

NLWJC - KAGAN

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[06/19/1998] [1]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Julie A. Fernandes (CN=Julie A. Fernandes/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-JUN-1998 19:28:33.00

SUBJECT: EEOC -- monday meetings

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

TEXT:

Elena,

Martha, Broderick and I spoke with Ellen Vargyas from the EEOC re: the Monday meetings. Because Fawell's staffer (apparently empowered to speak for the authorizers, appropriators and Gingrich) has agreed that no "no tester" language will be added during the subcommittee mark-up (b/c EEOC has been working with them in good faith on a possible letter), Ellen does not think that we should try to meet with the staffer in advance of the subcommittee mark-up. Martha and Broderick agree, but want to confirm that there is a deal on not including any language at this stage. Martha has put in a call to Livingston's COS to confirm. She has also put in a call to Dixon to try to stave off a Monday morning "Dear Colleague" letter from the CBC and to set up our other meetings.

Thus, instead of our going to see Fawell's staffer first, Ellen will come here (at 12 noon) to give us all a better sense of her conversations with Fawell's staffer. Martha and Broderick are setting up staff and Member briefings for the afternoon, as we discussed.

Julie

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jordan Tamagni (CN=Jordan Tamagni/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:19-JUN-1998 19:11:41.00

SUBJECT: Revised 7:00pm - Minor Changes

TO: June G. Turner (CN=June G. Turner/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Michelle Crisci (CN=Michelle Crisci/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Barbara D. Woolley (CN=Barbara D. Woolley/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Christopher C. Jennings (CN=Christopher C. Jennings/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Paul E. Begala (CN=Paul E. Begala/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Dawn L. Smalls (CN=Dawn L. Smalls/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Linda Ricci (CN=Linda Ricci/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TO: Sarah A. Bianchi (CN=Sarah A. Bianchi/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Ann F. Lewis (CN=Ann F. Lewis/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TO: Michael Waldman (CN=Michael Waldman/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:

Revised Draft 6/19/98 7:00pm
Jordan Tamagni

PRESIDENT WILLIAM J. CLINTON
RADIO ADDRESS ON PROSTATE CANCER
JUNE 20, 1998

Good morning. Tomorrow is Father's Day, the day we pay tribute to the irreplaceable role fathers play throughout our children's lives. There is no greater responsibility -- and there is no greater reward -- than raising a child. For me, no job, not even the presidency, has been more important than being a father.

I want to talk to you today what we are doing to protect our fathers, our grandfathers, and all men from one of the greatest health threats they face: prostate cancer. This year, nearly 200,000 people will be diagnosed with prostate cancer -- and 40,000 will die from it. In fact, every year, as many men die from prostate cancer as women die from breast cancer.

For far too long, too little was known about prostate cancer. Too little was said about it, out of embarrassment and fear. Because of this, too little was done about it, as precious research dollars were spent on other problems.

For five years now, we have worked hard to increase public awareness about prostate cancer -- and to find a cure. Since I first took office, we have increased funding for prostate cancer research at the National Institutes of Health by 100%. This year alone, we are funding more than 450 critically important research projects on prostate cancer, ranging from prevention to detection to treatment. Last year, scientists at the Human Genome Project and Johns Hopkins University located the first gene known to predispose men to prostate cancer. Prostate cancer is the first disease being studied by the Cancer Genome Anatomy Project, a very exciting new program we recently launched at the NCI. We are closing in on this silent killer.

But as far as we have come, we know that many questions about prostate cancer remain unanswered. We do not fully understand the role of environmental and dietary factors in prostate cancer. We do not fully understand why the disease progresses at such varying rates in different men. We do not yet know why prostate cancer disproportionately affects African American men. And we do not yet know how to eliminate the risks of treatment for prostate cancer that discourage too many men from seeing their doctors.

The only way we will ever answer these questions -- and the only way we will ever beat prostate cancer -- is by continuing to invest in research. Today, I am pleased to announce that the Department of Defense is awarding \$60 Million in grants to some of the most promising research projects in the country. These grants will fund innovative new studies to determine the causes of prostate cancer, to develop new methods of prevention and detection, and most of all, to discover ground breaking new treatments that will save lives.

These grants are an important step in our fight against prostate cancer. But we must press on. This year, as part of historic legislation to protect our children from tobacco, I proposed to make the largest commitment in history to fund cutting edge cancer research. My proposal would also allow people on Medicare to participate in cancer clinical trials. This will be especially important for prostate cancer, which overwhelmingly affects men over 65. The more older men are able to participate in these trials, the more we will learn about this disease, and the faster we will be able to find a cure.

But three days ago, a Republican minority in the Senate bowed to enormous pressure by the tobacco industry and voted against this legislation ... against protecting our children from tobacco ... against our families ... against increased cancer research ... against saving lives. The American people won't stand for it.

This Fathers Day, as we celebrate how much fathers mean to their

children, we should also renew our commitment -- as fathers, as parents, and as Americans -- to our families, by insisting that Congress join together in passing comprehensive bipartisan tobacco legislation that protects our children and strengthens our nation.

Thanks for listening.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jordan Tamagni (CN=Jordan Tamagni/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:19-JUN-1998 17:51:27.00

SUBJECT: Radio

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: Bruce N. Reed (.CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TEXT:

[...] Please make edits as you see fit... remember, it's Father's Day

These grants are an important step in our fight against prostate cancer. But we must press on. This year, as part of historic legislation to protect our children from tobacco, I proposed to make the largest commitment in history to fund cutting edge cancer research. My proposal would also allow people on Medicare to participate in cancer clinical trials. This will be especially important for prostate cancer, which overwhelmingly affects men over 65. The more older men are able to participate in these trials, the more we will learn about this disease, and the faster we will be able to find a cure.

But three days ago, a Republican minority in the Senate bowed to pressure by the tobacco industry and voted against this legislation ... against protecting our children from tobacco ... against our families ... against increased cancer research ... against saving lives. For that, they will have to answer to the American people.

This Fathers Day, as we celebrate how much fathers mean to their children, we should also renew our commitment -- as fathers, as parents, and as Americans -- to our families by insisting that Congress join together in passing comprehensive bipartisan legislation that protects our children and strengthens our nation.

Thanks for listening.

Medicare and Hyde Amendment Decision Roll-Out. On Tuesday, Secretary Shalala will formally transmit a letter to Senator Nickles that affirms the Health Care Financing Administration's longstanding policy that the Hyde Amendment applies to Medicare's disabled population. As such, as the letter points out, exceptions to the non-coverage policy "are provided for cases of rape and incest, and certain circumstances in which a woman's life would be endangered." Prior to the release of the letter, we will be holding separate meetings with the women's advocacy organizations, the Catholic Health Association, and Senator Nickles' staff to apprise them of the reaffirmation of our policy. Your Office of Public Liaison and the Women's Office understand the rationale for our decision. They believe they can help mitigate the initial potential negative reaction to this letter by reminding them that an administrative decision in this area is far less objectionable than what would have been the inevitable legislative response.

FDA Commissioner Nomination. On Tuesday afternoon, you are tentatively scheduled to unveil your choice for the next Food and Drug Administration (FDA) Commissioner -- Jane Henney. Although she will not have an easy road to confirmation, particularly considering the current Senate environment, we believe she is a very capable candidate. We will work closely with her home state sponsor, Senator Domenici, to ensure she gets a positive send-off.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Melissa N. Benton (CN=Melissa N. Benton/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:19-JUN-1998 16:51:48.00

SUBJECT: LABOR Testimony on HR3684 Employment Security Financing Act of 1998

TO: Janet R. Forsgren (CN=Janet R. Forsgren/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Justine F. Rodriguez (CN=Justine F. Rodriguez/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Kate P. Donovan (CN=Kate P. Donovan/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Jonathan Orszag (CN=Jonathan Orszag/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Larry R. Matlack (CN=Larry R. Matlack/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Susanne D. Lind (CN=Susanne D. Lind/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Daniel J. Chenok (CN=Daniel J. Chenok/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Edward M. Rea (CN=Edward M. Rea/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Sarah S. Lee (CN=Sarah S. Lee/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Carole Kitti (CN=Carole Kitti/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Barry White (CN=Barry White/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

The testimony and bill text are attached.

----- Forwarded by Melissa N. Benton/OMB/EOP on 06/19/98

04:42 PM -----

Total Pages: _____

LRM ID: MNB191
EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Friday, June 19, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below

FROM: Janet R. Forsgren (for) Assistant Director for Legislative Reference

OMB CONTACT: Melissa N. Benton
PHONE: (202)395-7887 FAX: (202)395-6148

SUBJECT: LABOR Testimony on HR3684 Employment Security Financing Act of 1998

DEADLINE: 1 p.m. Monday, June 22, 1998

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: To follow is testimony to be delivered by Labor (Kilbain) before the Human Resources Subcommittee of House Ways and Means on Tuesday, June 23d.

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LRM ID: MNB191 SUBJECT: LABOR Testimony on HR3684 Employment Security Financing Act of 1998

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

- (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
- (2) sending us a memo or letter

STATEMENT OF GRACE A. KILBANE
DIRECTOR
UNEMPLOYMENT INSURANCE SERVICE
EMPLOYMENT AND TRAINING ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

June 23, 1998

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on the Employment Security Financing Act of 1998 (H.R. 3684) and its impact on the unemployment insurance (UI) program. There are several significant issues that need to be considered in order to ensure that the Employment Security system fulfills its mission in today's changing economy and that it remains on sound financial footing for the 21st Century. As I will discuss below, the Administration has proposed legislation to begin to address some of these issues and initiated a broad dialogue on reform of the UI program.

As you know, the bill that is the focus of today's hearing, H.R. 3684, was developed by the Coalition for Employment Security Financing Reform, essentially to address administrative funding problems. I applaud the bill's overall objective to reform the funding structure of the Employment Security system. The Department of Labor, however, has serious concerns about

Draft 6/19/98

the proposal as well as important issues which should be addressed, but are not included in the bill.

BACKGROUND

Before turning to H.R. 3684, I would like to take a moment to provide some background information on the UI program. Enacted over sixty years ago as a Federal-State partnership, UI has been a major source of temporary income support for laid-off workers who are seeking work.

In addition, for over sixty years, the Employment Service (ES) program has served to assist workers in finding new jobs. Since the advent of both programs, the economy has changed, the workforce has changed, the workplace has changed and the way we work has changed, affecting both workers and businesses. Research suggests that these changes may be impacting the UI program in unanticipated ways.

Studies conducted by the General Accounting Office and by Metrica, Inc.-- both in the early 1990's -- and a study conducted by the Urban Institute in 1998, all conclude that the UI program has lost some of its effectiveness as an automatic stabilizer over the past 20 years. They cite the following reasons:

- the decline in UI reciprocity which means that a lower percentage of the unemployed receive benefits;
- State law changes that restrict program eligibility and lowered wage replacement rates;
- and

- changes in the labor market.

This research also concludes that in the 1980's the UI program was about two-thirds as effective as a stabilizer as it was in the 1970's, and that State borrowing during the next recession will be much higher because of relatively lower State trust fund reserves. Now, while the economy is strong and unemployment is low, is an opportune time to reform and strengthen the UI program.

