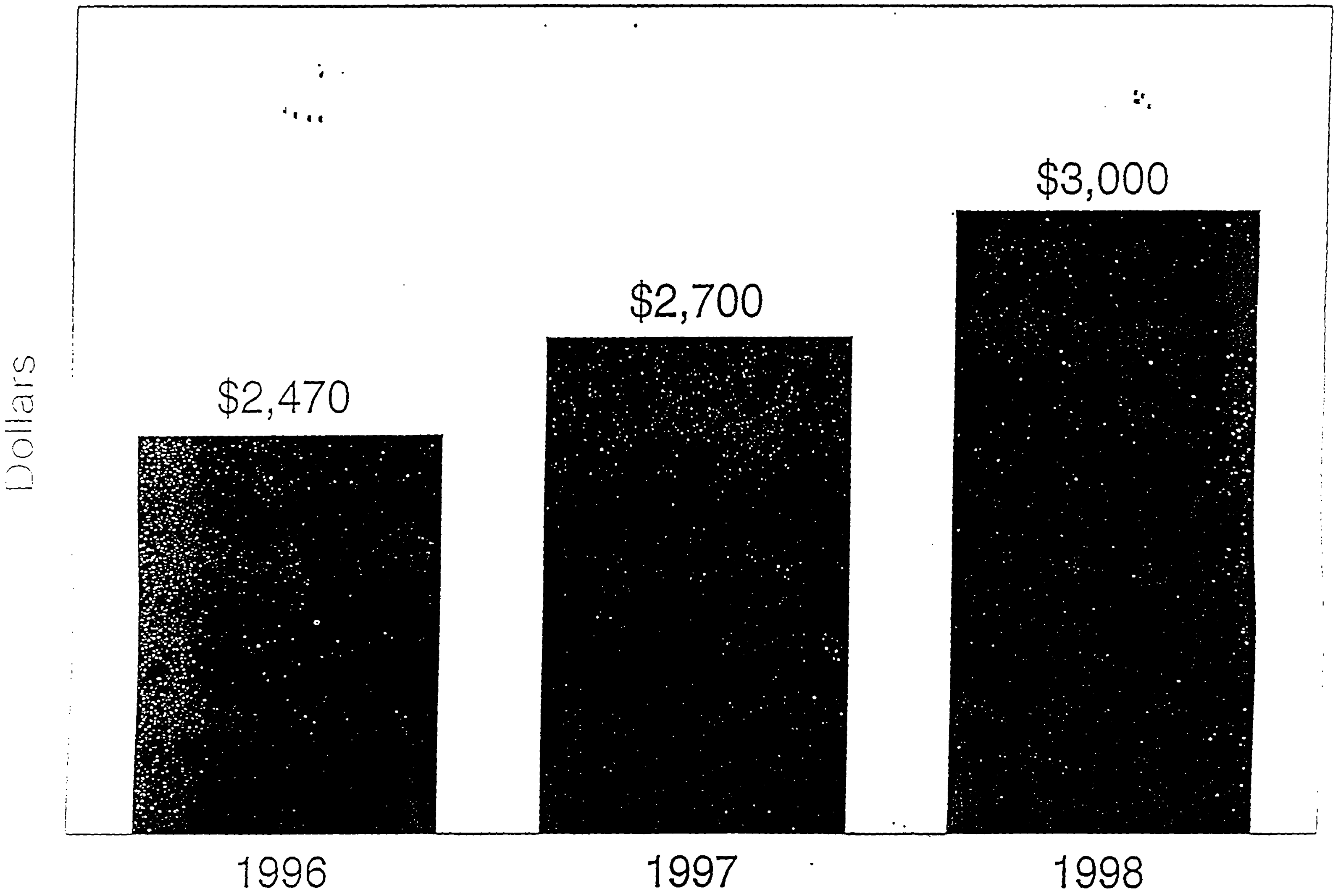
Working to Ensure that Every 12 Year Old Can Logon to the Internet

- **Technology Literacy.** Doubles funding to help ensure that computers are in every classroom, every classroom is connected to the Internet, all teachers are trained, and that high quality software and on-line resources are available to help schools integrate technology into the curriculum so that students can become technologically literate.

Presidential Priority
Increase Head Start Enrollment



Presidential Priority
Increase Maximum Pell Grant



President Clinton Worked to Expand Coverage for Children

TEN MILLION AMERICAN CHILDREN TODAY LACK HEALTH CARE COVERAGE.

THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVE EXPANDS HEALTH CARE COVERAGE FOR MILLIONS OF CHILDREN.

- *THE PRESIDENT FOUGHT TO ENSURE THAT ANY BALANCED BUDGET AGREEMENT EXPANDS CHILDREN'S HEALTH COVERAGE. HIS CHILDREN'S HEALTH INITIATIVE PROVIDES HEALTH COVERAGE FOR AS MANY AS FIVE MILLION ADDITIONAL CHILDREN BY:*

✔ **Strengthens Medicaid for Children.** The President fought to ensure that the guarantee of Medicaid coverage for all poor children is preserved. Furthermore, the Agreement invests in expanding Medicaid coverage for poor children by:

- Working to enroll many of the three million children who are eligible but not enrolled in Medicaid;
- Providing States with new options to expand coverage to children; and
- Continuing Medicaid coverage for children with disabilities who lost coverage due to definitional changes as well as impoverished legal immigrants.

✔ **Supports Innovative State Programs through a Capped Mandatory Grant Program.** States could receive grants to:

- Cover children whose families earn too much to qualify for Medicaid but too little to afford private coverage; and
- Builds on innovative programs that address the unique needs of children in each State. For example, programs lke State/insurance company partnerships and school-based could be expanded.

President Clinton Worked for Stronger Environmental Enforcement and Protection

PRESIDENT CLINTON WOULD NOT ACCEPT ANY BUDGET THAT DOES NOT INCREASE ENVIRONMENTAL PROTECTION

President Clinton is working to move the country forward toward a cleaner environment:

ACCELERATE TOXIC WASTE CLEANUPS

- **Double the Pace of Superfund Cleanups.** In contrast to earlier Republican efforts to slow cleanups down, the President has achieved a near doubling of the pace of Superfund cleanups. The budget provides for:
  - ✔ **The cleanup of 500 additional sites** by the end of the year 2000 so millions of Americans can enter the next century in healthier neighborhoods.
  - ✔ **A $650 million increase over 1997 for Superfund**, bringing total funding to $2.1 billion in 1998.

EXPAND BROWNFIELDS REDEVELOPMENT INITIATIVE

- **Tax Incentives for Distressed Areas.** The President's Brownfields Initiative helps communities cleanup and redevelop contaminated areas with grants and targeted tax incentives, creating jobs and protecting public health.

  - ✔ **Funding is boosted $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.

IMPROVE AMERICANS' RIGHT TO KNOW ABOUT TOXICS

- **Expanding Community Right-to-Know.** The budget includes new funds to expand the information people get about toxic threats to their families and communities.

MORE AGGRESSIVE CRIMINAL ENFORCEMENT AGAINST POLLUTERS

- **Stepped-Up Enforcement.** President Clinton is committed to more aggressive enforcement efforts against polluters. The budget provides:
  - ✔ **Increased funding** to train state and local officials who work at the local level to enforce environmental laws.
  - ✔ **An increase** to the account which funds EPA enforcement.

BETTER PROTECTION OF NATIONAL PARKS

- **Helping Preserve our National Heritage.** The budget provides a 6 percent ($66m) increase for national park operations to help improve park facilities and further protect

PROMOTE ENERGY EFFICIENCY AND RENEWABLE ENERGY

- The budget contains **new funds for energy efficiency and for solar and renewable energy.**

President Clinton Worked to Modernize and Strengthen Medicare and Medicaid

TO MODERNIZE THE MEDICARE PROGRAM AND BRING IT INTO THE 21ST CENTURY, THE BUDGET:

✔ ***EXTENDS THE LIFE OF THE MEDICARE TRUST FUND UNTIL AT LEAST 2008.***

✔ *MODERNIZES MEDICARE.* The Agreement contains a series of structural reforms which modernize the program, bringing in line with the private sector and preparing it for the baby boom generation. It:

- ***Increases the number of health plan options*** -- by making Preferred Provider Organizations and Provider Sponsored Organizations -- available to Medicare's seniors and people with disabilities.

- ***Improves Medicare managed care payment methodology and informed beneficiary choice.*** Addresses geographic disparities in payments; and adjusts managed care rates for overpayments due to favorable selection.

- ***Builds on the successful hospital prospective payment system model,*** implementing prospective payment systems for skilled nursing home facilities, home health, and hospital outpatient departments.

✔ *EXPANDS PREVENTIVE BENEFITS.*

- ***Waives cost-sharing for mammography services and provides annual screening mammograms*** for beneficiaries age 40 and older to help detect breast cancer;

- ***Establishes a diabetes self-management benefit***;

- ***Covers colorectal screening*** (early detection of cancer can result in less costly treatment, enhanced quality of life, and, in some cases, greater likelihood of cure);

- ***Increases reimbursement rates for certain immunizations*** to protect seniors from pneumonia, influenza, and hepatitis.

Preserves and Protects Medicaid

✔ **Achieves $14.6 billion in savings** through increased State flexibility and a reduction in disproportionate share hospital payments, while maintaining the federal guarantee to coverage. Eliminates per capita cap.

✔ **Extends Medicaid coverage to uninsured children** through new options and outreach.

✔ **Restores Medicaid coverage for legal immigrants** allowing children to keep their Medicaid coverage if they lost their SSI eligibility following last year's definitional change, restores Medicaid to legal immigrants who pay taxes, play by the rules but are disabled and maintains eligibility for legal immigrant children whose families are impoverished.

President Clinton Fought to Protect The Most Vulnerable People

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

THE PRESIDENT FOUGHT TO BETTER PROTECT:

CHILDREN

- ✔ **Keeping the Guarantee to Medicaid.** Preserves the Federal guarantee of Medicaid coverage for the vulnerable populations who depend on it and contains additional investments to extend coverage to uninsured children.

LEGAL IMMIGRANTS WITH DISABILITIES

- ✔ **Current Recipients.** Restores both SSI and Medicaid benefits for immigrants now receiving assistance who became disabled, ensuring that they will not be turned out of their apartments or nursing homes or otherwise left to an uncertain fate.

- ✔ **Current Resident Nonrecipients.** Does not change the rules retroactively. Immigrants who are already in the country are not now receiving benefits and subsequently become disabled will also be fully eligible for SSI and Medicaid benefits.

- ✔ **New Entrants.** Restores SSI and Medicaid benefits for those entering after the date of enactment who become disabled, with the proviso that sponsor deeming will be applied with respect to both programs.

- ✔ **Children.** Provides SSI (and Medicaid) benefits for disabled legal immigrant children who are in the country. For disabled children arriving after that date, sponsor deeming will be applied with respect to both SSI and Medicaid eligibility.

  Refugees and Asylees. Extends the SSI and Medicaid eligibility period for refugees and asylees from 5 years after entry (the limit in the welfare bill) to 7 years, in order to give these residents more time to naturalize.

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

- ✔ **Childless adults.** Last year's welfare reform bill harshly restricted food stamps for able-bodied childless adults to only 3 out of every 36 months, unless they are working. This move ignored the fact that finding a job often takes time. The budget agreement adds $750 million to the Food Stamp program, and redirects existing program funds, to create 190,000 new work slots for food stamp recipients subject to the "3 in 36" time limit.

- ✔ **Allows States to exempt up to 15 percent of the food stamp recipients who would otherwise be denied benefits as a result of the "3 in 36" limit.** These two provisions would preserve food stamps for a total of nearly 70,000 persons who want to work but have not, through no fault of their own, yet succeeded in finding employment.

FINISH THE JOB OF WELFARE REFORM

- ✔ **Additional resources for areas of particular need.** Adds $2.0 billion to the Temporary Assistance for Needy Families (TANF) block grant, to be targeted to high-poverty, high-unemployment areas. A share of the additional dollars will go directly to cities with large poverty populations. These resources will give States and cities the help they need to place welfare recipients living in the most disadvantaged areas into lasting jobs.

  These funds could be used for wage subsidies to private employers, transportation and other post-employment supportive services essential for job retention, and other effective job creation and placement strategies.

- ✔ **Extra incentive for employers.** Most welfare recipients want to work. The agreement establishes an enhanced welfare-to-work tax credit, to provide private employers with an incentive to give recipients a chance.

  The welfare-to-work tax credit in the budget agreement would allow employers to claim a credit of up to 50 percent of the first $10,000 in wages paid during a year to a worker who had been on welfare for a prolonged period of time. The credit is available for up to two years per worker, giving employers an incentive to not just hire, but make efforts to retain long-term welfare recipients.

  In addition, expands the existing work opportunity tax credit (WOTC) to include, as one of the eligible populations, individuals subject to the "3 in 36" food stamp limit.

President Clinton Delivers the First Balanced Budget in A Generation
Historic Agreement Promotes the Country's Priorities

President Clinton has achieved a balanced budget agreement that includes critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid — just as he promised last year. We have cut the deficit 63% — from $290 billion in 1992 to $107 billion last 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.

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.

- ✔ Largest Pell Grant increase in two decades -- 4 million students will 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.
- ✔ An America Reads initiative to mobilize a million tutors to help three million children learn to read by the end of the third grade.
- ✔ Expansion of Head Start -- to achieve goal of one million kids in 2002.
- ✔ Doubles funding to help schools integrate innovative technology into the curriculum.

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

- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007 through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

GOAL: Strengthen environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

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.
- ✔ Restores disability and health benefits for legal immigrants.
- ✔ Restores Medicaid coverage for poor legal immigrant children.
- ✔ Preserves food stamp benefits for people willing to work.
- ✔ Provides States and cities with additional resources to move disadvantaged recipients into jobs.

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.

Fact Sheet on the Budget Agreement
May 2, 1997

- Budget balances by 2002 -- for the first time since 1969

New initiatives

- Agreement provides $34 billion over 5 years for new initiatives, including:

  -- Full funding ($16 to $17 billion over 5 years) to provide health insurance for as many as 5 million children

  -- Restoring medical and disability benefits to legal immigrants

Discretionary spending

- Non-defense discretionary outlays are within 1 percent of the President's FY 1998 Budget request over 5 years -- protecting education, the environment, international and other priorities

- Defense spending meets President's FY 1998 Budget request (on budget authority)

Entitlement savings

- Medicare savings of $115 billion over 5 years and long overdue structural reforms, extending the life of the Trust Fund until at least 2007

  -- Modernizes Medicare by providing new incentives for managed care and new preventive care benefits (such as for diabetes and breast cancer)

  -- Gradually phases in, over time, cost of home health care into Part B premium

  -- Expands Medicare low-income protections to 150 percent of poverty threshold

- Reduces Medicaid spending through reductions in DSH payments and increased state flexibility, while maintaining the Federal guarantee. Per capita cap eliminated.

Education

- Largest increase in education spending in 30 years

- $35 billion for education tax cuts, including the Hope Scholarship and the $10,000 tax deduction

- Increases maximum Pell grant award to $3,000
- Fully funds the President's America Reads initiative

Environment

- Meets the President's commitments in priority areas, including Superfund and brownfields
- Invests in National Parks and Federal land management

Tax cuts

- $85 billion in net tax cuts, including $135 billion in gross tax cuts and $50 billion from revenue raisers and extensions of expiring tax provisions ($30 billion of which is the extension of the airline ticket tax)
- A majority of the $135 billion in tax cuts is directed towards middle-income tax relief.

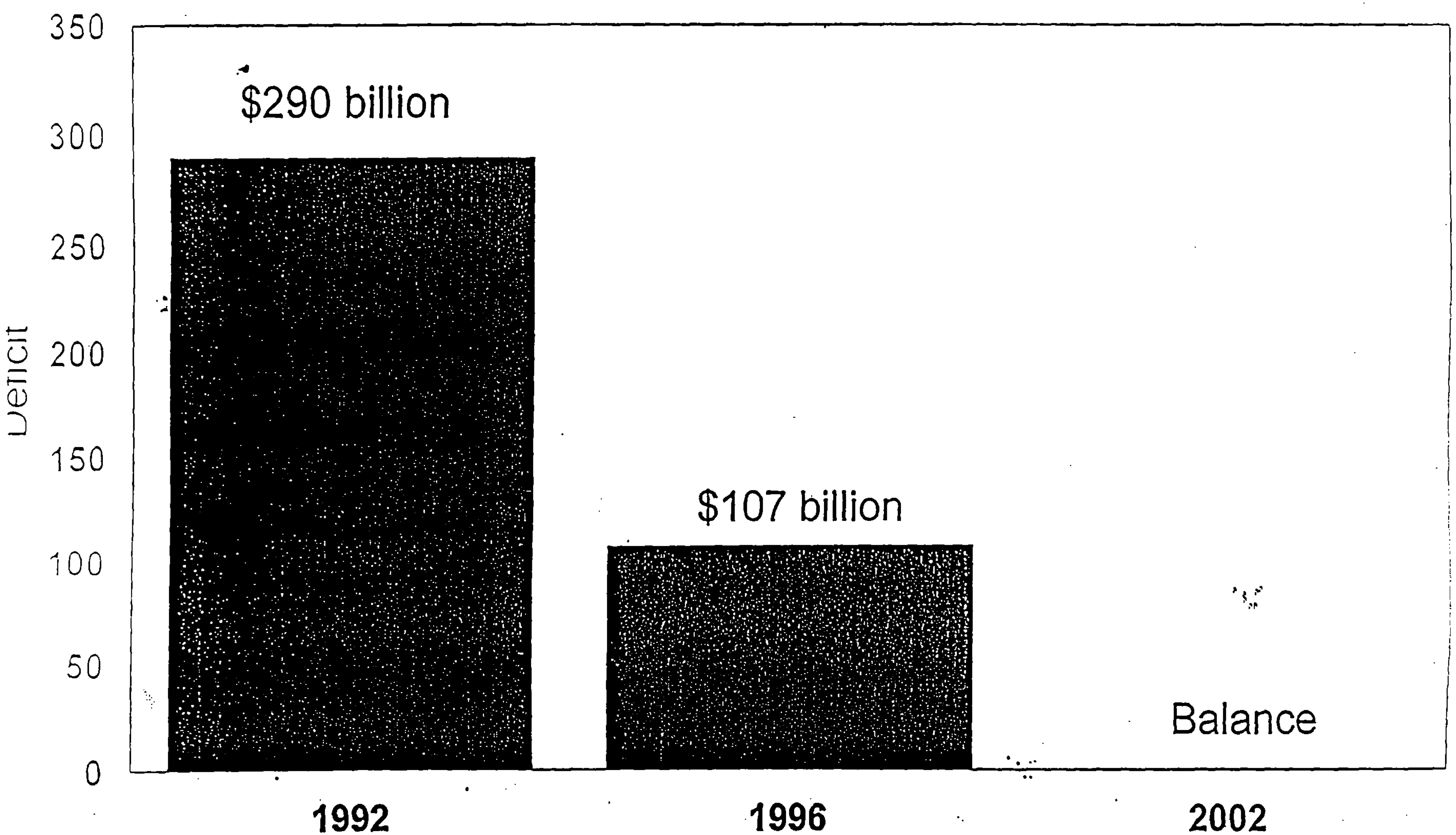
COLAs

- Congress will incorporate the impact of expected ongoing improvements at the BLS

