

NLWJC - KAGAN

EMAILS RECEIVED

ARMS - BOX 085 - FOLDER -006

[12/10/1998 - 12/11/1998]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Thomas L. Freedman (CN=Thomas L. Freedman/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:10-DEC-1998 16:59:12.00

SUBJECT: meetings

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

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

CC: Mary L. Smith (CN=Mary L. Smith/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:

1. Tobacco quota. A reminder that we should decide if there is anything else to advise USDA about the quota issue that will arise early next week. (I think they are on the only course they can take.)

2. Food Safety Meeting. The food meeting is 12/16, and though it is closed to the press, you might want to do another meeting beforehand with Neal Lane to make sure we are on the same page re:budget etc. (we have been talking with Cliff G.)

Other.

3. Milwaukee. I mentioned to Bruce an incident on-going in Milwaukee that was on p.32 of the Milwaukee paper. Someone has threatened to infect a meat packing plant with the AIDS virus. USDA has put a hold on the plant's output (which is now many millions of pounds) while the FBI investigates. Hopefully, it will be cleared up soon. Glickman is treating it seriously and is in close contact with law enforcement. I will keep you informed if there is another development.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 11:23:05.00

SUBJECT: Re: Meeting on tobacco recoupment

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

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

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

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

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

CC: Teresa M. Jones (CN=Teresa M. Jones/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:

Meeting -- 3:30 tomorrow, 12/11, works. See you then.

----- Forwarded by Cathy R. Mays/OPD/EOP on 12/10/98
11:21 AM -----

Teresa M. Jones
12/10/98 11:20:08 AM
Record Type: Record

To: Cathy R. Mays/OPD/EOP
cc:
Subject: Re: meeting on tobacco recoupment

3:30pm tomorrow (12/11) is OK for both Chris and Cynthia.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Andrea Kane (CN=Andrea Kane/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:10-DEC-1998 10:09:30.00

SUBJECT: Your thoughts re: WtW Competitive Grants

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

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

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

TEXT:

DOL is working on the notice for the next round of WtW competitive grants. We think they are envisioning a single large competition in '99, rather than several rounds as we had this year. We'd like your input re: "set asides" and timing before discussing w/ DOL tomorrow.

They have proposed setting aside \$30 M for a separate subcompetition for each of three priority areas -- disabilities, non-custodial parents, and transportation. We were planning to suggest adding (1) substance abuse and (2) basic skills/ESL (maybe under a category called integrated work and learning). If we had to prioritize, I'd suggest dropping transportation since we've got Access to Jobs and WtW grantees can still do transportation even w/o a subcompetition (but apparently this is a priority for the Secretary). The dollar level also seems rather low (we're verifying what % of the total available this is).

DOL's proposed schedule is to publish the notice on January 12th, followed by a series of bidders conferences around the country beginning Jan. 14th. We think it would make more sense to delay a week til after SOU. Secretary Herman could then use this to amplify any SOU messages re: literacy, substance abuse, fathers, and WtW reauthorization. What do you think?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 13:14:50.00

SUBJECT: Aerican Cancer Society Mtg.

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

CC: Teresa M. Jones (CN=Teresa M. Jones/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

There will be a meeting with Linda Crawford from the American Cancer Society and Steve Lawton from Hogan and Hartson Monday December 21 at 11:00 in Bruce's office. They want to present you with a new tobacco proposal.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 18:36:36.00

SUBJECT: Civil rights initiative

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

TO: Paul J. Weinstein Jr. (CN=Paul J. Weinstein Jr./OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

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

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

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

TEXT:

Attached is a rough assessment of the possible components of an enhanced civil rights initiative. This proposal would result in a \$101 million civil rights initiative for FY 2000. This total does not include a proposed \$25 million to fund a Civil Rights Corps initiative (outlined as part of the attached). This also does not include the \$27.7 million Wage Discrimination (Equal Pay) initiative.

OMB's recommendation would result in a \$40.5 million increase for civil rights enforcement over FY 1999 funding levels (including EPA civil rights, tribal courts, and Community Relations Service -- three items not included in the civil rights package last year).

The attached chart compares FY 1998 actual, FY 1999 actual, FY 2000 request, FY 2000 pass-back, and FY 2000 suggested enhancements.

julie===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D14]MAIL48974074B.326 to ASCII,
The following is a HEX DUMP:

FF57504348200000010A02010000000205000000788600000002000002BFF60E33C78999210678
BBF30EAB26A8DD80514D197BE8E7113D242029498738922182B07B0CA0F41D867C0D6B8FD751D5

1. EEOC

FY99 actual: \$279 million

FY00 request: \$355 million

FY00 OMB: \$288 million

FY00 JF: \$312 million (= additional \$24 million)

Proposed total increase over FY 1999 = \$33 million

Last year, the EEOC received a \$37 million increase, from \$242 million to \$279 million, to reduce the average time it takes to process a complaint from over 9 months to 6 months, and the current backlog from 64,000 to 28,000 cases, by the end of 2000. For FY 2000, the agency requested an increase of \$76 million. These additional resources would be used to: (1) continue progress in reducing the backlog; (2) outreach to underserved communities; (3) wage discrimination enforcement initiative and outreach; (4) data collection; and (5) technology improvements and training. OMB has passed back a \$9 million increase for FY 2000. EEOC has appealed, and now asks for an additional \$40 million over the OMB mark (for a total of \$328 million). This would represent a 17% increase over the FY 1999 funding level.

Last year's increase of \$37 million was significant. The FY 2000 budget should continue to demonstrate our commitment to this agency's work. The \$9 million increase recommended by OMB does not demonstrate such a commitment. We could recommend an increase of **\$24 million** over the OMB mark for FY 2000 to support (1) enhanced technology and training (**\$10 million**); (2) streamlining the federal EEO program to ensure compliance with the requirement that those requesting a hearing obtain one within 180 days (**\$6 million**); (3) increasing investigative staff (**\$6 million**); (4) maximizing the effectiveness of ADR activities by hiring additional ADR staff for field offices (**\$1 million**); and (5) outreach to underserved communities (**\$1 million**).

These increases do not include the **\$17.3 million** that the EEOC has asked for their Wage Discrimination (Equal Pay) initiative.

2. HUD

FY99 actual: \$40 million

FY00 request: \$67 million

FY00 OMB: \$42 million

FY00 JF: \$57 million (= additional \$15 million)

Proposed total increase over FY 1999 = \$17 million

Last year, the Administration proposed a \$22 million increase for Fair Housing and Equal Opportunity at HUD to increase emphasis on reducing discrimination and ensuring equal opportunity in housing. Part of this increase (\$10 million) was to support a nation-wide testing initiative to "take the temperature" of housing discrimination throughout the country. HUD received a \$10 million increase for fair housing activities, including \$7.5 million for the testing initiative. This year, OMB is recommending a \$2 million increase for fair housing activities at HUD.

For FY 2000, HUD has requested \$67 million -- a \$27 million increase -- to support fair housing activities. Of that total, **\$15 million** is proposed to fund a new partnership initiative (the Fair Housing Partnership) to focus on new and underserved populations by ensuring the full protection of the Fair Housing Act and other civil rights laws (including immigrants, rural populations, people with disabilities, and the homeless). The request includes a \$7.5 million set-aside for both the Fair Housing Assistance Program (FHAP; funds state and local enforcement agencies) and the Fair Housing Initiatives Program (FHIP; funds private fair housing groups). In order to receive a portion of the proposed Partnership set-aside, State and local fair housing enforcement agencies and eligible private entities would be required to submit applications outlining the duties of each applicant, and the process by which they will work together. The Partnership would require state and local law enforcement agencies (which have enforcement authority, but have had limited success in reaching out to underserved populations) and private groups (that are traditionally community based, but without any enforcement authority) to engage in strategic planning in order to focus and coordinate their fair housing activities.

We could recommend an additional **\$15 million** to fund the Fair Housing Partnership.

3. Civil Rights Division

FY99 actual: \$ 68 million

FY00 request: \$ 79 million

FY00 OMB: \$ 76 million

FY00 JF: \$ 84 million (= additional \$8 million)

Proposed total increase over FY 1999 = \$16 million

Last year, the Administration proposed a 10 percent increase for the Civil Rights Division -- from \$65 to \$72 million -- to permit the Department to continue its efforts in enforcing the laws that provide civil and criminal protections from discrimination, including the Civil Rights Act of 1964, the Fair Housing Act, and the Americans with Disabilities Act. The Civil Rights Division received an increase of approximately \$3 million in the final budget package, resulting in a total budget of \$68 million.