KEY ISSUES

Reform is needed to strengthen the UI program in three (3) key areas: reciprocity, recession readiness, and administrative funding.

Reciprocity -- The reciprocity rate for unemployment compensation has dropped from 49% in the 1950's to an average 35% in the 1990's and is below 20% in some States. That means that the program is currently serving proportionately fewer unemployed workers than in the past. This harms the program's ability to help workers who have lost their jobs, as well as weakens its role as a stabilizer in the economy.

Recession Readiness -- Recessions are experienced at the State and Regional levels and the UI program should work effectively at those levels. However, during the last recession, only nine (9) States "triggered on" to the Extended Benefit (EB) program -- the program established to provide additional benefits during periods of economic downturn. State trust fund levels, which

are the amount of funds States have available to pay benefits, are also a concern. Even though we now enjoy a period of very low unemployment, estimates show that an economic downturn of the magnitude of the 1980-82 recession could result in \$20-\$25 *billion* of State borrowing of Federal funds to cover UI benefits.

Administrative Funding -- Funding for the Employment Security system has been steadily declining. Since fiscal year (FY) 1995, the UI appropriation has remained static, ignoring the increased costs of inflation and workload growth associated with increases in the number of subject employers and growth in the civilian labor force. As a result, FY 1998 administrative funding is insufficient to handle benefit payments to the approximately 7.1 million unemployed workers and collect taxes from about 6.4 million employers. Consequently, activities that are needed to preserve the integrity of the Trust Fund are curtailed. These include prevention, detection, and collection of benefit overpayments, as well as tax audits and collections of delinquencies. The reduction of these activities costs the Trust Fund approximately \$240 million per year.

The Employment Service (ES) has also experienced steady cuts in funding. Since 1984, when adjusted for inflation, Wagner-Peyser grants to States to provide job finding and placement services to UI claimants and other job seekers have been reduced by about 33 percent. Among other impacts, this affects services to help unemployed workers return to work quickly, contributing to a higher average duration of unemployment (14.8 weeks) during this good

economy and to a higher rate of exhaustion (33%) of benefits than is typical at this stage of the economic cycle. In an attempt to compensate for the underfunding, States supplemented Federal funding of the Employment Security system with approximately \$200 million in FY 1997, about \$89 million for UI and approximately \$111 million for ES. Since some of these funds were raised through employer taxes, employers may feel they are being taxed twice to support the Employment Security system.

These issues and program trends indicate that it is time to address both funding and program reform to ensure that the fundamental principles of the UI program are met.

UI PRINCIPLES

The major components of the UI program involve payment of benefits, funding of benefits, and administration of the program. Accordingly, a fundamental principle of the UI program is that benefits should provide an adequate economic cushion while recipients search for suitable work. For the program to provide macroeconomic stabilization, these benefits must be available to a sufficiently large portion of workers who lose their jobs.

A basic benefit funding principle is that the UI program be self-financing. This means that funds should be accumulated during periods of economic growth so that they will be available to pay benefits during economic downturns. This self-financing principle also has a Federal component. Federal UI taxes build up balances to pay the Federal share (50%) of the EB

program and to provide repayable advances to States that have become insolvent. In both cases, Federal funds are available to all States without regard to how much Federal tax the employers in a State have paid.

In terms of program administration, States and the Department of Labor share responsibilities. Each State operates its UI program in accordance with its law, but State law is required to conform with certain basic provisions of Federal law. Administrative funding for the UI program and 97 percent of funding for ES programs comes from Federal UI taxes. Congress appropriates administrative funds which are allocated based on individual State needs without regard to the amount of taxes paid by the employers in a State. Federal UI taxes also pay Federal administrative costs.

WHAT H.R. 3684 DOES

I would like to begin by addressing our concerns with H.R. 3684. The stated primary purpose of the bill is to remedy insufficient funding of Employment Security programs by Congress. I certainly agree that the States should be fully funded to provide adequate services to job seekers and employers. The solution proposed -- transferring the funding from Congress to the States -- does not guarantee full funding, however. Transferring the appropriation authority from one body to 53 legislative bodies does not, by itself, provide full funding and may exacerbate the problem. This is of special concern for both the Veterans' Employment and Training (VETS) program, which relies on these funds to provide special veterans' employment services, and the

UI program regarding workload funding. Most State legislatures meet for only a portion of a year and six meet on a biennial schedule. This makes it difficult for States to respond quickly to changes in workload caused by an unforeseen economic downturn (or even unemployment caused by a large natural disaster) and could cause serious funding shortages at a time when they can least be afforded. In addition, this approach undermines the insurance principle of the program that funds are to be pooled into a unified account and distributed based on workload -- not on taxes paid.

The bill would also transfer the responsibility for collecting Federal Unemployment Tax Act taxes, known as FUTA taxes, from the Internal Revenue Service to the States, effective calendar year 2000. The tax would remain a Federal tax, with the States acting as agents for the Treasury Department on a contractual basis. We do not believe that having States collect Federal revenue and having their legislatures appropriate Federal dollars with no required guidelines or standards, is the best option for funding administration of these programs. The absence of guidelines and standards would seem to run counter to the Congressional emphasis on performance in the Governmental Performance and Results Act (GPRA). A theme that is beginning to emerge from the Department's UI dialogue is that other changes to the funding structure need to be considered: such as switching the funding to the mandatory side of the budget; creating a permanent adjustment of the caps on the discretionary side of the budget to accommodate the changing needs of the Employment Security system; or if the States are to be responsible for administrative funding, combining State UI-ES administrative tax with the State benefit tax,

reducing but maintaining the FUTA tax for Federal purposes.

The bill calls for a wholesale restructuring of the Unemployment Trust Fund, effectively breaking the current Employment Security Administration Account into 53 State accounts. A new Federal administration account would be established for the Secretary of Labor, with funding limited to 2% of FUTA collections. This would be \$20 million less than the current funding level of \$120 million (a 17% cut) for Federal administration of UI, ES, VETS and Bureau of Labor Statistics oversight, and funds for State collection of labor market information. Since the Secretary's obligations would remain substantially the same, this option would not allow the Department of Labor to continue to administer the programs responsibly.[insert re BLS programs to added]

The Extended Unemployment Compensation Account, the current source of funds for the Federal share of EB, would be eliminated by bill, as would the Federal partnership in the program. The EB program, established to provide additional benefits during periods of economic downturn, would be funded and administered independently by each State. There would be no special funding mechanism for these benefits. Since the proposal would not reform the EB program, Congress would be faced with enacting special extended unemployment compensation (EUC) in the event of an economic downturn, as it did in the last recession. Of the \$28.5 billion in Federal EUC costs, \$12 billion was funded by FUTA. The FUTA funding would no longer be available to Congress.

Lastly, the proposal weakens State accountability by requiring States to individually determine performance and report to their Governors. The proposal still requires the Secretary of Labor to review and certify that States' laws conform and activities substantially comply with Federal requirements. Because the bill removes State administrative funding from the Federal government, there are no sanctions that can be imposed on State governments for noncompliance. Only the employers of a noncompliant State would suffer any consequences if a State failed to meet the requirements of the law. Failure of a State to meet the requirements for certification would result in a loss of credit against the Federal tax for employers in the State. This would place a State in the peculiar situation of charging employers a higher Federal tax -- 6.2% rather than 0.8% -- for a condition that the State itself caused. In the spirit of GPRA, Federal performance standards should be considered to ensure that a viable national economic security system is in place for the country while providing States flexibility to tailor the programs to their individual economies.

WHAT THE BILL DOESN'T DO

The bill does not address the most fundamental principle of the UI program, that is the assurance of adequate benefits for a sufficiently large number of job seekers. For instance, the reciprocity rate for unemployment compensation is not addressed in the bill. If the program devolves further to the States without standards, what is to stop the reciprocity rate from eroding even further? Devolution may in fact create incentives for States to cut costs by creating more stringent eligibility requirements, lowering benefit levels, or taking other policy measures to

reduce the benefits paid to unemployed workers and to reduce related administrative services.

The bill is silent in regard to trust fund solvency standards and bolstering the EB program -- elements that are essential in any reform effort to assure that the program responds adequately to economic downturns. There is no assurance that the self-financing principle can be met.

I agree that the administrative funding mechanism for the Employment Security program is in need of repair. However, I do not believe that transferring funding from Congress to the States achieves the program administration principle.

THE ADMINISTRATION'S APPROACH TO REFORM

With the issuance of the Administration's FY 1999 budget request, President Clinton set in motion a reform of the Employment Security system. Due to the complexities inherent in a major reform effort, the Administration is pursuing a two-phase strategy. The first phase is comprised of a legislative, as well as an appropriations component. The funds requested in the FY 1999 budget are designed to provide full-funding for the UI program, while a long-term solution to the administrative funding problem is developed.

The Administration has also proposed legislation, H.R. 3697, introduced by Representatives Levin, English and Rangel, that represents an important step toward addressing the issues confronting the Employment Security system. This bill would provide incentives to strengthen

the UI program in the areas of reciprocity, recession readiness, and administrative funding and is

a “down payment” toward more comprehensive reform. The major components of H.R. 3697 are:

Reciprocity -- H.R. 3697 provides incentives to States to voluntarily implement administrative systems that will make the program more accessible to low-wage workers. \$20 million will be available in each of fiscal years 1999, 2000, and 2001 to reimburse costs to States to implement alternative base periods. An estimated additional 450,000 low-wage unemployed workers could be helped annually if all States adopted an alternative base period. This would increase reciprocity by 6-8% and benefit payments by 4-6%.

Recession Readiness -- The Administration’s bill would enhance the Federal-State Extended Benefit program by revising program triggers to make the program more responsive during a recession. H.R. 3697 also provides an incentive -- in the form of a Reed Act distribution -- to encourage States to voluntarily improve the solvency of their unemployment trust funds accounts. Currently, 22 States have reserves below the 1.0 average high cost multiple recommended by the Advisory Council on Unemployment Compensation. Inadequate trust fund account balances could cause States to take actions such as increasing taxes, reducing benefits, or taking out interest bearing loans in the next recession as some have been compelled to do in the past.

Administrative Funding -- The bill proposes the installation of a temporary mechanism to

strengthen State funding for administration of the UI program through a special distribution to fill the funding gaps between the calculated need and the appropriated amount resulting in full funding for FY 1999-2003. This is a temporary "fix" only. A long-term solution is needed for the underfunding problem, and this will be focused on in the upcoming dialogue.

In addition, H.R. 3697 proposes to extend for ten years the Self-Employment Assistance (SEA) Program, which is due to expire December 8. SEA -- which gives greater flexibility to UI claimants by allowing them to receive unemployment compensation while becoming self-employed -- has been adopted by ten States and has proven to be a useful tool for States to assist certain unemployed workers create their own jobs by starting small businesses.

The second phase is a national dialogue which will engage all interested parties -- including Congress, workers, employers, State governments and Federal agencies -- in an effort to work through a broad range of issues. The following questions will be discussed:

- how well is the UI program serving as an individual economic stabilizer,
- how well is it serving as a macroeconomic stabilizer,
- is the financing structure financially sound in terms of meeting core insurance principles,
- how well is the benefit financing structure working with respect to its efficiency, equity, and incentives, and
- how well does the administrative funding component work?