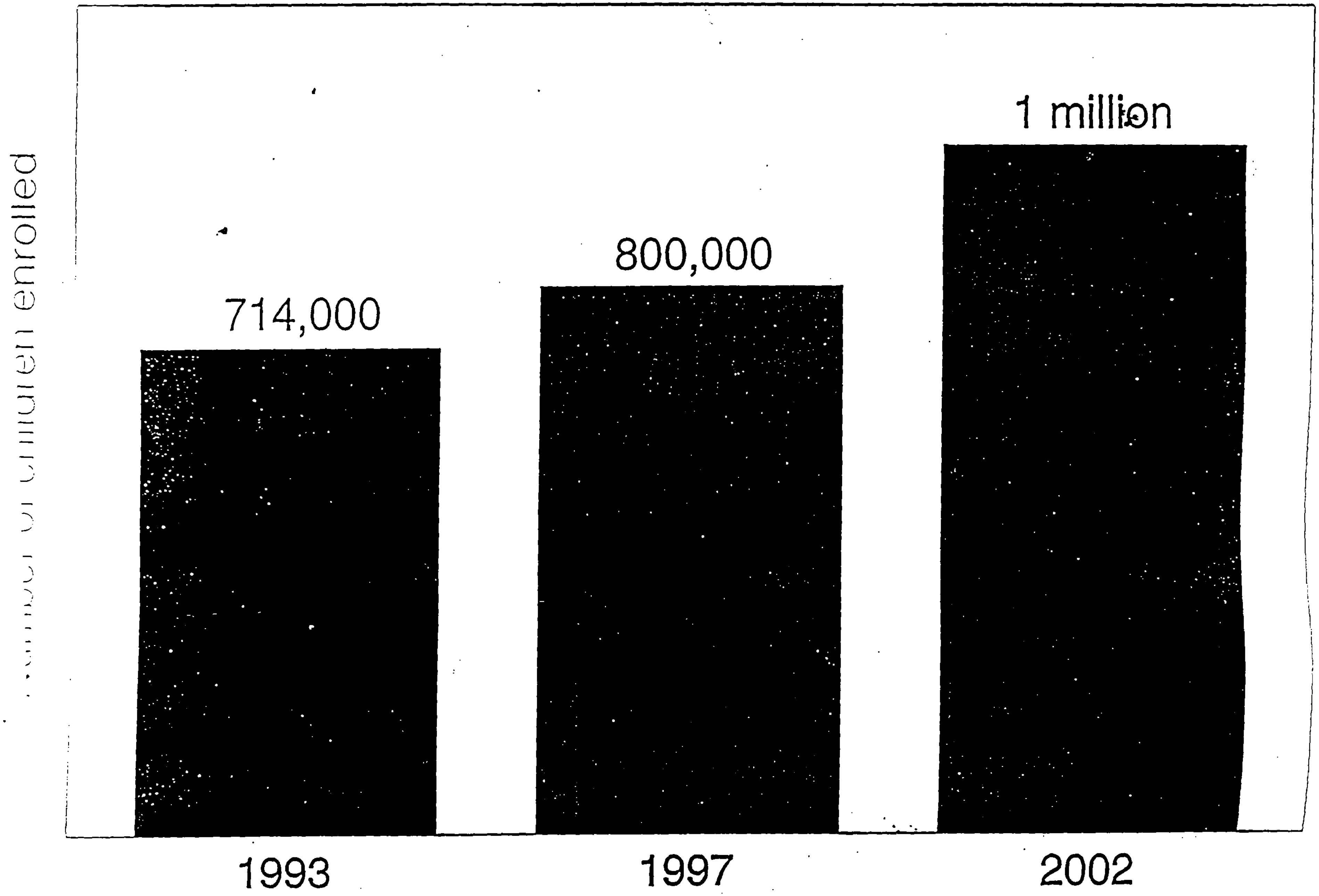
Welfare reform

- A welfare-to-work tax credit to help long-term welfare recipients get jobs
- New flexibility for states to provide benefits for poor families

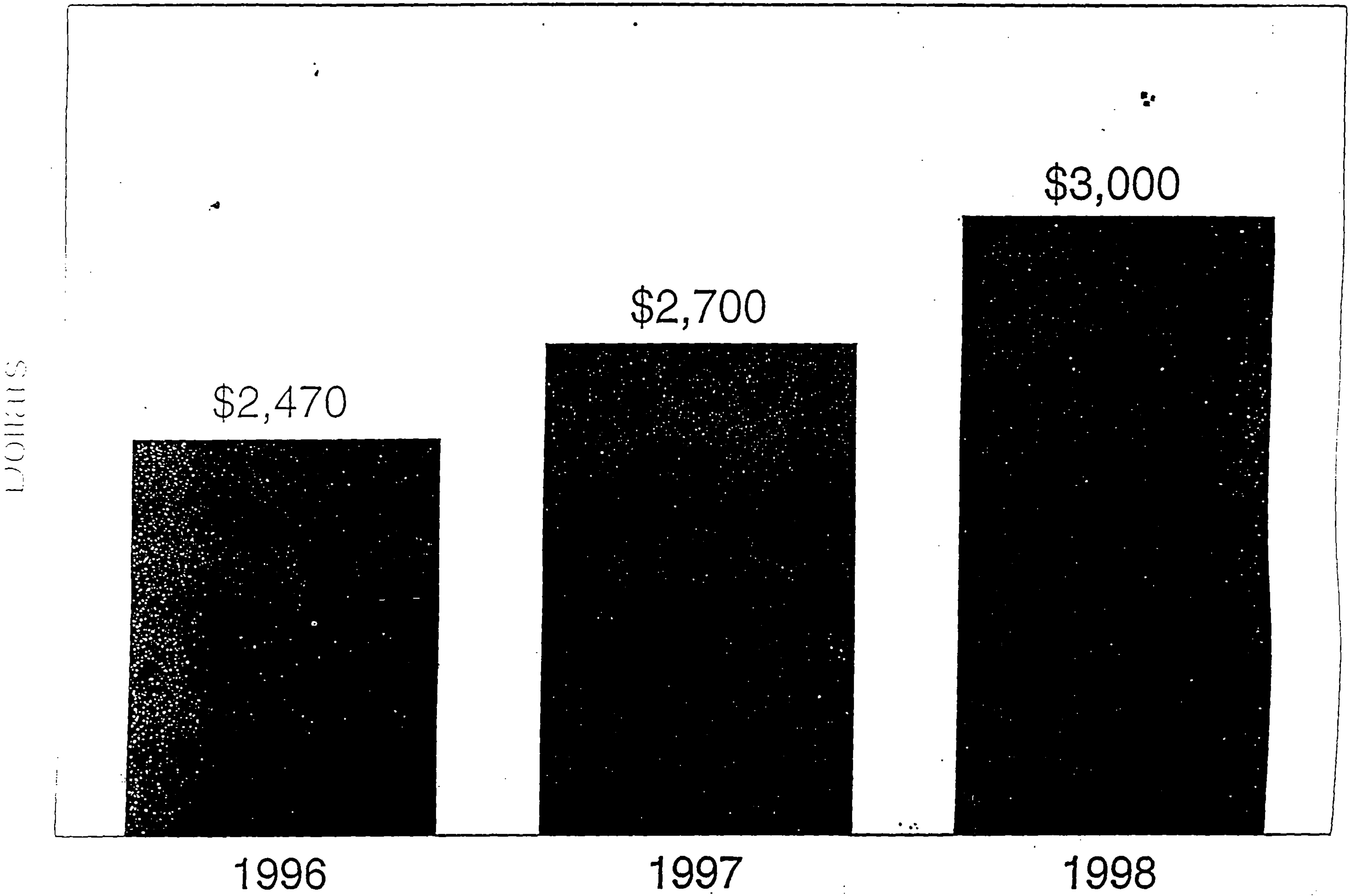
President Clinton Finishes The Job: First Balanced Budget in a Generation



Presidential Priority
Increase Head Start Enrollment



Presidential Priority
Increase Maximum Pell Grant



Kathryn B. Stack
05/02/97 05:35:02 PM

Record Type: Record

To: Robert M. Shireman/OPD/EOP

cc:

Subject: Largest education increase in 30 years

FYI. I'll fax you Tim's table.

---------------------- Forwarded by Kathryn B. Stack/OMB/EOP on 05/02/97 05:38 PM ---------------------------

Kathryn B. Stack
05/02/97 05:33:47 PM

Record Type: Record

To: Kenneth S. Apfel/OMB/EOP, Barry White/OMB/EOP

cc: Joseph M. Wire/OMB/EOP, Timothy A. Rosado/OMB/EOP

Subject: Largest education increase in 30 years

The President said it. Bob is looking for help in defending it.

I'm sending you a second - preliminary - version of the $51 billion table. Based on the info we have so far on what's in the deal (including $35B in tax cuts), it appears there is $49.8 billion for 1998 (compared to $42.1 billion in 1997 and $50.9 billion in the President's request). This $7.6 billion over 1997, an 18 percent increase.

We're pretty certain that it's the biggest increase in absolute dollars, but we aren't sure in percentage terms. OMB's historical tables prior to 1976 only carry outlays. We are checking ED on historical BA levels to see if we can verify the statement.

DRAFT

PRESIDENT CLINTON DELIVERS THE FIRST BALANCED BUDGET IN A GENERATION

THIS HISTORIC AGREEMENT PROMOTES THE COUNTRY'S PRIORITIES

MAY 2, 1997

TABLE OF CONTENTS

President Clinton Delivers the First Balanced Budget in A Generation
Historic Agreement Promotes the Country's Priorities
May 2, 1997

President Clinton has achieved a balanced budget agreement that includes critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid — just as he promised last year. We have cut the deficit 63% — from $290 billion in 1992 to $107 billion last 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.

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.

- ✔ Largest Pell Grant Increase in Two Decades -- 4 million students will receive a grant of up to $3,000, an increase of $300 in the maximum grant.
- ✔ Tax cuts targeted to higher education to make college more affordable for America's families.
- ✔ An America Reads initiative to mobilize a million tutors to help three million children learn to read by the end of the third grade
- ✔ Expansion of Head Start -- to achieve goal of one million kids in 2002.
- ✔ Doubles funding to help schools integrate innovative technology into the curriculum.

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

- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007 through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

GOAL: Strengthen environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

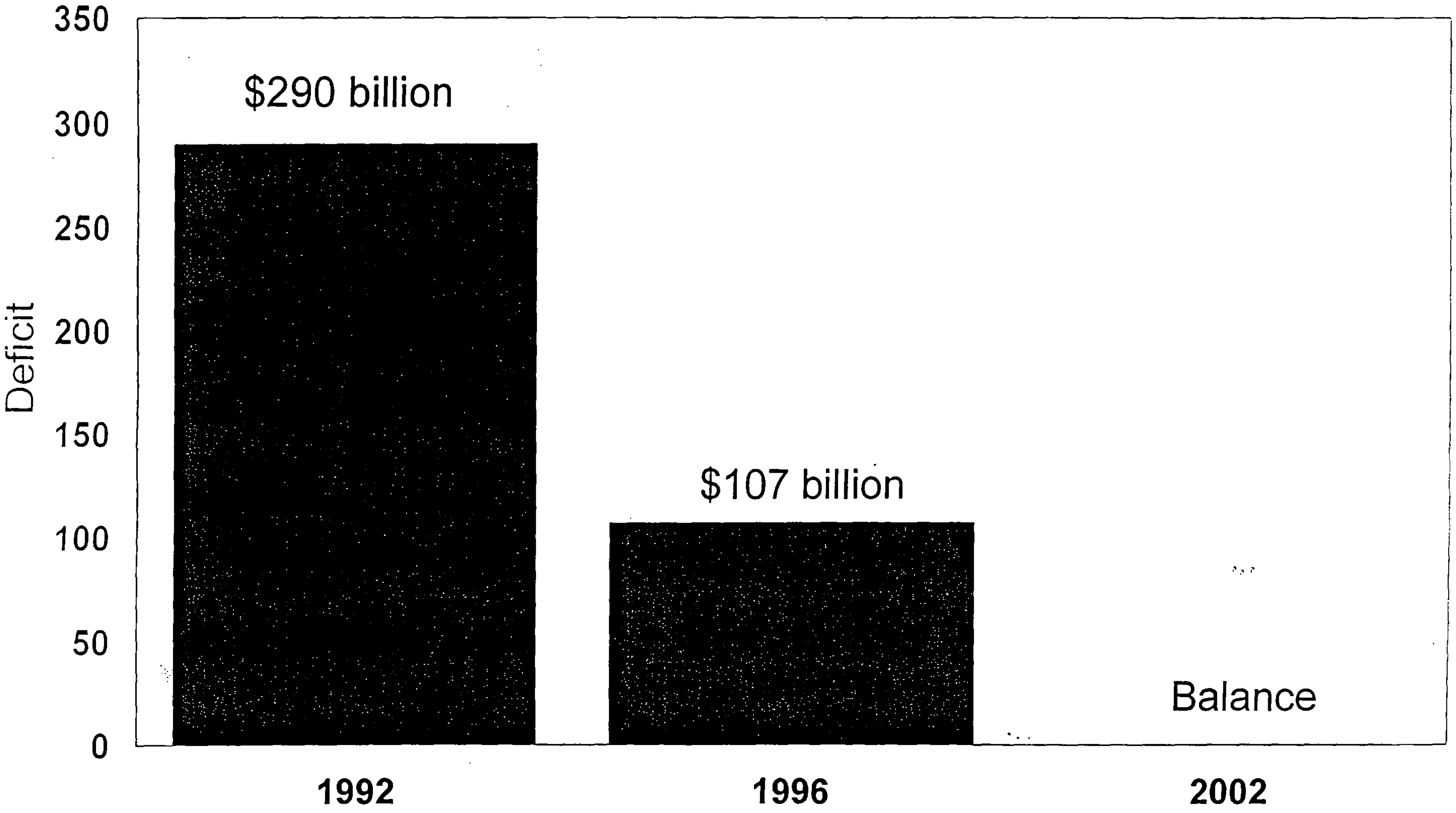
GOAL: Move people from welfare to work and treat legal immigrants fairly

- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients to get jobs.
- ✔ Restores disability and health benefits for legal immigrants.
- ✔ Restores Medicaid coverage for poor legal immigrant children.
- ✔ Preserves food stamp benefits for people willing to work.
- ✔ Provides States and cities with additional resources to move disadvantaged recipients into jobs.

GOAL: Cuts taxes for America's hard working families

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

President Clinton Finishes The Job: First Balanced Budget in a Generation



President Worked to
Expand Educational Opportunity for All

The President would <u>not</u> accept any balanced budget agreement that does not expand educational opportunities in America.

THE 1995 REPUBLICAN BUDGET, UNFORTUNATELY, WOULD HAVE CLOSED COLLEGE DOORS TO MANY AMERICANS. IT WOULD HAVE:

✂ **Frozen Pell Grant funding** -- because of increasing college enrollment, the Congress would have been forced to reduce the size of the grants -- while tuitions still increase -- in order to stay within the budget.

✂ **Increased the cost of student loans,** and cut off streamlined direct loan options to 2.5 million students in the first year alone.

INSTEAD, TO OPEN THE DOORS OF COLLEGE, THIS BUDGET INCLUDES:

- **Pell Grant Expansion.** Includes the largest increase in two decades -- a funding boost of 25%. The maximum award will reach $3,000, an increase of $300. In the 1998 budget alone, an additional 348,000 students will receive grants: 130,000 young people from moderate-income families, and 218,000 low income students over the age of 24.

- **Tax cuts for higher education.** To help make college affordable for all American families.

- **Work-Study.** Will continue to expand the availability of work-study jobs, including an increasing number of community service positions, moving closer to the President's commitment to 1 million work-study jobs by the year 2000.

EXPAND ACCESS TO HEAD START AND EARLY HEAD START

- **A Commitment to Enrolling 1 million children in Head Start in 2002.** The President has long been committed to making Head Start, and now Early Start, available to more children. The agreement adopts that goal, accepting the President's proposal for increases from 1998 to 2002.

THE 1995 REPUBLICAN BUDGET WOULD REQUIRE A CUT OF 150,000 CHILDREN FROM HEAD START BY 2002.

- **Over the past 4 years, the President, working with allies in Congress, has secured a 43% increase in funds for Head Start.** The program will serve 800,000 in 1997, and the 1998 budget will bring in 86,000 more children.

America Reads Challenge

- **The President has launched the America Reads Challenge to ensure that all kids read well and independently by the end of the third grade.** This commitment includes:

  ✔ **America's Reading Corps.** Will provide individualized after-school and summer help for over three million children in grades K-3. Federal aid would be used to help communities recruit and train over 1 million tutors.

  ✔ **Parents as First Teachers.** Because research shows that the first three years of life are so important to development, a grant fund will expand successful programs that provide parents help and information in teaching their children to read.

Promote Educational Improvement and High Standards

- **Technology Literacy.** Doubles funding to help ensure that computers are in every classroom, every classroom is connected to the Internet, all teachers are trained, and that high quality software and on-line resources are available.to help schools integrate technology into the curriculum so that students can become technologically literate.

- **Goals 2000.** A 26% increase will help 4000 additional schools move toward higher academic standards for all students.

- **Charter Schools.** $100 million -- about double the 1997 level -- to support planning and start-up costs for 1100 schools that increase student and family choice among public schools.