The Civil Rights Division has requested \$79 million for FY 2000. OMB has recommended a \$8 million increase to \$76 million.

This increase, while respectable, could be improved upon. We could propose an additional **\$8 million** for the Civil Rights Division that would include: (1) a **\$2 million** increase for criminal civil rights enforcement (hate crimes; violence against abortion clinics; worker exploitation; and misconduct by law enforcement); (2) a **\$2 million** increase in enforcement against housing and lending discrimination; (3) **\$2 million** to continue and further expand the Division's ADA initiatives; and (4) **\$2 million** to prepare for the review, required by the Voting Rights Act, of numerous redistricting that will follow the 2000 Census, and to obtain necessary technology improvements.

4. Department of Education, OCR

FY99 actual: \$66 million

FY00 request: \$73 million

FY00 OMB: \$71 million

FY00 JF: \$73 million (= additional \$2 million)

Proposed total increase over FY 1999 = \$7 million

Last year, the President proposed a \$6 million increase for the OCR at Education -- from \$62 million to \$68 million -- to fund technology improvements to increase productivity and customer service. These additional funds were also designed to be used to enable the Department of Education to continue to invest sufficient resources in higher education desegregation reviews and to focus on building partnerships with States to address statewide compliance with civil rights laws. In the final budget agreement, OCR received \$66 million.

For FY 2000, OCR has requested **\$73 million**, a \$7 million increase over FY 1999. OMB has passed back a \$5 million increase, to **\$71 million**. We could recommend full funding of OCR's original request, equal to an additional **\$2 million**, which would allow them to fund (1) a demographic survey of the universe of elementary and secondary public school district, (2) necessary technology enhancements, and (3) increased provision of on-site technical assistance. The survey would be the first in over 25 years to provide a comprehensive demographic picture of the nation's at-risk students and would a useful tool for both enforcement and compliance work. Data from the survey could provide information on trends to Department of Education components, other federal agencies (such as DOJ and HHS) and other stakeholders (such as public schools, advocacy groups, and research organizations).

5. Department of Health and Human Services, OCR

FY99 actual: \$21 million

FY00 request: \$23 million

FY00 OMB: \$22 million

FY00 JF: \$25 million (= additional \$3 million)

Proposed total increase over FY 1999 = \$4 million

Last year, the Administration sought and received an increase for HHS's Office of Civil Rights, increasing its funding from \$20 to \$21 million. For FY 2000, HHS has requested a \$2 million increase -- to \$23 million -- to continue its focus on preventative activities such as compliance reviews and technical assistance to ensure that persons do not encounter discrimination in HHS programs, including in the areas of managed care, access to care for minorities and people with disabilities, inter-ethnic adoption, provision of services limited English proficient services, and the TANF program. OMB has recommended a **\$1 million** increase for FY 2000. We could seek an additional **\$3 million**, bringing their total to **\$25 million** for FY 2000. This increase would further support existing efforts including technology enhancement, staff training and skills development, and program travel. Funds could also be directed toward improving data collection regarding the extent of discrimination in the provision of health care or welfare services.

8. Community Relations Service

FY99 actual: \$8 million

FY00 request: \$9.5 million

FY00 OMB: \$9.5 million

FY00 JF: \$13 million (= additional \$3.5 million)

Proposed total increase over FY 1999 = \$5 million

The Community Relations Service (CRS) was funded at **\$8 million** in FY 1999. They requested an increase to **\$9.5 million** for FY 2000 to enhance their current ability to respond to racial unrest in communities (like Jasper, TX) by increasing staff (with an emphasis of field and regional conciliators) and enhanced technology. The OMB passback reflects this increase. We could recommend an **additional \$3.5 million** to (1) provide community mediation and conflict resolution training to local governments, law enforcement, community groups and other stakeholders (techniques that can be used by communities as an alternative to litigation); (2) better allow the CRS to fulfill their commitment to provide technical assistance on hate crimes to the 93 U.S. attorneys around the country; and (3) support their effort to serve as a clearinghouse for racial dialogues and promising practices (picking up on the Race Initiative's work).

9. Tribal Courts

Tribal courts are essential to the maintenance of law and order in Indian communities, and thus provide an important part of the infrastructure necessary for community security and economic development. Our continued support for tribal courts is vital to the civil rights and self-determination interests of Indian people. In its FY 2000 budget, the Department of Justice asked for **\$10 million** to support tribal courts. OMB has passed back **\$5 million**. We could recommend that DOJ receive the full **\$10 million** to support tribal courts.

Proposed total increase over FY 1999 = \$5 million

10. Civil Rights Corps

Chris Edley has suggested a program to support state attorneys general in their civil rights work. This could be structured as a **\$25 million** initiative that provides formula grants to states to support civil rights work in their attorney general offices (similar to HUD's Federal Housing Assistance Program (FHAP) that provides funds to state and/or local fair housing agencies). This could provide \$500,000 per state, which would allow for the hiring of staff and technical assistance to local law enforcement entities (including county and city attorneys).

Proposed total increase over FY 1999 = \$25 million

Civil Rights Enforcement Funding
(Budget authority, in millions of dollars)

	1998 Actual	1999 Request	1999 Actual	1998-19 99 Increase	2000 Request	2000 pass-b ack	JF Suggest
Equal Employment Opportunity Commission	242	279	279	37	355	288	312
Department of Housing and Urban Development, Fair Housing Activities	30	52	40	10	67	42	57
Department of Justice, Civil Rights Division	65	72	68	2	79	76	84
Department of Labor, Office of Federal Contractor Compliance Efforts	62	68	65	3	87	74	74
Department of Education, Office of Civil Rights	62	68	66	4	73	71	73
Department of Health and Human Services, Office of Civil Rights	20	21	21	1	23	22	25
Department of Agriculture	17 ¹	19	21	4	23	23	23
U.S. Commission on Civil Rights	9	9	9	0	16	11	11
Department of Transportation, Office of Civil Rights	6	7	7	1	8	7	7
Department of Labor, Civil Rights Center	5	5	5	0	6	6	6
EPA -- Office of Civil Rights	2	2	2	0	2	2	2
Community Relations Service			8		9.5	9.5	13
Tribal Courts			5		10	5	10
Total			596			636.5	697

¹/ The FY 1998 supplemental bill added \$2 million to civil rights programs at the Department of Agriculture, bringing the FY 1998 enacted level to \$17 million, from \$15 million. The President's initiative included the original \$15 million for the Department of Agriculture, which is the number used in the totals on this spreadsheet.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 13:52:57.00

SUBJECT: Revised memo on profits from Gruber

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

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

TEXT:

I am sharing this and the related spreadsheet with Treasury and OMB.

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D88]MAIL476593640.326 to ASCII,
The following is a HEX DUMP:

FF575043810C0000010A02010000000205000000864100000002000062A7AC3047485461D1D853
88516EADF0E419B7C572186B9EB28226AA29926CD451BCA0871FBEB190E8B33D0DEF6D2661AD4BF

To: Cynthia Rice

From: Jon Gruber

Re: Noodling Around on Excess Profits

Cynthia -

Here is a spreadsheet which presents some preliminary calculations on excess profits. There is clearly some refining that can be done, but the results are striking. Here is a quick overview of what I've done here. I'm happy to talk more to provide further details:

Prices

- I first increase the price of cigarettes by the set of price increases announced over the past 15 months by the tobacco industry - 26 cents in a series of steps before the latest 45 cent increase. Following Gary Black's analysis, I do not count 6 cents of the price increase because this is standard annual price increase. So, on net, the industry is raising prices 65 cents more than they otherwise would because of the settlement.
- For simplification, I call this 20 cents in 1998 and 45 cents in 1999, even though a bit of the 1998 increase came in 1997 and the 45 cent increase came at the end of 1998.
- This calculation therefore assumes that prices will continue to increase to offset inflation - that is, the base price has just risen 65 cents, and will continue to rise thereafter to stay constant in real terms. This is consistent with history - if anything, cigarette prices have been rising in real terms.
- This calculation also ignores any reaction of state taxes or retail margins. Increases in either could lead to further volume declines, which would feed back to the ultimate calculations through foregone profits. But this should be small.