The UI program is an American success story -- working efficiently in good times and bad, as it

helps millions of workers annually. We need to be sure we are on the right track to maintain this successful program and strengthen the nation's economic infrastructure in the coming millennium. Therefore, during the coming months, the Administration will hold public hearings, and meet with interested parties across the nation to receive input toward the resolution of these issues.

This concludes my formal remarks. I appreciate the opportunity afforded me to speak to the subcommittee and look forward to working with you, the States, and all other stakeholders who share with the Department of Labor the ultimate goal of reforming and strengthening the UI program.

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===== ATTACHMENT 2 =====
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TEXT:

HR 3684 IH

105th CONGRESS
2d Session
H. R. 3684

To amend the Internal Revenue Code of 1986, the Social Security Act, the Wagner-Peyser Act, and the Federal-State Extended Unemployment Compensation Act of 1970 to improve the method by which Federal unemployment taxes are collected; to improve the method by which funds are provided from Federal

unemployment tax revenue for employment security administration, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

April 1, 1998

Mr. SHAW (for himself, Mr. COLLINS, Mr. SUNUNU, and Mr. PORTMAN) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Education and the Workforce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

A BILL

To amend the Internal Revenue Code of 1986, the Social Security Act, the Wagner-Peyser Act, and the Federal-State Extended Unemployment Compensation Act of 1970 to improve the method by which Federal unemployment taxes are collected; to improve the method by which funds are provided from Federal unemployment tax revenue for employment security administration, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE- This Act may be cited as the 'Employment Security Financing Act of 1998'.

(b) TABLE OF CONTENTS- The table of contents for this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I--AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986

Sec. 101. Repeal of surtax.

Sec. 102. Conforming amendments to section 3304(a).

Sec. 103. Additional requirements for approval of State laws.

Sec. 104. Conforming amendments to section 3304(c).

Sec. 105. State unemployment fund defined.

Sec. 106. Definition of State ESAA.

Sec. 107. Collection of FUTA tax by State agencies.

Sec. 108. Payment of FUTA tax to State agencies.

Sec. 109. Repealer.

TITLE II--UNEMPLOYMENT TRUST FUND ACCOUNTS

- Sec. 201. Establishment of unemployment accounts.
- Sec. 202. Repeal of subsections (a) and (b) of section 901 of the Social Security Act.
- Sec. 203. Expenditures for administration.
- Sec. 204. Transfer of amounts attributable to reduced credits.
- Sec. 205. Establishment of revolving fund.
- Sec. 206. Treatment of excess ESAA amounts.
- Sec. 207. Treatment of excess FUA amounts.
- Sec. 208. Repeal of reporting requirement.
- Sec. 209. Termination of Extended Unemployment Compensation Account.
- Sec. 210. Treatment of amounts elected by ineligible States.
- Sec. 211. Use of Reed Act funds.
- Sec. 212. Provisions relating to establishment of Unemployment Trust Fund.
- Sec. 213. Separate book accounts.
- Sec. 214. Payments to State agencies and Railroad Retirement Board.
- Sec. 215. Repeal of EUCA account and transfers.
- Sec. 216. Repeal of interfund borrowing authority.

TITLE III--GRANTS TO STATES FOR EMPLOYMENT SECURITY ADMINISTRATION

- Sec. 301. Repeal of sections 301 and 302 of the Social Security Act.
- Sec. 302. State requirements.
- Sec. 303. Interpretation of methods of administration requirement.

TITLE IV--EXTENDED UNEMPLOYMENT COMPENSATION ACT OF 1998

- Sec. 401. Extended Unemployment Compensation Act of 1998.

TITLE V--FEDERAL EMPLOYMENT SECURITY SERVICE

- Sec. 501. Amendment to statement of purposes.
- Sec. 502. Purpose of Employment Security Service.
- Sec. 503. Transfer of real property.
- Sec. 504. Repeal of Federal appropriations authority.

Sec. 505. Use of public employment service funds.

Sec. 506. Repeal of Federal use of funds requirements.

Sec. 507. Repeal of Federal planning and fiscal requirements.

TITLE VI--ADVANCES TO STATE UNEMPLOYMENT COMPENSATION BENEFIT ACCOUNTS

Sec. 601. Transfers from the Federal Unemployment Account.

Sec. 602. Use of transferred funds.

Sec. 603. Determination of interest rate.

Sec. 604. Revolving loan fund.

TITLE VII--CONFORMING AMENDMENTS

Sec. 701. Conforming amendment to definitional provision.

Sec. 702. Balanced budget amendments.

Sec. 703. Repeal of Federal unemployment tax amendment.

TITLE I--AMENDMENTS TO THE INTERNAL REVENUE CODE OF 1986

SEC. 101. REPEAL OF SURTAX.

Section 3301 of the Internal Revenue Code of 1986 is amended to read as follows:

SEC. 3301. RATE OF TAX.

There is hereby imposed on every employer (as defined in section 3306(a)) for each calendar year an excise tax, with respect to having individuals in his employ, equal to--

(1) 6.2 percent in the case of calendar years 1988 through 2003;
or

(2) 6.0 percent in the case of calendar year 2004 and each calendar year thereafter;

of the total wages (as defined in section 3306(b)) paid by him during the calendar year with respect to employment (as defined in section 3306(c)). Effective for calendar year 2000 and each calendar year thereafter, the tax, including accounts receivable from prior years, shall be collected by the State agencies responsible for administration of the State unemployment compensation law as agents for the Secretary of the Treasury. Amounts collected for years prior to calendar year 2003 by each State agency responsible for administration of the State unemployment compensation law shall be immediately deposited in the Employment Security Administration Account established pursuant to section 904 of the Social Security Act. Amounts collected for calendar year 2003 and years thereafter shall be immediately deposited in the State's Employment Security Administration Account established pursuant to section 904 of the Social Security Act. Amounts collected after January 1, 2000, by the Internal Revenue Service shall be immediately deposited in the Employment Security Transition Account within the Unemployment Trust

Fund established pursuant to section 904 of the Social Security Act.'

SEC. 102. CONFORMING AMENDMENTS TO SECTION 3304(a).

(a) LIMITATION ON USE OF FUNDS- Paragraph (4) of section 3304(a) of the Internal Revenue Code of 1986 is amended to read as follows:

^(4) all money withdrawn from the unemployment compensation benefit account of the unemployment fund of the State shall be used solely in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b); except that--

^(A) an amount equal to the amount of employee payments into the unemployment fund of a State may be used in the payment of cash benefits to individuals with respect to their disability, exclusive of expenses of administration;

^(B) the amounts specified by section 903(c)(2) of the Social Security Act may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law and public employment offices;

^(C) nothing in this paragraph shall be construed to prohibit deducting an amount from unemployment compensation otherwise payable to an individual and using the amount so deducted to apply for health insurance, or the withholding of Federal, State, or local individual income tax, if the individual elected to have such deduction made and such deduction

was made under a program approved by the Secretary of Labor;

^(D) amounts may be deducted from unemployment benefits and used to repay overpayments as provided in section 303(g) of the Social Security Act;

^(E) amounts may be withdrawn for the payment of short-time compensation under a plan approved by the Secretary of Labor;

^(F) amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t));'.

(b) EXTENDED COMPENSATION- Paragraph (11) of section 3304(a) of the Internal Revenue Code of 1986 is amended to read as follows:

^(11) extended compensation shall be payable as provided by State law conforming to the Extended Unemployment Compensation Act of 1998;'

(c) EFFECTIVE DATE- This section shall become effective on November 1, 1999.

SEC. 103. ADDITIONAL REQUIREMENTS FOR APPROVAL OF STATE LAWS.

(a) IN GENERAL- Section 3304(a) of the Internal Revenue Code of 1986

is amended by striking `and' at the end of paragraph (18), by striking the period at the end of paragraph (19) and inserting a semicolon, and by adding after paragraph (19) the following new paragraphs:

^(20) funds provided to such State under title IX of the Social Security Act for public employment services shall be used--

^(A) for determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment compensation law;

^(B) for job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers; and

^(C) for appropriate recruitment services and special technical services for employers;

^(21) the State agency responsible for administration of the State unemployment compensation law shall submit annual reports to the governor of the State providing information on services and outcomes. Such reports shall include information with respect to--

^(A) the proportion of the individuals claiming compensation provided employment services in accord with titles III and IX of the Social Security Act;

^(B) the proportion of employers provided employment services in accord with titles III and IX of the Social Security Act;

^(C) information regarding referrals and placements provided in accord with titles III and IX of the Social Security Act; and

^(D) information on other services such as counseling and testing provided in accord with titles III and IX of the Social Security Act; and

^(22) the State agency responsible for administration of the State unemployment compensation law shall, effective for calendar year 2000 and each calendar year thereafter, collect the Federal unemployment tax imposed pursuant to section 3301 as the agent of the Secretary of the Treasury.'

(b) EFFECTIVE DATE- This section shall take effect January 1, 2000.

SEC. 104. CONFORMING AMENDMENTS TO SECTION 3304(c).

Subsection (c) of section 3304 of the Internal Revenue Code of 1986 is amended as follows:

^(c) CERTIFICATION- On October 31 of each taxable year, the Secretary of Labor shall certify to the Secretary of the Treasury each State whose law he has previously approved, except that he shall not certify

any State which, after reasonable notice and opportunity for hearing to the State agency, the Secretary of Labor finds has amended its law so that it no longer contains the provisions specified in subsection (a) or has with respect to the 12-month period ending on such October 31 failed to comply substantially with any such provision in such subsection. No finding of a failure to comply substantially with any provision in paragraph (5) of subsection (a) shall be based on an application or interpretation of State law--

`(1) until all administrative review provided for under the laws of the State has been exhausted,

`(2) with respect to which the time for judicial review provided by the laws of the State has not expired, or

`(3) with respect to which any judicial review is pending.

On October 31 of any taxable year, the Secretary of Labor shall not certify any State which, after reasonable notice and opportunity for hearing to the State agency, the Secretary of Labor finds has failed to amend its law so that it contains each of the provisions required by law to be included therein (including provisions relating to the Extended Unemployment Compensation Act of 1998, as required under subsection (a)(11)), or has, with respect to the twelve-month period ending on such October 31, failed to comply substantially with any such provision.'

SEC. 105. STATE UNEMPLOYMENT FUND DEFINED.