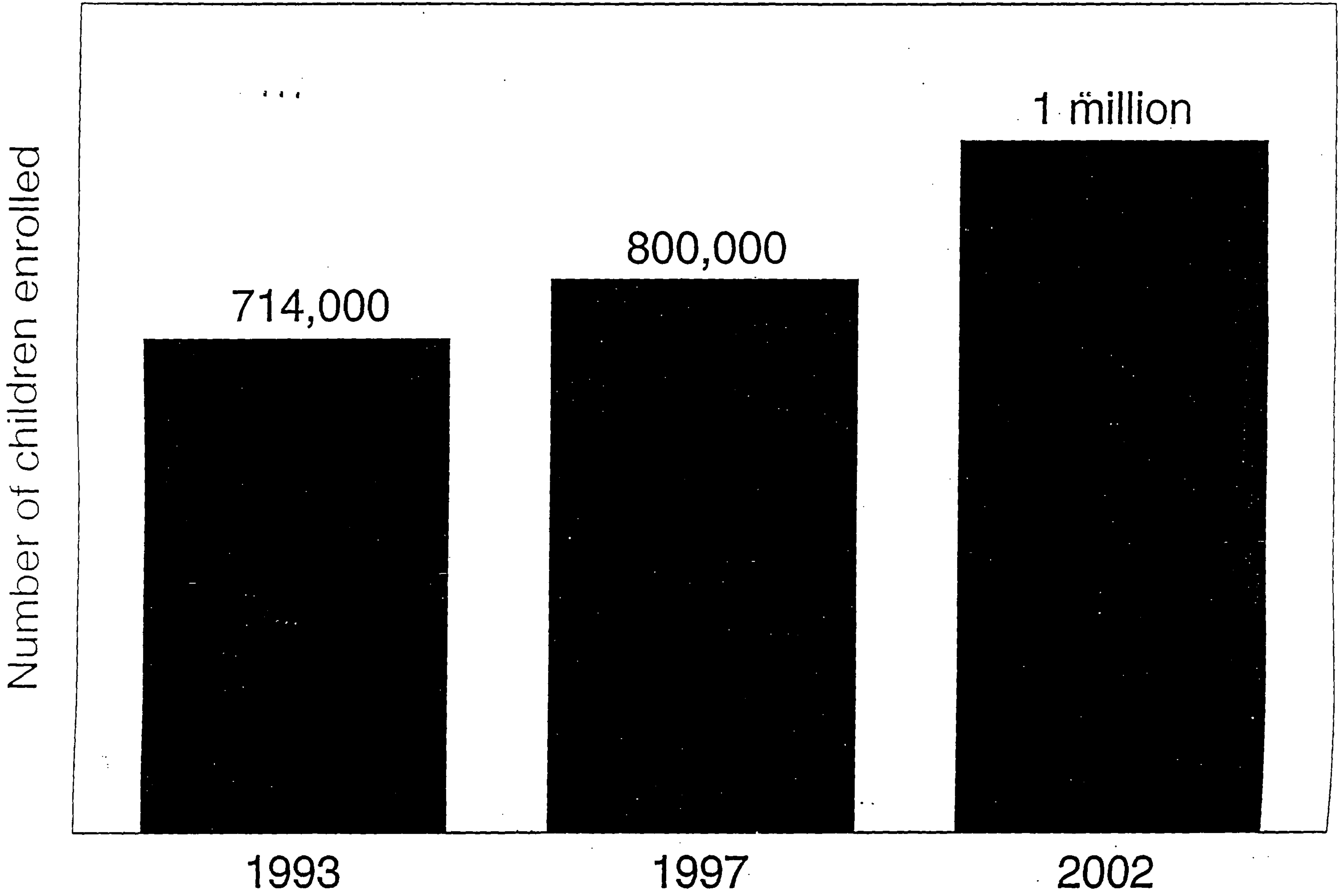
- **Bilingual Education.** $199 million for Bilingual Education in FY 1998, a 27% increase over 1997, to help improve the quality of instruction for limited-English proficient children, teaching them English and preparing them to meet the same challenging academic standards as all other students.

- **Immigrant Education.** A 50% increase for Immigrant Education, to help States with large concentrations of recent immigrants to offset the financial impact of immigrant students on school systems.

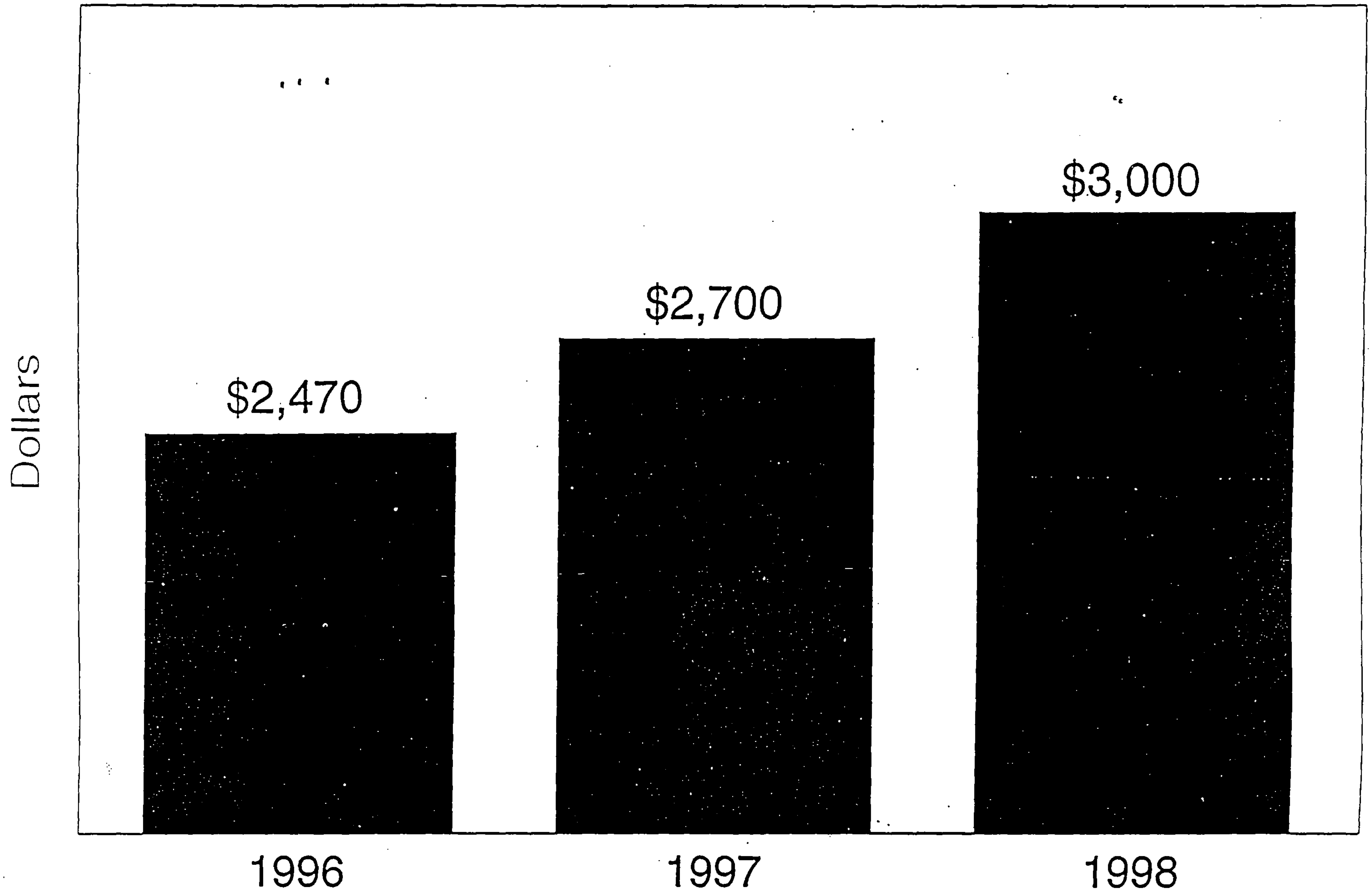
- **Title I.** $8.1 billion -- a 5% increase -- to help low-income children meet challenging academic standards, and to hold schools accountable for progress toward those standards.

- **Safe & Drug-Free Schools.** A 12% increase to help 97% of school districts implement anti-drug and anti-violence programs.

Presidential Priority
Increase Head Start Enrollment



Presidential Priority
Increase Maximum Pell Grant



THE PRESIDENT WORKED TO EXPAND COVERAGE FOR CHILDREN

TEN MILLION AMERICAN CHILDREN TODAY LACK HEALTH CARE COVERAGE.

THE 1995 REPUBLICAN BUDGET WOULD HAVE MADE THE PROBLEM WORSE. IT WOULD HAVE:

- **Created Block Grant that would have increased the number of uninsured children.** The 1995 Republican budget even failed the "do no harm" in the areas of children's health. That budget eliminated the guarantee of a meaningful Medicaid package for poor children and attempted to replace Medicaid with an insufficiently funded block grant program.

- **Would have forced states to decrease the number of insured children** by as many as 3.8 million due to a lack of sufficient funds, according to a study by the Department of Health and Human Services.

- **Eliminated the Medicaid phase-in for children between the ages of 13 and 18.**

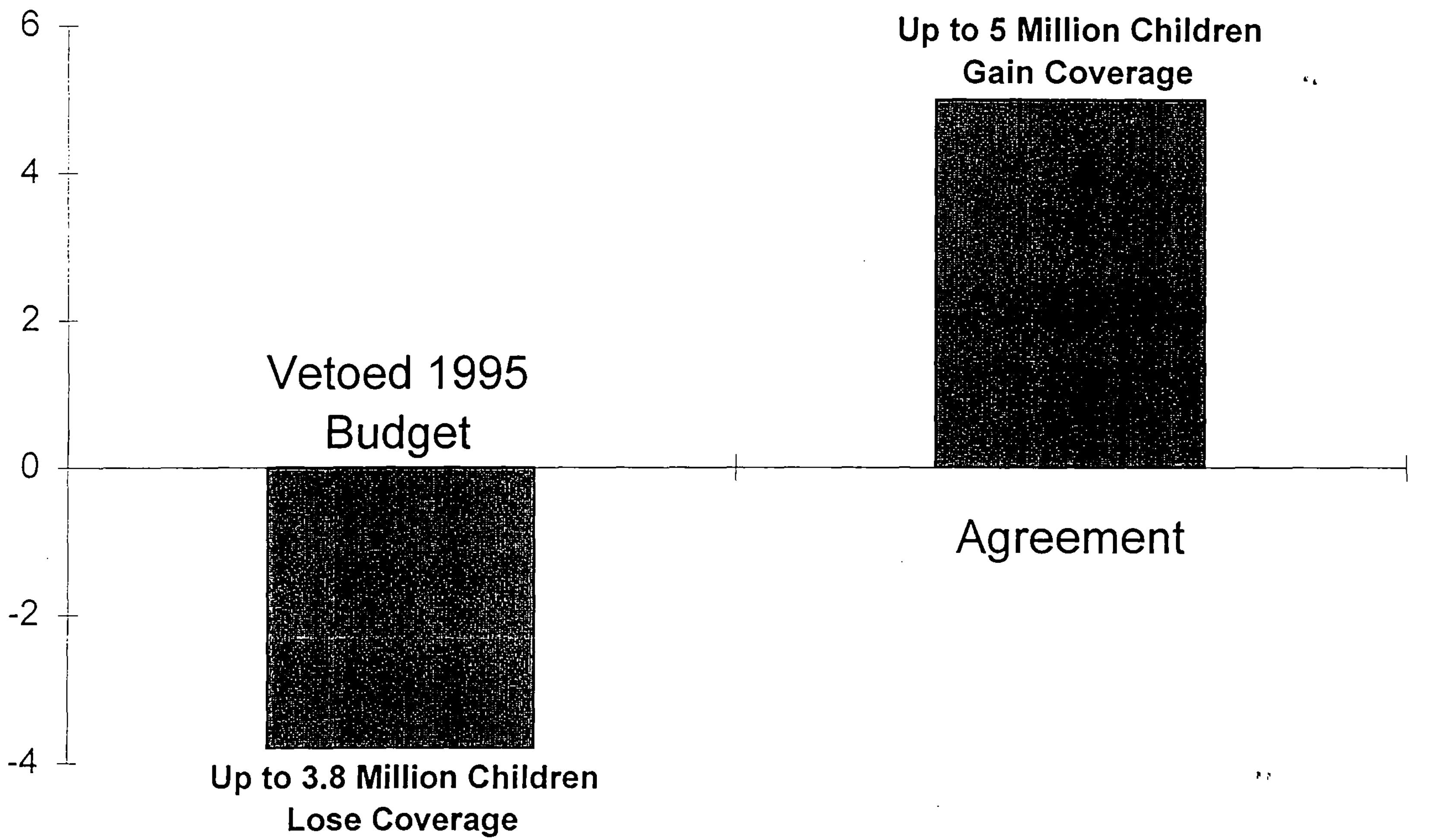
THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVE EXPANDS HEALTH CARE COVERAGE FOR MILLIONS OF CHILDREN

- *THE PRESIDENT FOUGHT TO ENSURE THAT ANY BALANCED BUDGET AGREEMENT EXPANDS CHILDREN'S HEALTH COVERAGE. HIS CHILDREN'S HEALTH INITIATIVE PROVIDES HEALTH COVERAGE FOR AS MANY AS FIVE MILLION ADDITIONAL CHILDREN BY:*

  - ✔ **Improving Medicaid and Adding Medicaid Investments.** The budget agreement works to enroll many of the 3 million children who are eligible but not enrolled for Medicaid, to expand coverage to children who are above the current income eligibility standards, to provide additional coverage to children and legal immigrants.

  - ✔ **A New Capped Mandatory Grant Program That Provides Additional Dollars to Supplement States Efforts** to cover uninsured children in working families.

Improvement in Children's Health Coverage



DHHS estimates of November 1995 Vetoed Balanced Budget Act's Medicaid Block Grant effects & the President's 1997 Children's Health Initiative

President Clinton Worked for Stronger Environmental Enforcement and Protection

PRESIDENT CLINTON WOULD NOT ACCEPT ANY BUDGET THAT DOES NOT INCREASE ENVIRONMENTAL PROTECTION

THE 1995 REPUBLICAN BUDGET WOULD HAVE MOVED THE COUNTRY BACKWARD IN OUR QUEST FOR A CLEANER ENVIRONMENT:

✂ **Took Environmental Cop off the Beat.** It would have cut the enforcement of environmental laws by a quarter and let polluters off the hook.

✂ **Slowed toxic waste cleanups.** It slashed funding -- 25 percent in the first year -- for toxic waste cleanup efforts. In all the Republican Budget would have cut EPA's budget by 22 percent.

President Clinton is working to move the country forward toward a cleaner environment:

ACCELERATE TOXIC WASTE CLEANUPS

- **Double the Pace of Superfund Cleanups.** In contrast to earlier Republican efforts to slow cleanups down, the President has achieved a near doubling of the pace of Superfund cleanups. The budget provides for:
  - ✔ **The cleanup of 500 additional sites** by the end of the year 2000 so millions of Americans can enter the next century in healthier neighborhoods.
  - ✔ **A $650 million increase over 1997 for Superfund**, bringing total funding to $2.1 billion in 1998.

EXPAND BROWNFIELDS REDEVELOPMENT INITIATIVE

- **Tax Incentives for Distressed Areas.** The President's Brownfields Initiative helps communities cleanup and redevelop contaminated areas with grants and targeted tax incentives, creating jobs and protecting public health.
  - ✔ **Funding is boosted $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.

IMPROVE AMERICANS' RIGHT TO KNOW ABOUT TOXICS

- **Expanding Community Right-to-Know.** The agreement includes $49 million to expand the information people get about toxic threats to their families and communities.

MORE AGGRESSIVE CRIMINAL ENFORCEMENT OF POLLUTERS

- **Stepped-Up Enforcement.** President Clinton is committed to more aggressive enforcement efforts against polluters. The budget agreement provides:
  - ✔ **Increased funding** to train state and local officials who work at the local level to enforce environmental laws.
  - ✔ **A 9 percent increase** to the account which funds EPA enforcement.

BETTER PROTECTION OF NATIONAL PARKS

- **Helping Preserve our National Heritage.** The agreement provides a 6 percent ($66m) increase for national park operations to help improve park facilities and further protect our natural treasures. The agreement also includes:
  - ✔ **An 8 percent increase ($14m) for wildlife refuge operations**
  - ✔ **A 163 percent increase ($205m) for Everglades restoration**
  - ✔ **Funding for the new Grand Staircase-Escalante National Monument** which comprises more than one and a half million acres encompassing hundreds of millions of years of geological and cultural history.

PROMOTE ENERGY EFFICIENCY AND RENEWABLE ENERGY

- The agreement contains **$688 million for energy efficiency** and **$330 million for solar and renewable energy,** increases of **25 percent** and **22 percent**, respectively, over 1997.

President Worked to Modernize and Strengthen Medicare and Medicaid

THE PRESIDENT REJECTED THE 1995 REPUBLICAN BUDGET IN LARGE PART BECAUSE OF DEEP CUTS IN MEDICARE AND MEDICAID.

THE 1995 REPUBLICAN BUDGET CONTAINED DANGEROUS MEDICARE STRUCTURAL REFORMS THAT WOULD HAVE UNDERMINED THE PROGRAM AND IMPOSED PREMIUMS AND BURDENS THAT WOULD HAVE HURT OLDER AND DISABLED AMERICANS. IT WOULD HAVE:

- **Increased premiums from 25% of Part B program costs to 31.5%.** These higher costs would have placed a large financial burden on Medicare beneficiaries -- three-quarters of whom have incomes below $25,000. In 1996 alone, this would have increased costs per elderly couple by $268.

- **Eliminated balance billing protections,** allowing doctors in the new private fee-for-service plan options to overcharge above Medicare's approved amount leaving the elderly vulnerable to higher costs and giving doctors in the fee-for-service program an incentive to switch to private health care plans, reducing access for beneficiaries in the traditional plan.

- **Encouraged "Cherry Picking" that would have harmed beneficiaries and damaged the Medicare program.** The Republican proposals would have introduced nationwide health plan options, such as medical savings accounts and risky "association" plans, that would have led to risk selection, thereby increasing the costs of what would be a sicker and weaker traditional Medicare program.

- **Included only $100 million in investments in preventive benefits.**

- **Repealed the Medicaid program and replaced it with a block grant.** The plan would have eliminated the Federal guarantee Medicaid provides to poor families. In 2002 alone, 8 million people could have lost their health coverage, because of inadequate funding. In addition, as many as 330,000 people could have been denied nursing home coverage.

- **Eliminated the guarantee of Medicaid coverage of Medicare deductibles, copayments, and premiums** for older Americans and people with disabilities near or below the poverty line known as "Qualified Medicare Beneficiaries (QMBs)". They set aside less than half the money needed to cover premiums for QMBs and set aside no funding for deductibles or copayments. More than 5 million elderly and disabled poor Americans would have lost their guarantee that Medicaid covers Medicare cost-sharing.