Volumes

- I use the standard Treasury model estimates of the price elasticity - a semi-log model with a price elasticity of -0.45 - to get the reduction in cig demand from this price increase.

Payments

- Payments under the AG settlement, both fixed and volume adjusted, are clearly laid out in the settlement documents. I lay out each type of payment. For each, I report whether the payment is volume adjusted (VA) and adjusted for the four pre-existing settlements (NS).

- But one key issue is **timing**. I assign settlement payments to the year in which

they are due (generally due on April 15). Gary Black, in his analysis, assigns them to the previous year, treating them like tax payments. From an economic perspective, his approach makes more sense. But, from the perspective of actually measuring the profits of the industry over a given year, my approach is correct - they won't actually make the payments until April 15 the next year. This is clearly something that deserves more thought.

- Following Gary Black, I incorporate 500 million/year in lawyers fees. This is actually uncertain - it will be the result of arbitration. Gary Black tells me that the industry is actually saying this will be more like \$1 billion/year.
- Payments under the four existing state settlements are less clear. Gary Black (in his November 24 report) reports total payments under the four state settlements, but doesn't divide this into volume adjusted vs. fixed. I've made a fairly arbitrary split, by assuming that after 1998 the volume adjusted payments are \$1.36 billion each year, and the fixed part is the difference between this and his total. Clearly, this needs some refinement.
- The volume adjustment factor is just based on declines in volumes from baseline. The pre-existing states factor comes directly from the settlement. Using these, I come up with total payments due from the industry.

Foregone Profits

- An important component of costs is the fact that profits fall as prices rise and sales fall. I incorporate this at existing industry margins of 33 cents per pack.

Net Profit Impact

- I then compute total incremental revenues, using the price increases discussed above. Subtracting payments from this, I get net profit impacts.
- There is a loss in the first year, as the price increase for 1998 (before the 45 cent rise of last month) is not enough to make the fixed payments due this year. But there are gains in every other year.
- The gains in 1999 are particularly large, because the volume adjusted payments are small, and there is a dip down in fixed payments. I estimate that in 1999 the industry will make **over \$9 billion in excess profits** from this price increase.
 - Once again, the year-year assessment of profits is very sensitive to how you time the payments relative to inflows.
- The gains then get smaller, but remain quite large; they are about **\$3 billion per year** in the out years

- The final two rows show 25 year totals and 25 year presented discounted values. These are huge in either case. I find that over 25 years the industry makes **over \$80 billion** in excess profits, with a present discounted value of **around \$34 billion**.

Profit/pack

- I then go through an alternative calculation as a check on my results, by doing things on a per pack basis.
- I first add up total volume adjusted and total fixed payments separately. I then convert to a total payment per pack, adjusting the first type of payment, and not the second, for declines in packs.
- I compare this to the price increase, and, after adjusting for foregone profits on a per-pack basis, come up with net profit per pack
- Multiplying by number of packs, I get a very similar result to the earlier calculations.

Excess Profits Adjustment

- Exhibit E of the settlement, which describes the volume adjustment, has a provision that this adjustment shall be reduced by 25% of any increase in operating income of the industry from its base value. I don't know if such a provision exists in the four state settlements - for now I assume that it does not.
- It is unclear how well this can be enforced (see discussion below). But I do some calculations as well which assumes that it is perfectly enforced, so that I reduce the amount of the AG volume adjustment by 25% of the net profit increase.
- These calculations are shown in the remaining columns of the spreadsheet. I first measure 25% of profits, and then compare that to the dollar amount of the volume adjustment. I reduce the volume adjustment by 25% of profits, if positive, but I don't reduce the volume adjustment below zero.
- This adjustment lowers net profits significantly, but they are still huge - over \$26 billion in net present value over 25 years.

Phillip Morris

One reason why these profits are so large is the pricing dynamic in the industry: Phillip Morris sets the price and others follow. But, Phillip Morris is doing significantly worse under this settlement than are the other players in the market, for two reasons:

- They pay a disproportionate share of fixed costs (68%, as opposed to only 42% of volume adjusted costs)

- They have a higher existing profit/pack, so declines in sales are more costly in dollar terms
- The **second spreadsheet** goes through analogous calculations for PM, and finds that they do indeed do worse - they get significantly less than 42% of the net profits from this price increase. Nevertheless, over the long run, they still make significant profits, of at least \$6.4 billion in net present value.

Comparisons with Gary Black

- Gary Black's November 24th report has similar calculations. He also finds significant excess profits, of about 20 cents per pack. But there are a few differences worth noting.
- First, as emphasized above, is a timing difference. Black treats all payments due early in year t+1 as being effective in year t. This means that he has the industry losing money in 97, making money in 98, and making some money in 99, but not as much as I do. In the long run, this is not a significant issue. But over the first few years this timing issue does matter. If I were you I would consult with Tax Policy about the right way to treat this.
- Black also has money for both lawyers fees and payoffs to farmers. For lawyers, he and I both assume \$500 million, although he has this growing to \$750 million in 1999; but the bill says a cap of \$500 million. For farmers, he is putting in \$500 million based on his political judgement that the industry will pay off farmers to buy off any Southern Congressmen who want federal legislation to help farmers.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Melissa M. Murray (CN=Melissa M. Murray/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:10-DEC-1998 18:15:00.00

SUBJECT: Tobacco Czar

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

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

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

TEXT:

Bruce has just gotten an influx of calls regarding POTUS appointing a tobacco czar. He doesn't know anything about this and asked me to check with you to find out what was going on. Thanks for your help.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 12:55:39.00

SUBJECT: REMINDER: TANF State Information--pls check this state list

TO: Andrea Kane (CN=Andrea Kane/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

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

READ:UNKNOWN

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

TEXT:

Bruce -- If you have any additional states you want info on, please let me know ASAP

Cynthia A. Rice

12/08/98 04:19:33 PM

Record Type: Record

To: Bruce N. Reed/OPD/EOP, Elena Kagan/OPD/EOP, Laura Emmett/WHO/EOP

cc: Andrea Kane/OPD/EOP

Subject: TANF State Information--pls check this state list

This is HHS's list of 'weak on work' states for which they are gathering the info you asked for.

Does this seem like a good list?

Illinois, New York, California, Ohio, Florida, Pennsylvania, Texas, Hawaii, DC, Washington, West Virginia, Rhode Island, New Mexico, and Minnesota.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jennifer M. Luray (CN=Jennifer M. Luray/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:10-DEC-1998 11:29:54.00

SUBJECT: Abortion provider study released today

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

TO: Jennifer L. Klein (CN=Jennifer L. Klein/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

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

TO: Nicole R. Rabner (CN=Nicole R. Rabner/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

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

TEXT:

A study of abortion services is being by released by Alan Guttmacher Institute today, embargoed until Friday, which has two main findings of interest:

1)The number of dilation and extraction procedures (the recognized medical procedure which most closely resembles "partial birth") performed in 1996 was estimated to be 650 out of a total of 1.36 million abortions. This is similar to the number AGI put out at the begining of the late-term debate.

2)There has been a sharp decline (14% between 1992 and 1996) in the overall number of facilities providing abortions. The decline occured primarily in hospitals and physician practices (ie, not in clinics). This is a drop of 85 providers per year, compared to a drop of 51 per year between 1998 and 1992.

I'm not recommending any immediate follow-up but wanted to make you all aware that these numbers would be out there.