Subsection (f) of section 3306 of the Internal Revenue Code of 1986 is amended, effective October 1, 1999; to read as follows:

`(f) For purposes of this chapter, the term `unemployment fund' means a special fund, established under a State law and administered by a State agency, for the payment of compensation. Any sums standing to the unemployment benefit accounts of the State agency in the Unemployment Trust Fund established by section 904 of the Social Security Act shall be deemed to be a part of the unemployment fund of the State, and no sums paid out of the Unemployment Trust Fund to such State agency shall cease to be a part of the unemployment fund of the State until expended by such State agency. An unemployment fund shall be deemed to be maintained during a taxable year only if throughout such year, or such portion of the year as the unemployment fund was in existence, no part of the moneys of such fund was expended for any purpose other than the payment of compensation and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b); except that--

`(1) an amount equal to the amount of employee payments into the unemployment compensation benefit account within the fund of a State may be used in the payment of cash benefits drawn from the unemployment compensation benefit account of the State within the unemployment trust fund to individuals with respect to their disability, exclusive of expenses of administration;

`(2) the amounts specified by section 903(c)(2) of the Social Security Act may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law, and public employment services;

^(3) nothing in this subsection shall be construed to prohibit deducting any amount from unemployment compensation otherwise payable to an individual and using the amount so deducted to pay for health insurance, or the withholding of Federal, State, or local individual income tax, if the individual elected to have such deduction made and such deduction was made under a program approved by the Secretary of Labor;

^(4) amounts may be deducted from unemployment benefits drawn from the State's unemployment compensation benefit account within the unemployment trust fund and used to repay overpayments as provided in section 303(g) of the Social Security Act;

^(5) amounts may be withdrawn from the State's unemployment compensation benefit account within the unemployment trust fund for the payment of short-time compensation under a plan approved by the Secretary of Labor; and

^(6) amounts may be withdrawn from the State's unemployment compensation benefit account within the unemployment trust fund for the payment of allowances under a self-employment assistance program (as defined in subsection (t)).'

SEC. 106. DEFINITION OF STATE ESAA.

Section 3306 of the Internal Revenue Code of 1986 is amended, effective October 1, 1999, by adding at the end the following new subsection:

^(u) STATE EMPLOYMENT SECURITY ADMINISTRATION ACCOUNT- For purposes of this chapter, the term

'State Employment Security Administration Account' means a special account within the Unemployment Trust Fund established pursuant to section 904 of the Social Security Act for the purpose of providing administrative funds to pay the cost of services performed by the State agency in accord with section 3304 of this subtitle and titles III and IX of the Social Security Act. No sums paid out of the account to the State agency shall cease to be a part of the Unemployment Trust Fund until expended by such State agency.'

SEC. 107. COLLECTION OF FUTA TAX BY STATE AGENCIES.

Subsection (a) of section 3501 of the Internal Revenue Code of 1986 is amended, effective October 1, 1999, to read as follows:

^(a) GENERAL RULE- (1) The taxes imposed by this subtitle shall be collected by the Secretary and shall be paid into the Treasury of the United States as internal-revenue collections, except that effective for calendar year 2000 and calendar years thereafter the tax imposed by section 3301 shall be collected by the State agencies responsible for administration of the State unemployment law as agents for the Secretary. Amounts collected by each State agency shall be paid into the treasury to the credit of the State employment security administration account of the State as prescribed in section 3301 of this Act and titles III and IX of the Social Security Act. Amounts collected by the Internal Revenue Service after January 1, 2000, with respect to the tax imposed by section 3301 shall be paid into the Treasury to the credit of the employment security transition account within the unemployment trust fund established pursuant to section 904

of the Social Security Act.

`(2) The Secretary is authorized to enter into agreements with the State agencies administering State unemployment compensation laws to assist with the administration of the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.).'

SEC. 108. PAYMENT OF FUTA TAX TO STATE AGENCIES.

The last sentence of section 6157(a) of the Internal Revenue Code of 1986 is amended, effective October 1, 1999, to read as follows:

`The tax for any calendar quarter or other period shall be computed as provided in subsection (b) and the tax as so computed shall, except as otherwise provided in subsection (c), be paid, effective for calendar year 2000 and calendar years thereafter, to the State agency responsible for administration of the State unemployment compensation law as the agent of the Secretary. Such taxes shall be paid quarterly.'

SEC. 109. REPEALER.

Paragraph (2) of section 6201(b) of the Internal Revenue Code of 1986 is repealed.

TITLE II--UNEMPLOYMENT TRUST FUND ACCOUNTS

SEC. 201. ESTABLISHMENT OF UNEMPLOYMENT ACCOUNTS.

(a) IN GENERAL- Title IX of the Social Security Act is amended by adding at the end the following new section:

`STATE EMPLOYMENT SECURITY ADMINISTRATION ACCOUNTS

`SEC. 911. There are hereby established in the Unemployment Trust Fund, the following accounts:

`(1) A State Employment Security Administration Account for each State.

`(A) There is hereby appropriated to the unemployment trust fund for credit to the employment security administration account for each State--

`(i) for the fiscal year ending September 30, 2004, and for each fiscal year thereafter, an amount equal to one hundred percent of the Federal unemployment tax, including interest, penalties and additions to the tax, received from collection of the tax and covered into the State's account; and

`(ii) any amounts transferred to the account pursuant to this section and sections 902 and 903.

`(B) Two percent of the amount collected and deposited into each State employment security administration account pursuant to subsection (a) (1) (A) (i) shall be transferred by the Treasury of the United States beginning the end of the month following January 1, 2003, and each month thereafter to the supplemental employment security administration

account established pursuant to this section and section 904.

^(C) Two percent of the amount collected and deposited into each State employment security administration account pursuant to subsection (a) (1) (A) (i) shall be transferred by the treasury beginning the end of the month following January 1, 2003, and each month thereafter to the Secretary of Labor employment security administration account established pursuant to this section and section 904.

^(2) (A) A Supplemental Employment Security Administration Account for the administration of employment security programs in accord with titles

III and IX of this Act and section 3304 of the Internal Revenue Code of 1986 by States whose average civilian labor force populations number less than 1,000,000.

^(B) There is hereby appropriated to the unemployment trust fund for credit to the supplemental employment security administration account, for the fiscal year ending September 30, 2004, and for each fiscal year thereafter--

^(i) an amount equal to 100 percent of the amount transferred pursuant to subsection (a) (1) (B); and

^(ii) amounts transferred to the account pursuant to section 901(f) (3) (C) and (D) and sections 902 and 903.

^(3) (A) The Secretary of Labor Employment Security Administration Account for the Secretary of Labor in carrying out administrative duties as prescribed in titles III and IX of this Act, and chapter 23 of the Internal Revenue Code of 1986.

^(B) There is hereby appropriated to the Unemployment Trust Fund for credit to the Secretary of Labor Employment Security Administration Account, for the fiscal year ending September 30, 2004, and for each fiscal year thereafter an amount equal to 100 percent of the amount transferred pursuant to subsection (a) (1) (C).

^USE OF SPECIAL ADMINISTRATIVE FUNDS

^SEC. 912. There are hereby authorized to be made available for expenditure out of the employment security administration accounts maintained by the Treasury for each State for fiscal years 2000 through 2003 such amounts, not to exceed \$245,000,000 for each year, as are requested by the States from their respective State employment security administration accounts, subject to appropriation by the legislative body of each State to be used for--

^(1) determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment law;

^(2) job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market

information, assessment, and referral to employers;

^(3) appropriate recruitment services and special technical services for employers; and

^(4) collection of the Federal Unemployment Tax imposed pursuant to section 3301 et seq. of the Internal Revenue Code.

Such amounts shall be available for State appropriation in addition to amounts otherwise appropriated by Congress.'.

(b) CONFORMING AMENDMENT- The table of contents at the beginning of title IX of the Social Security Act is amended by adding at the end the following new item:

'Sec. 911. State employment security administration accounts.'

(c) EFFECTIVE DATE- This section shall take effect October 1, 1999.

SEC. 202. REPEAL OF SUBSECTIONS (a) AND (b) OF SECTION 901 OF THE SOCIAL SECURITY ACT.

Subsections (a) and (b) of section 901 of the Social Security Act are repealed, effective October 1, 2003.

SEC. 203. EXPENDITURES FOR ADMINISTRATION.

Subsection (c) of section 901 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

'Administrative Expenditures

^(c)(1) There are hereby authorized to be made available for expenditure out of the employment security administration accounts maintained by the treasury for the States, effective for the Federal fiscal year beginning October 1, 2003, and each fiscal year thereafter, such amounts as are requested by the States from their respective State employment security administration accounts, subject to appropriation by the legislative body of each State (not in excess of one hundred forty percent of the amount appropriated to the State agency from Federal employment security funds for the 12-month period ending September 30 of the previous year), for the purpose of--

^(A) assisting the State in the administration of its unemployment compensation laws as provided in title III of the Social Security Act (including administration pursuant to agreements under any Federal unemployment compensation law),

^(B) providing public employment services in accordance with section 7 of the Wagner-Peyser Act,

^(C) carrying into effect section 4103 of title 38, United States Code,

^(D) collection of amounts due under the provisions of the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.), and

^(E) administration of statistical programs essential for development of estimates of the gross domestic product and other national statistical series, including those related to

employment and unemployment.

Amounts requested by the State but not appropriated by the State legislative body for the fiscal year for which such amounts are requested shall be transferred to the State's unemployment compensation benefit account as of the beginning of the following Federal fiscal year.

^(2) There are hereby authorized to be made available for expenditure by States whose average civilian labor force populations number less than one million, amounts out of the supplemental employment security administration account, \$5,000,000 for each of fiscal years 2000 through 2003--

^(A) for determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 of the Internal Revenue Code of 1986 (26 U.S.C. 3304) are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment compensation law;

^(B) for job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers; and

^(C) for appropriate recruitment services and special technical services for employers.

Such amounts shall be available for State appropriation in addition to amounts otherwise appropriated by Congress.

^(3) There are hereby authorized to be made available for expenditure by States whose average civilian labor force populations number less than one million, amounts out of the supplemental employment security administration account for the fiscal year ending September 30, 2004, and for each year thereafter. Such amounts shall be allocated to the States by the Council of States with Lesser Populations, subject to appropriation by the legislative body of each State for the purpose of--

^(A) administration of the State's unemployment compensation laws;

^(B) providing public employment services in accord with section 7 of the Wagner-Peyser Act;

^(C) administration of section 4103 of title 38, United States Code;

^(D) collection of amounts due under the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.); and

^(E) administration of statistical programs essential for development of estimates of the gross domestic product and other national statistical series, including those related to employment and unemployment.

^(4) (A) The Council of States with Lesser Populations is hereby established for the purpose of determining the methodology by which amounts available from the Supplemental Employment Security

Administration Account are to be allocated. The council shall be composed of one representative appointed by the governor of each State with an average civilian labor force which numbers less than one million for the calendar year ending prior to the Federal fiscal year for which allocations are to be made. The council shall be reconstituted each year prior to the beginning of the ensuing Federal fiscal year.

^(B) The council shall determine amounts to be allocated to the States, except that no State's allocation for any fiscal year, when added to the amount available pursuant to section 901(b)(1) of this title, shall be less than the amount appropriated to such State from the employment security administration account for fiscal year 1995.

^(C) The council shall notify the Secretary of the Treasury prior to each fiscal year of the amounts to be allocated to each State. If the council fails to determine amounts to be allocated for a fiscal year, such amounts shall be carried over and maintained in the Supplemental Employment Security Administration Account and may be allocated by the council for following Federal fiscal years.

