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December 13, 1999

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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

RE: FY 2001 BUDGET INITIATIVES

The attached memorandum provides a brief description of new initiatives we are considering for the 2001 budget. I am still vetting some of these ideas. They are not necessarily firm recommendations, but interesting ideas that I wanted you to see. They are organized around several themes:

(1) FROM DIGITAL DIVIDE TO DIGITAL OPPORTUNITY
(2) CLOSING THE SKILLS GAP
(3) BUILDING ON THE IMPORTANCE OF EARLY LEARNING
(4) STRENGTHENING MANUFACTURING FOR THE 21ST CENTURY
  A) Skill Development
  B) Promoting Exports
  C) Increasing Productivity Through Technology
  D) Helping the Environment and Efficiency
(5) SOCIAL SECURITY WIDOW POVERTY
(6) REWARDING WORK
(7) EXPANDING NEW MARKETS
(8) BUILDING NATIVE AMERICAN NEW MARKETS
(9) PROGRESSIVE SAVING
(10) CHILD LABOR
(11) OTHER HUMAN FACE AND OTHER INTERNATIONAL ECONOMIC INITIATIVES
(12) MAINTAINING AMERICA'S TECHNOLOGICAL LEADERSHIP
(13) AIR TRAFFIC CONTROL REFORM
(14) OTHER INITIATIVES

College Completion Challenge Grants would provide grants to deal with college completion with a comprehensive program including, pre-freshman summer programs, support services and increased grant aid to students. One aspect could be a pilot to front-load Pell Grants. Increasing grant aid in the early years when students are the most likely to drop out of college may be the best way to improve retention. By the time a student reaches the third year of college, the chances of dropping out are dramatically reduced. We could test the idea of allowing a student to take all of their Pell eligibility in the first 2 years, thus reducing the likelihood of dropping out early, and ideally improving completion rates.

Universal Re-Employment Initiative: The universal re-employment initiative provides comprehensive assistance to workers who lose their jobs through no fault of their own. The initiative could provide: (1) training opportunities for every dislocated worker who wants and needs it in 5 years (we are entering the second year of this 5-year initiative); and (2) universal access to counseling and information about available jobs and training programs (for example, through "one-stops," America's Job Bank, mobile one-stops, and a toll free number).

Addressing Arbitrary Limit on Medicare Coverage for People with Disabilities: In the compromise on the Work Incentives Improvement Act, its Medicare benefit was limited to an additional 4 and a half years. This policy postpones rather than eliminates the disincentive to work, as Medicare provides the necessary coverage that is often unavailable or unaffordable on the job. Cost: $0 for 2001-2005, $200 million for 2006-2010.

Tax Credit for Workers with Disabilities: The FY 2000 budget proposed a $1,000 tax credit for people with disabilities who work. It would phase out for higher income tax payers (taxpayers with modified adjusted gross income exceeding $110,000 for couples, $75,000 for unmarried taxpayers, and $55,000 if the taxpayer is married but filing a separate return; same phase-out as the child tax credit). This credit may be refundable for taxpayers with three or more dependents. A taxpayer (or a taxpayer's spouse) would qualify for the proposed tax credit if he or she had earnings and was disabled. "Disabled" for this credit would be defined as being certified within the previous 12 months as being unable, for at least 12 months, to perform at least one activity of daily living without personal assistance from another individual, due to loss of functional capacity. Cost: about $300 million over 5 years.

Improving Access to Assistive Technology: The FY 2000 budget proposed doubling Federal funding for assistive technology ($35 million), but Congress acted on only two small portions of our assistive technology initiative. Technology is often not adapted for people with disabilities, and even when it exists, people with disabilities may not know about it or may not be able to afford it. This new initiative would accelerate the development and adoption of information and communications technologies, which can improve the quality of life for people with disabilities and enhance their ability to participate in the workplace. This initiative: (1) makes the Federal government a "model user" of assistive technology and services; (2) supports new and expanded state loan programs to make assistive technology more affordable for Americans with disabilities; and (3) invests in research and development and technology transfer in areas such as "text to speech" for people who are blind, automatic captioning for people who are deaf, or speech recognition and eye tracking for people who can't use a keyboard.

Dual-Degree Programs for Minority-Serving Institutions: This program would provide competitive grants to consortia of minority-serving institutions and research universities to enable students at Hispanic-Serving Institutions (HSIs), Historically Black Colleges and Universities (HBCUs), and Tribal Colleges and Universities (TCUs) to earn dual degrees in 5 years. Participants would spend 3 years as undergraduates at the HSI, HBCU, or TCU earning a bachelor's degree and 2 years at a partner institution, such as a major research university, earning a bachelor's or master's degree in a field in which the student's racial, ethnic, or gender group is underrepresented. Funds would: (1) establish dual-degree program articulation agreements, (2) provide scholarships to students to bridge tuition and cost-of-attendance differences between the minority-serving institution and the partner institution, including differences in institutional scholarships, and (3) compensate the minority-serving institutions for tuition revenue losses associated with the participants' accelerated matriculation. This program would increase academic opportunities for students at minority-serving institutions, improve their postgraduate access and persistence, and promote their workforce participation in fields in which minorities are underrepresented.

Educational Technology Research Initiative: Invest in research to improve the "state-of-the-art" of educational technology. Examples would include: use of speech recognition and speech understanding to improve reading performance of at-risk 3rd graders; modeling and simulation to allow students to learn by doing – similar to the way pilots learn to fly by using a flight simulator as opposed to getting lectures on aerodynamics; an intelligent tutor that recognizes common student errors and provides customized feedback. *Rationale:* Leverage Federal Government's investment in IT research by applying it to education. Current level of investment in education research (relative to total spending) is 0.1 percent – compared to 3 percent for industry and 10-15 percent for high-tech industries. Recommended by President's Council of Advisors on Science and Technology (David Shaw report). Research in this area has led to demonstrable results that show effectiveness of educational technology (for example, Carnegie Mellon Algebra Tutor significantly improves student performance on story problems). Cost: $50 million in Department of Education budget. This would support 10 centers of excellence – including research, development, and evaluation in a classroom setting.

Distance Learning: The Administration's Learning Anytime, Anywhere Partnership program is helping underserved adults learn at a time, place, and pace that is convenient for them. Unfortunately, the program was only funded at $20 million in FY 2000 - and was swamped in 1999 by over 700 proposals. Given the number of high-quality proposals the program has attracted, the Administration should expand support for the program. Cost: $30 million.

(3) BUILDING ON THE IMPORTANCE OF EARLY LEARNING

We could employ a number of options to build on the growing awareness of the importance of early cognitive development. A robust initiative could include:

Dramatically Expanding Head Start: We are committed to enrolling 1 million children in Head Start by 2002. The fiscal year 2000 enacted level provides funding for about 880,000 slots, leaving 120,000 for the next 2 years. We could either move all the way to 1 million children in 2001, a year ahead of our commitment (at a cost of $1.6 billion), or stay on a slower path ($634 million for one-third of the way or $883 million for half), but seek advance appropriation for 2002 of the sum necessary to complete the task ($979 million for two-thirds or $790 million for half). A path for future fund increases to make Head Start universal could also be established.

Early Childhood Learning Fund: A dramatic increase in the Early Childhood Learning Fund combined with establishing a path for future increases. Could expand to $1 billion for FY 2001 – a $400 million increase – and aim for $2 billion per year over the next decade ($20 billion over 10 years). An alternative would be to endorse the effort by Senators Kennedy, Stevens, Dodd, Jeffords, John Kerry, and Murray in S. 749, the Early Learning Trust Fund, which would set up a program to provide flexible funds to states and localities to promote full-day, full-calendar-year early learning programs.

(4) STRENGTHENING MANUFACTURING FOR THE 21ST CENTURY

In August, the Vice President and you announced the creation of an interagency Manufacturing Task Force to explore concrete steps the Administration could take, together with labor and industry, to strengthen U.S. manufacturing. We are still meeting on the components, but some elements could be organized around the following areas: (A) skill development, (B) promoting exports, (C) increasing productivity through technology, and (D) helping the environment and efficiency. In many of these areas, initiatives are specifically focused on helping small and medium-sized enterprises compete by having access to the latest technologies and to foreign markets.

(A) Skill Development. A key component of the manufacturing for the 21st century is expanding training to help upgrade skills for incumbent workers and train workers for newer, more skilled manufacturing jobs. The elements of this could include:

- **Incumbent Worker Training Through Matching Block Grants to States:** The Department of Labor proposes to competitively award block grants to 10 to 15 States for demonstrating innovative approaches to training and upgrading the skills of non-management employees at firms where there is a demonstrable risk of a large near-term layoff or in other special circumstances. These grants would require similarly sized matches of state and employer money. DOL estimates these grants could generate new training for an additional 300,000 to 460,000 workers a year. DOL requested $100 million in new funding for FY 2001.

- **Increasing the Number of Regional Skills Partnerships:** The Department of Labor would increase the number of competitively-awarded Regional Skill Partnerships (RSP) grants. In these partnerships, industry, labor, and the local workforce development system would work together to assess the strengths and weaknesses of their workforce and design interventions to fill gaps and better match skills to employer needs within a region. DOL estimates that funding 50 to100 additional partnerships around the country would generate training infrastructures that could serve areas with anywhere from 6 to 12 million workers. The Department estimates the cost of expanding the program to be $100 million per year.

- **Expanding the Manufacturing Career Cluster Project:** The Department of Education, working with other agencies, States, and leading industry and labor organizations, launched the "Building Linkages" initiative to develop pathways in five career areas including manufacturing. The goal is to increase the number of students in secondary schools interested in pursuing careers increasingly manufacturing who meet academic and industry skill standards. The Department of Education requested $5 million.

- **Increasing the Number of Manufacturing-Related Centers for Excellence for Advanced Technical Education (ATE):** The National Science Foundation's ATE program strengthens and broadens the education of technicians for high-skill occupations including high-tech manufacturing. With 2-year colleges at the hub, the program is creating synergy by engaging industry, 4-year institutions, high-schools, and other organizations in producing a new generation of versatile technicians who are well-versed in the fundamental concepts of science and engineering and can critically apply their knowledge and experience in the workplace. There are three ATEs that focus on manufacturing. NSF could double that number.

(B) Promoting Exports. A series of initiatives could focus on strengthening and extending the ability of American manufacturers to compete and succeed in the global economy. Many of these would be targeted at helping small and medium-sized enterprises.

- **Enabling More Smaller Manufacturers To "Go Global":** The Department of Commerce proposes to develop a series of domestic trade education and Internet-based outreach activities to introduce manufacturing firms to new markets, expose them to opportunities in newly opened economies, and suggest new means for reaching those markets. The Department would also assist smaller manufacturers in becoming "export ready" and create market development strategies for underrepresented small and medium-sized manufacturers. We could set as goals to increase the number of small and medium-sized manufacturing firms that export, increase the value of those exports, and increase the number of countries to which smaller manufacturing firms export. The Department is requesting $20 million in new funding.

- **Reduce Non-Tariff, Technical Barriers to Trade:** The Department of Commerce proposes to reduce non-tariff barriers to trade arising from differences in the ways countries create product standards, testing, and certification requirements, by strengthening the U.S. measurements and standards infrastructure. Standards directly affect at least $150 billion in U.S. exports, and serve as barriers to trade for an additional $20 to $40 billion of exports. We could reduce these types of barriers to trade by: (1) increasing worldwide recognition of U.S. measurements and standards through cooperation with international and regional "measurement" organizations, (2) increasing acceptance of U.S. technologies by international standards developing organizations, and (3) facilitating market access for U.S. exports by posting additional standards experts in key export markets. This new proposal is estimated to require \$10 to \$20 million in FY 2001.