I have copies of the study for those who are interested.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 11:02:40.00

SUBJECT:

TO: ELENA (Pager) #KAGAN (ELENA (Pager) #KAGAN [UNKNOWN])

READ:UNKNOWN

TEXT:

I have AIDS Q&A's for you to review ASAP -Laura

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 16:58:49.00

SUBJECT: Reminder: DPC person to work on Millenium

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

READ:UNKNOWN

TEXT:

Ellen Lovell's office (Amy Hickox) wants to talk to someone from DPC to make sure that their ideas are on track for the State of the Union. Who do you think they should talk to ? Paul? Tom?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 10:22:45.00

SUBJECT: Weekly Strategy Meeting

TO: Vicky_Stroud (Vicky_Stroud @ ed.gov@inet [UNKNOWN])

READ:UNKNOWN

TO: Amy Weiss (CN=Amy Weiss/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

TO: Barbara Chow (CN=Barbara Chow/OU=OMB/O=EOP @ EOP [OMB])

READ:UNKNOWN

TO: Michael Cohen (CN=Michael Cohen/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: Cecilia E. Rouse (CN=Cecilia E. Rouse/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TO: Shirley S. Sagawa (CN=Shirley S. Sagawa/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

TO: Broderick Johnson (CN=Broderick Johnson/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Charles R. Marr (CN=Charles R. Marr/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: MaryEllen C. McGuire (CN=MaryEllen C. McGuire/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

CC: Jason H. Schechter (CN=Jason H. Schechter/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

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

READ:UNKNOWN

CC: Chantell S. Long (CN=Chantell S. Long/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

CC: Sandra Yamin (CN=Sandra Yamin/OU=OMB/O=EOP @ EOP [OMB])

READ:UNKNOWN

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

READ:UNKNOWN

CC: Sonyia Matthews (CN=Sonyia Matthews/OU=OPD/O=EOP @ EOP [OPD])

READ:UNKNOWN

TEXT:

We will be having the Weekly Education Strategy Meeting today at 5:15 p.m.
in Bruce Reed's office.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:10-DEC-1998 10:33:17.00

SUBJECT: Weekly Health Care Strategy Meeting

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

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

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

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

TO: Jennifer L. Klein (CN=Jennifer L. Klein/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Devorah R. Adler (CN=Devorah R. Adler/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TO: Jonathan M. Young (CN=Jonathan M. Young/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

TO: David W. Beier (CN=David W. Beier/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

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

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

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

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

CC: Teresa M. Jones (CN=Teresa M. Jones/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Gina C. Mooers (CN=Gina C. Mooers/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

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

CC: Jason H. Schechter (CN=Jason H. Schechter/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

CC: Rhonda Melton (CN=Rhonda Melton/O=OVP @ OVP [UNKNOWN])

“
READ:UNKNOWN

CC: Jocelyn A. Bucaro (CN=Jocelyn A. Bucaro/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

TEXT:
We will be having the weekly Health Care Strategy Meeting today at 4:00
p.m. in Bruce Reed's office.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 11:12:07.00

SUBJECT: Tobacco table with more info Bruce asked for

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

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

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:

Bruce -- the increase in FY 00 revenue from 4.5 to 6.0 if the 50 cent tax is applied 10/1/99 is OMB's estimate (Treasury has not estimated)

Re recoupment -- there are various streams possible, which assume between 0 and 4 in budget authority and slightly lower outlays in the early years. here's the one considered most plausible===== ATTAC
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D29]MAIL482107744.326 to ASCII,
The following is a HEX DUMP:

FF575043620F0000010A020100000002050000000D3000000002000005F381CB416360B97360374
3236AD266F64E2149B65C27B91C578CC9E04EF438F96642578AD861EC398C1F9FD1A7E4F910B1C

Tobacco Tax Options
(revenue in billions)

	1999	2000	2001	2002	2003	2004	5 Year
50 cent increase (effective 1/1/00)	0	4.5	6.2	6.2	6.4	6.7	30
50 cent increase (effective 10/1/99)	0	6.0	6.2	6.2	6.4	6.7	31.5
Accelerate current law increase, Option 1 (15 cent increase 10/1/99 -- see chart below)	0	1.1	.7	.2	0	0	2.0
Accelerate current law increase, Option 2 (10 cent increase 6/1/99 and additional 5 cent increase 1/1/00 -- see chart below)	.6	.9	.7	.2	0	0	2.4
Recoupment: Budget Authority	0	2	2	2	2	2	10
Recoupment: Outlays	0	1.1	1.7	1.9	2	2	8.6*

* some subtotals are rounded

Under current law, a 10 cent increase goes into effect on 1/1/00 and an additional 5 cent increase goes into effect 1/1/02. Thus under these options:

	6/1/99	1/1/00	1/1/01	1/1/02
Current law increase	0	10	10	15
Accelerate: Option 1	15	15	15	15
Accelerate: Option 2	10	15	15	15

12/11/98 11:00am

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 18:56:39.00

SUBJECT: Revised w/ Jose's 2 additions

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D42]MAIL412986842.326 to ASCII,
The following is a HEX DUMP:

FF5750436E100000010A02010000000205000000AD5C0000000200002E091DE53F8E0A0660500D
CF646CE63E2D414E13BCF61F74ED3005203079CA9ACC1CC9E53E5C11314B43774B7E5F2389942D

December 11, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Health Care -- CDC Guidelines for HIV Surveillance: The Centers for Disease Control (CDC) released draft guidance on Thursday to assist states in designing and implementing new HIV surveillance and reporting systems. The guidance recommends that states track people with HIV by name (as states now track people with full-blown AIDS). At our insistence, however, the guidance also allows states to use so-called unique identifier codes, rather than names. The HIV/AIDS community is relieved that the guidance gives states the option of using identifier codes, but is disappointed that it expresses a preference for using names. **The community believes that names-based reporting jeopardizes confidentiality and discourages testing; CDC disputes these contentions and argues that name-based reporting generally leads to more effective surveillance. Members of the AIDS Council may raise questions about this issue when they meet with you on December 18. You can respond by indicating strong support for states (like California) that are developing effective alternatives to name-based reporting.**

2. Health Care -- Presidential Task Force on Employment of Adults with Disabilities: Your Task Force on the Employment of Adults with Disabilities will present the Vice President with its first report on Tuesday. The Task Force will recommend several new investments (e.g., **the Jeffords-Kennedy Work Incentives Improvement Act**), which we are considering in the context of the budget process; we are fairly confident that the budget will incorporate enough of these recommendations to elicit a positive response from the disabilities community. In addition, the Task Force will propose a number of administrative actions that we can implement immediately. For example, **the Office of Personnel Management will develop a plan to increase the representation of adults with disabilities in the federal workforce, and the Small Business Administration will launch a new outreach campaign to improve opportunities for adults with disabilities. The Vice President, in accepting the report, will reiterate the Administration's commitment to passing a strong and enforceable patients' bill of rights to improve the quality of care for people with disabilities.**

3. Health Care -- Dean Ornish: Nancy Ann Min DeParle is meeting with Dr. Ornish today to discuss his proposal for a demonstration project on the

cost-effectiveness of programs like his "Life Style Intervention." Nancy Ann will express support for the idea, although she will not be able to formally approve it at this meeting. We will stay on top of this issue in the next few weeks, as HCFA makes decisions about the scope and financing of the demonstration.

4. **Health Care -- New FDA Commissioner:** The Vice President will swear in Dr. Jane Henney as the new Commissioner of the Food and Drug Administration on Tuesday.

5. **Education -- ESEA Reauthorization:** We are working with the Education Department to include in our ESEA reauthorization proposal a set of accountability requirements that are significantly stronger than any in current law. Some of the proposals under consideration would require states and school districts that receive funding under the ESEA to (1) take immediate steps to identify and intervene in their lowest performing schools; (2) phase out the use of unqualified teachers, including those who are not fully certified or are teaching out of field; (3) phase out the use of instructional aides as primary instructors, especially in high-poverty schools; and (4) have effective policies in place (including appropriate supports for students) to prevent social promotion. We have more to do before we can present you with specific recommendations, but we believe we will be able to get agreement on a plan that demands a serious commitment by states and school districts receiving ESEA funds to set and enforce high standards for schools, teachers, and students.

6. **Education -- National Education Goals Panel:** The National Education Goals Panel released its annual progress report on Thursday. The report highlighted improvements in school readiness, student achievement in math, and participation of women and minorities in math and science in higher education. The report, however, also pointed to apparent backsliding in teacher quality, student achievement in reading, and student drug use. More generally, the report noted that none of the Goals would be met by 2000. Members of the Panel are now discussing what should happen to the Goals (and the Panel itself) after that year. Most members still see a need for national education goals and a bipartisan, intergovernmental panel to report on progress. Indeed, Senator Bingaman, Governor Hunt, and some members of the business community are urging that you take a high profile role in renewing the call for national goals. We and Secretary Riley are concerned, however, that Governor Engler, Congressman Goodling, and other Republicans would fail to support this effort. We will try to find out more about the likely Republican reaction and then give you a recommendation.