^(D) Amounts allocated by the council, but not appropriated by the State legislative body for the fiscal year for which allocation was made, shall be transferred to the State Employment Security Administration Accounts of all States as of the beginning of the following Federal fiscal year. Each State's share of the funds to be transferred shall bear the same ratio to the total amount to be so transferred as the amount of wages subject to tax under section 3301 of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to the total amount of wages subject to such tax during such year.

^(5) (A) There are hereby authorized to be made available for expenditure out of the Secretary of Labor Employment Security Administration Account for the fiscal year ending September 30, 2004, and for each fiscal year thereafter such amounts (not in excess of one hundred forty percent of the amount appropriated by Congress for the Department of Labor from the Employment Security Administration Account for the prior year) as Congress may deem appropriate for the necessary expenses of the Department of Labor for the performance of its functions under--

^(i) this title and titles III and XII of the Social Security Act,

^(ii) the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.),

^(iii) chapter 41 (except section 4103) of title 38, United States Code,

^(iv) Federal unemployment compensation laws effective as of October 1, 1998,

^(v) administration of statistical programs essential for development of estimates of the gross domestic product and other national statistical series, including those related to employment and unemployment,

^(vi) establishment and maintenance of the employment security

system in accordance with the Wagner-Peyser Act, and

`(vii) payments of the Federal share of annual amortization costs of the unfunded liability for the State employment security agencies with independent retirement plans as determined by the Secretary of Labor.

`(B) Amounts appropriated under this paragraph, if not obligated within the fiscal year for which appropriation

was made, shall be transferred to the State employment security administration accounts. Each State's share shall be determined as provided for distribution of funds from the employment security transition account pursuant to subsection (e) (3) (D).

`(C) The term `necessary expenses', as used in this paragraph, shall include the expense of reimbursing a State for salaries and other expenses of employees of such State temporarily assigned or detailed to duty with the Department of Labor and of paying such employees for travel expenses, transportation of household goods, and per diem in lieu of subsistence while away from their regular duty stations in the State, at rates authorized by law for civilian employees of the Federal Government.

`(6) The Secretary of the Treasury is directed, for the fiscal year ending September 30, 2004, and each fiscal year thereafter, to pay from the Secretary of Labor Employment Security Administration Account into the treasury as miscellaneous receipts the amount determined by the Secretary of Labor to be allocated to the treasury department to cover costs of the Department of the Treasury for the performance of its functions under--

`(A) this title and titles III and XII of this chapter, including the expenses of banks for servicing unemployment benefit payment and clearing accounts which are offset by the maintenance of balances of treasury funds with such banks,

`(B) the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.), and

`(C) any Federal unemployment compensation law with respect to which responsibility for administration is vested in the Secretary of Labor.'

SEC. 204. TRANSFER OF AMOUNTS ATTRIBUTABLE TO REDUCED CREDITS.

Subsection (d) of section 901 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

`Additional Tax Attributable to Reduced Credits

`(d) (1) The Secretary of the Treasury is directed to transfer from the employment security administration account of each State subject to the reduced credits provision of section 3302(c) (3) of the Internal Revenue Code of 1986--

`(A) to the Federal Unemployment Account, an amount equal to the amount by which--

`(i) 100 percent of the additional tax received under the

Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.) with respect to the State by reason of the reduced credits provisions of section 3302(c)(3) of such Act (26 U.S.C. 3302(c)(3)) and covered into the treasury for the repayment of advances made to the State under section 1321 of this title, exceeds

^(ii) the amount transferred to the account of such State pursuant to subparagraph (B) of this paragraph. Any amount transferred pursuant to this subparagraph shall be credited against, and shall operate to reduce, that balance of advances, made under section 1321 of this title to the State, with respect to which employers paid such additional tax; and

^(B) to the unemployment compensation benefit account (in the unemployment trust fund) of the State with respect to which employers paid such additional tax, an amount equal to the amount by which such additional tax received and covered into the treasury exceeds that balance of advances, made under section 1321 of this title to the State, with respect to which employers paid such additional tax.

^(2) Transfers under this subsection shall be as of the beginning of the month succeeding the month in which the moneys were credited to the employment security administration account of the State.'

SEC. 205. ESTABLISHMENT OF REVOLVING FUND.

Subsection (e) of section 901 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

^Revolving Fund

^(e) (1) There is hereby established in the treasury a revolving fund within the Federal Unemployment Account established pursuant to section 904 of the Social Security Act which shall be available to make the advances authorized by this subsection. There are hereby authorized to be appropriated, without fiscal year limitation, to such revolving fund such amounts as may be necessary for the purposes of this section.

^(2) The Secretary of the Treasury is directed to advance at the request of a State from the revolving fund to the State Employment Security Administration Account maintained for the State such amounts as may be requested for the purposes set forth in titles III and IX of the Social Security Act and section 3304 of the Internal Revenue Code of 1986.

^(3) Advances to the State Employment Security Administration Account of a State made under this subsection shall bear interest until repaid at a rate equal to the average rate of interest (computed as of the end of the calendar month next preceding the date of such advance) borne by all interest-bearing obligations of the United States then forming a part of the public debt; except that where such average rate is not a multiple of one-eighth of 1 percent, the rate of interest shall be the multiple of one-eighth of 1 percent next lower than such average rate.

^(4) Advances to the State Employment Security Administration Account

of a State made under this subsection, plus interest accrued thereon, shall be repaid by the State, and may be repaid at the request of a State by the transfer, from the State Employment Security Administration Account of such State to the revolving fund. Any amount transferred as a repayment under this paragraph shall be credited against, and shall operate to reduce, any balance of advances (plus accrued interest) repayable under this subsection.'

SEC. 206. TREATMENT OF EXCESS ESAA AMOUNTS.

Section 901 of the Social Security Act is amended by adding at the end the following new subsection:

^Treatment of Excess ESAA Amounts

^(f) (1) The Secretary of the Treasury shall determine as of the close of the fiscal year ending September 30, 2001, and each fiscal year thereafter, the excess and the net balance of amounts in the State Employment Security Administration Account maintained for each State.

^(2) The excess in the State Employment Security Administration Account for each State as of the close of any fiscal year is the amount by which the net balance in such account as of such time (after the application of sections 902 and 903 of this title and paragraph (3)(B) of this subsection) exceeds the net balance in the State Employment Security Administration Account for such State as of the close of the previous fiscal year.

^(3) (A) The excess in the State Employment Security Administration Account of each State determined as provided in paragraph (2) as of the close of any fiscal year ending after September 30, 2005, not to exceed one hundred forty percent of the net balance at the close of the previous fiscal year, shall be retained (as of the beginning of the succeeding fiscal year) in the State Employment Security Administration Account for the State.

^(B) The amount of the excess determined not to be retained as provided in paragraph (3)(A) as of the close of any fiscal year ending after September 30, 2005, shall be transferred (as of the beginning of the succeeding fiscal year) to the unemployment compensation benefit account of the State in the unemployment trust fund.

^(C) (i) At the close of each of fiscal years 1999 through 2002, there shall be transferred to the Supplemental Employment Security Administration Account, out of the Employment Security Administration Account, \$5,000,000--

^(I) for determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 of the Internal Revenue Code of 1986 are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment compensation law;

^(II) for job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers;

^(III) for appropriate recruitment services and special technical services for employers; and

^(IV) for collection of the Federal unemployment tax imposed pursuant to section 3301.

^(ii) At the close of each of fiscal years 1999 through 2002, there shall be transferred to the State Employment Security Administration Accounts, out of the Employment Security Administration Account, \$245,000,000--

^(I) for determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 of the Internal Revenue Code of 1986 (26 U.S.C. 3304) are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment compensation law;

^(II) for job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers;

^(III) for appropriate recruitment services and special technical services for employers; and

^(IV) for FUTA collection.

^(iii) Each State's share of the funds to be transferred to the State Employment Security Administration Accounts shall bear the same ratio to the total amount to be transferred to such accounts as the amount of wages subject to tax under section 3301 et seq. of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to the total amount of wages subject to such tax during such year.

^(D) As of the close of the fiscal year ending September 30, 2003, 96 percent of the amount in the employment security administration account shall be transferred as of October 1, 2003, to the State Employment Security Administration Accounts of the States, 2 percent shall be transferred as of October 1, 2003, to the Supplemental Employment Security Administration Account, and two percent shall be transferred as of October 1, 2003, to the Secretary of Labor Employment Security Administration Account. Each State's share of the funds to be transferred to the State Employment Security Administration Accounts shall bear the same ratio to the total amount to be transferred to such accounts as the amount of wages subject to tax under section 3301 et seq. of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to the total amount of wages subject to such tax during such year. Such amounts shall be available for the purposes set forth in subsection (b) (1).

^(E) As of October 31, 1999, and the end of each month thereafter, 96 percent of the amount in the Employment Security Transition Account shall be transferred to the State Employment Security Administration Accounts of the States, 2 percent shall be transferred to the Supplemental Employment Security Administration Account, and two percent shall be transferred to the Secretary of Labor Employment Security Administration Account. Each State's share of the funds to be transferred to the State Employment Security Administration Accounts shall bear the same ratio to the total amount to be transferred to

such accounts as the amount of wages subject to tax under section 3301 et seq. of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to the total amount of wages subject to such tax during such year.

“(4) For the purposes of this section, the net balance in the employment security administration account and the State Employment Security Administration Account maintained for each State as of any time is the amount in such account as of such time reduced by the sum of the balance of advances (plus interest accrued thereon) then repayable to the revolving fund established by subsection (d) of this section. The net balance in the State Employment Security Administration Account maintained for each State as of the beginning of any fiscal year shall be determined after the disposition of the excess in such account as of the close of the preceding fiscal year.”

SEC. 207. TREATMENT OF EXCESS FUA AMOUNTS.

Effective September 30, 2003, section 902 of the Social Security Act is amended by striking subsections (a) and (b) and inserting the following:

“Treatment of Excess Amounts in the Federal Unemployment Account

“(a) The amount, if any, by which the amount in the Federal Unemployment Account as of the close of the fiscal year ending September 30, 2003, and any fiscal year thereafter exceeds the amount (determined by the Secretary of Labor) equal to 0.25 percent of the total wages subject (determined without limitation on amount) to contributions under all State unemployment compensation laws for the calendar year ending during the fiscal year for which the excess is determined shall be transferred to the State Employment Security Administration Account of each State as of the beginning of the following fiscal year.

“State Allocation Formula

“(b) Each State's share of the funds to be transferred under paragraph (a) of this section shall bear the same ratio to the total amount to be so transferred as the amount of wages subject to tax under section 3301 of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to the total amount of wages subject to such tax during such year.”

SEC. 208. REPEAL OF REPORTING REQUIREMENT.

Subsection (c) of section 902 of the Social Security Act is repealed.

SEC. 209. TERMINATION OF EXTENDED UNEMPLOYMENT COMPENSATION ACCOUNT.

Subsection (a) of section 903 of the Social Security Act is amended, effective September 30, 2003, to read as follows:

“Termination of Extended Unemployment Compensation Account

“(a) (1) As of the close of the fiscal year ending September 30, 2003, the excess in the Extended Unemployment Compensation Account shall be transferred to the State Employment Security Administration Accounts

of the States and the remaining balance in the Extended Unemployment Compensation Account shall be transferred to the Unemployment Compensation Benefit Accounts of the States in the unemployment trust fund, except as provided in subsection (b) of this section.