TO MODERNIZE THE MEDICARE PROGRAM AND BRING IT INTO THE 21ST CENTURY, THIS BUDGET:

- ✔ **Extends the life of the Medicare Trust Fund at least a decade.**

- ✔ **Makes positive structural reforms.** The President's budget contains a series of structural reforms which modernize the program, bringing in line with the private sector and preparing it for the baby boom generation. It:

  - ☞ ***Increases the number of health plan options*** -- including Preferred Provider Organizations and Provider Sponsored Organizations -- available to seniors and people with disabilities.

  - ☞ ***Improves Medicare managed care payment methodology and informed beneficiary choice.*** The President's budget addresses geographic disparities in payments; removes graduate medical education and disproportionate share hospital payments from managed care rates; and adjusts managed care rates for overpayments due to favorable selection.

  - ☞ ***Guarantees that beneficiaries can enroll in Medigap plans annually without being subject to preexisting condition exclusions,*** enabling beneficiaries to enroll in managed care without fearing that they would not be able to re-enroll in traditional Medicare.

  - ☞ ***Builds on the successful hospital prospective payment system model,*** implementing prospective payment systems for skilled nursing home facilities, home health, and hospital outpatient departments.

  - ☞ ***Adopts successful approaches to purchasing other types of services,*** including: competitive pricing for durable medical equipment; laboratories; other items and supplies; expanded "centers of excellence"; and increased flexibility from program rules in negotiating rates.

- ✔ **Expands preventive benefits.** This budget agreement:

  - ☞ ***Waives cost-sharing for mammography services and provides annual screening mammograms*** for beneficiaries age 40 and older to help detect breast cancer;

  - ☞ ***Establishes a diabetes self-management benefit***;

  - ☞ ***Covers colorectal screening*** (early detection of cancer can result in less costly treatment, enhanced quality of life, and, in some cases, greater likelihood of cure);

  - ☞ ***Increases reimbursement rates for certain immunizations*** to protect seniors from pneumonia, influenza, and hepatitis.

President Clinton Fought to Protect
The Most Vulnerable People

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

THE PRESIDENT FOUGHT TO BETTER PROTECT:

CHILDREN

- ✔ **Keeping the Guarantee to Medicaid.** Preserves the Federal guarantee of Medicaid coverage for the vulnerable populations who depend on it.

- ✔ **Medicaid for Legal Immigrant Children.** For nondisabled immigrant children arriving after the welfare bill date of enactment, sponsor deeming will be applied for purposes of Medicaid eligibility--the income and resources of the sponsor will be counted as the immigrant child's in making the eligibility determination.

LEGAL IMMIGRANTS WITH DISABILITIES

- ✔ **Current Recipients.** Restores both SSI and Medicaid benefits for immigrants now receiving assistance who became disabled after entry, ensuring that they will not be turned out of their apartments or nursing homes or otherwise left to an uncertain fate.

- ✔ **Current Resident Nonrecipients.** Does not change the rules retroactively. Immigrants who were in the country prior to the date of enactment of the welfare bill (August 22, 1996), are not now receiving benefits and subsequently become disabled will also be fully eligible for SSI and Medicaid benefits.

- ✔ **New Entrants.** Restores SSI and Medicaid benefits for those entering after the date of enactment who become disabled, with the proviso that sponsor deeming will be applied with respect to both programs.

- ✔ **Children.** Provides SSI (and Medicaid) benefits for disabled legal immigrant children who arrived before the welfare bill date of enactment. For disabled children arriving after that date, sponsor deeming will be applied with respect to both SSI and Medicaid eligibility.

Refugees and Asylees. Extends the SSI and Medicaid eligibility period for refugees and asylees from 5 years after entry (the limit in the welfare bill) to 7 years, in order to give these residents more time to naturalize.

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

✔ **Childless adults.** Last year's welfare reform bill harshly restricted food stamps for able-bodied childless adults to only 3 out of every 36 months, unless they are working. This move ignored the fact that finding a job often takes time. The budget agreement adds $375 million to the Food Stamp program, and redirects $470 million in existing program funds, to create 120,000 new work slots for food stamp recipients subject to the "3 in 36" time limit.

✔ **Allows States to exempt up to 20 percent of the food stamp recipients who would otherwise be denied benefits as a result of the "3 in 36" limit.** These two provisions would preserve food stamps for a total of 160,000 persons who want to work but have not, through no fault of their own, yet succeeded in finding employment.

✔ **Expand the Work Opportunity Tax Credit.** Expands the existing work opportunity tax credit (WOTC) to include, as one of the eligible populations, individuals subject to the "3 in 36" limit.

FINISH THE JOB OF WELFARE REFORM

✔ **Additional resources for areas of particular need.** Adds $1.6 billion to the Temporary Assistance for Needy Families (TANF) block grant, to be targeted to high-poverty, high-unemployment areas. A share of the additional dollars will go directly to cities with large poverty populations. These resources will give States and cities the help they need to place welfare recipients living in the most disadvantaged areas into lasting jobs.

These funds could be used for wage subsidies to private employers, transportation and other post-employment supportive services essential for job retention, and other effective job creation and placement strategies.

✔ **Extra incentive for employers.** Most welfare recipients want to work. The agreement establishes an enhanced welfare-to-work tax credit, to provide private employers with an incentive to give recipients a chance.

The welfare-to-work tax credit in the budget agreement would allow employers to claim a credit of up to 50 percent of the first $10,000 in wages paid during a year to a worker who had been on welfare for a prolonged period of time. The credit is available for up to two years per worker, giving employers an incentive to not just hire, but make efforts to retain long-term welfare recipients.

President Clinton Delivers the First Balanced Budget in A Generation

Historic Agreement Promotes the Country's Priorities

May 2, 1997

President Clinton has achieved a balanced budget agreement that includes critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid -- just as he promised last year. We have cut the deficit 63% -- from $290 billion in 1992 to $107 billion last 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.

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.

- ✔ Largest Pell Grant Increase in Two Decades -- 4 million students will receive a grant of up to $3,000, an increase of $300 in the maximum grant.
- ✔ Tax cuts targeted to higher education to make college more affordable for America's families.
- ✔ An America Reads initiative to mobilize a million tutors to help three million children learn to read by the end of the third grade
- ✔ Expansion of Head Start -- to achieve goal of one million kids in 2002.
- ✔ Doubles funding to help schools integrate innovative technology into the curriculum.

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

- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007 through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

GOAL: Strengthen environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

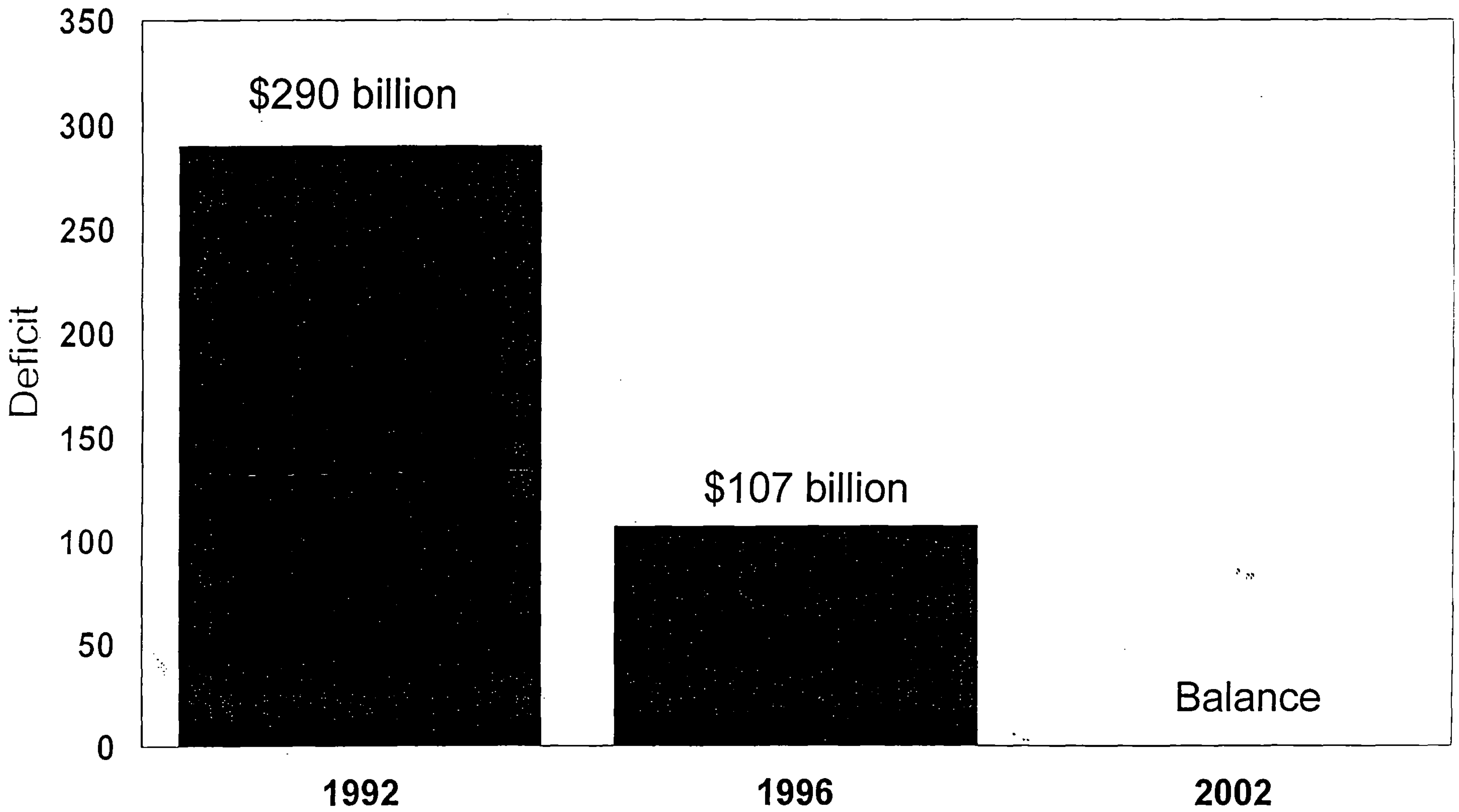
GOAL: Move people from welfare to work and treat legal immigrants fairly

- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients to get jobs.
- ✔ Restores disability and health benefits for legal immigrants.
- ✔ Restores Medicaid coverage for poor legal immigrant children.
- ✔ Preserves food stamp benefits for people willing to work.
- ✔ Provides States and cities with additional resources to move disadvantaged recipients into jobs.

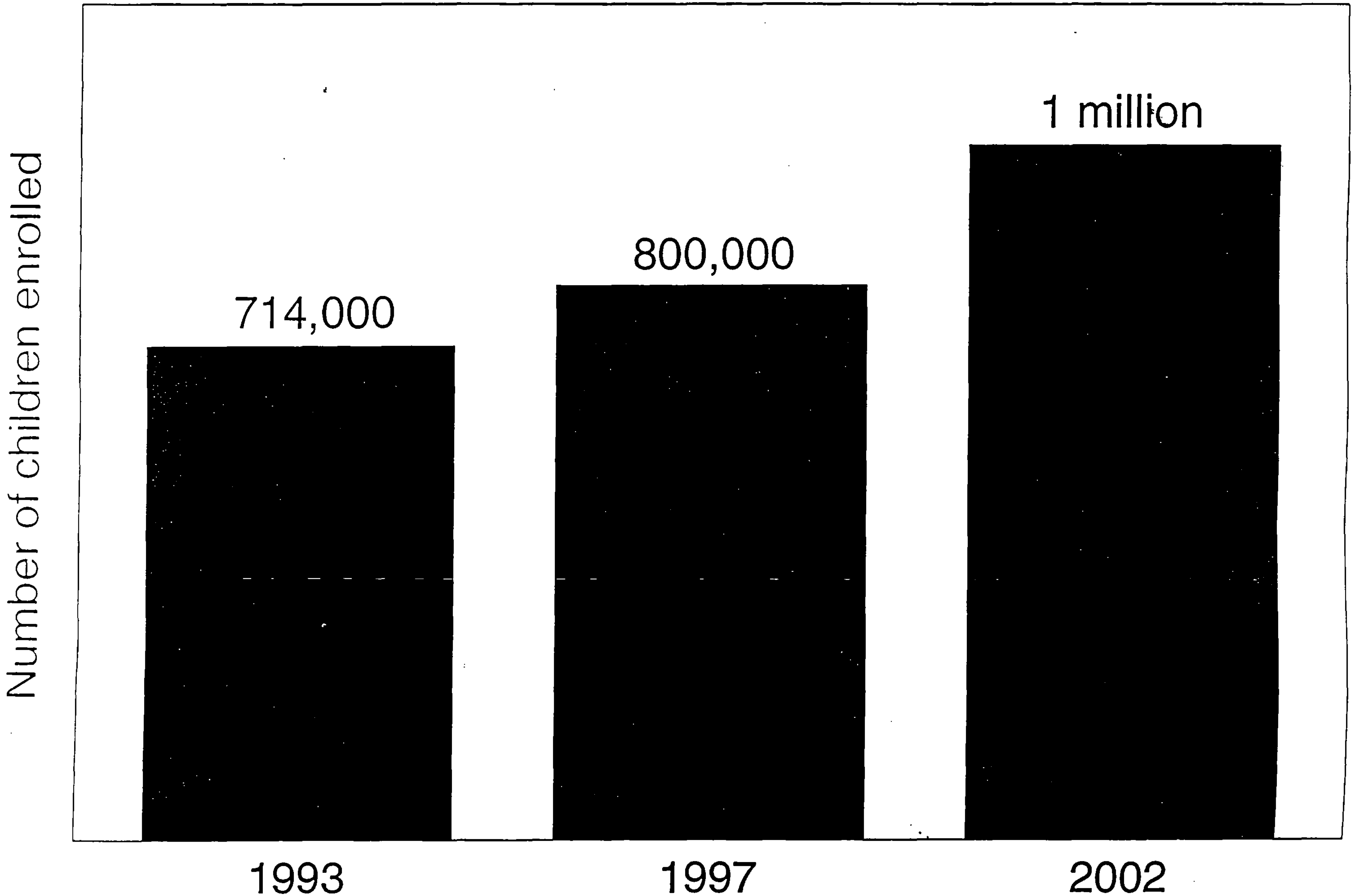
GOAL: Cuts taxes for America's hard working families

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

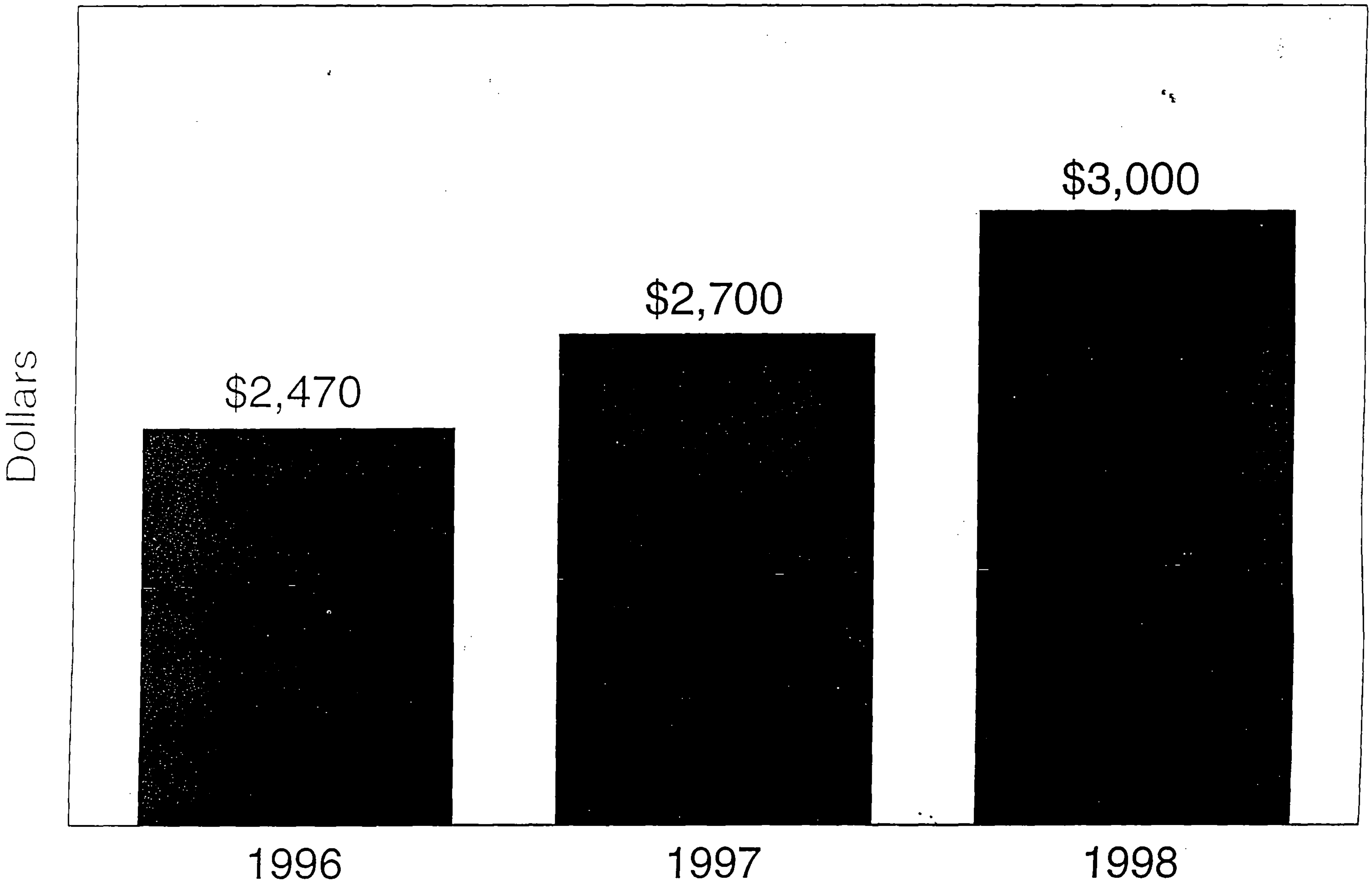
President Clinton Finishes The Job: First Balanced Budget in a Generation