7. **Education -- GED Test:** You asked at yesterday's budget meeting about the GED test. We have learned that the American Council on Education (ACE) is responsible for developing and administering the GED. The ACE is now in the process of upgrading the test to keep up with rising academic standards, and hopes to unveil a new version of the test in 2001. We will work with the Education

Department on possible ways to make use of a strengthened GED in our education proposals.

8. Crime -- Capital Punishment: The Justice Department will release a report on Sunday showing that 17 states executed 74 prisoners in 1997. This number represents a substantial increase from 1996, when 45 executions took place; indeed, the 1997 number is the largest since 1955. The states with the highest number of execution were: Texas (37); Virginia (9); Missouri (6); Arkansas (4); and Alabama (3). All 74 people executed in 1997 were men. The report classifies 45 of those executed as white, 27 as black, one as Asian, and one as American Indian; it further notes that five of the total number were of Hispanic descent. According to the report, an additional 3,335 individuals are now on death row in 34 states and the federal prison system -- 1,876 whites, 1,406 blacks, 28 American Indians, 17 Asians, and 8 of other races. This total includes 238 Hispanics and 44 women. Finally, the report notes that as of November 30, 1998, 18 states had executed 58 inmates, with Texas and Virginia accounting for half the total (17 and 12 respectively).

9. Crime -- COPS Retention: Earlier this week you asked about how a new COPS initiative would deal with the issue of retention. Currently, we plan to set aside \$50 million for one-year waivers to assist economically-distressed communities in absorbing long-term costs of their new police hires. Addressing the retention issue on a case-by-case basis through waivers will allow us to avoid creating an incentive for local police departments to depend on federal grants indefinitely. Such an approach will also require law enforcement agencies to demonstrate hardship before receiving a fourth year of funding. In FY 98, Congress earmarked a \$100 million in COPS funding for a retention initiative that targeted smaller jurisdictions, which are the ones most at risk of failing to meet their long-term funding commitment. At the time, we feared that this program might encourage these smaller departments to apply for additional assistance -- and not meet their original funding obligations. Ultimately, however, only \$13.4 million of this retention funding was spent due to limited demand. Thus, we believe that \$50 million should be sufficient to address the issue of retention in a new COPS initiative.

10. Crime -- Preliminary 1998 FBI Crime Statistics: On Sunday, the FBI will release the crime figures collected through the Uniform Crime Reporting System for the first six months of 1998. The preliminary data show a 5 percent decline in overall crime compared to the half-year figures of 1997, with violent crime down 7 percent, and property crime down 5 percent. Specifically for violent crime, murder decreased 8 percent; robbery, 11 percent; and 5 percent each for aggravated assault and rape. For property crime, larceny dropped 5 percent; motor vehicle theft 8 percent; burglary 3 percent; and arson 12 percent. Serious crime declined in each region of the country, with the Northeast experiencing the greatest decline in serious crime (8 percent) followed by the West (6 percent), the South (5 percent), and the Midwest (one percent). Cities of all sizes reported decreases in serious crime, with the greatest declines reported by cities with populations between 50,000 to 99,000 (8 percent) and over one million (6 percent). The smallest

declines in serious crime were reported by cities with populations of under 10,000 (3 percent). (Note to EK: All of percentage declines are for the number of offenses, not rates.)

11. Welfare Reform -- Work Participation Rates: We just received (but have not yet published) the first work participation statistics from the welfare reform law. The data show that 36 of the 38 states that were required to meet the law's all-family participation rates in FY 1997 succeeded in doing so. (The remaining states began implementation of the welfare law later and need not meet participation rates until FY 1998.) As you recall, these rates require states, in the first year of the law's implementation, to ensure that 25 percent of all welfare families include an adult who works at least 20 hours each week. (States can get credit toward meeting the work participation rates by reducing their caseloads.) Only Nevada and the District of Columbia failed to meet this requirement, and even they may give HHS enough additional data in the next few weeks to come into compliance. States fared less well, however, in meeting the law's separate work participation rates for two-parent families, who comprise seven percent of the total caseload. These rates require states to ensure that 75 percent of two-parent welfare families include an adult who works at least 35 hours per week. Only 20 of the 38 states met this strict requirement; the failing states now must enter into corrective action plans with HHS to avoid financial penalties.

12. Welfare Reform -- Teen Birth Trends: A study by the Centers for Disease Control issued last week provided some new details about the previously reported 15 percent decline in the national teen birth rate from 1991 to 1997. The report showed declines in teen births for all races and ethnic groups and in all states. In addition, the report showed a steep decline (about 21 percent) in the rate of second births to teens during this period. Second births currently comprise about one-fifth of total teen births.

13. Children and Families -- Infant Mortality and Life Expectancy: Another new study issued by the Centers for Disease Control last week showed positive trends on infant mortality and life expectancy. The study reported that the U.S. infant mortality rate -- a measure of the death of babies under one year old -- reached its lowest level ever last year. The 1997 infant mortality rate was 7.1 deaths per 1,000 births, which is about 3 percent lower than the 1996 rate of 7.3 deaths per 1,000 births. The drop in infant deaths came despite a 7.5 percent increase in the number of low birthweight babies and a two percent increase in the number of births by women late in their childbearing years. In addition, the study reported that Americans' average life expectancy rose to an all-time high of 76.5 years in 1997. This increase is due in part to falling death rates from major diseases and from accidents, homicides, and suicides. For example, deaths from AIDS dropped by 47 percent in 1997. The most dramatic improvement in life expectancy was among black males, whose expectancy increased by 1.2 years to 67.3.

14. Children and Families -- Single Fathers Data: The Census Bureau released data today showing that the number of single fathers with children at home has increased 25 percent in the past three years, from 1.7 million to 2.1 million. These men now account for one in six single parents, joining a total of 9.8 million single mothers. About 35 percent of all single fathers have never married, while more than half of single fathers with children under six have not done so. According to the report, single fathers have higher incomes than single mothers and are more likely to live with another person (mother, girlfriend, etc.) who helps with child care.

15. Abortion -- New Abortion Study: The Alan Guttmacher Institute (AGI) released a study on Friday showing the lowest nationwide abortion rates since 1975. The study reports that from 1992 to 1996, the number of abortions performed fell from 1,529,000 to 1,366,000, and the abortion rate decreased from 26 to 23 per 1,000 women aged 15-44. The report attributed most of this decline to effective contraceptive methods, especially among teen-agers, and a consequent decrease in unintended pregnancies. The study also reported a sharp decline in the number of facilities providing abortions during this period, although it suggested that this decline was not a major factor in the lower abortion rates. The total number of facilities providing abortions decreased 14 percent between 1992 and 1996, with the greatest decline among hospitals (18 percent decrease) and physicians' offices (26 percent decrease), rather than clinics (two percent decrease). Less than 10 percent of total abortions are now performed in hospitals and doctors' offices. Finally, the study examined the prevalence of dilation and extraction procedures -- i.e., so-called partial birth abortions. According to the report, doctors at 14 hospitals or clinics performed about 650 of these kinds of abortions in 1996 (out of a total of 1.36 million abortions). The large majority of these procedures were performed between 20 and 24 weeks into a pregnancy.