^(2) Each State's share of the excess to be distributed to State Employment Security Administration Accounts and the balance to be transferred to the State Employment Security Benefit Account under this subsection as of October 1, 2003--

^(A) shall be determined by the Secretary of Labor and certified by such Secretary to the Secretary of the Treasury before such date, and

^(B) shall bear the same ratio to the total amount to be so transferred as--

^(i) the amount of wages subject to tax under section 3301 of the Internal Revenue Code of 1986 during the preceding calendar year which are determined by the Secretary of Labor to be attributable to the State, bears to

^(ii) the total amount of wages subject to such tax during such year.'

SEC. 210. TREATMENT OF AMOUNTS ELECTED BY INELIGIBLE STATES.

Subsection (b) of section 903 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

^Treatment of Amounts Elected by Ineligible States

^(b) (1) If the Secretary of Labor finds that on October 1 of any fiscal year--

^(A) a State is not eligible for certification under section 303 of this title, or

^(B) the law of a State is not approvable under section 3304 of the Federal Unemployment Tax Act (26 U.S.C. 3304), then the amount available for transfer to such State's unemployment compensation benefit account in the unemployment trust fund shall, in lieu of being so transferred, be transferred to the Federal unemployment account as of the beginning of such October 1. If, during the fiscal year beginning on such October 1, the Secretary of Labor finds and certifies to the Secretary of the Treasury that such State is eligible for certification under section 303 of this title, and the law of such State is approvable under such section 3304, the Secretary of the Treasury shall transfer such amount from the Federal unemployment account to the unemployment compensation benefit account of such State in the unemployment trust fund. If the Secretary of Labor does not so find and certify to the Secretary of the Treasury before the close of such fiscal year then the amount which was available for transfer to such State's unemployment compensation benefit account as of October 1 of such fiscal year shall (as of the close of such fiscal year) become part of the Federal unemployment account.

^(2) The amount which, but for this paragraph, would be transferred to

the unemployment compensation benefit account of a State under subsection (a) of this section or paragraph (1) of this subsection shall be reduced (but not below zero) by the balance of advances made to the State under section 1321 of this title. The sum by which such amount is reduced shall--

^(A) be transferred to or retained in (as the case may be) the Federal unemployment account, and

^(B) be credited against, and operate to reduce--

^(i) first, any balance of advances made before September 13, 1960, to the State under section 1321 of this title, and

^(ii) second, any balance of advances made on or after September 13, 1960, to the State under section 1321 of this title.'

SEC. 211. USE OF REED ACT FUNDS.

Subsection (c) of section 903 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

^Use of Reed Act Funds:

^(c) (1) Except as provided in paragraph (2), amounts transferred to the unemployment compensation benefit account of a State pursuant to subsections (a) and (b) of this section shall be used only in the payment of cash benefits to individuals with respect to their unemployment, exclusive of expenses of administration.

^(2) A State may, pursuant to a specific appropriation made by the legislative body of the State, use money withdrawn from its unemployment compensation benefit account in the payment of expenses incurred by it for the administration of its unemployment compensation law and public employment services if and only if--

^(A) the purposes and amounts were specified in the law making the appropriation,

^(B) the appropriation law did not authorize the obligation of such money after the close of the two-year period which began on the date of enactment of the appropriation law,

^(C) the money is withdrawn and the expenses are incurred after such date of enactment, and

^(D) (i) the appropriation law limits the total amount which may be obligated under such appropriation at any time to an amount which does not exceed, at any such time, the amount by which--

^(I) the aggregate of the amounts transferred to the Unemployment Compensation Benefit Account of such State pursuant to subsection (a) and (b) of this section, exceeds

^(II) the aggregate of the amounts used by the State pursuant to this subsection and charged against the amounts transferred to the Unemployment Compensation Benefit Account of such State, and

^(ii) for purposes of clause (I), amounts used by a State for administration shall be chargeable against transferred amounts at the exact time the obligation is entered into

^(E) the use of the money shall be accounted for in accordance with standards established by each State. Proceeds from the sale or transfer of real property and other capital assets which were originally purchased with Federal funds provided under titles III or IX of the Social Security Act, may be used by a State agency administering State law in accord with titles III and IX of the Social Security Act (42 U.S.C. 501; and 42 U.S.C. 1101) and section 3304 of the Internal Revenue Code of 1986 (26 U.S.C. 3301 et seq.) to purchase or otherwise acquire real property or other capital assets for a period of two years after the date of sale or transfer. Proceeds from the sale or transfer of real property remaining after such two year period shall be deposited in the State's Employment Security Administration Account established pursuant to section 904 of the Social Security Act (42 U.S.C. 1104).

^(3) (A) If--

^(i) amounts transferred to the Unemployment Compensation Benefit Account of a State pursuant to subsections (a) and (b) of this section were used in payment of unemployment benefits to individuals; and

^(ii) the Governor of such State submits a request to the Secretary of Labor that such amounts be restored under this paragraph, then the amounts described in clause (i) shall be restored to the status of funds transferred under subsections (a) and (b) of this section which have not been used by eliminating any charge against amounts so transferred for the use of such amounts in the payment of unemployment benefits.

^(B) Subparagraph (A) shall apply only to the extent that the amounts described in clause (i) of such subparagraph do not exceed the amount then in the State's Unemployment Compensation Benefit Account.

^(C) Subparagraph (A) shall not apply if the State has a balance of advances made to its Unemployment Compensation Benefit Account under subchapter XII of this chapter.

^(D) If the Secretary of Labor determines that the requirements of this paragraph are met with respect to any request, the Secretary shall notify the Governor of the State that such requirements are met with respect to such request and the amount restored under this paragraph. Such restoration shall be as of the first day of the first month following the month in which the notification is made.'

SEC. 212. PROVISIONS RELATING TO ESTABLISHMENT OF UNEMPLOYMENT TRUST FUND.

Subsection (a) of section 904 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

^Establishment, Etc.

^(a) There is hereby established in the Treasury of the United States a trust fund to be known as the Unemployment Trust Fund (hereinafter in this subchapter called the 'Fund'). The Secretary of the Treasury

is authorized and directed to receive and hold in the Fund all moneys deposited therein by a State agency from a State unemployment fund. All moneys in the form of contributions and payments in lieu of contributions under the State law shall be deposited into the State's Unemployment Compensation Benefit Account established pursuant to this section. All moneys collected by a State agency under the provisions of the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.) and moneys transferred or deposited under other sections of this title or chapter 23

of the Internal Revenue Code of 1986 shall be deposited into the State's Employment Security Administration Account. All moneys collected by the Internal Revenue Service after January 1, 2000, under the provisions of the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.) shall be deposited into the Employment Security Transition Account of the fund. Moneys collected by the railroad retirement board shall be deposited to the credit of the railroad unemployment insurance account or the railroad unemployment insurance administration fund.'

SEC. 213. SEPARATE BOOK ACCOUNTS.

Subsection (e) of section 904 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

^ Separate Book Accounts

^ (e) (1) The Fund shall be invested as a single fund, but the Secretary of the Treasury shall maintain a separate book account for the Employment Security Transition Account, each State Agency Unemployment Compensation Benefit Account, the Employment Security Administration Account for each State, the Supplemental Employment Security Administration Account, the Secretary of Labor Employment Security Administration Account, the Federal Unemployment Account, the railroad unemployment insurance account, and the railroad unemployment insurance administration fund and shall credit quarterly (on March 31, June 30, September 30, and December 31, of each year) to each account, on the basis of the average daily balance of such account, a proportionate part of the earnings of the Fund for the quarter ending on such date. For the purpose of this subsection, the average daily balance shall be computed--

^ (A) in the case of any State Unemployment Compensation Benefit Account, by reducing (but not below zero) the amount in the account by the balance of advances made to the State under section 1321 of this title, and

^ (B) in the case of the Federal Unemployment Account--

^ (i) by adding to the amount in the account the aggregate of the reductions under paragraph (1), and

^ (ii) by subtracting from the sum so obtained the balance of advances made under section 1323 of this title to the account.

^ (2) There is hereby established within the unemployment trust fund, an Employment Security Transition Account for the purpose of receiving moneys collected under the Federal Unemployment Tax Act (26 U.S.C. 3301 et seq.), by the Internal Revenue Service, and transferring such moneys to other accounts within the unemployment trust fund as

prescribed by title IX of the Social Security Act (42 U.S.C. 1101 et seq.).'

SEC. 214. PAYMENTS TO STATE AGENCIES AND RAILROAD RETIREMENT BOARD.

Subsection (f) of section 904 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

`Payments to State Agencies and Railroad Retirement Board

`(f) The Secretary of the Treasury is authorized and directed to pay out of the Fund to any State agency such amount as it may duly requisition. The Secretary of the Treasury is authorized and directed to make such payments out of the railroad unemployment insurance account for the payment of benefits, and out of the railroad unemployment insurance administration fund for the payment of administrative expenses, as the Railroad Retirement Board may duly certify, not exceeding the amount standing to the credit of such account or such fund, as the case may be, at the time of such payment.'

SEC. 215. REPEAL OF EUCA ACCOUNT AND TRANSFERS.

Section 905 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

`Terms of Transfer of EUCA Funds to State Accounts

`SEC. 905. Amounts, if any, in the Extended Unemployment Compensation Account at the close of the fiscal year ending September 30, 2003, and every fiscal year thereafter, shall be transferred to the Unemployment Compensation Benefit Accounts of the States in the Unemployment Trust Fund as of the beginning of the following fiscal year. Each State's share shall be determined using the formula set forth in section 903(a)(2)(B).'

SEC. 216. REPEAL OF INTERFUND BORROWING AUTHORITY.

Section 910 of the Social Security Act is repealed.

TITLE III--GRANTS TO STATES FOR EMPLOYMENT SECURITY ADMINISTRATION

SEC. 301. REPEAL OF SECTIONS 301 AND 302 OF THE SOCIAL SECURITY ACT.

(a) IN GENERAL- Sections 301 and 302 of the Social Security Act are repealed.

(b) CONFORMING AMENDMENT- The table of contents for title III of the Social Security Act is amended by striking the items relating to sections 301 and 302.

(c) EFFECTIVE DATE- This section shall take effect October 1, 2003.

SEC. 302. STATE REQUIREMENTS.

(a) CONFORMITY REQUIREMENTS- Effective October 1, 1999, subsection (a) of section 303 of the Social Security Act is amended by striking 'The Secretary' through 'for--' and inserting the following: 'As of October 31 each year, at the time of the certification prescribed under section 3304(c) of the Internal Revenue Code of 1986 (26 U.S.C.

3304(c)), the Secretary of Labor shall certify whether each State's law includes provision for--'.