- **Promoting Exports Through Export-Import Bank:** ExIm would increase the total project authorizations for working capital financing available to U.S. exporters by reaching out to the so called asset-based lenders who typically finance the inventory and receivables of small- to medium-sized businesses. These non-bank lenders are part of a \$200 billion industry that finances inventory and receivables and almost always lends to small- to medium-sized business. ExIM projects the demand for its Working Capital Guarantee Program to grow to \$1 billion in FY 2001. ExIm may also need some additional resources to offset OMB's increased "credit risk" rating.

- **Increasing Sources of Working Capital Available to Small Exporters:** The Small Business Administration proposes to increase the number of lenders capable of offering short-term export working capital to their customers by enhancing the capabilities of its Export Risk Analysis Online (EXR-Online) system and through training and marketing initiatives aimed at potential lenders. EXR-Online utilizes interactive Internet technology to allow lenders to quickly determine whether or not an export transaction is eligible for funding under the Export Working Capital Program.

- **Clean Energy Exports:** You have repeatedly stressed the need to move beyond the idea that economic growth must be accompanied by increased pollution, including greenhouse gases. This initiative proposes spending \$183 million to accelerate the development and deployment of clean energy technologies in developing countries. The goal is to increase and "green" U.S. private capital flows and exports to the developing world in electric power production and consumption infrastructure and products. Between 1995 and 2020, \$1.7 trillion will be invested in electric power capacity in developing countries. To capture market share, we must fashion a more effective and robust USG-private sector partnership to address the challenge of global clean energy markets by: (1) developing and demonstrating new large grid power systems and distributed generation technologies, as well as design and production techniques that save energy; (2) promoting exports and funding export promotion activities (for example, financing cost-share clean power feasibility studies at TDA, offering new bid-cost insurance at TDA, and expanding utilization of ExIm's "Environmental Export Program"); and (3) exercising leadership within the OECD, G8, and WTO to establish common principles and favorable terms for clean energy technologies in ECA guidelines and through WTO policies.

(C) Increasing Productivity through Technology. In addressing manufacturing, you could build on the Manufacturing Extension Partnership (MEP) and other programs to help foster innovation as well as the dissemination of ideas to smaller manufacturers.

- **Technology Infrastructure for 21st Century Manufacturing Supply Chains:** The Department of Commerce would accelerate the development of the technology infrastructure needed for supporting reliable, effective, interoperable, and secure solutions for business-to-business electronic commerce, focusing on the requirements of manufacturing supply chains. For example, the lack of just one type of information infrastructure in the automotive industry – standards for exchanging product data electronically between suppliers – imposes an annual cost of approximately $1 billion. Extrapolating to other industries with similarly complex supply chains – aerospace, electronics, construction – suggest a multi-billion dollar drain on the economy as a result of poorly integrated electronic commerce technologies. The Department requests $28 million in new funding.

- **Expand Manufacturing Extension Partnership (MEP) to Provide Technical Assistance for Smaller Manufacturers.** Your November 30, 1998, directive on Electronic Commerce and Policy Statement asked the Department of Commerce and the Small Business Administration to develop strategies to help small businesses overcome barriers to the use of the Internet and electronic commerce. There is a real risk that if small and medium-sized businesses do not adopt on-line procurement technologies, they will lose significant sales. The Department of Commerce, Small Business Administration, and Department of Agriculture propose to develop, distribute nationwide, and support through their combined extension service networks a number of electronic commerce "tools" to help address this problem. The Department of Commerce requested $30 million and the Small Business Administration requested $10 million for the effort.

- **Facilitating Collaborative Manufacturing R&D:** The Department of Commerce would facilitate collaborative industrial R&D that addresses manufacturing "infrastructure" needs across all sectors, by establishing a convening organization that would use a series of technology roadmaps developed over the past two years by over 400 representatives from four federal agencies (DOE, DOD, DOC, and NSF) and 150 firms in "manufacturing" industries. The roadmaps laid out common visions in the areas of information systems for manufacturing enterprises, modeling and simulation, manufacturing processes and equipment, and technologies for enterprise integration. The Department believes that $1 million will be needed in FY 2001 to support the Federal role.

(D) Helping the Environment and Efficiency. A series of green initiatives could help improve both the environment as well as the efficiency of American manufacturers. Some of these initiatives could include:

- **Energy- and Waste-Reducing R&D:** The Department of Energy proposes to increase funding for its Industries of the Future (IOF) program to support additional industry energy- and waste-reducing R&D identified in industry visions and technology roadmaps. The program creates partnerships between industry, government, and supporting laboratories and institutions to accelerate technology research, development and deployment in nine energy- and waste-intensive industries such as steel, aluminum, chemicals, forest products, glass, petroleum, and metal casting. The Department is proposing to increase this program by $35 million above its $150 million FY 2001 OMB submission.

(6) REWARDING WORK

You could build on the progress made from the first year of your Presidency to continue to make work pay and reduce poverty for working families. This element could be the organizing principle for further initiatives in housing, expanding health care coverage, and rewarding work through EITC expansion. (Health initiatives are discussed in a separate memo.)

Expanding Housing Vouchers: Expand to 100,000 housing vouchers in FY 2001, with a goal of 500,000 vouchers by the fifth year. (Cost: $3 billion-$6 billion over five years.

Rewarding Work and Family Through the EITC:

- *Making the EITC Even More Pro-Work and Addressing the "Marriage Penalty."* Some of the highest marginal tax rates in the tax system are those paid by people phasing off of EITC. Reducing this disincentive to work could also be a way to expand the EITC and further reduce poverty and help hard-pressed working families. The EITC could be expanded by (1) increasing the phaseout so that more families get the maximum amount, (2) lowering the phaseout rate so that marginal tax rates are reduced, and (3) easing the marriage penalty by making these phaseouts more favorable for married couples. The third component of this proposal would cost $11 billion over 10 years.
- *EITC Increase for Three Children.* The poverty rate among children in families with three or more children is nearly twice that of families with fewer children. A third tier of EITC benefits could be created for families with three or more children. You began your Administration with a large expansion of the EITC. The poverty rate for children has fallen dramatically, but it is still too high. The EITC plus the minimum wage lifts full-time workers with one or two children out of poverty. With a one dollar increase in the minimum wage, a full-time worker with two or more children would have earned $15,115 in 1998 – which is about $1,500 below the poverty line for a family of four ($16,660). Adding an additional tier to the EITC would be a well-targeted way to pursue the goal that no parent working full time should have to raise children in poverty. Then-Senator Gore introduced a proposal to do this (among other things) in a bill (S. 995) he introduced May 7, 1991. Congressman Downey introduced the companion bill (H.R. 2242) the same day. This could be done either by raising the maximum EITC with families with three or more children (which would benefit all families with three children). This would cost $8 billion over 10 years. Alternatively, this could be done in the context of making the EITC even more pro-work.

Getting to Work: A major factor in getting out of welfare and into a job is being able to drive to work. But the food stamp program penalizes any beneficiary who owns a car worth more than $4,650. That car allowance was $4,500 in 1977 and has barely crept up since. In the meantime, as a result of welfare reform, states can now liberalize their car allowance for purposes of the TANF program, and more than 40 states have. We could give states the option of conforming their car allowance under the food stamp program to their car allowance for TANF (so long as they do not lower it). Because of Administration steps to increase categorical eligibility under food stamps, the cost of this option will be less than it was last year. As well, the intervening year has seen a worrisome drop in food stamp participation. Finally, with states liberalizing their

TANF car allowance, this is now an idea that the states have pioneered. The idea is reflected as section 3 of the Hunger Relief Act, S. 1805, introduced October 27, 1999, by Senators Kennedy, Specter, Leahy, and Jeffords, and H.R. 3192, introduced November 1, 1999, by Congressman Walsh and a bipartisan group of 10 Representatives. Cost: CBO estimates the cost at $1.3 billion over 5 years.

(7) EXPANDING NEW MARKETS

Help include communities that have not fully shared in our prosperity by expanding the New Markets initiative and including empowerment zones within the initiative.

Expanded New Markets Tax Credit: Double the new markets tax credit, costing $4 billion over 10 years.

Expanded Empowerment Zones Credit: The goal would be to increase existing incentives, include empowerment zones in the new markets framework, and compromise with Talent-Watts' American Community Renewal Act.

Expanded Low-Income Housing Tax Credit: The FY 2000 budget proposed expanding the Low-Income Housing Tax Credit (LIHTC) from $1.25 per capita to $1.75 per capita at a cost of $1.6 billion over 5 years. In light of the housing shortages in many parts of the country, we may want to propose expanding this credit even further.

"Homestead Mortgages" – A Homeownership Tax Proposal for Lower-Income Families: The Nation has seen dramatic increases in homeownership rates during the your Administration, but rates for lower-income families, minorities, and those in underserved areas still lag significantly behind. The existing mortgage interest deduction benefits few lower-income homeowners, since few itemize deductions. The Treasury is developing a homeownership tax credit proposal that should help boost homeownership rates for lower income families. Specifically, income qualified, first-time homebuyers, buying homes within purchase price limits, would pay at an interest rate 15 percent less than the prevailing conventional rate; similarly qualified homebuyers purchasing homes in geographically targeted areas could pay interest at 30 percent below conventional rates. The tax credit taken by the lender would make up the difference. Treasury proposes that states be given the option of using their existing mortgage revenue bond allocations for these new "Homestead Mortgages" in which case the proposal would be revenue neutral. Alternatively, the cost could be scaled to the desired level.

Improving New Markets Data that Drives Business Investment: The budget could include $5 million to fund five demonstration projects to improve data used to assess business potential in underserved markets. These projects would be structured as cooperative agreements with private sector firms to test promising approaches to addressing the "information gap" that impairs business perception of market opportunity in the inner city.

Business Schools in the New Markets Initiative: Recognizing the importance of universities in local community-building activities, the budget could fund a pilot project at 10 to 12 business schools around the country to foster business development and serve organizations (businesses and community development corporations) located in low- and moderate-income areas. This program could be administered either through the University Partnerships or Community Development Block Grant programs at HUD.

Expanding the National Community Development Initiative (NCDI) Program: To support community-based economic growth, the budget could include funding to HUD to launch a new phase of the successful National Community Development Initiative (NCDI), a model public-private partnership that has provided significant support for capacity building in community-based organizations. This initiative could create thousands of new jobs, at hundreds of new community-based and -owned businesses in dozens of communities over the coming years.

(8) NATIVE AMERICAN NEW MARKETS

Using the new markets framework for Native Americans will require more than just extending existing programs. We are still discussing the specifics of this and will be meeting with Senator Domenici to go over some ideas. Some of the areas we are exploring include:

Encouraging Native Americans in Information Technology Fields: This initiative would encourage Native Americans to pursue information technology as a field of study as well as increase the capacity of tribal colleges to offer these courses. The Commerce Department has noted that people in isolated, rural areas – where many reservations are located – are being left behind in the digital divide. Grants could be given to tribal colleges or Native American students. Funds would be used for course development and possibly work-study projects. We might consider using this initiative in tandem with the EDA's initiative to fund tribal technology infrastructure projects, such as setting up satellite and Internet capability. Cost: $10 million.

Additional Funding to CDFI To Establish a Training and Technical Assistance Program for Native Americans: The CDFI Fund is working on a congressionally mandated Native American Lending Study and Action Plan to help identify lending and investment barriers in Indian Country, the impact of such barriers on access to capital and credit, and recommendations on how to eliminate such barriers. A final report will be submitted to you and the Congress during the upcoming year. The budget could provide funding to establish a training and technical assistance program to increase access to capital within Native American and Native Hawaiian communities and on other lands held in trust by the federal government. The training and technical assistance program shall provide educational and other programs to further the following three goals:
(1) to enable financial institutions currently serving Indian Country to enhance their capacities to provide access to capital and credit to Native American communities; (2) to assist financial institutions contemplating serving Indian Country to do so; and (3) to assist Native American communities to establish community development financial institutions.