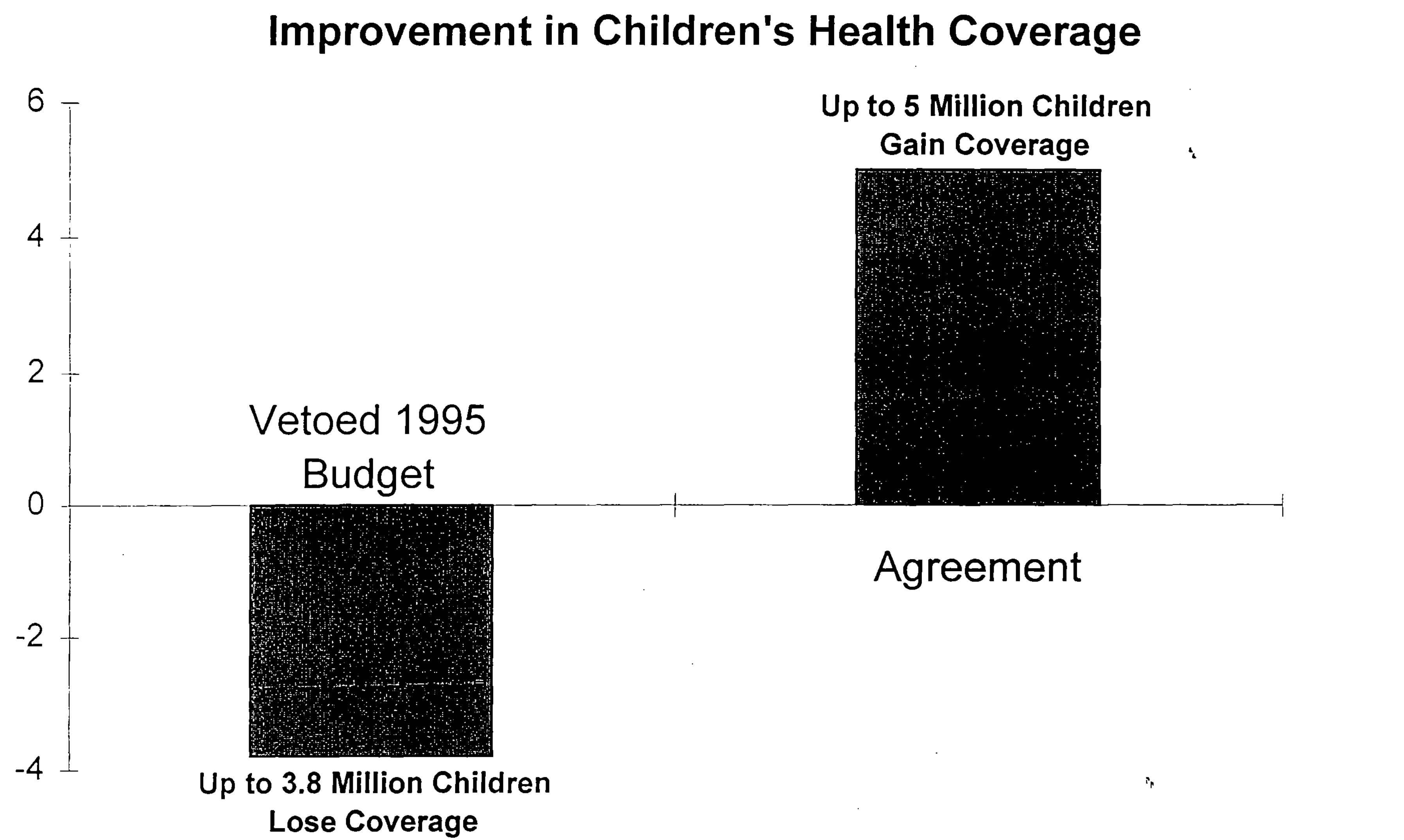


Presidential Priority
Increase Head Start Enrollment



Presidential Priority
Increase Maximum Pell Grant





DHHS estimates of November 1995 Vetoed Balanced Budget Act's Medicaid Block Grant effects & the President's 1997 Children's Health Initiative

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

Remarks[1] of
Richard W. Riley
U. S. Secretary of Education

Press Briefing on the President's 1998 Budget
Thursday, February 6, 1997
Washington, D. C.

Good morning, and thank you all for coming.

In his State of the Union address on Tuesday night, President Clinton inspired the nation with his stirring call for a "national crusade" for education.

He said that his number one priority for the next four years is to ensure that all Americans have the best education in the world. And he issued a bold action plan for improvement that included a call for rigorous academic standards and testing.

That was Tuesday. Today, we issue our education budget for 1998. Today, we put our money where our mouth is, and we do it within a balanced budget.

This budget supports the President's goals and gives the American people the tools they need to achieve them. It includes historically high levels of investment in every area of education from pre-school to high school to college.

Let me pause right here to say that money alone is not the answer. No President, no Secretary of Education, no member of Congress can make the final difference in the classroom. That's the responsibility of students, educators, parents, and communities.

But money <u>is</u> part of the equation, particularly at a time when a record number of students are in our nation's classrooms. We must invest in every one of those young lives. This is the Education Age, and America must have an education budget right for the times.

This budget fits the bill. For fiscal year 1998, the President

[1]The Secretary may depart from prepared remarks.

is asking for a total of $29.1 billion in discretionary funds for the Department of Education, an increase of $2.9 billion or 11 percent over the 1997 level.

The President's budget also includes a significant investment of mandatory funds for two new initiatives: The America Reads Challenge and the School Construction initiative. And to complement the education funds in our budget and help Americans pay for college, President Clinton is proposing tax cuts that would save students and families an estimated $36 billion in postsecondary education expenses over five years.

These resources are focused into the following areas of priority: Putting high standards of excellence into action; improving reading for all Americans; providing help to schools and students with special needs; and expanding access to higher education.

PRIORITY NUMBER ONE is high standards.

Over the past four years, President Clinton has worked with Congress to build bipartisan support for effective assistance to states and communities using standards of excellence to improve their schools. The 1998 budget would expand this assistance.

For Goals 2000 State Grants, the cornerstone of federal support for schools and communities that want to raise standards, we are requesting $620 million. That is an increase of $129 million over 1997. The increase would permit grants to an estimated 16,000 schools, or one-third more than the 12,000 currently receiving Goals 2000 assistance.

We are also requesting $6 million for the Advanced Placement Fee program. This would -- for the first time -- supplement state efforts to subsidize or, in some cases, pay for the full cost of advanced placement tests for low-income students. This would help raise academic standards by encouraging all students to challenge themselves and take the tough courses. It would also help to fight the tyranny of low expectations, which tragically hold back so many of our students.

The President's budget also includes $400 million for School-to-Work Opportunities, $200 million each from the Departments of Education and Labor. These funds would help all 50 states to fully implement their strategies for preparing students for work and further education.

Our request would also nearly double funding for Educational

Technology to $500 million to help meet the President's goal of linking every school to the Information Superhighway by the year 2000. It would especially help to link rural and inner-city schools to a wide world of learning.

The President also is committed to expanding the range of choices available to parents and children within public school systems. Funding for Charter Schools would be doubled to over $100 million to support planning and start-up costs for up to 1,100 new schools created by teachers, parents, and other community members.

The skills of teachers need to be upgraded if they are to teach to high standards. The request includes $360 million for Eisenhower Professional Development State Grants, up $50 million over 1997, to help teachers better deliver instruction in the core subjects.

We also are asking for $21 million for the National Board for Professional Teaching Standards, an increase of $16 million, that would greatly speed up the development of standards and assessments in over 30 teaching fields. It would also help enable teachers to go through the rigorous evaluation needed to become master teachers.

PRIORITY NUMBER TWO is helping all Americans to read well.

Learning begins with reading, but over 40 percent of fourth graders read below the "Basic" level on the National Assessment of Educational Progress. Research shows that if students can't read well by fourth grade, their chances for later success in school are significantly reduced.

The goal of the America Reads Challenge is to ensure that all children read well and independently by the end of the third grade. The President's budget includes mandatory funding for two components of the Challenge: America's Reading Corps and Parents as First Teachers.

We are requesting $200 million in 1998 to begin enlisting and training one million volunteer tutors for the Reading Corps, which would provide reading assistance after school, on weekends, and during the summer for children in grades K-3 who need assistance. We plan a total of $1.45 billion for the Reading Corps over the next five years, with the Corporation for National and Community Service contributing an additional $1 billion.

For Parents as First Teachers, our budget includes $60 million in 1998 -- $300 million over five years -- to support programs that assist parents in helping their children to read. These programs put a strong emphasis on helping children before they enter school. And that is so important, because new scientific findings about the brain tell us that it is essential for children to start learning as early in life as possible.

All told, the America Reads Challenge would be funded at $2.75 billion over five years.

The America Reads Challenge supports the Administration's efforts to strengthen in-school instruction through increases in Title I Grants to Local Educational Agencies. For 1998, our request includes $7.5 billion, an increase of $347 million, to raise the academic achievement of poor and disadvantaged students by providing extra help with reading, writing, and math. I am pleased that in the President's first term, we changed Title I to link it to high standards for all students.

The 1998 request also provides significant increases for other reading programs. We are seeking a $6 million increase for Even Start, for a total of $108 million. This would expand local family literacy programs that combine early childhood education for preschool children with instruction in basic literacy skills for their parents.

Our $199 million request for Bilingual Education, up $42 million from the 1997 level, would help ensure that students who speak a language other than English receive the extra help they need to learn to read English. And a $42 million increase for Adult Education State Grants would help adult Americans improve their literacy skills.

Our THIRD PRIORITY is to provide extra help to schools and students with special needs.

All across the nation, schools are struggling to make room for new students while they provide services for students with special needs. These students include low-achieving and limited-English-proficient students, and students with disabilities. The Department's 1998 budget would help schools meet this and other challenges.

The budget would provide $3.2 billion for Special Education Grants to States, an increase of $141 million or 4.5 percent over the 34 percent increase in 1997. The request would help states cover the increased costs of serving additional children with disabilities.

We also recognize the additional costs faced by school districts that serve large numbers of recently arrived immigrant students. To help districts pay these costs, the request includes $150 million for Immigrant Education, a $50 million or 50 percent increase over the 1997 level.

Of course, students cannot be expected to learn in schools where they are threatened by drug abuse and violence. To help fight these threats, we are asking for $620 million for the Safe and Drug-Free Schools programs. This is an increase of $64 million, or nearly 12 percent, over the 1997 level.

The Department also is proposing a new program of After-School Learning Centers. The request includes $50 million to help hundreds of rural and inner-city public schools stay open after school hours and serve as safe, neighborhood learning centers where students can do their homework and obtain tutoring and mentoring services.

In addition, the 1998 budget includes a one-time appropriation of $5 billion to stimulate state and local efforts to repair and modernize school facilities, particularly in urban areas, which often have the greatest need.

The new School Construction initiative would pay for up to half the interest on school construction bonds or similar financing mechanisms, with a target of stimulating at least $20 billion in new construction or renovation projects. Projects could include emergency repairs to ensure health and safety; technology upgrades; building new schools to serve growing enrollments; ensuring access for disabled individuals; and improving energy efficiency.

Our FOURTH PRIORITY is to make college more affordable.

President Clinton is proposing a combination of budget and tax initiatives for 1998 that would significantly expand college access for lower-income students, while providing new assistance to working families and middle-class families struggling to pay for college.

The budget request would increase the maximum Pell Grant award to an all-time high of $3,000, up from the 1997 level of $2,700. At the same time, we would modify the need-analysis formula for certain independent students to correct an inequity arising out of the Higher Education Amendments of 1992. The need-analysis change would make over 200,000 additional independent students eligible for Pell Grants. These are older students who are generally aged 24 and over. The budget includes $7.6 billion, an increase of $1.7 billion or 29 percent, to pay for these proposals.

We also are proposing <u>changes to the student loan programs</u> that would save student borrowers $2 billion over the next five years while saving taxpayers an additional $3.5 billion over the same period.

Student loan origination fees would be reduced from 4 percent to 2 percent on Stafford subsidized loans--cutting in half the fees charged to the neediest students--and from 4 percent to 3 percent on other loans. The FFEL guaranty agency system would be streamlined to clarify the federal government's role as sole guarantor of all student loans, and agency fees would be linked to performance in collecting on defaulted loans.

As I mentioned earlier, the President's budget includes two major tax initiatives that together would save more than 12 million postsecondary students and their families an estimated $4 billion in 1998.

The <u>America's Hope Scholarship</u> proposal would help make two years of postsecondary education universally available by providing a tax credit of up to $1,500 each year during the first two years of college. Students would have to maintain at least a "B" average to qualify for the tax credit in their second year of postsecondary study. The Treasury Department estimates that 4.2 million students would benefit from Hope Scholarships in 1998, with total savings to students and families reaching $18.6 billion by 2002.

President Clinton is also offering a <u>Middle-Income Tax Deduction</u> proposal. This would allow students and families to deduct up to $5,000 in postsecondary tuition and fees from their taxable income. The deduction would rise to $10,000 in 1999. More than eight million students would benefit from the tax deduction in 1998, with total savings reaching $17.6 billion by 2002.

Other postsecondary education priorities in the Department of Education's budget include:

* A $27 million increase for <u>Work-Study</u> to keep us on course

toward funding one million work-study jobs by the year 2000;

* A $25-million increase for TRIO, to provide outreach and support services to almost 37,000 more students. TRIO encourages students from disadvantaged backgrounds to prepare for, enter and complete college;

* And $132 million to give Presidential Honors Scholarships to students who graduate in the top five percent of their class in every high school in America.

In his second inaugural address, the President spoke of a land in which "education will be every citizen's most prized possession." This budget will help put that "most prized possession" within the reach of every American.

Thank you, and I will be happy to take your questions now.

####

THE WHITE HOUSE

WASHINGTON

Budget Working Group
February 18, 1997

Agenda

1. Walk through five strategic goals and "to do" list

2. Reports

   a. Congressional/Balanced Budget Amendment
   b. Health Care
   c. OMB
   d. Tax Issues
   e. Environment
   f. Education
   g. Intergovernmental
   h. Cabinet
   i. Public Liaison

Budget Working Group
Preliminary Action Plan
February 18, 1997

FIVE STRATEGIC GOALS

- Protect credibility of the budget
- Emphasize soundness of major items
- Make our priorities untouchable
- Defend against "net tax hike" argument
- Demonstrate our progressive budget

"TO DO" LIST FOR REACHING STRATEGIC GOALS

I. <u>Protect Credibility of the Budget</u>

A. **Backloading**
B. **CBO**
C. **Home health care**
D. **"New" entitlements**
E. **Programs end in 2001**

- Lew, Cohen, Orszag sign off on common tough Q&A and talking points; distrubution to appropriate Hill Democrats, Romer, talkers, cabinet and subcabinet, mayors, and key governors

- Siewert to draft 1-pager on key points that must be made in all press interviews

- Validation strategy:
  - -- Lew, Cohen, Orszag, and CEA do detailed version of Q&A and talking points for budget validators
  - -- OMB, CEA, Cohen, Orszag, and Jennings compile list of top budget validators and economists and suggest outreach assignments
  - -- Outreach to top budget validators and economists

- Media strategy:
  - -- Validation op-eds and regional op-eds: Siewert, Haas, and McHugh develop plan
  - -- Tongs; meetings with all key reporters (Pianin, Weinstein, Milius)

II. Soundness of Major Items

A. Medicare Package

- Medicare walk-through document, including home health care, HMO attack, Marilyn Moon op-ed (Jennings)
- Jennings to work on validator and press strategy for Medicare and Medicaid

B. Medicaid

- Medicaid document, including per capita cap (Jennings)
- Use Blue Dog budget as validation for per capita cap

C. Discretionary Line

D. Defending Corporate Subsidies

- Put corporate subsidies talking points into plain English (Treasury/Mazur)

III. Making our Priorities Untouchable

A. Defending Higher Education Tax Cuts

- Endorsement letter from community college presidents (DoEd)
- Regional op-eds by College presidents, including historically Black College presidents, and other outside validators/economists (DoEd)
- Treasury drafts 1-pager and chart on how using IRA and tuition tax deduction together creates tax-free savings for education
- Secretary Riley speech on education in Atlanta on February 18
- State-by-state analysis of Pell Grant and education tax proposals to be discussed at February 20 education tax meeting
- POTUS ACE speech on February 24 -- possible endorsement
- Secretary Riley testifies on education proposals on February 27
- VP or First Lady attends Direct Loan 2000 event on March 3
- DoEd compiles list of all higher ed events for NEC/scheduling
- Gov. Zell Miller writes op-ed on HOPE in Georgia (Siewert)
- Op-ed on how higher ed package works and its long-term economic benefits (Treasury)
- VP, Riley conduct telephone press conference with student newspapers

B. Case for General Education Priorities in Budget

1. School Construction

- School construction memo to POTUS by February 20 (NEC)
- Treasury compiles state-by-state on school construction budget numbers
- Develop event for legislative announcement
- Possible event in Florida with Sen. Graham
- Call to Executive Director of Council of Great City Schools

2. America Reads

- OMB circulating legislation
- POTUS event with Jump Start in Boston on February 19
- POTUS event with DC college presidents on February 21 (DoEd; CNS)
- Possible announcement of college president pledges in ACE speech on February 24 (DoEd)
- Create event here with George Farkus's one-to-one group in Texas (invite Goodling)

3. Ed Tech

- NetDay on April 19
- Create event for children with disabilities

C. Children's Health Coverage

- Jennings and Public Liaison draft outreach plan
- Possible Shalala/Daschle op-ed

IV. Response to Likely Republican Attack on Tax Cut

- Draft overall talking points on CBO; 10-year tax cut (Orszag)
- Put corporate subsidies talking points into plain English (Treasury/Mazur)

V. Progressive Budget

- Draft 1-pagers on how the budget is good in various specific areas, including cities; children; the environment (OMB)

PRESIDENT CLINTON'S FISCAL YEAR 1998 BALANCED BUDGET

Summary Documents

February 6, 1997

TABLE OF CONTENTS

PRESIDENT CLINTON'S FY 1998 BALANCED BUDGET

Summary Talking Points: February 6, 1997

A BALANCED BUDGET THAT REFLECTS AMERICA'S VALUES. President Clinton's budget demonstrates that we can move the country beyond the false choices of the past -- and that we can finish the job of balancing the budget, to lower interest rates and keep the economy growing, <u>while still investing in key priorities such as education</u> that help the American people thrive and our economy grow.

A DETAILED PLAN TO BALANCE THE BUDGET IN 5 YEARS.

- **Protect and Strengthen Medicare & Medicaid.** Extend the life of the Medicare Trust Fund well into the next century. Protect the fundamental guarantee of health benefits for the disabled, nursing home residents, & strengthen health coverage for children.
- **Invest in Education -- our nation's number 1 priority for preparing for the next century.**
- **Strengthen environmental protections.**
- **Build on the Vice-President's efforts to make our government work better and cost less.**
- **Provide middle-class tax relief to pay for education, health care, to help raise a child and buy and sell a home.**

BUILD ON PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION.