(b) LIMITATION ON USE OF BENEFIT ACCOUNT FUNDS- Effective October 1, 1999, paragraph (5) of section 303(a) of the Social Security Act is amended to read as follows:

^ (5) Expenditure of all money withdrawn from the State's Unemployment Compensation Benefit Account within the unemployment fund of such State, in the payment of unemployment compensation, exclusive of expenses of administration, and for refunds of sums erroneously paid into such fund and refunds paid in accordance with the provisions of section 3305(b) of the Federal Unemployment Tax Act (26 U.S.C. 3305(b)): Provided, That an amount equal to the amount of employee payments into the Unemployment Compensation Benefit Account within the unemployment fund of a State may be used in the payment of cash benefits to individuals with respect to their disability, exclusive of expenses of administration: Provided further, That the amounts specified by section 1103(c)(2) of this title may, subject to the conditions prescribed in such section, be used for expenses incurred by the State for administration of its unemployment compensation law and public employment services: Provided further, That nothing in this paragraph shall be construed to prohibit deducting an amount from unemployment benefits and used to repay overpayments as provided in subsection (g) of this section: Provided further, That amounts may be withdrawn for the payment of short-time compensation under a plan approved by the Secretary of Labor: Provided further, That amounts may be withdrawn for the payment of allowances under a self-employment assistance program (as defined in section 3306(t) of the Internal Revenue Code of 1986 (26 U.S.C. 3306(t)); and'.

(c) USE OF ADMINISTRATIVE FUNDS- Effective October 1, 1999, paragraph (8) of section 303(a) of the Social Security Act is amended to read as follows:

^ (8) Expenditure of all moneys received pursuant to title IX of the Social Security Act solely for the proper and efficient administration of such State law and services specified in title IX of the Social Security Act, and section 3304 of the Internal Revenue Code of 1986; and'.

(d) PROPER ADMINISTRATION REQUIREMENT- Effective October 1, 1999, paragraph (9) of section 303(a) of the Social Security Act is amended to read as follows:

^ (9) The replacement, within a reasonable time, of any moneys received pursuant to title IX of the Social Security Act, which, because of any action or contingency, have been lost or have been expended for purposes other than those necessary for the proper administration of such State law and the provision of services under title IX of the Social Security Act, and section 3304 of the Internal Revenue Code of 1986; and'.

SEC. 303. INTERPRETATION OF METHODS OF ADMINISTRATION REQUIREMENT.

Effective October 1, 1999, subsection (a) of section 303 of the Social Security Act, as amended by section 302 of this Act, is amended by striking the period at the end of paragraph (10) and inserting ^; and'

and by adding at the end the following new paragraph:

“(11) States shall not be required to comply with interpretations of the Secretary of Labor with respect to methods of administration requirements under paragraph (1) of this subsection, including but not limited to requirements with respect to quality control, if such interpretations impose additional administrative burdens on the States, unless congress enacts legislation which approves such interpretation.”

TITLE IV--EXTENDED UNEMPLOYMENT COMPENSATION ACT OF 1998

SEC. 401. EXTENDED UNEMPLOYMENT COMPENSATION ACT OF 1998.

Effective November 1, 2003, title II of the Employment Security Amendments of 1970 (26 U.S.C. 3304 note) is amended to read as follows:

“TITLE II--EXTENDED UNEMPLOYMENT COMPENSATION PROGRAM

“SHORT TITLE

“SEC. 201. This title may be cited as the ‘Extended Unemployment Compensation Act of 1998’.

“STATE LAW REQUIREMENTS

“SEC. 202. (a) (1) For purposes of section 3304(a) (11) of the Internal Revenue Code of 1986, a State law shall provide that payment of extended compensation shall be made, for any week of unemployment which begins in the individual's eligibility period as prescribed by State law, to individuals who have exhausted

all rights to regular compensation and who have no rights to regular compensation with respect to such week under State unemployment compensation law or under the unemployment compensation law of Canada. For purposes of the preceding sentence, an individual shall have exhausted his rights to regular compensation--

“(A) when no payments of regular compensation are authorized to be made because the individual has received all regular compensation available to the individual, or

“(B) when the individual's rights to such compensation have terminated by reason of the expiration of the benefit year with respect to which such rights existed.

“(2) The State law shall provide that the State will establish, for each eligible individual who files an application therefor, an extended compensation account within the State's Unemployment Compensation Benefit Account with respect to such individual's benefit year. Individuals determined eligible for a week or weeks of extended compensation shall be paid for such week or weeks by the State agency with funds to be drawn from the State's Unemployment Compensation Benefit Account.

“(3) States with State laws certified as meeting the requirements of the Federal-State Extended Unemployment Compensation Act of 1970 on October 31, 1999, shall be deemed to meet the requirements for certification with respect to the Extended Unemployment Compensation

Act of 1998 for the year ending October 31, 2000, as long as the State law is not amended so as to conflict with the requirements of this title.

EXTENDED BENEFIT PERIOD

SEC. 203. (a) (1) For the purposes of this title, in the case of any State, an extended benefit period--

(A) shall begin with the third week after the first week for which there is an 'on' indicator; and

(B) shall end with the third week after the first week for which there is an 'off' indicator.

(2) For the purposes of this title, an individual's eligibility period under the State law shall consist of the weeks in his benefit year which begin in an extended benefit period and, if his benefit year ends within such extended benefit period, any weeks thereafter which begin in such extended benefit period.

(b) The extended benefit period shall last for a period of 13 consecutive weeks.

'ON' AND 'OFF' INDICATORS

SEC. 204. (a) There shall be an 'on' indicator if the rate of insured unemployment under the State law for the period consisting of such week and the immediately preceding 12 weeks--

(1) equaled or exceeded 120 percent of the average of such rates for the corresponding 13-week period ending in each of the preceding two calendar years, and

(2) equaled or exceeded 5 percent.

(b) The 'off' indicator shall be determined under State law, except that if an 'on' indicator is triggered under subsection (a) of this section, it shall remain on until the rate of insured unemployment under the State law for the period consisting of such week and the immediately preceding 12 weeks fails to satisfy the requirements set forth in subsection (a).

RATE OF INSURED UNEMPLOYMENT; COVERED EMPLOYMENT

SEC. 205. (a) For the purposes of this title, the term 'rate of insured unemployment' means the percentage arrived at by dividing--

(1) the average weekly number of individuals filing claims for weeks of unemployment with respect to the specified 13-week period, by

(2) the average monthly covered employment for the specified 13-week period.

DEFINITIONS

SEC. 206. (a) For purposes of this title--

(1) The term 'compensation' means cash benefits payable to

individuals with respect to their unemployment.

`(2) The term `regular compensation' means compensation payable to an individual under any State unemployment compensation law (including compensation payable pursuant to chapter 85 of title 5, United States Code), other than extended compensation.

`(3) The term `extended compensation' means compensation (including compensation payable pursuant to chapter 85 of title 5, United States Code), payable for weeks of unemployment beginning in an extended benefit period to an individual under those provisions of the State law which satisfy the requirements of this title with respect to the payment of extended compensation.

`(4) The term `benefit year' means the benefit year as defined in the applicable State law.

`(5) The term `base period' means the base period as determined under applicable State law.

`(6) The term `Secretary' means the Secretary of Labor of the United States.

`(7) The term `State' includes the District of Columbia, the Virgin Islands, and the Commonwealth of Puerto Rico.

`(8) The term `State agency' means the agency of the State which administers its State law.

`(9) The term `State law' means the unemployment compensation law of the State, approved by the Secretary under section 3304 of the Internal Revenue Code of 1986.

`(10) The term `week' means a week as defined in the applicable State law.'

TITLE V--FEDERAL EMPLOYMENT SECURITY SERVICE

SEC. 501. AMENDMENT TO STATEMENT OF PURPOSES.

Section 1 of the Wagner-Peyser Act (29 U.S.C. 49) is amended, effective October 1, 1999, to read as follows:

`SECTION 1. In order to assist in the coordination of public employment security services, the United States Employment Security Service shall be established and maintained within the Department of Labor.'

SEC. 502. PURPOSE OF EMPLOYMENT SECURITY SERVICE.

The provisions of the Wagner-Peyser Act provided in paragraph (a) of section 49b of title 29 of the United States Code are amended effective October 1, 1999, to read as follows:

`(a) The United States Employment Security Service shall assist in coordinating public employment services throughout the country and assure that the requirements of titles III and IX of the Social Security Act (42 U.S.C. 501 et seq. and 42 U.S.C. 1101 et seq.) and section 3304 of the Internal Revenue Code of 1986 (26 U.S.C. 3304) are

met.'

SEC. 503. TRANSFER OF REAL PROPERTY.

The provisions of the Wagner-Peyser Act provided in section 49c(1) of title 29 of the United States Code are amended effective October 1, 1999, as follows: `For the purpose of assisting in the coordination of employment services in accordance with the terms of this chapter, the Secretary of Labor is authorized without payment of compensation to transfer and assign to the States in which it is located all property, including records, files, and office equipment, used by the United States Employment Service in its administrative and local employment offices in the respective States, except the records, files, and property used in the Veterans Service and in the Farm Placement Service maintained under this chapter.'

SEC. 504. REPEAL OF FEDERAL APPROPRIATIONS AUTHORITY.

The provisions of the Wagner-Peyser Act set forth in section 49d and 49e of title 29 of the United States Code are repealed effective October 1, 2003.

SEC. 505. USE OF PUBLIC EMPLOYMENT SERVICE FUNDS.

The provisions of the Wagner-Peyser Act set forth in subsection (a) of section 49f of title 29 of the United States Code are amended effective October 1, 2003, to read as follows:

`(a) Funds provided to such State under title IX of the Social Security Act for public employment services shall be used--

`(1) for determining whether individuals claiming unemployment compensation under State laws conforming to section 3304 of the Internal Revenue Code of 1986 (26 U.S.C. 3304) are available to accept suitable work and have not refused suitable work as prescribed by the State unemployment compensation law;

`(2) for job search and placement services to individuals claiming unemployment compensation benefits and other job seekers including counseling, testing, occupational and labor market information, assessment, and referral to employers; and

`(3) for appropriate recruitment services and special technical services for employers, and may be used for any of the following activities:

`(A) evaluation of programs;

`(B) developing linkages between services funded under this Act and related Federal or State legislation, including the provision of labor exchange services at education sites;

`(C) providing services for workers who have received notice of permanent layoff or impending layoff, or workers in occupations which are experiencing limited demand due to technological change, impact of imports, or plant closures;

`(D) developing and providing labor market and occupational information;

'(E) developing a management information system and compiling and analyzing reports therefrom.'

SEC. 506. REPEAL OF FEDERAL USE OF FUNDS REQUIREMENTS.

The provisions of the Wagner-Peyser Act set forth in subsection (b) through (d) of section 49f of title 29 of the United States Code are repealed as of October 1, 2003.

SEC. 507. REPEAL OF FEDERAL PLANNING AND FISCAL REQUIREMENTS.

The provisions of the Wagner-Peyser Act set forth in sections 49g, 49h, 49k, 49l and 49l-1 of the United States Code are repealed as of October 1, 2003.

TITLE VI--ADVANCES TO STATE UNEMPLOYMENT COMPENSATION BENEFIT ACCOUNTS

SEC. 601. TRANSFERS FROM THE FEDERAL UNEMPLOYMENT ACCOUNT.