Promoting Native American Economic Development: In keeping with the Administration's New Markets initiative, the Department of Commerce is proposing a $50 million investment (an increase of $35.8 million) for the Department of Commerce's Economic Development Administration (EDA) to provide grants for tribal infrastructure projects and other projects helping to address problems of the "digital divide."

Native American Economic Development Access Center: We could propose creating a Native American Economic Development Access Center at the Bureau of Indian Affairs to co-ordinate existing Federal economic development activities for American Indian and Alaska Native communities. Cost: $2 million.

Native American Small Business Development Centers: These centers provide access to current, culturally tailored information to the Native American Entrepreneur. Cost: $1.5 million.

Expand BusinessLINC to Indian Country: We could propose to provide $1.25 million to the Small Business Administration to support a four-year effort to implement a BusinessLINC in Indian Country Initiative.

Native American Economic Development Initiative: This initiative would increase available funds to tribes to be used for capacity building, long-term economic development planning, and in-depth technical assistance through HUD. Could be funded at $12 million.

(9) PROGRESSIVE SAVINGS

Personal savings, together with Social Security and pensions, is one of the three key elements of retirement security. The personal savings rate, however, has fallen steadily and many low-income people do not save for retirement, have pensions, or even bank accounts. A series of initiatives could address this challenge:

Progressive Savings Accounts: We could propose a scaled-back version of USAs – a highly-progressive savings incentive targeted at those who would be least likely to save and who receive the little or no incentive to save under current law. We would want to keep it as administratively simple as possible. A scaled-back proposal could cost from $100 billion to $150 billion over 10 years. Possible means of scaling the proposal back could include lowering income thresholds, lowering the automatic contribution to less than $300, or limiting the number of years for the automatic contributions to establish "seed money" accounts.

A Universal Banking Proposal – "First Accounts" and ATMs in Low Income Areas: Millions of Americans do not have bank accounts; high fees and inconvenient access to banks are two barriers that this initiative would address. "First Accounts" (low-fee, basic banking accounts) would serve the approximately 10 million Americans who are not eligible for Electronic Transfer Accounts (low-cost, basic banking accounts subsidized by the Treasury for recipients of Federal benefits). Treasury would seek authorization to reimburse banks for the set-up costs of "First Accounts" and would provide marketing and education about the benefits of savings and participation in the banking system. Treasury would also support the installation of five thousand ATMs (over 5 years) in Post Offices in low-income areas. In year one, the initiative would cost $21.6 million ($5.2 for First Accounts; $16.4 for ATMs); over 5 years it would cost a total of $345 million ($73 million for First Accounts; $272 million for Post Offices).

AmeriSaves: We can help educate moderate-income Americans on how to use tools to reduce their debt and increase their savings. $5 million dollars will help support the infrastructure for a public-private partnership (perhaps to be known as "Amerisaves"), which eventually will have local partnerships around the country, bringing together banking and investment firms, consumer and community development groups, educators, and employers, in an effort to expand national savings through personal financial management.

(10) CHILD LABOR

In recent years, you have led in the creation of important new norms and programs concerning child labor (e.g., the ILO Child Labor Convention, the ILO Declaration on core labor standards, IPEC, the government procurement Executive Order, etc.). We recommend that you consolidate your child labor legacy by this year committing the US to the vigorous implementation of these norms and programs by proposing a qualitative increase in funding for IPEC and Customs enforcement as well as a new plan to mobilize public and private US resources to fund our participation in the global campaign to make basic education available to all children in poor countries by 2015. Specifically, we recommend:

A 50 Percent Increase in Funding for the ILO's International Program for the Elimination of Child Labor (IPEC): This would reflect the increase in demand from countries expected in the aftermath of the child labor convention's adoption (cost from $30 million to $45 million).

An 80 Percent Increase in Funding for Enforcement by the US Customs Service: Increasing funding from $5 million to $9 million.

A New Training Initiative to Help People Perform Hazardous Work: A new initiative to provide training for children to allow them to safely perform potentially agricultural work (cost approximately $15 million to $20 million).

A New Commitment to Reduce Child Labor by Expanding Access to Basic Education in the Poorest Countries: Improving educational access is acknowledged to be a *sine qua non* for the elimination of child labor. Many children work in part because education in poor, unaffordable, or inaccessible. UNICEF estimates that 130 million to 140 million children do not have access to primary education, nearly two-thirds of whom are girls. Investment in the education of girls may well be one of the highest-return investments available in the developing world, with spinoff benefits for agricultural productivity, population control, and economic growth generally. You could make a legacy-leaving appeal that the US meet its responsibility to participate in the international campaign to universalize access to basic education by 2015 (the goal set by the OECD, World Bank, UNICEF, UNESCO, etc.) through a three part strategy:

- *Expansion of the School Works! program from $10 million to $100 million:* The expanded program would fund the creation of basic education alternatives in localities facing specific child labor problems as well as increased support for basic education in regions or countries where child labor is comparatively widespread.

- *Challenge the Private Sector to Complement these Efforts:* An appeal to private sector donors, particularly large, internationally-oriented companies but also private foundations, to complement USG efforts by contributing to a School Works! Trust Fund. By making such contributions, companies that benefit from global integration would effectively give something back to the process by helping to financing access to basic education as an alternative to child labor in poor countries.

- *Characterize Your Cologne Debt Initiative Request as Reducing Child Labor:* You could characterize your Cologne Debt Initiative appropriations request as part of the effort to make primary education universal as an alternative to child labor. (Congress provided none of the $600 million you requested over four years.) This could be a more successful way to sell a proposal that Congress currently perceives as "bailing out" International Financial Institutions.

(11) OTHER HUMAN FACE AND OTHER INTERNATIONAL ECONOMIC INITIATIVES

You could address domestic fears about a race to the bottom on labor and environmental standards while responding to developing country concerns that the benefits of trade liberalization are skewed toward developed countries.

Global Economic Democracy Initiative: Paralleling your private comments to international organizations in Seattle, you could appeal publicly to the international community to improve the mobilization and coordination of technical assistance to developing countries that wish to build modern systems of public administration for the implementation of trade-related domestic economic policies. The program might include creation of an Economic Democracy Corps – a high-profile exchange program in which we would bring developing country public administrators to the United States to learn how our institutions operate as well as send our experts and resources to their countries for onsite assistance. A relatively modest commitment of additional U.S. funds could help leverage a much larger mobilization of resources in the international community, along the lines of what you asked the international organizations to report on prior to the next summer's G-8 Summit.

Call on World Bank and Multilateral Development Banks To Actively Assist in the Creation of Unemployment and Pension Programs in Developing Countries: One of the lessons of the Asian crisis is that the human toll of financial crises is worse in countries without basic social protections. You could announce that we stand ready to help newly-industrializing countries that seek to institutionalize greater worker dislocation and pension protections for their workforces, calling on Congress to renew and expand last year's $10 million appropriation for DoL to provide technical assistance in these areas. In addition, you take the new step of seeking to leverage our bilateral efforts by calling on the World Bank in consultation with the regional multilateral development banks to provide technical and financial assistance in the design, capitalization, and administration of such programs.

Improving USG Monitoring of International Labor Rights Policies and Practices: Congressional interest in worker rights issues is likely to intensify in the aftermath of Seattle, particularly in light of the trade legislation likely to be considered in 2001 (permanent NTR for China, CBI enhancement, and the African Growth and Opportunity Act). Democrats in particular have been skeptical of the thoroughness of our implementation of the existing labor rights conditionality in the GSP, CBI, and Andean trade preference programs. You could anticipate Congressional demands by proposing to boost our foreign labor attaché monitoring and reporting capacity by adding 4 or 5 FTEs to the complement of State-Labor labor staff posted in embassies overseas (at least 1 additional in the CBI region, South America, Sub-Saharan Africa, South/Southeast Asia and China, as appropriate). In addition, you could propose the addition of 1 FTE to USTR's staff in this area (currently only one professional staffer handles labor and development issues).

Vaccine Initiative to Help the Poorest Countries: Vaccines have the lowest cost per death averted of all possible measures. In your last UNGA speech, you committed to holding a White House conference on developing new vaccines for developing countries. A $50 million spending initiative in FY 2001 could fund a contribution to the Global Alliance for Vaccines and Immunizations (GAVI). This would be catalyst money that would help jumpstart a U.S. initiative to establish a large multilateral multi-billion Millennium Trust Fund over the next 5 to 10 years for the purchase of vaccines to help poor countries. In addition, we would call on the multilateral development banks to earmark 10 percent of their concessional funds for vaccines and medicines. Treasury is also working on developing tax incentives to encourage drug companies to develop vaccines for diseases. All of these programs would help create a market for vaccines, and thus create an incentive for pharmaceutical firms to develop practical vaccines. This initiative would also have benefits for U.S. health. This could be an excellent deliverable at the G-8 Economic Summit this summer in Okinawa.

H-1B Fraud Enforcement Initiative: Increased enforcement funding is needed to address the fraud problem in the H-1B visa program. The initiative would provide increased funding targeted to H-1B enforcement in the budgets of the State Department, INS and Department of Labor for a coordinated effort on this issue.

Strengthen Trade Agreement Monitoring and Enforcement: USTR and Commerce have been straining to keep up with their monitoring and compliance activities. Although USTR received additional slots last year, Commerce's Market Access and Compliance shop has seen its budget contract by one-third over the past 5 years. In light of the expansion of trade and expected WTO accession of numerous countries, it would be appropriate to expand our trade agreement monitoring and enforcement staff resources in USTR and Commerce, particularly in light of the scale of China's accession commitments. USTR has requested additional funding and personnel, which OMB has approved; we are looking into whether USTR plans to use these resources for monitoring and compliance. By contrast, Commerce's request for 9 FTEs to handle China WTO accession compliance and other non-WTO trade agreement monitoring and compliance activities was rejected by OMB. You could propose to fund these additional personnel.

Fighting International Money Laundering: The joint Treasury-Department of Justice Money Laundering Steering Committee is preparing a wide range of measures to better combat illegal money laundering. A series of relatively small budget requests for Justice and Treasury totaling roughly $20 million in FY01 will make a huge improvement in our ability to cut down of these illegal activities that poison our streets and threaten the safety of our children. Extra enforcement efforts will be focused on the "gate-keepers" in international money laundering–the accountants, lawyers, and business setup people–who facilitate the activity. Enforcement activities will also be better focused on targeted regions of the world and on particular industries where highly suspicious activity takes place. FINCEN's activities will also be bolstered.

(12) MAINTAINING AMERICA'S TECHNOLOGICAL LEADERSHIP

Today's booming economy, increased productivity, and rising standards of living is due in significant part to long-term investments (like the Internet) that the government made in the 1960s and 1970s. A targeted increase in Research and Development funding of $1.0 to $1.3 billion would allow us to accomplish key goals including increasing university-based research, helping maintain a balanced portfolio that includes research in physical sciences and engineering, supports key Presidential initiatives, and increases funding for research agencies.

Information Technology for the Twenty-First Century: You first called for this initiative in the 1999 State of the Union Address. This is the second year of a multi-year effort to significantly expand our investment in information technology research in three areas: (1) long-term IT research; (2) high-end supercomputers for uses such as better weather prediction and more rapid development of drugs; and (3) research on the ethical, legal, and social implications of the Information Revolution. The long-term research could lead to outcomes such as improving wireless technology so that it will provide broadband connectivity to rural America, real-time translation between multiple foreign languages, and developing computers based not on computer chips but on biological mechanisms such as DNA.