16. Community Empowerment -- Community Development Financial Institutions Fund (CDFI): The Treasury Department recently provided the DPC with summary statistics on the CDFI awards made during the first three years of funding (1996-98). Since its creation, the CDFI Fund has made a total of 196 awards to 164 institutions. Of the institutions receiving awards, 139 were already established and 25 were startup. Of the startup institutions, 9 were full-service financial institutions -- banks, bank holding companies, and credit unions -- and 16 were more specialized financial institutions such as microenterprise funds, venture capital funds, and business loan funds.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 15:41:17.00

SUBJECT: 3:15 version of chart plus revised budget tables

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

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

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

TEXT:

3:15 version of chart

Tables showing two spending versions --

option 2 shown first trims non-defense adds ons to \$150

million

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D25]MAIL44405484W.326 to ASCII,

The following is a HEX DUMP:

FF57504368100000010A0201000000020500000028360000000200004D5C19AEC7F79F4ED5F7DC
8ED908D486A9F199440A1EE0C8CA470183B66870953028467BB9C2616488BAF0449E0F52350C44

**DRAFT: TOBACCO
USES OF FUNDS FOR FY 2000 BUDGET**
(Dollars in Billions)

Option 2

DISCRETIONARY COMMENTS	Request	OMB	Agency	WH	
	FY 2000	Passback FY 2000	Appeal FY 2000	Priorities FY 2000	
<hr/>					
Tobacco					
CDC	.243	.074	+ .154	+ .047	Increases CDC anti-tobacco programs by nearly two-thirds (63%)
FDA	.184	.034	+ .050	+ .034	Doubles FDA
SAMHSA Survey	.004	0	+ .004	+ .004	Needed for brand specific survey
Smoking Cessation Non-Defense	---	---	---	+ .045	Half of that proposed in '99
Defense	---	---	---	+ .060	Could be funded within DOD budget
Medicare lawsuit	---	---	---	+ .020	DOJ & HHS
Total			.108		+ .210
Total Non-Defense		.108		+ .150	
<hr/>					

DRAFT: TOBACCO
USES OF FUNDS FOR FY 2000 BUDGET
(Dollars in Billions)

Option 1

DISCRETIONARY COMMENTS	Request	OMB	Agency	WH	
	FY 2000	Passback FY 2000	Appeal FY 2000	Priorities FY 2000	
<hr/>					
Tobacco					
CDC	.243	.074	+154	+026	
FDA	.184	.034	+050	+066	
SAMHSA Survey	.004	0	+004	+004	
Smoking Cessation Non-Defense	---	---	---	+090	FY '99 Proposed level
Defense	---	---	---	+060	
Medicare lawsuit	---	---	---	+020	
Total		.108		+266	
Total Non-Defense		.108		+206	

Tobacco Tax Options
(revenue in billions)

	FY 1999 10/1/98- 9/30/99	FY 2000 10/1/99- 9/30/00	FY 2001 10/1/00- 9/30/01	FY 2002 10/1/01- 9/30/02	FY 2003 10/1/02- 9/30/03	FY 2004 10/1/03- 9/30/04	Five Year 10/1/99- 9/30/04
50 cent increase, Option A (effective 1/1/00)	0	4.5	6.2	6.2	6.4	6.7	30.0
50 cent increase, Option B (effective 10/1/99)	0	6.0	6.2	6.2	6.4	6.7	31.5
Accelerate current law increase, Option 1 (15 cent increase 10/1/99)	0	1.1	.7	.2	0	0	2.0
Accelerate current law increase, Option 2 (10 cent increase 6/1/99 with another 5 cent increase 1/1/00)	.6	.9	.7	.2	0	0	2.4
Recoupment Outlays (BA is \$2/yr)	0	1.1	1.7	1.9	2	2	8.6 *
Recoupment (Delay until FY 2001)	0	0	1.1	1.7	1.9	2	6.6*

*Subtotals don't add to totals due to rounding.

Under current law, the tax will increase 10 cents on 1/1/00 and another 5 cents on 1/1/02.

	1/1/99	6/1/99	10/1/99	1/1/00	1/1/01	1/1/02
Current law increase	0	0	0	10	10	15
Accelerate: Option 1	0	0	15	15	15	15
Accelerate: Option 2	0	10	10	15	15	15

12/11/98 3:15pm

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Barry J. Toiv (CN=Barry J. Toiv/OU=WHO/O=EOP [WHO])

CREATION DATE/TIME:11-DEC-1998 18:20:35.00

SUBJECT:

TO: ELENA (Pager) #KAGAN (ELENA (Pager) #KAGAN [UNKNOWN])

READ:UNKNOWN

TEXT:

from toiv, just letting you know that, at their request, have added vp to
crime statement

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 09:45:51.00

SUBJECT: Revised w/ mike's entry

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

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D73]MAIL461445747.326 to ASCII,
The following is a HEX DUMP:

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57BA106F989EC035DE02369752E8A0C7DEEBB39358AF3C9ED16293275E7533BAA6AE37A4E1A06B

December 11, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

RE: DPC Weekly Report

Education -- National Education Goals Panel: The National Education Goals Panel released its annual progress report on Dec. 10. The report, which summarized previously released data, highlighted improvements in the school readiness, math achievement, and the participation of women and minorities in math and science in higher education. The Goals Panel also had a lengthy discussion of the future of the goals and the goals panel. There is strong consensus on the panel that we should continue to pursue national education goals after 2000, especially since the goals will not be met by that deadline. There is also a pretty strong consensus to continue to have a bipartisan, intergovernmental reporting panel, though critical Republican members including Engler and Goodling were not present and have not weighed in on this. Finally, Sen. Bingaman urged that you convene a summit in order to elevate the national goals and reenergize the process started at the Charlottesville Summit. Gov. Hunt and members of the business community also argued for some kind of high profile process that would engage the American public and culminate in a set of national education goals. While these are appealing ideas and could conceivably help restore some measure of bipartisanship to the education debate, we and Secretary Riley believe that we must first determine that there will be significant support from Republican governors and Jeffords and Goodling before proceeding supporting any such effort by the Goals Panel.

Education -- ESEA Reauthorization: We have been working closely with the Education Department on the development of a reauthorization proposal for ESEA. Our work has focused on fashioning a set of accountability requirements -- significantly stronger than those in current law -- that would require states and local school districts that receive funding under ESEA to (1) immediately identify and undertake significant and sustained interventions to turn around the lowest performing schools; (2) phase out the use of unqualified teachers, including particularly those who are not fully certified and those teaching out of field; (3) phase out the use of instructional aides as primary instructors, especially in high poverty schools; and (4) require students to meet standards for promotion. We believe that if we can design these requirements appropriately, we will take a big step toward fundamentally changing the nature of federal assistance in elementary and secondary education. In the past the primary purposes of federal aid have

been to compensate for the historic failures of states and local communities to educate the most disadvantaged students, and to encourage states and local school districts to undertake various quality improvements (e.g., higher standards, more computers, smaller classes). Under the proposals we are developing, the federal government would, after a suitable time to phase in the requirements, no longer invest in education systems that are not serious enough to insist on, and enforce, higher standards for students, teachers and schools.

Education -- GED: In response to your inquiry on this matter, we have learned that the American Council on Education is responsible for the developing and administering the GED. There is interest in the Education Department in figuring out how we might go about strengthening the GED, and DPC and Education Department staff will soon begin to discuss this with ACE.

Health Care -- CDC releases guidelines for HIV surveillance: This week, the CDC released their draft guidelines to assist States in the design and implementation of new HIV surveillance systems. Representatives from the HIV/AIDS community were nervous about the CDC's proposed recommendation to States that they use name based surveillance systems to track the epidemic. Through discussions with HHS, we were able to ensure that CDC left States with the option of creating surveillance systems that used unique identifier codes that provide demographic information without identifying individuals by name. To date, the guidelines have been relatively well received by the AIDS community. **However, because the confidentiality issues associated with HIV surveillance are incredibly sensitive and of high interest to the community, questions and concerns about the CDC draft guidance may be raised at your meeting with the AIDS Council on December 18th. In response, you can indicate your support for alternatives to name based reporting and explicitly indicate your support for States like California, who are actively exploring developing these alternative systems.**

Health Care -- Meeting of the Presidential Task Force on Employment of Adults with Disabilities: On Tuesday, the Vice President will meet with the Presidential Task Force on the Employment of Adults with Disabilities and accept their first report. Although a number of the Task Force's recommendations require new investments and need to be considered within the context of the budget process, many of the administrative actions they recommend can be implemented immediately. As a result of this report, the **Office of Personnel Management will develop a plan to increase the representation of adults with disabilities in the Federal workforce and the Small Business Administration will launch a new outreach campaign to improve opportunities for Americans with disabilities. The Vice President will also take the opportunity to reiterate the Administration's commitment to passing a strong enforceable patients' bill of rights to improve the quality of care for people with disabilities at Tuesday's meeting. This report lays a solid foundation for a number of disability initiatives that are likely to be included in this year's budget, including funding for the Jeffords-Kennedy Work Incentives Improvement Act.**

Health Care -- Swearing in of Dr. Jane Henney as FDA Commissioner: On Tuesday, the Vice President will swear in Dr. Jane E. Henney, the first woman and first

oncologist to be Commissioner of the Food and Drug Administration. We expect a large audience consisting of representatives of consumer protection groups and advocates for the food, pharmaceutical, and device manufacture industries to attend.