- We have cut the deficit by 63% after it had quadrupled during the previous 12 years.
- We now have a smaller deficit as a share of GDP than any other major country in the world.
- FY98 budget builds on this progress and reaches balance by 2002 while investing in the future.

MEETING REPUBLICANS HALFWAY ON MEDICARE.

On difficult issues such as Medicare reforms, the President shows that he is serious about reaching a bipartisan agreement to balance the budget.

- **The President's Balanced Budget uses <u>responsible Medicare policies to strengthen the life of the Trust Fund without placing unnecessary burdens on beneficiaries.</u>** The President's plan achieves $100 billion of savings over 5 years ($138 billion over 6 years) through several reforms including reducing reimbursement to managed care. The plan also guarantees the solvency of the Part A trust fund until 2007 while maintaining choice and the high-quality of Medicare services.

TAX CUTS FOR FAMILIES WHEN THEY NEED IT MOST.

The President's budget provides about **$100 billion of tax cuts over the next five years** to help families:

- Raise their **children** ($500 per child),
- Send them to **college** ($1,500 HOPE Scholarship and $10,000 tuition tax deduction),
- Save for the **future** (penalty-free withdrawals from IRAs for education and first homes; tax-free savings for education through combined use of the tuition tax deduction and education IRA);
- Buy and sell their **homes by the exclusion of $500,000 of capital gains** on the sale of the home,
- **Move from welfare** to work with tax incentives to businesses, by allowing employers a 50% credit on the first $10,000 of annual wages that they pay to long-term welfare recipients.
- And tax incentives to boost **investment** in distressed areas and promote hiring of the economically disadvantaged.

INVESTING IN THE FUTURE. The President's budget maintains our critical priorities by increasing our investments in health care, education and training, the environment and science and technology. It also establishes new initiatives important new initiatives to help prepare America for the 21st century.

Health Care:

- Helps an estimated **3.3 million families, including 700,000 children,** keep their health care coverage for up to six months until their breadwinners find new jobs.
- Provides **health insurance coverage** for millions of children who are uninsured.
- Invests more in the **Ryan White AIDS program and in biomedical research** at NIH to find ways to prevent and treat diseases.
- Establishes a new **Alzheimer's respite benefit** within Medicare and provides for an **annual mammogram** without copayments.

Education and Training:

- Increases funding for **Head Start** by 55%, from $2.8 billion in FY93 to $4.3 billion in FY98.
- Increases **GOALS 2000** funding by 26% to help states raise educational achievement.
- Doubles funding to $500 million next year for the **Technology Literacy Challenge** and a related program to help ensure that all children are technology literate by the turn of the century.
- Includes the largest increase in the maximum **Pell Grant scholarship** in two decades, a $1.7 billion increase in aid over FY97, and expanded eligibility for at least 348,000 more students.
- Creates the **America Reads Challenge** to help insure that all children can read well and independently by the end of third grade ($2.75 billion over five years.)
- Creates a $5 billion new **school construction** fund over four years to spur $20 billion in school construction and renovation.

Environment:

- Funds the **Kalamazoo Initiative** to protect communities from **toxic pollution** by the 2000.
- Increases funds for the **National Park System** to help improve park facilities and further protect our national and cultural treasures.

Crime:

- Funds **17,000 more police,** helping to move towards the President's goal of 100,000 new police by the year 2000.
- Increases funds for the Drug Courts initiative, for drug testing, for the **Safe and Drug-Free Schools** initiative and other programs to fight drugs.
- Funds 7,359 **Border Patrol agents** -- 85% more than in FY93 -- to control illegal immigration.

A BALANCED BUDGET PLAN THAT CLOSES LOOPHOLES AND SPECIAL INTEREST PROVISIONS.

To protect priorities like Medicare, Medicaid, education and the environment, the President believes we should also be closing loopholes and special interest provisions.

- The President's budget proposes approximately **$34 billion** of business tax base broadeners, tax loophole closers and tax compliance measures for FY 1998-2002.

LET'S BUILD ON OUR PROGRESS.

We have cut the deficit by 63%. Deficit reduction has reduced interest rates, and spurred strong investment and the creation of over 11 million new jobs. Now, we must work together to achieve a real and solid balanced budget that keeps America strong and growing.

PRESIDENT'S BUDGET CUTS $252 BILLION OVER 5 YEARS

PRESIDENT CLINTON'S BUDGET:

⇒ **PRODUCES $350 BILLION IN SAVINGS OVER 5 YEARS**
⇒ **CUTS NET SPENDING BY $275 BILLION**
⇒ **CUTS NET SPENDING, INCLUDING CORPORATE SUBSIDIES, BY $309 BILLION**
⇒ **CUTS THE DEFICIT BY $252 BILLION**

THE BUDGET SAVES $350 BILLION OVER 5 YEARS, INCLUDING:

- It saves **$137 billion in discretionary spending**, by cutting unnecessary and lower-priority spending areas;
- It saves **$100 billion in Medicare ($138 billion over six years)**, extending the life of the Part A Trust Fund to 2007 while maintaining the high-quality of Medicare services. It also saves $9 billion in Medicaid -- $22 billion in gross savings offset by a $13 billion related to the welfare reform law and new children's health initiatives.
- It saves $34 billion by reducing corporate subsidies.

THE BUDGET CUTS THE DEFICIT BY $252 BILLION:

- It **cuts taxes by $98 billion**, providing tax relief to tens of millions of middle-income Americans and small businesses, while extending several expired tax provisions.

AREA	SAVINGS OVER 5 YEARS, 1998-2002
Discretionary spending	$137.4 billion
Medicare	$100.2 billion*
Medicaid	$9.3 billion**
Spectrum sales/mandatory spending	$11.8 billion
Net interest	$15.9 billion
NET SPENDING CUTS	***$275 billion***
Corporate subsidies	$34.3 billion
TOTAL CUTS INCLUDING CORPORATE LOOPHOLES	***$309 billion***
Extending tax provisions	$41.7 billion
TOTAL SAVINGS	***$350 billion***
Tax cuts	-$98.4 billion
TOTAL DEFICIT REDUCTION	***$252 billion***

* *$138 billion over six years*

** *$22 billion in gross savings offset by $13 billion additional spending for children's health and other initiatives*

SELECTED CLINTON ADMINISTRATION DISCRETIONARY INVESTMENTS

INITIATIVE	*FY93-FY97 INVESTMENT*	*IMPACT*	*FY98 BUDGET*
EDUCATION AND TRAINING: The President's FY98 Budget increases funding 33% for major education and training discretionary programs compared to FY93, providing $51 billion for all FY98 education & training.			
Goals 2000	*Created Goals 2000 to support state-developed academic standards and school reform, supporting reform in 1,000 schools in 1994.*	*Goals 2000 is now supporting school reforms in all 50 states.*	*Increases funding 26% in FY98 to $620 million, supporting standards-based reform in 16,000 public schools across the 50 states.*
Technology Literacy Challenge (TLC)	*Created and funded in FY97 at $200 million to help ensure that all children are technologically literate by the dawn of the 21st century.*	*Funds state-wide plans to wire schools, train teachers, and purchase educational software and on-line resources.*	*More than doubles funding in FY98 to $425 million and provides $2 billion over 5 years. Provides $500 million for the TLC and a related grant program in FY98.*
Pell Grants	*Increased the maximum Pell Grant 17%, from $2,300 in FY93 to $2,700 in FY97, increasing college opportunities for low-income students.*	*3.7 million low-income students currently receive Pell Grants of up to $2,700.*	*Increases the grant from $2,700 to $3,000 in FY98 – the largest increase in two decades. Provides $1.7 billion more aid in FY98 than FY97, making 348000 more families eligible.*
Dislocated Worker Assistance	*Doubled funding for dislocated workers, from $651 million in FY93 to $1,286 million in FY97. Will assist 580,000 workers this year.*	*Provides 274,000 more workers in FY97 with job training and search services to help them find jobs more quickly.*	*Increases funding to $1,350 million to serve 605,200 dislocated workers in FY98, double then number in FY93.*
EARLY CHILDHOOD DEVELOPMENT AND HEALTH			
Head Start	*Increased funding 43% from $2.8 billion in FY93 to $4.0 billion in FY97. Created the Early Head Start program in 1994 to support zero-3 year olds and their families.*	*Serves 800,000 low-income 3- and 4-year olds this year, including thousands of 0-3 year-olds and their families.*	*Provides a $324 million increase in FY98, serving 122,100 more children than in FY93 while continuing to increase program quality and the 0-3 program, and on track to serve 1 million children in 2002.*
WIC Supplemental Nutrition Program	*Increased funding nearly $1 billion or 34% to $3.83 billion in FY97. Provides nutrition packages, nutrition education and health referrals to low-income pregnant women, infants, and children.*	*Expanded participation by 1.7 million since 1993, or 30% with the requested supplemental, from 5.7 to 7.4 million women, infants, and children.*	*Increases funding to $4.1 billion to achieve the President's goal of full participation by the end of FY98. Research shows that WIC prenatal services save Medicaid much more by reducing health care costs in the first 60 days after birth.*
Ryan White AIDS Treatment	*Increased funding 158%, to $996 million in FY97. Provides grants to states and to 49 hard-hit cities, double the number in FY93.*	*This program may be partly responsible for the 30% decline in AIDS deaths in NYC in 1996.*	*Provides a 221% increase for State AIDS Drug Assistance since 1996 to expand access to effective new medications to those who could not otherwise afford them.*
National Institutes of Health	*Increased funding 23%, to $12.7 billion in FY97. NIH now supports 32,000 grants in more than 1,700 universities, medical schools, and other research institutions.*	*Research has contributed to major advances in treating people with HIV and in medications for Alzheimer's disease.*	*Increases funding by $337 million to maintain NIH's leadership in medical research.*

INITIATIVE	*FY93-97 INVESTMENT*	*IMPACT*	*FY98 BUDGET*
ENVIRONMENT			
Superfund	*Reformed program, cut cleanup costs 20%, cleaned up 260 toxic waste sites in the last 4 years.*	*Cleaned up more sites in the last 4 years than in the previous 12.*	*Increases funding 50% from FY97 to clean up an additional 500 sites by th year 2000 -- 2/3 of all listed sites.*
Environmental Enforcement	*Increased funding 12% to $3.1 billion for EPA operations including enforcement.*	*Will cut chemical plant toxic air emissions 90% and enforced.*	*Standards to cut chemical plant toxic air emissions 90%, stronger enforcement.*
National Parks	*Increased operations funding 17% to $1.2 billion. 4% increase in the number of parks since 1993.*	*Maintaining parks for 275 million annual visitors.*	*Increases funding 6% to increase maintenance and keep up with increasing visitorship.*
COMMUNITY			
AmeriCorps National Service	*Created the AmeriCorps in 1993 to enable young people to earn money for college while serving their communities.*	*Enabled 70,000 young people to earn money for college through services in 3 years.*	*Funds 35,000 participants and increases funding 31% to provide tutor coordinators for the President's America Reads Challenge.*
Community Development Institutions	*Created Community Development Financial Institutions Fund to expand access to credit and capital to distressed communities.*	*Awarded $37 million in financial and technical assistance to 32 CDFIs in 1996.*	*Increases funding 150% to $125 million in FY98, and invests $1 billion over the next 5 years.*
Ezs/ECs	*Created the first federal Empowerment Zones and Enterprise Communities in 1994, providing assistance to distressed urban and rural communities.*	*Designated 105 EZs/ECs, providing $2.5 billion in tax incentives & $1 billion in funding over 5 years.*	*Proposes to double the number of EZ/ECs with a second round of designations, and tax incentives to spur the clean up and development of "brownfield" industrial sites.*
CRIME			
Community Policing: COPS	*Created COPS program in 1994 Crime Bill to put 100,000 more community police on the streets.*	*Will have funded 64,000 police by the end of FY97.*	*Proposes funding for an additional 17,000 officers, on track to fund 100,000 by the year 2000.*
Federal Prisons	*Increased funding 62% to $1.4 billion in FY97 to open new federal prisons.*	*Reduced overcrowding while prison population expanded 38%.*	*Continues to increase funding for new federal prisons and to continue to reduce overcrowding.*
INS Border Patrols	*More than doubled funding to $729 million in FY97.*	*6,859 border patrol agents -- 2,894 more.*	*Funds 7,359 agents -- 85% more than in FY93.*
TECHNOLOGY			
Advanced Technology Program	*Increased funding 231% to $225 million in FY97 to develop new technologies with private sector.*	*Funds high risk technologies w/ large potential public benefit.*	*$50 million increase to support about 90 new projects with 200 new participants.*
Manufacturing Extension	*Increased funding 428%, expanding from 7 to 78 extension centers.*	*Providing technical expertise to smaller manufacturers.*	*Increases funding an additional 29% in FY98 to help more small manufacturers increase sales & jobs.*
NII and Next Generation Internet	*Created the National Information Infrastructure program in 1994, funded at $21 million in FY97.*	*NII supports innovative telecom demonstration projects.*	*Increases NII and proposes $100 million for the next generation Internet: 100-1,000 faster than today Internet.*

SUMMARY OF TAX CUTS IN THE PRESIDENT'S BUDGET

$100 BILLION IN TAX CUTS. President Clinton's 1998 budget provides nearly $100 billion of tax cuts through FY 2002, including a child credit for middle-income families; tax cuts for education and training; expanded IRAs; targeted home-ownership tax cut; and tax incentives to boost investment in distressed areas and to promote hiring of the economically disadvantaged.

MIDDLE-CLASS TAX CUTS *($90.8 BILLION).* These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- **Tax Credit for Dependent Children *($46.7 billion)*:** Phased-in $500 tax credit for dependent children.
- **Education and Training Tax Incentive *($38.6 billion)*:** HOPE Scholarship tax credits of up to $1,500 per year, for first two years of post-secondary education; a $10,000 tax deduction for post-secondary education and training; income exclusion for forgiveness of certain student loans; and extending the exclusion for employer-provided educational assistance, reinstating exclusion for graduate courses, and providing small businesses a 10% income tax credit for employee education expenses.
- **Expand Individual Retirement Accounts (IRAs) *($5.5 billion)*:** Double, over time, the income limits on deductible IRAs; expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" back-loaded IRAs.

TARGETED HOME-OWNERSHIP TAX CUT *($1.5 BILLION).* Allow exclusion of $500,000 ($250,000 singles) of capital gains from selling a home. This would exempt over 99% of home sales from capital gains taxes and dramatically simplify taxes and record-keeping for over 60 million homeowners.

TAX INCENTIVES FOR DISTRESSED AREAS *($2.4 BILLION)*

- **"Brownfields" Initiative:** Allow immediate expensing of certain costs to encourage firms to clean up abandoned, contaminated industrial properties in distressed urban & rural areas.
- **Incentives to Empower Communities:** Stimulate revitalization of economically distressed urban & rural communities by designating 20 additional Empowerment Zones and 80 additional Enterprise Communities, providing new tax incentives, additional small business expensing, and new private activity bonds.
- **Community Development Financial Institutions (CDFI) Tax Credit:** Provide $100 million of credits to be allocated among equity investors in community development banks.

WELFARE-TO-WORK INITIATIVE *($0.6 BILLION).* To encourage hiring of long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a 50% credit on the first $10,000 of annual wages that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax Credit to include certain able-bodied adults, ages 18-50.

SMALL BUSINESS AND FARM ESTATE TAX RELIEF *($0.7 BILLION).* To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred tax from $1 million to $2.5 million.

OTHER INITIATIVES. Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, others) *($2.7 billion)*. Modify statutes of limitations on tax refunds to treat the disabled fairly *($0.05 billion)*. Revitalize DC with tax incentives *($0.26 billion)* and provide a more efficient and effective tax incentive for Puerto Rico *($0.417 billion)*. Allow FSC software benefits for computer software licenses ($0.56 billion).

THE PRESIDENT'S MEDICARE REFORM PACKAGE

President Clinton's balanced budget balances our values and protects our priorities. It achieves $100 billion in real scorable savings over 5 years, places no undue burdens on beneficiaries, modernizes and improves the program, and extends the life of the Medicare Trust Fund to 2007. This plan meets Republicans halfway -- and they have responded in a constructive and positive manner. The President looks forward to working with both Congressional Democrats and Republicans in a bipartisan process to protect Medicare.

The President's plan reforms and improves Medicare by:

- **Extending the life of the Medicare Trust Fund to 2007.**

- **Bringing the program into the 21st century by:**
  - ⇒ *Providing more choice by establishing new private health plan options.*
  - ⇒ *Establishing market-oriented purchasing for Medicare including new prospective payment systems and competitive bidding authority and centers of excellence to improve quality and cut back on costs.*

- **Adding Medigap protections to increase the security of Medicare beneficiaries.**

The President's plan explicitly:

- **Saves $34 billion by reducing reimbursement to managed care** through a phased in reduction in HMO payment rates and an indirect reduction in HMO payments associated with the traditional fee-for-service cuts.

- **Saves $33 billion in hospital expenditures through reductions in hospital updates, capital payments etc.**

- **Saves about $14 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to home health care.**

- **Saves about $7 billion over 5 years through the transition to and establishment of a new prospective payment system and other programmatic changes in reimbursement to nursing home facilities.**

- **Saves about $7 billion over 5 years through a modification of physician updates.**

- **Saves about $9 billion over 5 years through new provisions to combat fraud and abuse.**

- **Saves about $10 billion over 5 years by extending current law that sets the Part B premium at 25% of program costs.**

- **Invests $15 billion over 5 years in preventive health care to improve seniors' health status, in establishing a new Alzheimer's respite benefit starting in 1998 and in buying down excessive outpatient copayments to the traditional 20% level.**

PRESIDENT CLINTON'S RECORD ON DEFICIT REDUCTION

- **CUT THE DEFICIT BY 63 PERCENT.** President Clinton has reduced the budget deficit by 63 percent -- from $290 billion in FY 1992 to $107 billion in FY 1996. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **LOWEST DEFICIT SINCE THE EARLY 1970'S.** The deficit has fallen from 4.7 percent of GDP in FY 1992 to 1.4 percent in FY 1996 -- the lowest for any year since 1974. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **LOWEST DEFICIT OF ANY MAJOR ECONOMY.** The total U.S. deficit in 1996 as a percentage of the economy was lower than for any other major country. [OECD, *Economic Outlook*, December 1996.]