National Nanotechnology Initiative: Nanotechnology is the ability to manipulate matter at the atomic and molecular level to create things with new, useful properties. A "nanometer" is a billionth of a meter. Nanotechnology could transform the 21st century in the same way that the transistor and the Internet transformed today's economy and society. Nanotechnology could lead to the following breakthroughs: material that is as strong as steel but 10 times lighter; the ability to detect tumors a few cells in size as opposed to waiting until they are visible to the human eye; the ability to store the equivalent of the Library of Congress on your wrist-watch; and filters that can dramatically reduce air and water pollution by screening out small particles.

Bioenergy: You have strongly supported bioenergy and bio-based products because it could improve farm incomes, reduce our dependence on foreign oil, and reduce greenhouse gases. You have set an ambitious but achievable goal of tripling our use of bioenergy and biobased products by 2010 – the equivalent of taking 70 million cars off the road. Additional R&D in this area would help achieve the goal by making bioenergy (made from trees and crops) cost-competitive with oil.

Protecting Individual Privacy in the Digital Age: Privacy will be one of the defining issues in 2000 and throughout the next decade. While no funding is involved next year, the Administration will be doing many things to enhance privacy protections. The budget and the State of the Union present opportunities to lay out a vision on privacy and set forth themes that we can return to throughout the year. The Administration will be proposing legislation to provide special protections for financial and medical information – building upon earlier legislation we won to protect kids on the Internet, prevent identity theft, and provide some degree of financial privacy protection. You can issue an Executive Order to ensure that the Federal government builds privacy protections into its data collection and new technology initiatives. You can continue efforts to promote self-regulation in other areas, raising the bar for what we expect from voluntary industry action, and making clear always that you are prepared to seek legislation if those voluntary efforts are inadequate to protect Americans' reasonable expectations of privacy. In particular, you can press for better privacy policies and new ways to address specific troublesome practices like data profiling (including so-called "cookies" that collect individual usage and preference data unbeknownst to the consumer). New regulations in the medical and financial privacy arenas will continue the focus on these areas next year.

Extend Next Generation Internet to Small, High-tech Companies: Currently, all private sector investment is going into the development of applications that can be used over today's Internet. Although we have invested $100/year to connect universities to the Next Generation, small high-tech companies do not have access to this network. We should establish small business incubators that would allow companies to experiment with applications for the NGI. Cost: $10 million.

Environmental Applications of Information Technology: EPA has not been a major player in any of our information technology initiatives. A relatively small increment would allow them to get involved – in applications such as (1) the use of wireless sensors for real-time environmental monitoring; (2) expert systems that help small and medium-sized enterprises adopt manufacturing techniques that minimize pollution; (3) better modeling of the environmental impacts of pollution; and (4) tools for visualizing local environmental conditions. Cost: $10 million.

(13) AIR TRAFFIC CONTROL REFORM

Reform of the FAA's air traffic control system could be a major initiative in your budget. Our air traffic control system is badly strained and soon will be woefully inadequate for the rapidly growing volume of traffic. Congestion and delays cost airlines and passengers $5 billion a year, cause widespread passenger frustration, and pose a growing threat to safety. And without fundamental reform, the air traffic control system could constrain the future growth of aviation, an important engine of our economy.

Maintaining Safety and Efficiency Through Air Traffic Control Reform: The Administration has a three-part proposal for structural reform of air traffic control, with the key being legislation to create an independent government corporation to provide air traffic control services (FAA would retain safety regulation). The airline industry is ready to embrace such reform. But, we may get no support for our reform proposal from industry, labor or Congress if we stick with our current (and economically defensible) budget approach, which eliminates the general fund contribution to the FAA by imposing user fees on top of the existing excise tax. The cost of eliminating user fees – and restoring the general fund contribution to the FAA – is $1.5 billion a year in outlays. Although it is possible to construct less costly alternatives involving lower fees, none of them appear to hold significant promise for attracting the necessary political support.

You will be getting a separate memo on this in a few days.

(14) OTHER INITIATIVES

Green Pages in the Phone Book – Government Service and Hotline Numbers: The Administration should develop a Green Pages section in the phone book that would describe in plain English basic rights and regulations the Government enforces, and services it provides with 1-800 numbers to find out more. The initiative could be introduced by the Vice President as part of his reinvention effort and be part of a full-scale customer service campaign. The Vice President's NPR office does have an initiative to modify their existing Blue Pages to make it more user friendly. The effort falls short, however, of its potential, and there are no plans to integrate it into a more visible campaign. Estimated cost: $4 million for GSA.

Taxation of Civil Rights Settlements: The taxation of civil rights judgments and settlements encourages lawyers to push for higher damages and increases litigation. Successful plaintiffs are taxed on the full amount of a judgment, notwithstanding that much of the proceeds go to attorneys' fees. Both business and the civil rights community would applaud exempting such settlements from taxation. Congresswoman Deborah Pryce introduced a bill to do this, H.R. 1997, on May 27, 1999, along with 22 cosponsors, including Representatives John Lewis, Nancy Johnson, and Charles Rangel.

THE WHITE HOUSE

WASHINGTON

December 13, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Eric Liu

SUBJECT: State of the Union/Budget Ideas

This memorandum provides summaries of all the budget proposals we are developing for the State of the Union, organized by issue area. A separate memo lays out overarching themes and highlights the most compelling ideas.

EDUCATION

A. Smaller Classes, Smaller Schools

1. A Comprehensive Effort to Modernize and Revolutionize Schools. As you have often said, the trouble with America's schools as we enter the 21st Century isn't that they aren't what they used to be; it's that they still *are* what they used to be. We need to change that, in two significant ways:

- **A New Initiative to Repair Existing Schools.** To complement our existing school construction tax credit, which will primarily help fund new construction, we have worked with OMB on a discretionary initiative for FY2001 to provide funds for immediate repairs. As part of the discretionary budget, this plan will make it more difficult for Congress to ignore school construction in the budget debate next fall.

- **A Small Schools Initiative to Reform the American High School.** Since Littleton, a movement has emerged to make America's high schools smaller, not only for reasons of safety, but as an engine of reform. This initiative would offer competitive grants to school districts for opening smaller schools (including charter schools), or for breaking up larger schools and such using strategies as schools-within-schools, career academics, or restructured school days. The funds could be used for planning and implementation costs, professional development, team building, minor facility renovation, additional planning time, legal and accounting consulting, supplies and other relevant costs. These funds could also be used to seed small charter high schools in the district. The initiative received $45 million in the FY2000 omnibus; we recommended expanding funding to at least $125 million for FY2001.

2. Class Size. The Education Department is prepared to settle for $1.5 billion for class size, only a modest increase from the $1.3 billion we got this year. If we want a defining fight on

100,000 teachers next fall – and if we want to say credibly that we're on a path to 100,000 over 6 years – we'll have to request a bigger increase than that. Funding class size at $1.7 – 1.8 billion would make more sense.

B. Turning Around Failing Schools

1. Universal After-School. By doubling after-school funding in the FY 2001 budget (from $453 million in FY 2000 to at least $900 million in FY 2001), you can meet an urgent goal, which is to provide after-school and summer school to every student in a failing school. You called on states and districts to end social promotion in this past year's State of the Union; this initiative will enable you to say we're giving them the resources to end social promotion the right way, and give every student in our worst schools the extra help they need. Over a ten year period, we can make after-school and summer school universal for every Title I school – and with a sliding scale for students above 200% of poverty, we could eventually make after-school available to every student. (Cost: $20-30 billion over 10 years).

2. Reward High Performance. This proposal calls for a Rewards Fund that would award funding to states meeting federal performance criteria and would support teacher performance pay demonstration projects described above. From FY 2001-2003, states would receive awards for adopting statewide accountability systems, including high school exit exams, meeting teacher quality requirements, and developing and disseminating report cards ahead of the timetable you are calling for in your ESEA proposal. After 2003, the Reward Fund would incorporate student performance measures as well. (Cost: $150 million).

3. Expanding Charter Schools, Second-Chance Schools, and Public School Choice. With a decent increase in the FY01 budget, you can reach your goal of 3,000 charter schools by the time you leave office. We could also propose using charter funds to create new second-chance schools to serve students who have been removed from their previous schools because of discipline problems. Finally, we should provide seed money for innovative public school choice projects, and continue to support universal public school choice for students in failing schools. (Cost: $50-100 million).

4. Education Opportunity Zones. To encourage innovation and reward districts that end social promotion the right way, we could once again propose Education Opportunity Zones, which we left out of the FY00 budget, but which could attract bipartisan support from Jeffords, Rangel and Clay. We are also examining other options to stimulate innovation, including a proposal modeled after Tony Blair's Education Action Zones that would provide seed money for innovative projects.

C. Teacher Quality And Performance

1. Teacher Quality Fund. Our ESEA proposal includes a Teaching to High Standards block grant that combines Eisenhower Goals 2000, and Title VI. At the passback level of $1 billion, that block grant can include set-asides for:

- A pay-for-performance and peer review demo (still under development this week in consultation with the Vice President).

- Troops to Teachers (Cost: $25 million).

- Teacher Recruitment: a down payment on the Vice President's 21st Century Teachers Corps (modeled after Teach for America), and an OMB initiative to recruit future teachers while they're still in high school. (Cost: $100 million).

- Principals: School reform depends on quality leaders. Our initiative would fund independent School Leadership Centers to recruit nontraditional candidates and to focus on effective management, school design, technology, and district governance. At present, there is no federal program focused solely on school leadership; only a handful of programs allow funds to be used for it. (Cost: $25 million).

D. Distance Learning, Higher Standards

1. AP Online. Small and poor schools often lack the resources and teachers to offer challenging courses. Indeed, less than 60 percent of high schools today offer AP courses. This distance learning initiative aims to ensure that students in underserved areas get access to high-quality academic courses and ESL programs online. In order to ensure high-quality content, the proposal also calls for a partnership with leading course software developers like APEX (run by Microsoft co-founder, Paul Allen), which would subsidize the cost of high quality Web-based course development in return for cut-rate prices for high poverty school districts. Total funding would be $225 million, including $50 million for grants, $25 million for course development, and $125 million in increases in existing programs.

2. SAT and ACT Test Prep. Historically, poor and minority students have not scored well on college entrance exams such as the SAT and ACT. This program would be modeled after California's College Preparation Partnership Program, which the NAACP has recently endorsed. It would support partnerships among high schools, proven providers of college test prep courses (such as Kaplan and Princeton Review), and community-based organizations to offer high-need students test preparation and other services related to college admissions. Competitive grants of $30 million would serve approximately 50,000 students.

CHILD CARE

1. Child Care Subsidies. Our FY '99 and FY '00 budget requests have included $7.5 billion over five years in mandatory funds for the Child Care and Development Block Grant (CCDBG). We recommend moving our CCDBG increase request to the discretionary side of the budget (the CCDBG has mandatory and discretionary titles). The discretionary title is currently funded at $1.182 million. The CCDBG is a forward-funded program, but we recommend adding $818 million for FY 01 to the title, reaching $2 billion to the title overall and serving an additional 200,000 low-income children with subsidies, and adding $1 billion to the title for FY 02.

2. Improve Child Care Quality. The President's FY 99 and FY 00 budget included $3 billion over five years in mandatory funds to create a new Early Learning Fund to help local communities promote early learning and improve child care quality, through a variety of allowable activities including licensing, accreditation, parent education, etc. We recommend maintaining and perhaps expanding this proposal. (Cost: $3 billion over five years or more).

3. Create Early Childhood Professional Development Grants. Fund this new proposal (currently in our ESEA bill) at $40 million to provide grants to partnerships between universities, child care providers, and school districts to offer training and professional development to child care providers around language and literacy. (Cost: $40 million).