Health Care -- Dean Ornish Update: Following up on your interest in the status of Dr. Ornish's request to establish a cost-effectiveness demonstration on programs like his "Life Style Intervention," we obtained a commitment from Nancy Ann Min DeParle that she would indicate her openness to and support for the type of demonstration that he seeks. She is meeting today (Friday) and, although no final agreement will be reached on the scope, size and financing of the demonstration, we expect Dr. Ornish to be pleased with the result of the meeting. We will stay on top of this issue to ensure that an acceptable final outcome is reached.

Crime -- Capital Punishment: This Sunday, the Justice Department will release a bulletin on the death penalty indicating that in 1997, 17 states executed 74 prisoners. This is 29 more executions than in 1996, and the largest annual number since 1955 (76 executions). The states with the highest number of execution were: Texas, 37; Virginia, 9; Missouri, 6; Arkansas 4; and Alabama, 3. All of those executed in 1997 were males, and by race: 45 were white; 27 were black; one was Asian and one was American Indian. Of this number, 5 were of Hispanic descent. There were an additional 3,335 men and women on death row in 34 states and the federal prison system: 1,876 whites, 1,406 blacks, 28 American Indians, 17 Asians and 8 of other races. This total includes 238 Hispanics and 44 women. Nearly two-thirds of inmates with death sentences had previous felony convictions, including 9 percent with at least one prior homicide conviction. The report also notes that as of November 30, 1998, 18 states had executed 58 inmates, with Texas and Virginia accounting for half the total (17 and 12, respectively).

Welfare Reform -- Work Participation Rates: We now have in hand the very first work participation data from the new welfare reform law. The data show that 95 percent of states met the first year requirement to have 25 percent of all families on welfare engaged in work activities. These data are from the last quarter of FY 1997, when the new work rates applied to 38 states plus D.C. (the remaining states implemented the new law after March 1997 and didn't have to meet the work rates until FY 1998). Nevada and D.C. failed to meet the rate, although they may make the target based on additional information they are providing to HHS.

As you may recall, the participation rate measures the proportion of families on welfare with an adult in work activities for at least 20 hours per week. States get a credit for caseload reductions to help account for people who leave the rolls and go to work. States are also required to ensure that 75 percent of two parent families have a parent who works at least 35 hours per week. Only 20 of the 39 jurisdictions met this test, which applies to 7 percent of welfare families. As required by law, HHS will impose financial penalties of up to 5 percent of a state's TANF grant for failing to meet the work rates, but a state will have an opportunity to enter into a corrective compliance plan which, if it succeeds in increasing work rates to the required level, will preclude the penalty.

Welfare Reform -- Positive Teen Birth Trends Continue: A new study by the Centers for Disease Control shows encouraging news about teen birth rates. The study provides new detail regarding the previously reported 15 percent decline in the national teen birth rate from 1991 to 1997. The most striking finding was the decline in the rate of second births to teens, which fell 21 percent from 1991 to 1996. Second births comprise about one-fifth of total teen births. In addition, the report showed declines in teen births for all races and ethnic groups and in all states.

Children and Families -- New Data on Infant Mortality and Other Health Indicators: A new study published in the journal of *Pediatrics*, based on 1997 data compiled by the Centers for Disease Control, reported new data on rates of infant mortality, low birthweight, teen births, and life expectancy. First, the study reported that U.S. infant mortality rates reached their lowest level in history last year. The 1997 infant mortality rate -- a measure of the number of deaths before a baby turns 1 -- was 7.1 deaths per 1,000 births, which was about 3 percent lower than the 1996 rate of 7.3 deaths per 1,000 live births. The drop in infant deaths came despite a 7.5 percent increase in the number of low birthweight babies, and an increase of about 2 percent in the number of births by women late in their childbearing years. In addition, the study reported that births to teen-age mothers fell in 1997 for the sixth consecutive year to 52.9 births per 1,000 females ages 15 to 19 -- 3 percent lower than the 1996 rate of 54.4 and 15 percent lower than the 1991 rate of 62.1. Finally, the study reported that Americans' average life expectancy rose to an all-time high of 76 ½ years. This increase is due in part to falling death rates from major diseases and from accidents, homicides and suicides. For example, deaths from HIV or AIDS dropped by 47 percent in 1997. The most dramatic improvement in life expectancy was among black males, whose expectancy increased by 1.2 years to 67.3.

Abortion -- New Abortion Study: This week, the Alan Guttmacher Institute (AGI) released a new study on abortion incidence and services based on a survey of all known abortion providers in the United States. The study showed that, from 1992 to 1996, the number of abortions performed fell from 1,529,000 to 1,366,000, and the abortion rate decreased from 26 to 23 per 1,000 women aged 15-22. In that period, the number of facilities providing abortions fell sharply -- by 14 percent, with the greatest decline among hospitals and physicians' offices rather than clinics. The AGI study concluded, however, that factors other than access to abortion -- such as the decreasing rate of unintended pregnancies -- have had more influence on the abortion rate. The study also examined the prevalence of dilation and extraction procedures (so-called "partial birth" abortions), and found that, in 1996, an estimated 650 of these procedures were performed (out of a total of 1.36 million abortions), with the large majority of these performed at 20 to 24 weeks.

Community Empowerment -- Community Development Financial Institutions Fund (CDFI): The Treasury Department recently provided the DPC with summary statistics on the CDFI awards made during the first three years of funding (1996, 1997, and 1998). In *Putting People First*, you called for the creation of "a network of community development banks to provide small loans to low-income entrepreneurs and homeowners in inner cities." Since its creation, the CDFI Fund has made a total of 196 awards to 164 institutions. Of the institutions receiving awards, 139 were already established, and 25 were startup. Of the startup institutions, 9 were full-service financial institutions -- banks, bank holding companies, and credit unions --

and 16 were more specialized financial institutions such as microenterprise funds, venture capital funds, and business loan funds. Below is a detailed chart summarizing the statistics on the CDFI awards:

Type of Institution	Total Awards	Total Institutions	Established Institutions	Start-up Institutions	Certified CDFIs
1. Banks & Bank Holding Companies	13	11	6	5	20
2. Community Development Credit Unions	40	36	32	4	57
3. Other Types of CDFIs					
Intermediaries	4	3	3	0	
Venture Capital Funds	10	9	6	3	
Multi-Bank CDCs	7	7	7	0	
Business Loan Funds	45	33	30	3	
Housing/Facilities Loan Fund	53	45	39	6	
Microenterprise Funds	24	20	16	4	
Total Other	143	125	107	16	185
Types					
Total Number	196	164	139	25	
Total Dollars	\$125,371,471		\$109,259,579	\$16,111,892	

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 19:12:32.00

SUBJECT: Crime strategy meeting agenda -- Monday 12/14 3:00pm

TO: Charles A. Blanchard (CN=Charles A. Blanchard/OU=ONDCP/O=EOP @ EOP [ONDCP])
READ:UNKNOWN

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

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

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

CC: Patricia E. Romani (CN=Patricia E. Romani/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

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

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

CC: Jose Cerda III (CN=Jose Cerda III/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

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Crime Meeting Agenda
December 14, 1998, 3:00pm

I. Update on FY 2000 budget and new initiatives

- COPS II/Crime Bill II
- Other budget issues -- Brady fee, state prison funding, etc.
- Reports
- Legislative decisions
- Outreach to groups

II. Events/announcements

- Monitoring the Future release (12/18)
- Guidelines on prison drug testing/treatment
- Recommendations on gun shows (1/7)
- YCGII Report (2/9)

Other:

- Timing/guidelines for community prosecution grants
- Timing/guidelines for COPS/school safety earmark
- Timing/announcement for announcement of Exile earmark

III. Miscellany

- Impact of OMB guidance for CJS appropriations -- how will funds be allocated?
- DOJ proposed directive requiring firearms to be stamped -- not etched.
- Pending reports to be released:
 - COPS shutdown report due (12/23)
 - National Crime Victimization Survey (12/31)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 17:32:38.00

SUBJECT: Reasons Not to Cut COPS Funding

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

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

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

TEXT:

EK:

As requested, reasons not to cut COPS, in order of most to least defensible:

1. \$100 million is for a communications initiative strongly supported by the VP;
2. \$76 million funds Brady records, the sex offender registry and DNA lab improvements -- all of which were originally in DOJ budget and cannot be cut;
3. At least \$200 million is needed simply to fund the popular earmarks supported by Congress and the Administration (bulletproof vests, school safety, Indian law enforcement, meth enforcement, DC initiative, Police Corps, domestic violence...not to mention a potential "hot spots" earmark for the race initiative;
4. \$50 million is needed to fund retention waivers that are strongly supported by the VP;
5. \$150 million is for prosecutors initiatives that have already been cut from other parts of the budget (community prosecutors, juvie crime bill);
6. \$100 million is for the only sizable prevention increase in the Justice budget; and
7. \$600 million is needed if we want to be able to fund a minimum of 10,000 cops per year.