- **MAKING GOVERNMENT MORE EFFICIENT.** Federal employment has fallen by 275,000 from its 1993 base. Federal employment as a share of total employment is the smallest it has been since the early 1930's. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

AS A RESULT OF PRESIDENT CLINTON'S EFFORTS TO REDUCE THE DEFICIT, ECONOMIC PERFORMANCE HAS IMPROVED DRAMATICALLY:

- **INVESTMENT BOOM.** Deficit reduction has lowered interest rates and spurred investment. Equipment investment has grown by 10 percent per year under President Clinton -- faster than any Administration since John F. Kennedy was President. [Based on data from the Bureau of Economic Analysis, Department of Commerce.]

- **EMPLOYMENT BOOM.** Since January 1993, the economy has added more than 11 million new jobs -- a faster rate of job growth than under any Republican Administration since the Roaring 1920's. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

- **THE LOWEST COMBINED RATE OF UNEMPLOYMENT AND INFLATION SINCE JOHNSON.** The combined rate of unemployment and inflation has been lower under President Clinton than for any Administration since Lyndon Johnson was President. [Based on data from the Bureau of Labor Statistics, Department of Labor.]

THE EXPERTS AGREE THAT ECONOMIC PERFORMANCE HAS BEEN REMARKABLE;

√ **Money Magazine**: President Clinton has "presided over the kind of economic progress any Republican President would be proud to post." [*Money Magazine*, August 1996]

√ **Paul Volcker, former Chairman of the Federal Reserve**: "It's been a remarkable period of steady growth, low inflation and low unemployment." [8/3/96]

√ **Allen Sinai, a leading economic forecaster**: "When the history book on this business cycle upturn is written, it will go down as the best ever, compared with other post-World War II upturns." [10/23/96]

THE FACTS ON GOVERNMENT SPENDING UNDER PRESIDENT CLINTON

SPENDING IS LOWER TODAY UNDER REAGAN OR BUSH:

- **FEDERAL SPENDING WAS LOWER IN 1996 – AND IS EXPECTED TO REMAIN LOWER IN 1997 – THAN IN ANY YEAR SINCE 1979.** Federal outlays as a share of GDP were lower in 1996 than in any year since 1979. And current projections suggest no increase in outlays as a percent of GDP during 1997. Outlays under President Clinton have been a smaller share of GDP than under Reagan or Bush. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **SINCE PASSAGE OF PRESIDENT CLINTON'S 1993 DEFICIT REDUCTION PACKAGE, EXPECTED GOVERNMENT SPENDING BETWEEN 1993 AND 2002 HAS FALLEN BY MORE THAN $1.4 TRILLION.** The President's budget will cut net spending by an additional $275 billion by 2002 – for a total spending cut between 1993 and 2002 of more than $1.7 trillion. That's about $25,000 for a family of four. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **GROWTH IN TOTAL FEDERAL SPENDING HAS BEEN LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH.** Real Federal outlays have grown by 0.7 percent per year under President Clinton -- lower than under President Bush (2.6 percent per year) or President Reagan (2.6 percent per year). [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **WHILE MAINTAINING CRUCIAL INVESTMENTS IN PEOPLE, REAL DISCRETIONARY SPENDING HAS FALLEN UNDER PRESIDENT CLINTON – A BETTER RECORD THAN UNDER REAGAN OR BUSH.** Real discretionary outlays have *fallen* by 2.5 percent per year under President Clinton – lower than under President Bush or Reagan. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

- **NON-DEFENSE DISCRETIONARY SPENDING IS NOW A SMALLER SHARE OF THE ECONOMY THAN IN 8 OF THE 12 YEARS UNDER REAGAN OR BUSH.** Non-defense discretionary outlays are now lower than in 8 of the 12 Reagan-Bush years. With the President's balanced budget plan, non-defense discretionary outlays will fall by 9 percent in real terms between 1997 and 2002. [Based on data from OMB, *FY 1998 Budget*, February 1997.]

⇒ **SPENDING GROWTH LOWER UNDER CLINTON THAN UNDER REAGAN OR BUSH**

	Federal outlays (% of GDP)	Real growth in Federal outlays (percent per year)
CLINTON	21.3	0.7
BUSH	22.1	2.6
REAGAN	22.5	2.6

[Based on data from OMB, *FY 1998 Budget*, February 1997.]

THE CLINTON ADMINISTRATION'S BUDGET ASSUMPTIONS: ESTABLISHING A CREDIBLE RECORD OVER THE PAST 4 YEARS

- **A RECORD OF CREDIBLE FORECASTS.** For the past four years, the Clinton Administration has used middle-of-the-road economic forecasts for budgetary purposes. ***For four years in a row, growth has been higher and the deficit has been smaller than we had projected.***

- **ACTUAL DEFICITS HAVE BEEN SMALLER THAN WE PREDICTED.** Between FY 1994 and FY 1996, **the actual deficit has on average been about $50 billion lower than we had projected the year before.** CBO has been less accurate: their estimates have been off by $59 billion on average.

- **THE 1996 DATA CONFIRM THE CREDIBILITY OF OUR FORECASTS.** The most recently available economic data confirm the credibility of our forecasts. **Our estimates of growth and the deficit for 1996 were too cautious** -- and turned out to be more accurate than the Congressional Budget Office's forecasts.

    - In last year's budget, we projected that real growth during 1996 would be 2.2 percent. But the GDP data released last Friday indicate that growth in 1996 was 2.5 percent (on a year-over-year basis). While both the Administration's forecast and the CBO's forecast were conservative, ours was more accurate (CBO had predicted 2.0 percent). Over the past four years, our real GDP forecasts have been more accurate than CBO's.

    - The FY 1996 deficit was smaller than we had projected. Our projection for the FY 1996 deficit was $170 billion in February 1994 and $197 billion in February 1995. CBO's projections were $177 billion in February 1994 and $211 billion in February 1995. The actual deficit was only $107 billion. Again, while both the Administration and CBO forecasts were conservative, ours were more accurate.

- **NO MORE ROSY SCENARIOS.** As in each of the four years that we have been in office, our estimates of growth in 1996 were thus too low and our estimates of the deficit too high -- confirming that the Clinton Administration does not use rosy scenarios for its budget projections.

- **MAINSTREAM PROJECTIONS FOR THE FUTURE.** Our forecasts for the next 5 years are also mainstream and conservative. For key budgetary variables such as GDP growth (2.2 percent per year) and GDP inflation (2.6 percent per year), **our assumptions match those of the Blue Chip private sector consensus.** While we think that the economy can grow faster than these forecasts would suggest, we continue to use prudent projections for budgetary purposes.

CLINTON ADMINISTRATION HIGHER EDUCATION INITIATIVES

INITIATIVE	DESCRIPTION	AMOUNT	IMPACT
Pell Grant Increase and Expansion	Largest increase in two decades -- from $2700 to $3000. Combined with the FY97 increase, the scholarship has increased $530 -- from $2,470 in FY 96.	$1.7 billion more than the FY97 appropriation . -- a 25% increase in aid.	Over 3.6 million students now eligible will receive an increase up to $300. This increase will also make an additional 130,000 families eligible for the grant.
Pell Grant Expansion for Older, Low-Income Students	Increases eligibility so any student from a low-income family can receive a Pell Grant.	$3.9 billion over five years.	An additional 218,000 low-income students generally aged 24 or over will b newly eligible for Pell Grants. 891,000 students will receive an average increase o over $800.
Cut in Student Loan Fees	Cuts loan fees from 4% to 2% on need-based Stafford loans -- and to 3% on other loans for students and parents.	$2.6 billion over five years.	Loan fees will be cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans.
Hope Scholarship Tax Credits	Up to $1500 per-student tax credit for tuition in student's first year and another $1500 in the second year if student earns at least a B average.	$18.6 billion from 1997-2002.	Expected to help 4.2 million middle-income students in 1998.
$10,000 Tax Deduction for Higher Education and Training	Phases up to a $10,000 maximum deduction Also available for training.	$17.6 billion from 1997-2002.	Expected to help 8.1 million middle-income students in 1998.
Tax-Free Education Savings	Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.	Education specific estimates not available.	Combined with tax deduction, the IRA savings for higher education for middle-income families will never be taxed. Wi make over 20 million families eligible fo such a benefit.
Community Service: Work Study	President has called on colleges to commit half of the increased funding for work study to support community service jobs.	$240 million increase over FY96; $120 million for work-study community service in FY98	1 million College Work-Study slots by the year 2000, including 100,000, reading tutors.
Community Service: Loan Forgiveness	The President's budget provides tax relief for community service loan forgiveness.	$15 million between 1997-2002.	Not available.
Presidential Honors Scholarships	One-year, $1,000 scholarships for the top 5% of all high school graduates in the country.	$132 million in FY98.	Benefits 132,000 students who graduate from high school next year.
Educational Assistance from Employers	Extends tax exclusion from employer-provided education assistance through 2000, for both undergraduate & graduate education. Also provides a tax credit to encourage small businesses to offer educational assistance to employees.	$2.4 billion between 1997-2001.	Benefits 1.7 million employees a year.

HOPE and Opportunity: Making college affordable for all Americans

More than ever, today's employers look for job applicants with more than a high school diploma. Since the success of the post-World War II GI Bill, the Federal Government has expanded college aid, making it possible for more Americans to attend college. But for too many, the financial strains are still severe. The President's HOPE and Opportunity plan ensures that these barriers to higher education continue to fall for all Americans.

What's *new* in the plan being announced today?

- ✓ Largest Pell Grant increase in 20 years -- a funding boost of 25%.
- ✓ Nearly $4 billion in new help for Older Students over five years.
- ✓ Student loan fees slashed and interest rates reduced.
- ✓ Community service loan forgiveness excluded from taxation.
- ✓ New details and changes in the HOPE Scholarship tax credit and the $10,000 tax deduction.
- ✓ Extend tax benefits for educational assistance from employers, and provide new tax incentive for small businesses to provide assistance.

Pell Grant increase and expansion

- Largest increase in two decades: $300 boost in the Pell Grant maximum, for a $3,000 maximum award. Since FY 1996, the maximum award will increase $530, or 21 percent.
- A 25 percent funding increase over last year -- $1.7 billion more than the FY 1997 appropriation.
- 3.6 million students now eligible will receive an increase of up to $300. The increase will make 130,000 more moderate-income families eligible for the grant.
- Older student provision will make Pell Grants available to additional 218,000 low-income students generally aged 24 or over, at a cost of $3.9 billion over five years.
- After these changes, the number of Pell Grant recipients will exceed 4 million.

Pell Grants are the foundation of student aid for low- and moderate-income families. Increasing the maximum award to $3,000 provides more aid to currently eligible students, and makes an additional 130,000 students eligible for the grants. In addition, the budget would increase the eligibility of older, low-income students. With this change, any student from a low-income family can receive a Pell Grant, eliminating the need for the HOPE tuition tax credit to be refundable (i.e., available to those without tax liability). Poor students -- those who have little or no tax liability -- benefit more from the Pell Grant program than they would from HOPE, because of the higher award level and its availability for all four years of undergraduate education.

Cut student loan fees and interest

- Borrower-paid loan fees cut in half for 4 million low- and middle-income students, and by a quarter for 2.5 million other loans to student and parent borrowers.
- $2.6 billion in borrower savings over five years produced by the fee cut alone.
- Interest rate during in-school period cut for 2 million students.

Before 1993, borrowers lost up to 8 percent of their student loans in required fees before the money ever reached them. In 1993, the President's aggressive student loan reforms spurred a 50 percent cut in allowable fees that has already saved families nearly $2 billion. The 1998 budget proposes -- for both the Direct and guaranteed loan programs -- to cut loan fees from 4 percent to just 2 percent on need-based Stafford loans, and to 3 percent on other loans for students and parents.

The Congressional Budget Office and other analysts have noted that lender costs during the in-school period -- when students are not required to make payments on their loans -- are very low. The budget reduces the interest rate during that period by one percentage point.

HOPE Scholarship tax credits

- Up to $1,500 per-student tuition credit for course work beginning on or after July 1 of this year.
- Non-refundable.
- Credit can be claimed in 2 taxable years.
- Credit can be claimed for any students who have not finished 13th and 14th years of education.
- The tax credit is expected to help 4.2 million students (1998), and would save families $18.6 billion from 1997-2002.

The tax credit is available for students enrolled on at least a half-time basis during the first two years of postsecondary education. The credit may be claimed in no more than 2 taxable years. To receive the credit for the second time, the student must have at least a B- grade point average in course work completed before that year. Federal grants (but not loans or work-study) would reduce the allowable tax credit. No credit would be available for any student convicted of a drug-related felony. Refundability was eliminated because the needs of the poorest students are better addressed in the Pell Grant program discussed above (the proposed changes in Pell Grants for older students, described above, cost the same as refundability would have cost over five years).

The credit would be phased out for taxpayers filing a joint return with adjusted gross income between $80,000 and 100,000. For single and head-of-household returns, the credit would be phased out between $50,000 and 70,000. (The phase-out ranges and the amount of the credit would be indexed).

Tax deduction for higher education and training

- $10,000 maximum deduction.
- Available for job training and re-training, in addition to traditional higher education.
- Deduction is "above the line" -- available even if the taxpayer does not itemize.
- Expected to help 8.1 million students (1998), and would save families $17.6 billion in taxes between 1997-2002.

The deduction could be claimed for out-of-pocket tuition and fees paid for any student enrolled at least half-time in a degree or certificate program at an eligible school beyond high school, including graduate school. In addition, the deduction would be available for the cost of training -- whether or not it leads to a degree -- that helps the student, older worker, or job-seeker improve or acquire job skills. A student in the first two years of postsecondary education could choose either the credit or the deduction, but not both. The deduction phases in, beginning with a $5,000 maximum per-family for course work beginning on or after July 1, 1997, and increasing to a $10,000 maximum deduction beginning in 1999. The deduction would be phased out at the same income levels as the credit.

Tax-free Education Savings

- Families with incomes up to $100,000 would be eligible for IRAs, and could make penalty-free withdrawals for higher education.

- Combined with tax deduction (above), the IRA savings for higher education for middle-income families would be never be taxed.

The President's budget would allow Individual Retirement Accounts to be used for postsecondary education expenses free from early withdrawal tax penalties, and would make over 20 million families eligible to make tax-deductible IRA contributions. Currently, if an individual (or spouse) already participates in an employer's retirement plan, eligibility is phased out for taxpayers filing a joint return with adjusted gross income between $40,000 and $50,000 (between $25,000 and $35,000 for single taxpayers). The proposal would expand the phase-out ranges for 1997 through 1999 to $70,000 to $90,000 for joint filers ($45,000 to $65,000 for single). Beginning in 2000, the phase-out range would match the ranges described for the higher education tax credit. The budget would also create a special IRA that could be used to save for education and other needs, subject to the same income limits.

Community Service: Work-Study and loan forgiveness

- Budget funds 1 million College Work-Study slots by the year 2000.

- Incentives to reach the goal of 100,000 work-study reading tutors by 1999.

- Tax-free loan cancellation for public service.

The College Work-Study program provides students with additional aid through subsidized jobs. The President has called on colleges to commit half of the increased funding since FY 1996, $120 million for FY 1998, to supporting community service jobs. The Secretary of Education recently waived the institution's required portion of the awards for students that participate as reading tutors -- part of America's Reading Challenge, helping to ensure that every child can read independently and well by the end of third grade. The budget's three percent increase over 1997 continues the President's commitment to raise the number of Work-Study recipients to a million by the year 2000, and 100,000 reading tutors by 1999.

Under current law, a charity or private educational institutions that forgives a loan as part of a program that enables graduates working in certain professions (such as rural medicine or teaching) to pay off their student loans through community service must report the loan forgiveness as income to the graduate. The budget would exclude the loan forgiveness from income.

Presidential Honors Scholarships

- One-year, $1,000 scholarships for at least 132,000 students constituting the top five-percent of all high school graduates in the country.

- The budget provides $132 million in FY 1998.

The President proposes an achievement-based scholarship program, rewarding the best and the brightest of high school students. It would grant $1,000 honors awards to the top five percent of graduating students in every secondary school in the Nation, making clear the Federal government's commitment to academic excellence.

Educational assistance from employers

- Extend tax exclusion for employer-provided education assistance (Section 127) through the year 2000, for both undergraduate and graduate education.

- Tax credit to encourage small businesses to offer educational assistance to employees.

- Benefit 1.7 million employees a year.

The current exclusion from an employee's income of up to $5,250 per year of postsecondary educational assistance provided by an employer expires this year, and expired for graduate-level assistance last year. The President would extend the exclusion, and reinstate the graduate-level component, through the year 2000. In addition, for 1998-2000, small businesses would be given a new incentive to provide educational assistance to their employees through a ten-percent tax credit for amounts paid under an employer-provided educational assistance program for education provided by a third party.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

February 10, 1997

TO: Interested Parties

FROM: Chris Jennings
Nancy-Ann Min

SUBJECT: Validation for Home Health Transfer

Attached please find an op-ed piece from today's *Washington Post* that validates our policy to shift most home health expenditures from Part A of Medicare to Part B. The author, Marilyn Moon, is not only a fellow at the Urban Institute, but is also a Trustee of the Medicare trust fund. Following are some excerpts from the article:

◊ "Shifting home health from Part A of Medicare to Part B does not reduce overall spending. It is nonetheless needed to help delay the exhaustion of Medicare's Part A trust fund, buying enough time to consider what long-term changes make sense for the Medicare program. No combination of reasonable options for slowing the growth in spending on the program will achieve the full amount of short-run savings needed to extend the life of the Part A trust fund for more than a year or tow. The home-health shift--or some equivalent policy change--is necessary to supplement other changes."

◊ "Indeed, if the only allowable solutions to the trust-fund problem that Medicare faces are cuts in spending, then we are in danger of having the cure of 'saving' the trust fund kill the patient."

◊ "Rather, shifting the home-health benefit--in conjunction with other changes designed to achieve a reasonable level of savings--can buy time for an orderly consideration of longer-range solutions to Medicare's problems."

Marilyn Moon

No Medicare 'Gimmick'

In anticipating likely proposals for the Medicare program from the Clinton administration, it has become fashionable for budget experts, lawmakers and The Post to refer to the idea of shifting Medicare's home-health-care benefit from one part of the program to another as merely a "gimmick" because it does not help to balance the federal budget [editorial, Jan. 12]. But that misses the point.

Shifting home health from Part A of Medicare to Part B does not reduce overall spending. It is nonetheless needed to help delay the exhaustion of Medicare's Part A trust fund, buying enough

Taking Exception

time to consider what long-term changes make sense for the Medicare program. No combination of reasonable options for slowing the growth in spending on the program will achieve the full amount of short-run savings needed to extend the life of the Part A trust fund for more than a year or two. The home-health shift—or some equivalent policy change—is necessary to supplement other changes.