4. Campus-Based Child Care. The FY '00 budget included $10 million to support campus-based child care. According to estimates by universities, only 10-25 percent of the students who need this benefit are being served. We propose doubling this request. (Cost: $20 million).

5. Child Care in Non-Traditional Hours. We could create a new set-aside within the Child and Development Block Grant to help build supply of non-traditional hour child care (e.g. for parents on night shifts, etc.). According to studies, there is a growing need for this care.

6. Maintain Child Care Tax Credit Expansion Proposal. Expand Child and Dependent Care Tax Credit (CDCTC) to provide greater tax relief to three million low- and middle-income families who are struggling to afford child care. We are also exploring the possibility and cost of making this tax credit refundable. (Cost: 5 billion over 5 years for base; $4-4.5 billion over five years for refundability).

7. Child Care Tax Credit for Businesses. Maintain proposal from last two years to provide tax relief to companies offering child care to their workers. (Cost: $500 million over five years).

CRIME

1. Federal Firearms Enforcement. To complement our legislative proposals on gun control – and to blunt the rhetoric of the gun lobby – we propose a comprehensive initiative on enforcement and prosecution. This initiative puts an unprecedented level of resources into firearms enforcement. It includes: 1) 500 new ATF agents, to investigate more gun trafficking cases and to bring the successful Youth Crime Gun Interdiction Initiative to more cities; 2) new ATF inspectors to crack down on unscrupulous dealers, manufacturers and distributors; 3) a comprehensive crime gun tracing package; 4) 1,000 new federal gun prosecutors and additional funds to help cities create community gun prosecutors; 5) a major expansion of existing ballistics testing systems; 6) funding for better Brady background checks; and 7) a new national notification system tied to NICS that speeds certain Brady denials (felons and other restricted persons) to local authorities. (Cost: $309 million).

2. 21st Century Policing Initiative. This is the next generation of COPS, and will put us on the path to reach 50,000 officers by FY 2005. It also funds law enforcement technology, community prosecutors and community crime prevention. (Cost: $1.475 billion)

3. Police Gun Buybacks. This initiative would encourage state and local police departments to end the practice of re-selling used police guns and confiscated crime guns on the civilian market. The program would purchase used police guns on a one-time basis from departments on the condition that they permanently agree to halt re-sales or trade-ups in the future and destroy all seized firearms. (Cost: $10 million).

4. Kids and Gun Safety. We have two initiatives in mind: a Treasury proposal to fund gun safety technology experts and expand public education to help prevent children's access to guns and accidental deaths; and a plan to support local media campaigns to highlight proper storage of guns as well as other messages to prevent child access, accidents, and other forms of gun violence. Localities could also use media campaigns to publicize gun penalties to maximize deterrence. (Cost: $12 million).

5. Community Supervision of Released Offenders. With nearly 500,000 inmates expected to leave prison this year – and with data showing that two-thirds of all released prisoners are re-arrested for new offenses within three years – we plan a broad initiative to address community safety concerns, reduce recidivism rates, and provide support for ex-offenders. The initiative – targeted to areas with the most returning offenders – would be comprised of three elements: 1) community reentry partnerships, through which police and corrections agencies would team up with community providers to monitor and provide targeted social services to offenders; 2) reentry courts modeled on drug courts; and 3) the hiring of more probation and parole officers. The Labor Department is also developing a complementary proposal to help ex-offenders become better fathers and prepare for employment. (Cost: $125 million).

6. Zero Tolerance Drug Supervision. This initiative combines key programs to promote coerced abstinence from drugs for offenders under criminal justice supervision. The initiative provides (1) $100 million to help states and localities to drug-test, treat, and punish prisoners, parolees and probationers; (2) $50 million for drug courts; and (3) $65 million for the Residential Substance Abuse Treatment program to provide intensive drug treatment to hardcore drug users before and after they are released from prison. (Cost: $300 million).

WELFARE AND WORK

1. Responsible Fatherhood Initiative. Promoting responsible fatherhood is the critical next stage of welfare reform and one of the most important things we can do to reduce child poverty. We can put forward a package of proposals to 1) ensure every unemployed father who owes child support goes to work and supports his children; 2) collect more child support from parents who can afford to pay; 3) revise outdated rules to ensure mothers and children receive more of the support the father pays; and 4) promote efforts to ensure fathers returning from prison become responsible fathers and responsible members of society. (Cost: $100 million in discretionary costs in FY 2001 plus mandatory costs of $1.2 billion over 5 years and $2.6 billion over 10 years).

2. Welfare-to-Work Grants. These grants could fund projects in three areas key to sustaining the success of welfare reform: 1) to help every low income father work, pay child support, and reconnect with his children; 2) to help the hardest to employ move from welfare to work and succeed in the workforce; and 3) to increase job retention, skills upgrading and supports (including outreach on food stamps, Medicaid, child care, and EITC) for low-income working families, including those who have left welfare, through local one-stop employment centers. (Cost: $1 billion over 5 years and $2.4 billion over 10 – $200 of which would be FY 2001 discretionary, the rest mandatory. Of this, $600 million over 5 years and $2 billion over 10 years is for fathers described above in number 1).

3. Affordable Housing for Working Families. This proposal would provide housing vouchers to working families with children who need housing the most. This group of families could be defined in several ways: currently between 500,000 and 1 million working poor families get no housing assistance and pay more than 50 percent of their income in rent and/or live in substandard housing, while about 600,000 families with poor children live in public housing. Adding 100,000 vouchers a year for five years (reaching 500,000 in the fifth year) would cost about $3 billion dollars, and reaching a million families within 10 years would cost twice as much. This ignores the cost of renewing vouchers in the years after they are put in place, which OMB does not normally include in cost estimates but would create large ongoing obligations ($20 billion or more if a million families are served). (Cost: $3 to $6 billion over 5 years).

4. Employment for People with Disabilities. By enabling people with disabilities to work and keep their health care, the Ticket to Work and Work Incentives Improvement Act of 1999 will give individuals with disabilities a greater opportunity to participate in our nation's workforce. To build on this progress, we have a package of proposals. Among them would be a program to improve local One-Stop employment and training offices to better serve people with disabilities, as well as technical assistance, tax credits and assistive technology. (Cost: $113 million in discretionary funds in FY 2001, and $700 million in mandatory funds over 5 years).

5. Food Stamps. There are several proposals we could make to help ensure access to food stamps for working families. Unlike the executive actions we took last July, these require legislative changes. One is to raise the vehicle asset limit for TANF. This proposal would give states the option to conform this food stamp vehicle limit to the vehicle limit used in their TANF or Medicaid program, ensuring families that work their way off welfare do not suddenly face the loss of their food stamps if they buy a reliable car. Another is to provide at least $15 million for FY 2001 for on-going food stamp outreach efforts, including campaign materials and an enhanced 1-800 number. To improve nutrition among the elderly, we could offer a pilot program to make it easier for this population to access food stamps. Less than 30 percent of the elderly who are eligible for food stamps actually participate. (Cost: $80 million discretionary, $700 million - $1.7 billion mandatory).

6. Legal Immigrant Benefits. At a minimum we should repeat the proposals we made last year, and there are compelling reasons to go further in several areas. Our FY2000 proposal would have provided a state option to cover children and pregnant women under CHIP and Medicaid, regardless of when they entered the U.S. (Under current law, states have this option only for immigrants who arrived in the U.S. before 8/22/96.) This proposal has bipartisan support. We could also allow legal immigrants who are qualified under the Violence Against Women Act due to domestic violence to be eligible for all federal public benefits, including SSI, food stamps, TANF, Medicaid, and CHIP, regardless of the date of entry. In addition, we could eliminate the 7 year limitation on the exemption from all benefits for refugees and asylees, propose making all legal immigrants eligible for food stamps, and restore SSI eligibility to more legal immigrants. (Cost: $2 to $6 billion over 5 years).

7. Cars to Work. There are several ways we could help low income families get the transportation they need to get to work. In addition to providing full funding for the Access to Jobs Transportation program ($150 million), we could launch a program providing one-time seed funding of $10 million to one or more national organizations to provide loans to low-income families to repair or purchase cars and ease the food stamp vehicle limit as described above.

8. Individual Development Accounts. We support $25 million for the Assets for Independence IDA demonstration program, which is the full authorized level and more than double the $10 million appropriated for the last two years. We also recommend a legislative change to allow low-income families to use IDAs to save for a car that will allow them to get a job, keep a job, or take advantage of job opportunities they couldn't otherwise access. Currently IDAs can be used to purchase a home, pay for higher education, or start a small business. (Cost: $25 million).

9. Increasing Targeted Substance Abuse Treatment. We could build on our success in the FY 2000 budget process by requesting an additional increase for SAMHSA's Targeted Capacity Expansion Grant program. In FY 2000 we succeeded in getting $114 million, slightly above our request of $110 million and more than double FY 99 levels. These funds are provided on a competitive basis to communities to meet emerging substance abuse problems and unmet treatment needs. In past years, a significant number of grants have focused on women moving from welfare to work, Native Americans, youth offenders, and HIV/AIDS. We could also designate a portion of these resources for treatment in communities who participate in the re-entry initiative. These grants are a high priority for Mayors and for the Congressional Black Caucus, and HHS proposed a substantial increase in its budget submission. (Cost: $139 million).

PHILANTHROPY, FAITH AND SERVICE

1. Faith-Based Involvement in Substance Abuse Treatment, Juvenile Justice, and After-School Programs (Cost: None): Propose to allow federal substance abuse treatment, juvenile justice, and after-school funds to be used by faith-based organizations. The substance abuse treatment idea is included in the Frist-sponsored Senate SAMSHA reauthorization bill and in a House bill, by Representatives Watts and Talent (which also restructures SAMSHA into a voucher program). The Juvenile Justice bill in conference included provisions allowing faith-based groups to provide certain services. Faith-based groups are not currently eligible for direct funding through the 21st Century Community Learning Centers program, but we could allow a certain percentage of funds (10 to 25 percent) to be used by community based organizations, including faith-based groups.

2. Deductibility of Charitable Contributions for Nonitemizers. One broad change that could effect both the level and composition of individual gifts would be to allow non-itemizers to claim a deduction (or tax credit) for charitable contributions above a certain floor. In addition to affecting the total amount of charitable contributions, allowing non-itemizers to take such a deduction could also affect the proportion of gifts going to different types of recipients since non-itemizers gifts disproportionately benefit religious organizations and social service groups as opposed to educational institutions and private foundations. (Cost: $2 to $6 billion a year).

3. Allowing Charitable Giving Until April 15. If the charitable deduction is meant to provide incentives for charitable giving, the program should encourage such activity to the fullest extent. The cost of this proposal is negligible.

4. Excise Tax on Investment Income of Private Foundations. Private foundations pay an excise tax on their net investment income, with a complicated formula requiring some to pay 1 percent tax and others to pay a 2 percent tax. While the intent of the distinction between a 1 and 2 percent rate of tax on investment income was to prevent foundation disbursements from falling, the mechanism is unduly complicated and may even dampen foundation giving. This excise tax should be eliminated or modified. In 1997, foundations paid $486 million in federal excise taxes. (Cost: to be determined, probably about $500 million).

5. Nonprofits Capacity Building Program (NCBP). In order to create a stronger and more effective nonprofit sector, capacity and technical assistance could be provided to train and manage assistance for nonprofit and community-based organizations through development centers nationwide. This could be accomplished either through a new and dedicated program or through existing agencies such as the SBA. (Cost: $50 million).