TOTAL: \$1.276 Billion

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 15:23:25.00

SUBJECT: Draft FBI Statement

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

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

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

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

TEXT:
BR/EK:

Please review and edit if you want to put this out today for Sunday night's release...jc3

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
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ACEE55D9882128FC78970A0D892EFB39E0DC7C3BD20224D8EF87BEA98FFB4C2E7A72BB72716EA3

**EMBARGOED FOR RELEASE
SUNDAY, DECEMBER 13, 1998
6 P.M. EASTERN TIME**

D R A F T

STATEMENT BY THE PRESIDENT

The preliminary crime data released by the FBI today confirm that crime rates in America will continue to decline substantially for a seventh straight year. During the first six months of 1998, serious crime fell by another 5 percent -- with large reductions in murder and other violent crimes leading the way. If these trends hold for the remainder of the year, we will have cut the nation's murder rate by one third since I took office. This is remarkable progress, and it shows that our strategy of more police, tougher gun laws and better crime prevention is making a difference. But our work is far from down. In the coming, as we finish the job of putting 100,000 more police on the streets, we must continue to do everything we can to make all of our communities safer.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 10:29:17.00

SUBJECT: Crime Strategy Meeting

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

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

TO: Charles A. Blanchard (CN=Charles A. Blanchard/OU=ONDCP/O=EOP @ EOP [ONDCP])
READ:UNKNOWN

TO: Jose Cerda III (CN=Jose Cerda III/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

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

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

CC: Jason H. Schechter (CN=Jason H. Schechter/OU=WHO/O=EOP @ EOP [WHO])
READ:UNKNOWN

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

CC: Essence P. Washington (CN=Essence P. Washington/OU=OPD/O=EOP @ EOP [OPD])
READ:UNKNOWN

CC: Patricia E. Romani (CN=Patricia E. Romani/OU=OMB/O=EOP @ EOP [OMB])
READ:UNKNOWN

TEXT:

We will be having a Crime Strategy Meeting on Monday, December 14, at 3:00 p.m. in Bruce Reed's office, 2 Fl/WW.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Michael Cohen (CN=Michael Cohen/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:11-DEC-1998 09:44:12.00

SUBJECT: weekly--addition

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

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

TEXT:

Here is the ESEA summary. I'm doing some quick homework on the GED item now

ESEA Reauthorization. We have been working closely with the Education Department on the development of a reauthorization proposal for ESEA. Our work has focused on fashioning a set of accountability requirements -- significantly stronger than those in current law -- that would require states and local school districts that receive funding under ESEA to (1) immediately identify and undertake significant and sustained interventions to turn around the lowest performing schools; (2) phase out the use of unqualified teachers, including particularly those who are not fully certified and those teaching out of field; (3) phase out the use of instructional aides as primary instructors, especially in high poverty schools; and (4) require students to meet standards for promotion. We believe that if we can design these requirements appropriately, we will take a big step toward fundamentally changing the nature of federal assistance in elementary and secondary education. In the past the primary purposes of federal aid have been to compensate for the historic failures of states and local communities to educate the most disadvantaged students, and to encourage states and local school districts to undertake various quality improvements (e.g., higher standards, more computers, smaller classes). Under the proposals we are developing, the federal government would, after a suitable time to phase in the requirements, no longer invest in education systems that are not serious enough to insist on, and enforce, higher standards for students, teachers and schools.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 14:36:40.00

SUBJECT: Revised tobacco chart per Bruce's voice mail

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

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

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

TEXT:

Is this what you meant by Option 3? ===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

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969E59654358808348F2CE2A29AAB6DFEBF8FD8195C39185CF167E5933262937657AFD4F5E4181

Tobacco Tax Options
(revenue in billions)

	FY 1999 10/1/98- 9/30/99	FY 2000 10/1/99- 9/30/00	FY 2001 10/1/00- 9/30/01	FY 2002 10/1/01- 9/30/02	FY 2003 10/1/02- 9/30/03	FY 2004 10/1/03- 9/30/04	Five Year 10/1/99- 9/30/04
50 cent increase, Option A (effective 1/1/00)	0	4.5	6.2	6.2	6.4	6.7	30.0
50 cent increase, Option B (effective 10/1/99)	0	6.0	6.2	6.2	6.4	6.7	31.5
Accelerate current law increase, Option 1 (15 cent increase 10/1/99)	0	1.1	.7	.2	0	0	2.0
Accelerate current law increase, Option 2 (10 cent increase 6/1/99 with another 5 cent increase 1/1/00)	.6	.9	.7	.2	0	0	2.4
Accelerate current law increase, Option 3 (15 cent increase 1/1/99)	1.65*	1.1	.7	.2	0	0	3.65*
Waive Recoupment Outlays (BA is \$2/yr)	-0	-1.1	-1.7	-1.9	-2	-2	-8.6**
Waive Recoupment (Delay until FY 2001)	-0	0	-1.1	-1.7	-1.9	-2	-6.6**

* Not an OMB score. Assumes 3 months at 15 additional cents obtains \$550 million (as implied by \$1.1 bi FY 2000 score for option 1 which adds 3 months at 15 additional cents and 9 months at 5 additional cents.

** Subtotals don't add to totals due to rounding.

Under current law, the tax will increase 10 cents on 1/1/00 and another 5 cents on 1/1/02.

	1/1/99	6/1/99	10/1/99	1/1/00	1/1/01	1/1/02
Current law increase	0	0	0	10	10	15
Accelerate: Option 1	0	0	15	15	15	15
Accelerate: Option 2	0	10	10	15	15	15
Accerlate: Option 3	15	15	15	15	15	15

12/11/98 3:00pm

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:11-DEC-1998 10:45:51.00

SUBJECT: Bruce here's the tobacco numbers you asked for

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

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

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:

You also asked why 50 cents raises only \$30 billion while last year's 62 cent increase raised \$65 billion. A few points (some obvious and some obscure):

- 1) Last year's increase was \$.62 in year 1 and rose to \$1.10 in year 5.
- 2) The 50 cent score is on top of the state settlement and thus every cent of tax raises less revenue because the state settlement price increase is assumed to have lowered purchase volume.
- 3) Last year, the industry payments were inflated by 3 percent each year (due to the June 20th provision requiring them to do so). This year, the expected inflation level of 2.3 percent is used.
- 4) Last year, OMB assumed 93 percent of tobacco volume was cigarettes. This year, they are using Treasury's assumption that 97.5 percent of taxed tobacco is cigarettes. This means a given industry payment translates into a slightly lower price per pack.

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D13]MAIL47805674R.326 to ASCII,
The following is a HEX DUMP:

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CDA19113A5B039B9EDAF0AD1E9EF30FDF7515D60B48C6ED8B3F2BDAD0EE1471CEF12516F98F4A8

Tobacco Tax Options
(revenue in billions)

	1999	2000	2001	2002	2003	2004	5 Year
50 cent increase (effective 1/1/00)	0	4.5	6.2	6.2	6.4	6.7	30
Accelerate current law increase, Option 1 (15 cent increase 10/1/99 -- see chart below)	0	1.1	.7	.2	0	0	2.0
Accelerate current law increase, Option 2 (10 cent increase 6/1/99 and additional 5 cent increase 1/1/00 -- see chart below)	.6	.9	.7	.2	0	0	2.4

Under current law, a 10 cent increase goes into effect on 1/1/00 and an additional 5 cent increase goes into effect 1/1/02. Thus under these options:

	6/1/99	1/1/00	1/1/01	1/1/02
Current law increase	0	10	10	15
Accelerate: Option 1	15	15	15	15
Accelerate: Option 2	10	15	15	15

12/11/98