Subsection (b) of section 1201 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

'(b) The Secretary of the Treasury shall, prior to audit or settlement by the General Accounting Office, transfer in monthly installments from the Federal Unemployment Account to the Unemployment Compensation Benefit Account of the State in the Unemployment Trust Fund the amount certified under subsection (a) of this section by the Secretary of Labor (but not exceeding that portion of the balance in the Federal Unemployment Account at the time of the transfer which is not restricted as to use pursuant to section 903 of the Social Security Act). The amount of any monthly installment so transferred shall not exceed the amount estimated by the State to be required for the payment of compensation for the month with respect to which such installment is made.'

SEC. 602. USE OF TRANSFERRED FUNDS.

Subsection (a) of section 1202 of the Social Security Act is amended, effective October 1, 1999, to read as follows:

'(a) The Governor of any State may at any time request that funds be transferred from the Unemployment Compensation Benefit Account of such State in the unemployment trust fund to the Federal Unemployment Account in repayment of part or all of that balance of advances, made to such State under section 1321 of this title, specified in the request, and the Secretary of the Treasury shall promptly transfer such amount in reduction of such balance.'

SEC. 603. DETERMINATION OF INTEREST RATE.

Effective October 1, 1999, section 1202(b) of the Social Security Act is amended by striking paragraphs (4) and (5) and inserting the following:

'(4) The interest rate determined under this paragraph with respect to any calendar year is a percentage (but not in excess of 10 percent) determined by dividing--

'(A) the aggregate amount credited under section 904 of the Social Security Act to State Unemployment Compensation

Benefit Accounts on the last day of the last calendar quarter of the immediately preceding calendar year, by

(B) the aggregate of the average daily balances of the State Unemployment Compensation Benefit Accounts for such quarter as determined under section 904(e) of the Social Security Act.

(5) Interest required to be paid under paragraph (1) shall not be paid (directly or indirectly) by a State from amounts in its Unemployment Compensation Benefit Account. If the Secretary of Labor determines that any State action results in the paying of such interest directly or indirectly (by an equivalent reduction in State unemployment taxes or otherwise) from such Unemployment Compensation Benefit Account, the Secretary of Labor shall not certify such State's unemployment compensation law under section 3304 of the Internal Revenue Code of 1986. Such noncertification shall be made in accordance with section 3304(c) of such Code.'

SEC. 604. REVOLVING LOAN FUND.

Effective October 1, 1999, section 1203 of the Social Security Act is amended to read as follows:

ADVANCES TO FEDERAL UNEMPLOYMENT ACCOUNT

SEC. 1203. There are hereby authorized to be appropriated to the Federal Unemployment Account, as repayable advances, such sums as may be necessary to carry out the purposes of this title. Amounts appropriated as repayable advances for purposes of this subsection shall bear interest at a rate equal to the average rate of interest, computed as of the end of the calendar month next preceding the date of such advance, borne by all interest bearing obligations of the United States then forming part of the public debt; except that in cases in which such average rate is not a multiple of one-eighth of 1 percent, the rate of interest shall be the multiple of one-eighth of 1 percent next lower than such average rate.'

TITLE VII--CONFORMING AMENDMENTS

SEC. 701. CONFORMING AMENDMENT TO DEFINITIONAL PROVISION.

Section 5401(b) of the Balanced Budget Act of 1997 is amended, effective November 1, 1999, by striking 'Federal-State Extended Unemployment Compensation Act of 1970 (26 U.S.C. 3304 note)' and inserting 'Extended Unemployment Compensation Act of 1998'.

SEC. 702. BALANCED BUDGET AMENDMENTS.

Sections 5402, 5403, 5404, and 5408 of the Balanced Budget Act of 1997, Public Law 105-33, are repealed effective September 30, 2003.

SEC. 703. REPEAL OF FEDERAL UNEMPLOYMENT TAX AMENDMENT.

Amendments enacted in section 1035 of the Taxpayer Relief Act of 1997, Public Law 105-34, are repealed.

END

===== END ATTACHMENT 2 =====

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Janet Murguia (CN=Janet Murguia/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:19-JUN-1998 21:50:57.00

SUBJECT: Re: INS reform

TO: Julie A. Fernandes (CN=Julie A. Fernandes/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Maria Echaveste (CN=Maria Echaveste/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Tracey E. Thornton (CN=Tracey E. Thornton/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Peter G. Jacoby (CN=Peter G. Jacoby/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

Mindy E. Myers (CN=Mindy E. Myers/OU=WHO/O=EOP [WHO])
READ:UNKNOWN

TEXT:

I spoke with Reyes, Becerra, and Guitierrez separately on this yesterday and have been in touch with Alan Erenbaum (INS/Leg). This is what I've gathered: Reyes is actually a little nervous about the reaction to the proposal but felt that Rogers was driving action on this and on him very hard in order to get it up at his Commerce, Justice, State Mark up next week. The fact is that Rep. Lamar Smith is not excited about doing this either but Rogers is really pressuring him to act before the approps. mark-up as well. So late Wednesday evening they came up with the modified Reyes proposal. Reyes told me he believes its better to go with this proposal than with the Rogers proposal and feels like he has made a significant contribution by pulling Rogers off his original bill. Becerra and Guitierrez both understand the shortcomings in Reyes' proposal but really wanted the Administration and groups to take the lead on highlighting these problems first. Reyes has actually said that he's not totally committed to the proposal and wants to see what reaction he gets from the Administration, Hispanic Caucus and the groups. But the fact is that the most important response for him will be what the rest of the Hispanic Caucus has to say about the proposal. Becerra and Guitierrez have agreed to talk to Reyes over the weekend. I know that Peter Jacoby was also trying to ensure that Gephardt speak with Reyes to pull him off as well. We should try to meet on Monday (or earlier) both internally and with the groups. Should I set this up or do you want to? Let me know.
Janet.

----- Forwarded by Janet Murguia/WHO/EOP on 06/19/98
08:26 PM -----

Maria Echaveste
06/19/98 09:49:15 AM
Record Type: Record

To: Julie A. Fernandes/OPD/EOP
cc: Janet Murguia/WHO/EOP, Peter G. Jacoby/WHO/EOP
bcc:
Subject: Re: INS reform

Julie--thanks for the info--i just learned that markup of Smith's naturalization bill in full committee is scheduled for Tues--the groups will try to get it postponed--unclear what will happen--we need to regroup --can you find out from INS what they know and what their plan is--?

Julie A. Fernandes
06/19/98 09:45:37 AM

Record Type: Record

To: Maria Echaveste/WHO/EOP
cc: Peter G. Jacoby/WHO/EOP, Elena Kagan/OPD/EOP, Janet Murguia/WHO/EOP
Subject: Re: INS reform

Maria,

I spoke with Marisa Demeo from MALDEF late yesterday. The advocates had a conference call last night to determine next steps. All of the groups oppose the Reyes bill. When he first introduced it, he said he would add additional provisions (chiefly dealing with the services side of the operation) before it moved forward. However, as we can see, he has not done that.

The CHC is on the fence. Becerra and the rest of the caucus signed on to the original bill, and it will take a lot of convincing to persuade them not to go with Reyes. Right now, the CHC is trying to set up a meeting for today before 2pm to discuss their position. Neither Reyes nor Becerra will be in town on Monday. The groups convinced the caucus to invite INS to their meeting today so that they could be briefed on the Administration's plan and why it is better for their constituents. Becerra has indicated that if the groups can come forward with specifics about what makes the bill bad (including policy and politics), the caucus could be persuaded. Also, Reyes's staff has indicated that he might be willing to lift the Administration's proposal on services into the bill + create a Director of Services equivalent to the Director of the Bureau of Enforcement..

According to Marisa, Smith is scheduled to mark this up on Tuesday. Rogers will then take this as a signal to allow him to make this part of his CJS appropriations package. MALDEF is very concerned about the CHC. If they support this bill, it will really move.

Julie

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jose Cerda III (CN=Jose Cerda III/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-JUN-1998 10:22:44.00

SUBJECT: Chicago Gang Ordinance

TO: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: Leanne A. Shimabukuro (CN=Leanne A. Shimabukuro/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: Michelle Crisci (CN=Michelle Crisci/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TEXT:

EK, Rahm, Bruce:

You may already know this, but Bill Marshall called to tell me that the President signed off on the decision memo from Counsel's office, and that the brief will be filed today...jc3

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Christa Robinson (CN=Christa Robinson/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-JUN-1998 17:43:17.00

SUBJECT: Next Week

TO: Elena Kagan (CN=Elena Kagan/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: WEINSTEIN_P (WEINSTEIN_P @ A1 @ CD @ VAXGTWY [UNKNOWN]) (OPD)

READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Sarah A. Bianchi (CN=Sarah A. Bianchi/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Laura Emmett (CN=Laura Emmett/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

CC: Cynthia A. Rice (CN=Cynthia A. Rice/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Diana Fortuna (CN=Diana Fortuna/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Cathy R. Mays (CN=Cathy R. Mays/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

Dario J. Gomez (CN=Dario J. Gomez/OU=WHO/O=EOP [WHO])

READ:UNKNOWN

Peter G. Jacoby (CN=Peter G. Jacoby/OU=WHO/O=EOP [WHO])

READ:UNKNOWN

Jennell (Jennell [UNKNOWN])

READ:UNKNOWN

Laura A. Graham (CN=Laura A. Graham/OU=WHO/O=EOP [WHO])

READ:UNKNOWN

TEXT:

I will be out of the office next week, and I'm terribly sorry for what now seems like bad timing. (Originally POTUS was leaving for China after the Family Conf., so there wouldn't be any events.) The work on the Family Conference will be done by today. Here's contact info. on the other events next week.

NOTE: We are not the lead on any of these events.

1. FDA Announcement -- Tuesday or Wednesday
Bob Nash's office is the lead Staff Contact. CONTACT: Walker x6-2866

Briefing: Nash's office will draft it -> Chris/Sarah will contribute
->Elena will edit -> and Nash's office will submit it.

Press Paper: Chris/Sarah will compose -> Elena will edit -> Laura will

and Q&A submit it.

*Bruce should be listed on Briefing memo. Bruce and Chris should attend briefing.

2. AG Research Bill Signing - Tuesday
Legislative Affairs is the lead on this. CONTACT: Dario Gomez x6-1720

Briefing - Leg. Affairs will do the briefing --> Diana will contribute -->
Leg. Affairs will submit it.

Press Paper - Leg. Affairs/OMB will draft -> Diana will contribute ->
Leg. Affairs will submit.

EVENT: Rose Garden Ceremony at 10:30am.

Speaking Program: Glickman, Legal Immigrant, Farmer, and the President.

3. Deadbeat Parents Bill Signing - Wednesday
Leg. Affairs is the lead. CONTACT: Peter Jacoby/Jennell - x6-6493

Briefing - Leg. Affairs will draft -> Diana/Cynthia Rice will contribute
-> Elena will edit -> Leg. Affairs will submit.

Press Paper and Q&A- Diana will draft -> Elena will edit -> Laura will submit.

* Bruce will be listed on briefing memo, and Bruce and Diana should attend briefing.

EVENT: Oval Office Statement at 9:45 am.

Speaking Program: VP, Mother, POTUS.

Members of Congress and advocates will stand beside the President.