6. Social Venture Capital Formation. We are exploring the idea of stimulating "venture philanthropy" by allowing a tax credit (greater than the current deduction for charitable gifts) to individuals and corporations that contribute to neighborhood organizations engaged in educational, social and economic services for the poor. To be eligible for the credit, obligors would have to make a contribution over a certain floor and submit a joint proposal with a tax-exempt non-profit. The initiative encourages businesses to form more committed partnerships with grantees in order to achieve the long-term goals of the nonprofit organization.

7. Improving Disclosure by Charitable Organizations. By far the most important source of public information about charitable organizations is the IRS Form 990 annual information returns. Over the years, the amount of information to be included on these returns by charitable organizations has increased, as have the penalties for failure to file and accurately completing these returns. Despite the evolution, the Forms 990 are frequently criticized both by charities who have difficulty completing them and by the public that has difficulty reading them. Requiring electronic filing of Forms 990 would make it easier for the public to access this information and reduce fraud. (Cost: minimal to none).

8. AmeriCorps Reserves Program. This program would be modeled on the military Reserves program. Young people would serve in the Reserve Corps on weekends and/or after work in exchange for funds that could be used toward: repaying student loans, financing further education for self or children, start-up costs for non-profits and charter schools, down payment on a first home, etc. The mission of the Reserve Corps would be to address national problems and crises, including natural disasters and domestic social problems while, at the same time, working to renew and reinvigorate civic life by committing to service, responsibility, and citizenship. Reserve Corps members would have flexibility in how much time they were willing/able to serve each year and would be awarded correspondingly. (Cost: $150 million).

9. Community Coaches. Provide seed money to school districts to fund point people in the public schools who "coach" community service for kids and who act as liaisons to the surrounding business and civic leaders. (Cost: $5 million).

WORK, FAMILY AND CHILDREN

1. Benefits for Non-Standard/Contingent Workers. Non-standard workers, including agency temps, part-time workers, and independent contractors, are less much likely than traditional workers to receive or be eligible for health insurance coverage and pension benefits from their employers. According to independent reports, seven percent of agency temporaries receive health insurance coverage from their employers, and only 24 percent are eligible and only four percent of agency temporaries participate in an employer retirement plan and only 10 percent are eligible to do so. We are considering tax credits that encourage non-profit organizations and unions to offer health insurance and pension/401-k benefits. Additionally, we are exploring the possibility of extending benefits to the temporary workers employed by the federal government. According to the Bureau of Labor Statistics, the category of workers that includes independent contractors, on-call workers, temporary workers, and contract workers comprises 12.5 percent of the workforce. In addition to the 18.3 percent of the workforce that is employed part-time, approximately 30 percent of the workforce is employed by some alternative arrangement. It has been difficult, however, to collect accurate data (which would inform policy decisions) on this class of workers, as well as telecommuters and other alternative workers. We could develop a research fund to study the character and growth of this population.

2. Support Domestic Partners. You could recognize the changing nature of the American family and empower non-traditional families by calling for the inclusion of domestic partners in the Family and Medical Leave Act. We could support Representative Maloney's bill to amend the Family and Medical Leave Act (FMLA) to permit leave to care for a domestic partner, parent-in-law, adult child, sibling, or grandparent if the family member has a serious health condition. We could also take leadership in the drive to include domestic partners as health care beneficiaries by putting forward an Executive Order calling for the inclusion of domestic partners in the Federal Employee Health Care Benefit plan.

3. Create a New Paid Leave Demonstration Program. Propose a new competitive grant fund to support innovative state efforts to provide partial wage replacement to workers on some form of family leave. States could use the Unemployment Insurance system (subject to final DOL rule-making), Temporary Disability Insurance programs, or some other vehicle. $150 million in FY 01 would enable us to provide grants to approximately 5 states and sub-states, as well as new research on paid leave benefits and delivery systems.

businesses on how to meet legal requirements, and launch an equal pay public announcement campaign to inform employers and employees alike of their rights and responsibilities. EEOC only received a slight increase in the final FY 2000 budget, which did not include $10 million for this important initiative. We should repeat the request.

TOBACCO

1. Price Increase. The following proposals would reduce youth smoking by raising the price of cigarettes and providing tobacco companies with incentives to stop marketing tobacco to children. Option 1: Starting in FY 2001, the federal tobacco excise tax would be raised by 25 cents. If youth smoking does not decrease by one-third within three years and by half within five years, the excise tax would be raised by another 25 cents in FY 2003 and FY 2005. Thus, to avoid additional tax increases, youth smoking would have to decline by one-third between 1999 and 2002 and by half between 1999 and 2004. Option 2: The same as Option 1, except the initial excise tax increase would be 35 cents, and it would be raised by 15 cents in 2003 and 2005 if youth smoking reduction targets weren't met. Option 3: The same as Option 1, but in addition, if youth smoking of a particular company's brands does not decline by one-third within three years and by half within five years, the company would pay an assessment for each additional underage smoker. This surcharge would be based on the lifetime profit the company would be expected to obtain from each youth smoker (estimated at $1,450 per child discounted to present value). Option 4: The same excise tax levels as Option 2, combined with the company-specific assessment in Option 3.

2. State Lookback. Although state officials said the purpose of the $246 billion state settlements with the tobacco industry was to reduce youth smoking, few states are investing settlement funds in programs to prevent youth tobacco use. This proposal would ensure that if the provisions of the state settlement (45 cent price increase, some limitations on marketing and promotion of tobacco products, and funding for a national foundation to reduce youth smoking) do not actually reduce youth smoking, then states would be required to spend settlement funds on youth smoking prevention programs. The spending provisions would be triggered if certain youth smoking reduction targets were not met.

3. Preventing Youth Smoking. We should support continued funding of tobacco prevention programs at CDC and FDA, and include an increase if possible. CDC would provide technical assistance, strengthen tobacco use science for public health action and work with partners to create global tobacco programs. FDA funding would go to enforcement and evaluation and product regulation.

4. Department of Justice Tobacco Litigation. The Department of Justice has initiated litigation against the tobacco industry to recover certain federal health expenditures caused by tobacco use. We could either propose $20 million for the Department of Justice to finance the litigation (the same unsuccessful strategy employed in the FY2000 budget) or include the shared costs of the litigation within the requests for HHS, Defense and VA, since the suit is intended to recover the smoking related costs incurred by the Federal government, of which these three departments experienced substantial costs. (Cost: $20 million).

5. Expanding Cessation Coverage. Currently, smoking cessation prescription and non-prescription drugs are optional state Medicaid benefits that are matched by the federal government at the individual states FMAP rate (57 percent on average). Our understanding is that 27 States provide Medicaid coverage for FDA approved smoking cessation products. There are a number of options we could propose to expand the coverage of smoking cessation products for Medicaid and other federal programs. These include mandating coverage of prescription/nonprescription smoking cessation products, requiring Defense to provide effective cessation programs, or requiring the Federal Employees Health Benefits Program to provide a more generous cessation benefit.

6. Assisting Tobacco Farmers. These are two proposals that would allow us to maintain our commitment to ensure the well-being of tobacco farmers, their families and their communities. The first would directly compensate tobacco farmers. The Agricultural Appropriations bill for FY 2000 directs the Secretary of Agriculture to use $328 million in funds from the Commodity Credit Corporation to provide payments to compensate flue-cured and burley tobacco farmers that had their quotas reduced in 1999. We could propose an additional $328 million in FY 2001 for farmers facing quota reduction in 2000. The second approach would be to provide preferable tax treatment of payments to tobacco farmers. Proposals supported by Sen. Robb and Rep. Boucher would exclude from gross income payments made by the tobacco industry to tobacco farmers as part of last year's settlement.

OTHER POLICY INITIATIVES

1. Closing the Digital Divide. We have been working with NEC to put together an initiative to address both the access gap and the skills gap that help create the "digital divide." We are considering a broad proposal that would subsidize home Internet access and computer leasing for low-income families, as well as efforts to ramp up Community Technology Centers and to draw private sector partnership commitments.

2. Native American Initiative. We have worked with Lynn Cutler to develop an ambitious, cross-agency package of proposals intended to benefit Native Americans. Included in the package are new initiatives on Indian health, dedicated monies for foster care and family caregiver programs, grants for tribal technology infrastructure, Native American small business development centers, 1000 new Native American professionals, a DOJ/BIA law enforcement initiative, a tribal youth mental health program and other proposals. (Cost: $681 million).

3. National Cardiac Arrest Emergency Plan. Each year, approximately 250,000 Americans suffer cardiac arrest. The American Heart Association estimates that a national plan in this area could save almost 50,000 lives. It seems likely that some form of the Cardiac Arrest Survival Act will pass this year, and it would be wise to supply funds to make its goals a reality. The Act provides for: (1) a plan for providing defibrillators in public buildings and (2) establishing protections from civil liability arising from the emergency use of the devices.

4. Enhancing the Nation's Food Safety System. CDC estimates that contaminated food kills up to 5,000 Americans and sickens 76 million more each year. This initiative will increase the number of imported and domestic food inspections by over 7,000, with a special emphasis on high-risk domestic foods such eggs and unpasteurized juice. It will also place an additional 100 inspection agents in the field. The FDA expects that this new investment will prevent over 100,000 illnesses per year. (Cost: $35 million).

5. Mainstream Homeless Initiative. This initiative would create, for the first time, a mechanism to help states ensure that so-called "mainstream" programs – Medicaid, CHIP, TANF, and the Mental Health and Substance Abuse Block Grant – are accessible to the homeless. States would look at areas such as: (1) how outreach is being done; (2) how intake questioning captures indicia of homelessness; (3) what outcome measures are in place to see whether homeless needs are being addressed. (Cost: $10 million).

6. Violence Against Women Act (VAWA II). In 1994, Congress passed the Violence Against Women Act (VAWA I), an historic piece of federal legislation that contains a broad array of ground-breaking laws to combat the epidemic of violence against women. Despite VAWA I's success, legislators and advocates alike agree that many gaps in our laws remain. Building upon these successful initial steps, VAWA II extends programs more comprehensively. We are also working with the agencies to develop some other domestic violence ideas. (VAWA needs to be reauthorized in FY2001).

THE WHITE HOUSE

WASHINGTON

'99 DEC 13 PM3:38

December 13, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING

CC: JOHN PODESTA

SUBJECT: THEMES AND PROPOSALS FOR THE STATE OF THE UNION

This memo outlines three things: first, the overarching theme we propose for the State of the Union; second, the big ideas initiative that we believe should be the centerpiece of the speech and the budget; third, the eight signature policies that comprise the big ideas package.

I. THEME: RESPONSIBILITY FOR THE FUTURE

The theme we recommend for the State of the Union is "Responsibility for the Future." This theme brings together all the major elements of your agenda: strengthening Medicare and Social Security, and reducing the debt; investing in and reforming public education; bridging the digital divide; investing in scientific research; protecting the environment; promoting peace around the world; and closing the opportunity gap.

"Responsibility for the Future" reinforces both liberal convictions about equity (leave no one behind) and Third Way sensibilities about accountability (let no one fail to do his part). It is consistent with your longstanding theme of "responsibility, opportunity, and community," and sets forth a powerful message that will resound long after we're gone. The country has come a long way these seven years, enabling us to turn even more to challenges of the next generation.

II. BIG IDEA: CLOSING THE OPPORTUNITY GAP

We believe your big idea for the budget and the State of the Union should be an initiative to close the Opportunity Gap. It is a package of eight signature ideas described in the next section, and would highlight three or four major budget pieces. We had considered other labels for this initiative ("Leaving No One Behind," "Every Child's Initiative," and "Education First") but advocate "Closing the Opportunity Gap" because it shows continuity with your core philosophy and values, suggests a sweeping challenge worthy of a sweeping response, and provides a framework that will energize the entire economic and domestic team, from Summers and Herman to Shalala, Riley, and Cuomo.