Medicare's Part A trust fund pays for hospital and related care for persons age 65 and over and those with disabilities. It is financed mainly by payroll taxes. In 1996 spending on Part A grew faster than the revenues coming into the trust fund. Like a family that spends more than it earns, Medicare is dipping into its savings in order to keep paying the hospital and other bills of its beneficiaries.

If left unchecked, the trust fund for Medicare will be exhausted by 2001. And by the end of 2003, the gap is projected to be more than $200 billion.

Efforts to address this gap need to begin immediately, but aggressive attempts to solve the problem *only* through cutting payments to hospitals and other providers of care or reducing benefits would do real harm to the Medicare program. These changes would have to go well beyond slowing the rate of growth of spending. To close the gap in fiscal year 1998, Medicare Part A spending would have to *fall* by about 13 percent from its projected 1998 level—a feat that none of the usual set of cost savings proposals could achieve.

In addition, a major restructuring of Medicare may not be the answer if it merely shifts the problem onto beneficiaries. Changes are underway in the overall delivery of health services and private insurance arrangements for younger families, much to the discomfort of many. Even healthy people are having difficulty in adjusting to the world of managed care, and the rules seem to be changing constantly. More time is needed to assess the changing marketplace before locking in changes for Medicare. Further, if incremental reforms begin to slow Medicare growth to more reasonable levels, less restructuring might be needed over time.

What, then, does make sense? First, efforts should begin immediately to make sensible changes in the Medicare program under both Parts A and B. Examples of changes in the traditional program—proposed by both Republicans and Democrats—include moving the system used to pay home-health benefits away from paying for reported costs to establishing fixed prices, and reducing the level of payments for hospital care to levels in line with the discounts being negotiated by private insurers. Improving the managed-care option by reforming how Medicare establishes premiums while encouraging further enrollment also makes sense. These reforms will help extend the life of the trust fund *and* balance the federal budget. But these changes take time to become fully effective.

Thus, it is also necessary to look for other adjustments *in addition to* cost-savings options to close the gap between spending and revenues and to extend the life of the Part A trust fund. Shifting home-health from Part A to Part B would have an immediate impact on narrowing the gap.

In addition, since Part A largely covers institutional care, home-health fits in more appropriately with physician and other services provided in the community that are associated with Part B. Originally, home-health services were offered under both parts of the Medicare program, so moving some or all of this service to Part B would not be unprecedented.

Why has such a seemingly minor issue become a sticking point about proposals to change Medicare? It is because such a proposal belies the claim that "saving" Medicare can be done only by cutting spending on the program. Opponents to the shift point out that it does not help balance the federal budget. But that is not why it is being proposed. Indeed, if the only allowable solutions to the trust-fund problem that Medicare faces are cuts in spending, then we are in danger of having the cure of "saving" the trust fund kill the patient. But it is equally important not to oversell the issue; the shift does not contribute to overall savings for Medicare. Rather, shifting the home-health benefit—in conjunction with other changes designed to achieve a reasonable level of savings—can buy time for an orderly consideration of longer-range solutions to Medicare's problems.

The writer is a senior fellow at the Urban Institute.

The Washington Post

MONDAY, FEBRUARY 10, 1997

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 13, 1997

The Honorable Newt Gingrich
Speaker of the House
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

At President Clinton's request, I am responding to your letter of February 9, 1997, in which you ask the President to submit a comprehensive tax reform proposal to the Congress by May 1, 1997.

The President has no higher economic priority than achieving a bipartisan agreement to balance the budget by 2002 in a manner that reflects our nation's values. The budget proposed by the President to Congress on February 6th meets this objective, while at the same time providing meaningful tax relief targeted primarily to middle-income families. Our attention, and the attention of the American people, is properly focused on eliminating the federal deficit. That must be our top priority.

The Treasury Department has been working actively to address the concerns regarding administration of the tax laws by IRS which you mentioned in your letter to the President. Many of these are problems which developed over decades. We informed the Congress of our concerns in this area last year, and we have institutionalized proactive oversight at Treasury in order to address these issues. For example, Treasury has terminated contracts worth over $1 billion, canceled 26 modernization projects and shifted to the private sector over 60 percent of its work on modernization.

Our nation has a vital interest in maintaining a well-functioning revenue collection agency. This year, IRS will process over one billion tax and information returns, issue almost 86 million refunds, and answer over 106 million taxpayer telephone calls for assistance. We are committed to improving the manner in which these services are delivered to the American people including our on-going work on simplification. I hope we can all work constructively together in support of the IRS to achieve this goal.

In the meantime, Congress and the President have never been closer to reaching an agreement on balancing the budget in thirty years. Now is the right time to find common ground in budget negotiations; we hope that effort will begin this week in the discussions planned on Capitol Hill.

Sincerely,

Robert E. Rubin

cc: The Honorable
Richard Gephardt

The Washington Post

February 02, 1997, Sunday, Final Edition

SECTION: OUTLOOK; Pg. C01

LENGTH: 1700 words

HEADLINE: The Balanced Budget Brawl; Amending the Constitution Will Shackle Us Forever

BYLINE: Robert E. Rubin

BODY:

I spent 26 years on Wall Street before joining the Clinton administration and came to believe deeply in the profound importance of fiscal responsibility to our national economy. I have now spent four years working in government to implement this conviction, which members of both parties share.

However, I have an equally strong conviction that a balanced budget amendment is a threat to Social Security and our economic health. It will expose our economy to unacceptable risks and should not be adopted. Likc the 11 Nobel Prize-winning economists and 1,000 other economists who signed a letter on Thursday to "condemn" the amendment, I believe it is strongly against our national interest.

A balanced budget amendment would reduce our ability to cope with recessions, risk putting budgetary decisions in the hands of the courts and create risks with respect to Social Security. Should we balance the budget? Yes. Do we need a new constitutional amendment? No.

Throughout our history, with the exception of wartime and the Depression, budget deficits -- when they existed at all -- were generally small. In the 1970s and 1980s, they began to rise and the cumulative federal debt grew sharply. But after experiencing this period of fiscal indiscipline, I believe the atmosphere in Washington has changed.

In 1993, we took an enormous step forward with the deficit reduction program, which has cut the deficit from 4.7 percent to 1.4 percent of gross domestic product. Last year, both the administration and Congress proposed budgets that would eliminate the deficit by 2002, and both are expected to do so again this year.

There is also a new enforcement factor at work, which is the emergence of global markets attuned to fiscal responsibility. Those markets will punish a nation that does not address fiscal matters by imposing high interest rates that can severely impair its economy.

Today, politically, historically and economically, the forces are in place to balance the budget. And I believe we will. However, there is a distinction between that and passing a constitutional amendment. I believe the balanced budget amendment proposal would subject the nation to unacceptable economic risks in perpetuity.

First, it could turn slowdowns into recessions and average recessions into more severe ones.

Second, it could prevent us from dealing expeditiously with emergencies such as natural disasters or military threats.

Third, it would seriously increase the risk of default on our national debt.

Fourth, the escape clauses it provides are likely to be far from fully effective. The escape clauses would also enable a minority in either the House or Senate to use its leverage to subject the nation to unacceptable economic risks.

Fifth, a balanced budget amendment poses immense enforcement problems that might well lead to the involvement of the courts in budget decisions, unprecedented impoundment powers for the president or the temporary cessation of all federal payments, including, for example, Social Security. Alternatively, the balanced budget amendment might be unenforceable and therefore have no effect at all, contributing to cynicism about the process of government.

For these and other reasons, a balanced budget amendment poses unacceptable risks. Let me elaborate.

* More severe recessions. As secretary of the treasury, I am deeply concerned that a balanced budget amendment could worsen recessions or downturns, first by eliminating automatic stabilizers that protect people during a downturn and, second, by forcing tax increases or spending decreases precisely in the midst of a slowdown or recession when the economy is already suffering from lack of demand.

Since World War II, we have made substantial progress in reducing the toll of the boom-and-bust cycle through the introduction of automatic fiscal stabilizers and effective use of counter-cyclical fiscal policy. For example, if unemployment rises, unemployment insurance payments rise as well, moderating the economic impact of recessions and job losses on companies, workers and their families.

A balanced budget amendment would undo this progress and put more people out of work during downturns by turning off these stabilizers and foreclosing action to soften a recession.

Even if Congress wanted to put back the stabilizers (an act that would require a three-fifths vote), slowdowns and recessions are hard to recognize or anticipate. Congressional action would almost surely come, at the very best, months later, by which time critical damage to the economy would already have been done.

* Inability to cope with crises. A balanced budget amendment would also prevent us from dealing quickly and effectively with major problems, from a second savings and loan crisis to a second Hurricane Hugo to an escalating military threat.

For example, in September 1989, Hurricane Hugo struck the Carolinas, causing billions of dollars of damage. After President Bush declared a disaster, Congress immediately appropriated $ 2.7 billion in emergency assistance. Under the balanced budget amendment, if the budget were otherwise in balance, this could not be done until after a vote of 60 percent in both houses.

* Increased risk of default. As secretary of the treasury, I am also concerned that limits on our flexibility would increase the risk of default on the federal debt. The possibility of default should never be on the table. Our credit-worthiness is an invaluable national asset that should not be subject to question.

Default on payment of our debt would undermine our credibility with respect to meeting financial commitments, and that in turn would have adverse effects for decades to come. A failure to pay interest on our debt could raise the cost of borrowing not only for government, but for private borrowers including small businesses and homeowners.

Finally, as we saw in 1995 and 1996, the history of debt limits shows that raising the statutory debt limit is never an easy process. Yet right now it is possible to raise the debt limit with a simple majority vote in both houses. By requiring a three-fifths supermajority vote, the amendment would make it far more difficult.

* Potential for gridlock. Proponents argue that when necessary, Congress would waive the provision of this amendment with a three-fifths vote. But, in

fact, the history of Congress shows that it can be extremely difficult to obtain such a majority, and would be even more difficult when the issue is the momentous one of waiving a provision of the Constitution.

While 60 votes are usually required in the Senate for cloture -- that is, ending debate and bringing a matter to a vote -- and the members have long honored the rights of a minority, the Senate also recognizes that certain matters should not be held up. It therefore permits a reconciliation bill, which can be a vehicle for passing a budget or increasing the debt limit, to be passed by a simple majority.

Under this amendment, 41 Senators or 175 House members could hold our economy hostage to a special agenda.

* Enforcement difficulties. A balanced budget amendment poses immense enforcement problems. If the budget is not in balance, there is no way to compel Congress and the president to enact legislation to cut spending or raise taxes to make it so. Yet there is also no way to compel enactment of legislation to waive the provisions of the amendment. It is not hard to imagine a situation in which a two-fifths minority of Congress opposes tax increases, a different two-fifths minority opposes spending cuts, and another two-fifths minority opposes a waiver of the balanced budget amendment or a raise of the debt limit. The amendment provides no method for resolving such an impasse and it could well end up being decided by the courts.

Some proponents have suggested that under these circumstances, the president would stop issuing checks, including those for Social Security. Alternatively, judges might become deeply involved in determining budget policy, including whether Social Security or Medicare checks should be stopped. The president might also impound funds of his choosing, including Social Security. Of course, the amendment might just prove to be unenforceable, reducing respect for the Constitution. All of these potential outcomes are extremely undesirable.

A balanced budget amendment would embed economic policy inflexibility into the Constitution in the face of unknowable economic and political conditions 10, 20, 30 or 40 years from today.

I have a deep commitment to the importance of deficit reduction and fiscal discipline to our nation's economic health, and I believe that we can put in place balanced budget legislation this year. But I have an equally strong conviction that a balanced budget amendment poses real risks for our nation's economy. Congress should not adopt it.

Robert Rubin is the secretary of the treasury.

SUMMARY OF TAX CUTS
IN THE PRESIDENT'S FISCAL YEAR 1998 BUDGET

The President's 1998 budget provides about $100 billion of tax cuts (99.88 billion) through FY 2002: a child credit for middle-income families, tax cuts to encourage education and training, expanded IRAs, exclusion of a gain on the sale of a home, and tax incentives to boost investment in distressed areas and promote hiring of the economically disadvantaged.

I. MIDDLE-CLASS TAX CUTS

These proposals will help middle-class families pay the bills, raise their children, send them to college, upgrade their skills, and save for retirement.

- Tax Credit for Dependent Children ($46.7 billion)
  Provide a phased-in $500 tax credit for dependent children, phased out for taxpayers with adjusted gross income between $60,000 and $75,000.

- **Education and Training Tax Incentive ($38.6 billion)**
  - Provide **HOPE Scholarship tax credits** of up to $1,500 per year, available for the first two years of post-secondary education, phased out for taxpayers with adjusted gross incomes between $50,000 and $70,000 ($80,000 and $100,000 joint). ($18.6 billion)
  - Provide a phased-in **$10,000 tax deduction** for post-secondary education and training, available to all families for tuition and fees for any college, graduate school or qualified lifelong learning, with the same phase-out ranges as for HOPE Scholarships. ($17.6 billion)
  - Provide income **exclusion for forgiveness of certain student loans,** including loans extended by educational institutions to their students where loan forgiveness is contingent on the student's working for a certain period of time in certain professions or for a broad class of employers. ($.03 billion)
  - Extend the **exclusion for employer-provided educational assistance** through December 21,2000 (currently expires mid-1997), reinstate exclusion for graduate courses, and provide **small businesses a ten percent income tax credit** for payments for education of employees. ($2.4 billion)

- Expand Individual Retirement Accounts (IRAs) ($5.5 billion)
  Double, over time, the income limits on deductible IRAs, increasing them to $70,000 ($100,000 joint); expand penalty-free withdrawals to cover post-secondary education, unemployment expenses, and first-time home purchases; and add new "special" backloaded IRAs.

- **Exclusion of Gain on Sale of a Home** ($1.5 billion)
  Allow exclusion of $500,000 ($250,000 singles) of capital gains from selling a principal residence. The exclusion could be used every two years and would replace the current-law one-time exclusion of $125,000 and the deferral of capital gains when buying a more expensive home. This change would exempt over 99 percent of home sales from capital gains taxes and would dramatically simplify taxes and record-keeping for over 60 million homeowners.

II. TAX INCENTIVES FOR DISTRESSED AREAS ($2.4 billion)

- **"Brownfields" Initiative**
  Allow immediate expensing of qualified environmental remediation costs, to encourage companies to clean up abandoned, contaminated industrial properties, known as "brownfieds," in economically distressed rural and urban areas.

- **Incentives to Empower Communities**
  To help stimulate revitalization of economically distressed urban and rural communities, authorize the designation of 20 additional Empowerment Zones and 80 additional Enterprise Communities, with new tax incentives, including the brownfields initiative, additional small business expensing, and new private activity bonds.

- **Community Development Financial Institution (CDFI) Tax Credit**
  Provide $100 million of credits to be allocated among equity investors in community development banks. The credit can be as much as 25 percent of the amount invested.

III. WELFARE-TO-WORK INITIATIVE ($0.5 billion)

To encourage hiring long-term welfare recipients, provide a new welfare-to-work credit through September 30, 2000. It would allow employers a **50 percent credit on the first $10,000 of annual wages** that they pay to long-term welfare recipients for up to two years. Also expand the Work Opportunity Tax-Credit to include able-bodied adults, ages 18-50, who are subject to the time limits for Food Stamps under the Administration's legislative proposal to amend last year's welfare reform law.

IV. SMALL BUSINESS AND FARM ESTATE TAX RELIEF ($0.7 billion)

To address cash-flow problems that may arise upon the death of a farmer or small business owner, increase the amount of property eligible for a favorable interest rate on deferred estate tax from $1 million to $2.5 million, and eliminate distinctions based on form of ownership.

V. OTHER INITIATIVES

- Extend for one year expiring tax provisions (R&E credit, Work Opportunity Tax Credit, contributions of appreciated stock to private foundations, and orphan drug tax credit) ($2.7 billion)
- Ensure that disabled persons are fairly treated when filing for tax refunds by modifying the statutes of limitations ($0.05 billion)
- Provide District of Columbia tax incentives to encourage employment of D.C. residents and to revitalize distressed areas ($0.26 billion)
- Provide a more efficient and effective tax incentive for the economic development of Puerto Rico ($.417 billion)
- Allow FSC software benefits for computer software licenses ($0.560 billion)

*All estimates are OMB estimates for the period FY 1997-2002

February 1, 1997

ELIMINATING UNNECESSARY SUBSIDIES TO CORPORATIONS AND BROADENING THE BUSINESS TAX BASE

- **The President's budget, in addition to entitlement and discretionary savings, will propose approximately $40 billion of business tax base broadeners, tax loophole closers and tax compliance measures for fiscal years 1997 to 2002.**

    - At a time when we are trying to balance the budget while protecting priorities like Medicare, Medicaid, education and the environment, the President believes we should also be closing loopholes and special interest provisions.

- **In contrast to others who talk about eliminating unnecessary subsidies in the tax system but provide no specifics, the President is making a series of specific and sensible proposals.**

    - "The Corporate Subsidy Reform Commission," as proposed in legislation sponsored by Senators McCain and Feingold, offers no specific recommendations in the bill.

    - The newly formed coalition, "Stop Corporate Welfare," which includes House Budget Committee Chairman John Kasich, did not propose to close any specific corporate tax loopholes.

    - Last year's Republican-passed Budget Resolution conference report did not reference specific loophole closers, even in report language.

- **The President's base broadeners, tax loophole closers and tax compliance measures include:**

    - Cutting corporate subsidies, for example, by repealing percentage depletion for non-fuel minerals mined on Federal lands leased at minuscule rents under the anachronistic 1872 mining laws.

    - Modernizing the tax code to keep up with changes in the financial markets, such as evolving strategies for manipulating debt and equity distinctions for tax advantage.

    - Preventing abuse by financial manipulations, such as, "shorting against the box" and the similar strategies such as equity swaps, that are designed to eliminate the risk of loss and opportunity for gain with respect to a security without realization of any gain for tax purposes.

    - Closing corporate loopholes, for example, by eliminating tax-free sales of subsidiaries through spinoffs, and by reforming inventory methods that understate income to reduce tax liability.

Note: The budget also proposes extension of various excise taxes (or their equivalent) dedicated to Trust Funds, which were allowed to lapse when no legislation was passed to extend them. These are not new revenue raisers in the same sense as the proposals described above. Because they were allowed to elapse, under the rules of the Budget Enforcement Act, they are technically scored as revenue increases. The principal extender in this category, the excise tax supporting the Airport and the Airways Trust Fund, was extended in the Republican-passed Balanced Budget Amendment.