III. EIGHT SIGNATURE ELEMENTS OF AN OPPORTUNITY AGENDA

Your final State of the Union should be more than a laundry list of worthy ideas (although we provide, for reference, such a list in three longer memos which are attached). Here, we outline a package of signature Opportunity Agenda proposals. These proposals represent the core of your domestic vision; they are ambitious ideas that will stick in the public mind. They are bold enough to show that your imperative is action, and appealing enough to stand a chance of enactment this year. Together, they give purpose and principle to your final year's agenda.

The initiative to close the opportunity gap consists of eight proposals: 1) universal pre-school to give all poor children a smart start; 2) universal after-school to help kids meet high standards; 3) a plan to turn around every failing school over the next decade; 4) measures to bridge the digital divide; 5) a set of new steps to help low-income students get into college and complete a degree; 6) proposals to encourage absent fathers to take responsibility for the support and love they owe their children; 7) a new bargain of tax cuts and other measures to reward work and family; and 8) a major expansion of New Markets to help all communities share in economic prosperity.

1. Early Childhood/Universal Pre-School. With a significant down payment in the FY2001 budget, you can lay the groundwork for achieving a goal that you, the Vice President, and the First Lady have talked about for some time: *universal access to pre-school for every 4-year-old in America*. There are a number of ways to do this:

- *Dramatic increase in Head Start funding.* Could expand by $1 billion over FY '00, to expand Head Start from 880,000 children to nearly 1,000,000 in FY '01. A path for future fund increases to make Head Start universal could also be established.

- *Early Learning Fund.* A dramatic increase in the Early Learning Fund combined with a path for future increases. Could expand to $1 billion for FY 01 – a $400 million increase – and aim for $10-$20 billion over 10 years.

- *Child Care Initiative.* Our proposals to expand child care subsidies and tax credits could be a major component of this initiative. (See Rewarding Work and Family.)

2. Universal After-School. By doubling after-school funding in the FY 2001 budget (from $453 million in FY 2000 to at least $1 billion in FY 2001), you can meet an urgent goal, which is to *provide after-school and summer school to every student in a failing school*. You called on states and districts to end social promotion in this past year's State of the Union; this initiative will enable you to say we're giving them the resources to end social promotion the right way, and give every student in our worst schools the extra help they need. Over a ten year period, we can make after-school and summer school universal for every Title I school – and with a sliding scale for students above 200% of poverty, we could eventually make after-school available to every student. (Cost: $20-30 billion over 10 years).

3. Turning Around Every Failing School. To close the opportunity gap, we must close the achievement gap by focusing our efforts on the worst-performing schools. With a series of accountability and performance initiatives in the FY 2001 budget (and the after-school pledge outlined above), you can credibly set forth an ambitious, defining goal for strengthening public education: *turning around or shutting down every failing school in America over the next decade*. In addition to doubling after-school funding, the key steps include: expanding your accountability fund; reaching your goal of 3,000 charter schools before you leave office; funding a new performance bonus to reward states and school districts for increasing their percentage of qualified teachers, adopting statewide accountability systems and school report card; and requiring universal public school choice for students in failing schools. We could also reintroduce a version of education opportunity zones. (Cost: $3-5 billion over 10 years).

4. Closing the Digital Divide. If we are to close the opportunity gap in the next century, we must do all we can to *address the emerging digital divide*. Key elements could include:

- *Community Technology Centers.* A more than four-fold increase in funding – from $32.5 million in FY 2000 to $132.5 million in FY 2001 – as part of a major challenge to have Internet centers in all poor communities. We could challenge the private sector to contribute hardware, software and man-hours – and possibly give them tax incentives to donate used equipment.

- *Develop Universal Internet Access.* Reserve a $100 million fund for public-private partnerships to bring affordable Internet access to poor families.

- *Teacher Training for the Internet.* We could dedicate $100 million – perhaps from the existing technology literacy challenge initiative – to ensure all new teachers, or all middle-school teachers, receive training in how to use computers as a learning device.

- *School Internet Modernization Fund.* A discretionary counterpart to our school construction proposal to modernize schools for new teachers and Internet access.

5. Closing the College Opportunity Gap and the Skill Gap. This element would focus on different aspects of closing the opportunity gap for college: helping more students aspire to and prepare for college, continuing to make college more affordable, and starting to address America's quiet crisis of declining college completion rates.

- *Keeping Students on Track to College.* We could increase access for impoverished young people through Youth Opportunity Grants, TRIO, GEAR UP, and Youth Build, increasing funding to a total of $500 million.

- *AP Courses Online.* Small and poor schools often lack the resources and teachers to offer challenging courses. This distance learning initiative aims to ensure that students in underserved areas get access to Advanced Placement and other high-quality academic courses and ESL programs online. Total funding for the initiative in FY2001would be $225 million, including $50 million for grants, $25 million for course development, and $125 million in increases in existing programs.

- *Test Prep for Poor Kids.* This program would support partnerships among high schools, proven providers of college test prep courses (like Kaplan, Princeton Review), and community-based organizations to offer high-need students SAT/ACT preparation and other services related to college admissions. Grants of $30 million would serve approximately 50,000 students.

- *Refundable Hope Scholarship and Pell Grant Increase.* Expanding the maximum Pell Grant from $3,300 to $3,500 would cost $766 million in FY 2001. A complementary proposal would be to make the Hope Scholarship refundable.

- *Challenging Students to Complete College.* The above initiatives could also be organized to promote not just going to college, but also completing college. In addition, a new initiative of College Completion Challenge Grants would provide grants to deal with college completion with a comprehensive program including, pre-freshman summer programs, support services and increased grant aid to students.

- *Other Initiatives.* We could also include training and tax incentives to help enable people with disabilities to work.

6. Demanding Responsible Fatherhood. If we are going to close the opportunity gap, we must close the responsibility gap. Demanding and promoting responsible fatherhood is the critical next stage of welfare reform and one of the most important things we can do to reduce child poverty. Mothers should not bear the whole burden of welfare reform; *now we must make sure that every unemployed father who owes child support goes to work and provides that support.* To achieve this goal, we can: 1) focus new Welfare-to-Work funds on putting low-income fathers to work, and propose that states use their welfare grants to require deadbeat fathers to work and pay the child support they owe; 2) propose new measures to collect more child support from parents who can afford to pay; 3) restore the child-support pass-through and revise outdated rules to ensure mothers and children receive more of the support the father pays; and 4) promote efforts to ensure fathers returning from prison become responsible fathers and responsible members of society. At the same time, we should continue to invest Welfare-to-Work funds to help long-term welfare recipients get employment and succeed on the job. (Cost: $100 million discretionary in FY '01 plus mandatory $1.2 billion over 5 years and $2.6 billion over 10).

7. Rewarding Work and Family. You could propose *a new social contract for the working poor.* This would include initiatives on childcare, housing, health, rewarding work through EITC expansion, and encouraging savings. It could also include a food stamps initiative.

- *Child Care Block Grant in Discretionary Budget.* We stand a better chance of increasing child care subsidies if we move them to the discretionary side. (Cost: $818 million in FY 01, additional $1.2 billion in FY 02).

- *Expanding Housing Vouchers.* Expand to 100,000 housing vouchers in FY 2001, with a goal of 500,000 vouchers by the fifth year. With such a plan, you could realistically propose that within a decade, no poor family will be trapped in housing projects. (Cost: $3-6 billion over five or ten years, depending on whether we try to reach 1 million families within five or ten years).

- *Expanding Family Health Coverage.*

    - *Extend CHIP to Parents.* Would provide states with the same incentives to cover parents as children under Medicaid and the Children's Health Insurance Program (CHIP). Costs range from $5 to $18 billion over 5 years.
    - *Outreach to Enroll Uninsured Children in Medicaid and CHIP.* This could be done through school-based outreach at about $3 billion over 10 years. Another idea would be to simplify and unify eligibility rules for Medicaid and CHIP, at a cost likely to be less than $500 million over 5 years.
    - *Restore Option to Cover Legal Immigrants.* This proposal would restore state benefits for certain pregnant women, children, and SSI-recipient legal immigrants. The cost is about $2-6 billion over 5 years.
    - *Other Coverage Options.* We could also include the Medicare buy-in, tax credits for small business, and a tax credit for individual insurance.

- *Rewarding Work and Family Through the EITC and Child Care.*

    - *Making the EITC Even More Pro-Work.* The EITC could be expanded by (1) increasing the phaseout so that more families get the maximum amount; (2) lowering the phaseout rate so that marginal tax rates are reduced; and (3) easing the marriage penalty by making these phaseouts more favorable for married couples. The third component would cost $11 billion over 10 years.
    - *EITC Increase for Three Children.* Alternately, the EITC could be expanded by raising the maximum EITC with families with three or more children (which would benefit all families with three children), at $8 billion/10 years.
    - *Making the Dependent Care Tax Credit Refundable.* Our child care tax package provides significant relief for families earning $30-60,000. But working poor families who need help the most earn too little (under $18,000) to be eligible. Making the DCTC refundable costs $4 billion over 5 years.

- *Progressive Savings Accounts.* We could propose a scaled-back version of USA's – a highly-progressive savings incentive targeted at those who would be least likely to save and who do not have incentives to save under current law.

8. New Markets Initiative and Empowerment Zones. Help include communities that have not fully shared in our prosperity by expanding the New Markets initiative and including empowerment zones within the initiative.

- *Expanded New Markets Tax Credit.* Double the new markets tax credit, costing $4 billion over 10 years.

- *Expanded Empowerment Zones Credit.* The goal would be to increase existing incentives, include empowerment zones in the new markets framework, and compromise with Talent-Watts' American Community Renewal Act.

- *Expanded Low-Income Housing Tax Credit.* The FY 2000 budget proposed expanding the Low-Income Housing Tax Credit (LIHTC) from $1.25 per capita to $1.75 per capita at a cost of $1.6 billion over 5 years. In light of housing shortages in many parts of the country, we may want to expand this credit even further.

- *Making Homeownership More Affordable.* A new homeownership tax credit could help boost homeownership rates for lower income families by subsidizing the interest rate for income-qualified, first-time homebuyers at 15 to 30 percent below conventional rates. The cost of this proposal could be scaled to the desired level.

- *Expanding Faith-Based Involvement.* Allow federal funds for substance abuse treatment, juvenile justice, and after-school to be used by faith-based organizations.

THE WHITE HOUSE

WASHINGTON

'99 DEC 13 PM3:54

December 13, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

CC: JOHN PODESTA

SUBJ: HEALTH CARE IDEAS FOR STATE OF THE UNION/BUDGET

Strengthening and Modernizing Medicare

1. Plan To Strengthen and Modernize Medicare. Your plan from June will need to be modified since the re-estimate for the prescription drug benefit is considerably higher, savings on the new baseline are lower (as is the appetite for savings in Congress), and the April Trustees' report will likely show an improvement in Medicare solvency absent any actions. Changes to the plan are being considered and will be discussed separately with you.

2. Medicare Preventive Benefit Authority. This proposal would allow HHS to add new preventive benefits to Medicare and is consistent with a recommendation by the Institute of Medicine released this week. (Also under consideration is a limit on all allowable cost expansions). It builds on the preventive initiative in the Medicare plan, which eliminates cost sharing for preventive services, authorizes additional studies and a smoking cessation demonstration. (Cost: not yet estimated).

3. Immunosuppressive Drug Extension Adjustment. Currently, Medicare pays for immunosuppressive drugs that prevent rejection of transplanted organs. This coverage extends for three years after the transplant. The Balanced Budget Refinement Act added a flawed, dollar-limited 8-month extension on coverage of immunosuppressive drugs. This proposal would make the extension one year rather than 8 months, would remove the funding cap, and remove the time limit. (Cost: roughly $100 million over 5 years).

4. Cancer Clinical Trials. This three-year demonstration would cover the patient care costs associated with certain clinical trials for Medicare beneficiaries. This proposal was in the President's FY 1999 and 2000 budgets, and has been a Vice Presidential priority. (Cost: $750 million for 2002-04).

Improving Access to Affordable Health Insurance Coverage

5. Family Health Insurance Initiative. Over 85 percent of the parents of uninsured children in families with income below 200 percent of poverty are themselves uninsured. This option, included in the Gore health proposal, would provide states with the same incentives to cover parents as children under Medicaid and the Children's Health Insurance Program (CHIP). Specifically, a state could receive a higher federal matching rate for expanding coverage to the parents of children currently eligible for Medicaid or CHIP, if that state has expanded to 200 percent of poverty for children. This enhanced matching rate would be drawn from the CHIP allotments that would be increased to help pay for the entire family. States would cover the parents in the same program as their children. Since most uninsured children also have uninsured parents, this is an efficient way to bring down the numbers of the uninsured. It could also increase enrollment of children, since parents are more likely to enroll their children if they, too, can get health coverage. (Cost: from $5 billion to $18 billion over 5 years depending on who receives the enhanced match and whether the allotments are raised).

6. Medicaid Option to Cover Poor Adults. Currently, states can cover only adults who are parents through Medicaid. This policy would remove this "categorical" eligibility, replacing it with a straight income-related eligibility. This approach has been take by several states through Medicaid 1115 waivers, and fully moves Medicaid to an income-related – rather than welfare-related – health insurance program. HHS has developed this as a possible alternative to the parents' initiative. (Cost is unknown, but likely less than the family initiative since there is no higher matching rate and states would prefer to expand to working parents than all poor adults).

7. Tax Credit for Individual Insurance to Address Current Tax Inequity. Unlike employees who work at firms that provide coverage, workers who have no access to employer-based insurance and who buy it for themselves receive absolutely no tax subsidy. To address this inequity, this policy (supported by the Vice President) would give people without access to employer-based insurance a tax credit, equal to 25 percent of the cost of coverage and similar in value to the 100 percent tax deduction employers now receive, for purchasing individual insurance. This credit could only be used for qualified individual insurance plans or Medicare, Medicaid, or CHIP buy-in options. Because the credit is relatively small, it likely would not have an adverse incentive impact on employers now offering to drop coverage. But while it would be popular, it would not be expected to increase take-up in coverage for the currently uninsured. (Cost still being estimated but about $15 over 5 years, $35 over 10 years).

8. Encouraging Small Businesses To Offer Health Insurance. Workers in small businesses are more likely to be uninsured. This initiative would encourage small businesses to offer health insurance through: (1) a new tax credit for small businesses who join coalitions; (2) tax-exempt status for foundation contributions to create coalitions; and (3) technical assistance. It would be different from last year's proposal because the credit would be increased to 25 percent of the employer contribution, and all firms (not just those that previously did not offer coverage) would be eligible for the credit. (Cost still being estimated, but about $1 billion over 5 years, $2.5 billion over 10 years).

9. Medicare Buy-In for Certain 55 to 65 Year Olds. The fastest growing group of uninsured are those ages 55 to 65. Between 1997 and 1998, the proportion of people in this age group who were uninsured increased by 5 percent, from 14.3 to 15.0 percent. All of this increase occurred among people above poverty, with a dramatic jump for those with income between 300 and 400 percent of poverty. This initiative expands the health options available for older Americans by: enabling Americans aged 62 to 65 to buy into Medicare; providing a similar Medicare buy-in for vulnerable displaced workers ages 55 and older; and providing COBRA to Americans ages 55 and older whose companies reneged on their commitment to provide retiree health benefits. This proposal was in the last two budgets. (Cost: $1.8 billion over 5 years, $2.9 billion over 10 years).

10. Medicaid Coverage for Certain Women with Breast Cancer. This proposal is the Breast and Cervical Cancer Prevention Act (HR 1070) that has 272 House cosponsors and passed unanimously by the House Commerce Committee (a Senate bill has not yet been marked up). It would give states the option to provide temporary Medicaid coverage to uninsured women who have learned that they have breast or cervical cancer through a CDC screening program. States would get the CHIP match rate for this group. It is important to note that most policy analysts think that covering selected disease categories and/or people participating in a particular program is a troubling precedent. However, if there are no coverage expansions for this group, it would hard not to include this initiative in our budget. (Cost: about $300 million over 5 years).

11. Ensuring that All Workers Paid by the Federal Government Have Access to Employer-Based Insurance. This policy would allow all types of temporary government employees to access the Federal Employees' Health Benefits Program. Currently, FEHBP serves only permanent federal employees. (Cost estimate and more details pending).

12. Tax Credit for COBRA Continuation Coverage. Currently, employers must offer departing employees the option of buying into their health plan at a premium of 102 percent. Intended to ensure coverage during the transition to new jobs, this policy has proven unaffordable to some people and burdensome to employers. To address these concerns, our new proposal would provide a tax credit of 30 percent for this coverage to the employer whose employee takes this option. This subsidy would be split equally between reduced employer cost and lower premiums for participants (87 percent). (Cost estimate pending).

<u>Finishing the Job of Targeting and Enrolling Uninsured Children</u>

13. Enrollment. Sites like schools and child care centers are natural places to reach out to uninsured children. To tap into these resources, this proposal would (1) allow school lunch application information to be shared with Medicaid and CHIP for outreach; (2) let enrollment in the school lunch program serve as a proxy for Medicaid or CHIP eligibility while formal applications are being processed; and (3) more broadly apply the presumptive eligibility option in Medicaid to homeless programs, TANF and CHIP eligibility workers, and others who are in a position to do preliminary assessments of children's eligibility for Medicaid or CHIP. (Cost: estimate pending – likely about $1 billion over 5 years, nearly $3 billion over 10 years).

14. Simplifying and Coordinating Enrollment. To ensure that children do not fall through the cracks of different eligibility rules for Medicaid and CHIP, this proposal would require that states conform Medicaid eligibility for children to that of CHIP in the following respects: (1) assets tests; (2) mail-in application; (3) redetermination period; and (4) eligibility to age 21. Thus, a state could not have simpler enrollment and redetermination processes for its CHIP program than it has for its Medicaid program. (Cost: pending – likely less than $500 million over 5 years).

Long-Term Care

15. Long-Term Care Initiative. An initiative that has already been well received and has already begun to receive bipartisan support is the long-term care proposal. Last year, you proposed a major, seven-part initiative that would: (1) provide a $1,000 tax credit for people with long-term care needs or their families to offset the costs of care; (2) create a new Family Caregivers Program that offers respite services, information, and other assistance; (3) offer private long-term care insurance to Federal employees; (4) improve nursing home quality; (5) expand Medicaid options for community-based services; (6) encourage assisted living facilities for Medicaid beneficiaries; and (7) conduct a $10 million education campaign on long-term care for Medicare beneficiaries. (Cost: about $6 billion over 5 years)

Discretionary Initiatives

16. Preventing Medical Errors. This initiative will develop new avenues for the prevention of medical errors. It will include the IOM's recommendation of $35 million to establish a Center for Patient Safety at HHS and include new efforts to strengthen FDA's voluntary adverse event reporting system from health professionals and consumers, and implement new requirements for the naming, labeling, and packaging of drugs that are designed to prevent medical errors. FDA estimates that with adequate funding, it could reduce adverse events by 10 percent and save approximately 10,000 lives annually. This initiative could be combined with regulatory actions to ensure patient safety, including requiring hospitals participating in Medicare to implement error reduction programs. (Cost: $60 million).

17. Internet Drug Sales. We would provide new funds for the investigation, identification, and prosecution of entities selling over the Internet unapproved new drugs, counterfeit drugs, prescription drugs without a valid prescription, expired or illegally diverted pharmaceuticals, and products based on fraudulent health claims. It would establish new certification requirements for all Internet pharmacy sites to ensure that they meet all state and federal requirements. It would create new civil money penalties of up to $100,000 for dispensing without a valid prescription over the Internet or for selling drugs without federal certification; and provide FDA with new administrative subpoena authority to build a case against offenders. (Cost: $10 million).

18. Preventing Breast and Prostate Cancer. This initiative will fully fund the National Environmental Health Laboratory, which evaluates the exposure of men, women, and children to toxic substances that cause cancer. Funds will also be used to assist state and local public health officials to ensure thorough investigation of cancer clusters and to rapidly evaluate the local impact of public health disasters, such as chemical spills and groundwater contamination. (Cost: $15 million).

19. Improving Nursing Home Quality. This initiative provides mandatory and discretionary funds to HCFA to help States strengthen nursing home enforcement tools and increase federal oversight of nursing home quality and safety standards. Funding will be provided for new enforcement provisions and increased surveys of repeat offenders and improve surveyor training. (Cost: $31 million).

20. Providing Education Funds to Children's Hospitals. Medicare has invested billions of dollars in graduate medical education to hospitals since 1966. However, because of its current distribution formula, free-standing children's hospitals are forced to shoulder the majority of the cost of training pediatricians, placing them at a severe financial disadvantage. This initiative will augment last year's investment in these critical health care providers.
(Cost: $104 million).

21. Addressing Mental Illness. This proposal will increase funding for treatment for the severely mentally ill and establish a new local mental health enhancement program that would provide new prevention, early intervention, and treatment services for Americans with less severe mental illnesses. (Cost: $100 million).

22. HIV and AIDS. This initiative would increase our current proposed investment in the Ryan White program and the AIDS Drug Assistance Program (ADAP), which provide critical services for people with HIV/AIDS. In addition, it would establish a strategic plan designed to reduce new HIV infections by 50 percent in three years. The new prevention initiative would: help 150,000 individuals not aware of their infection learn of their status and find prevention counseling and treatment services; expand community prevention planning, with a special emphasis on racial and ethnic minorities, women, injection drug users and their partners, and young gay men; and build a data infrastructure to assist local public health officials in targeting their prevention efforts. The new investment in Ryan White and ADAP would shorten the waiting time needed to access the comprehensive range of drugs needed to effectively treat this disease. (Cost: $150 million).

23. Access for Uninsured Americans. This proposal would create a new grant program for community-based providers to develop comprehensive systems of care, develop linked financial and telecommunication systems, and fill the service gaps that exist in many communities, especially primary care, mental health, and substance abuse services. It would: hold providers accountable for health outcomes by helping them develop the systems to appropriately monitor and manage patient needs; preserve access to critical tertiary care services financial support to large public hospitals; and provide new services to the uninsured, including primary care, and mental health services. (Cost: $75 million).

24. Investment in Biomedical Research. The potential breakthroughs in diagnoses, treatments and cures resulting from the nation's increasing investment in biomedical research are impressive. They include: decoding the complete gene sequence by the spring of 2000, developing new treatments to delay the onset of Parkinson's, Alzheimer's and cancer, and new interventions to prevent paralysis with spinal cord injuries. The Administration's last budget dedicated a $360 million increase to the NIH, which is far short of the over $2 billion that was included in the final budget. This has resulted in criticism from the scientific and patient advocacy communities. (Cost: $500 million to $1.5 billion).

25. Safeguards Against Scientific and Biomedical Abuses. This package addresses the perils of some of the new scientific breakthroughs of our day. These include inappropriate patenting and licensing of genetic material, the insufficient provision of protections to human subjects in clinical trials, and the continuing threat of bioterrorism. Under consideration are a host of initiatives to address these potential problems, including legislation to prohibit the use of genetic information in all health insurance policies and employment decisions.