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THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN
6-25-97

June 20, 1997

MEMORANDUM FOR THE PRESIDENT

'97 JUN 21 14:35

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Tobacco -- Review of Settlement: As you know, State Attorneys General and representatives of individual claimants reached an historic agreement with the tobacco industry yesterday, and you called on DPC and HHS to coordinate a thorough public health review of the agreement. To accomplish this review, we have set up a number of interagency working groups to focus on discrete aspects of the agreement. The working groups, which will begin to meet on Monday, will explore questions relating to: (1) FDA jurisdiction and access, advertising, and labeling rules; (2) liability limits and disclosure of documents; (3) use of the funds, including for children's health; (4) environmental tobacco smoke; (5) public education programs; (6) smoking cessation programs and research; (7) the financial structure and capacity of the industry and the size of the agreement's payouts and penalties. We hope to get a complete recommendation to you in a matter of weeks, though working with HHS always takes more time than expected.

2. Housing -- State of the Cities Report: On Monday, you will announce the issuance of HUD's report, "The State of American Cities." The report describes (1) the "decades of decline" leading up to the early 1990s; (2) the significant improvements made by cities since 1993 as a result of the strong economy and your urban policies, including Empowerment Zones, CDFI, and home ownership strategies; (3) the challenges that remain, including job growth disparity between cities and suburbs, increased poverty concentration in central cities, and continued middle-class migration from central cities to suburbs; and (4) the Administration's "Urban Agenda for the Future," a comprehensive plan based on the same empowerment principles, including local control and flexibility, that undergird everything we have done so far.

Building on the report, you will announce three new policies to help America's cities: (1) You will initiate the Officer Next Door program, which will make government-owned homes available for sale at a 50% discount to police/officers who agree to live in the communities they patrol; (2) You will announce a 25 basis points reduction in mortgage insurance premiums for first-time buyers who purchase homes in central cities (from 1.75% to 1.50%), which will reduce closing costs by about \$200; and (3) You will call for Congress to act on legislation allowing low-income families to take Section 8 assistance in the form of Home Ownership Empowerment Vouchers and announce a new Freddie Mac pilot program that in the interim, will assist 1,000 to 2,000 such families to purchase their own homes.

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3. AIDS -- Guidelines on HIV Treatment: On Thursday, HHS released guidelines on HIV treatment procedures, which emphasize the effectiveness of early use of protease inhibitors. Both the AIDS community and the medical community praised the guidelines for helping doctors to provide appropriate treatment. As we expected, however, the AIDS community also responded to the guidelines by demanding additional federal funds to ensure that all people with HIV can obtain the recommended treatment. We should expect these demands to increase still further in the coming months. The DPC and OMB are currently reviewing whether to propose additional funding in this area and, if so, what legislative vehicle to use.

4. Welfare -- Legal Immigrant Benefits: Legislation on legal immigrants reported by the Senate Finance Committee this week improved on the House Ways and Means version, but still fails to comport with the budget agreement. As you know, the budget agreement would restore SSI and Medicaid benefits to any legal immigrant in the country on August 23, 1996 who is or becomes disabled. The legislation passed out of House Ways and Means would restore SSI and Medicaid benefits to both the disabled and non-disabled elderly, but only if they were already receiving benefits on that date -- essentially grandfathering those already on the rolls.

The House proposal, though protecting 50,000 more people initially than the budget agreement, would protect 75,000 fewer people in 2002. The Senate Finance Committee this week passed legislation which would grandfather all those on the rolls on August 23, 1996 and allow disabled legal immigrants in the country on that date to apply for SSI until September of this year. This proposal is actually the most expensive of the three, costing \$10.4 billion, as compared to the \$9.7 billion price tag of the budget agreement and the \$9.0 billion cost of the House proposal.

One way to bridge the differences between the budget agreement and the Congressional proposals is to find the money to cover both groups of immigrants -- those in the country on August 23, 1996 who are or become disabled *plus* the non-disabled elderly on the rolls as of that date. Legislation of this kind would cost \$11.4 billion. In the letter you sent to Chairman Kasich yesterday, which threatened to veto legislation that does not protect all legal immigrants covered under the budget agreement, you expressed support for this option, stating that "my clear preference would be to assist both disabled and elderly legal immigrants." We have some reason to hope that we can achieve this result, though much more work remains to be done.

5. Welfare -- Welfare-to-Work Plan: The welfare-to-work legislation passed out of the Senate Finance Committee this week, as compared with the House Ways and Means version, favors formula over competitive grants, governors over mayors, and rural areas over cities. Whereas Ways and Means would distribute 50% of the \$3 billion by formula and 50% by competition, the Finance Committee would distribute 75% by formula and only 25% by competition. The percentage of formula money flowing to local jurisdictions (including to cities) would be the same under both proposals (75%), but the Finance Committee would send the funds through local welfare offices controlled by the governors instead of, as in the Ways and Means proposal, private industry councils controlled by the mayors. As to competitive funds, the Finance Committee retained Ways and Means' 25% set aside for rural areas, but completely eliminated Ways and Means' 65% set aside for the 100 cities with the most poor people. During

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mark-up, the Finance Committee added language to strengthen the anti-displacement provisions of the program.

6. Welfare -- Privatization: There was a major battle in the Finance Committee regarding the chairman's provision to deem the Texas privatization proposal approved and allow up to ten other states to privatize Medicaid, food stamps, and other program operations. Senator Conrad offered a motion to strike the provision. This motion won, with votes from all Democrats and Senators D'Amato and Jeffords. Then, after some back-room wrangling, the chairman's proposal was limited only to Texas, and Senators D'Amato and Jeffords changed their votes. Thus, the Senate bill allows complete privatization of all health and human services programs in Texas, but only in Texas. In the House, the bills reported out by the Agriculture and Commerce committees allow all 50 states to privatize food stamp and Medicaid operations.

7. Welfare -- Employment Prospects of Welfare Recipients: Many economists are now turning their attention to the question of whether there will be enough jobs for welfare recipients who need to go to work. In a draft, not-for-quotation study, former OMB Program Associate Director Isabelle Sawhill and Daniel McMurrer conclude that the economy, if it continues to grow, should produce a sufficient number of jobs to accommodate welfare recipients required to enter the labor force under the new welfare law. This conclusion is based on their estimate that only about 150,000 additional welfare recipients each year will need to go to work under the law. Sawhill and McMurrer arrive at this estimate by showing that most states can meet this year's 25% work participation requirement by counting those already working and claiming credit for caseload reductions from the past several years. The annual 5% increases in work participation rates until 2002 then will require states to find work for 150,000 additional welfare recipients each year.

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Sawhill and McMurrer also note that welfare recipients who do find full-time employment should stay above the poverty line with the help of the EITC, the higher minimum wage, and subsidized child care. A mother with two children who earned \$10,000 a year in 1996 (slightly less than what a full-time year-round worker would make at \$5.15 an hour) also would qualify for \$3,556 from the EITC and about \$2,400 in Food Stamps. After paying \$765 in payroll taxes, the family would have a disposable income of just over \$15,000. With child care subsidies, this family's disposable income would stay above the poverty line, but in the absence of such subsidies, out-of-pocket child care expenses would push the family back below poverty.

8. Health -- Congressional Action: The Senate Finance Committee reported out legislation on Medicare and Medicaid this week. The Medicare provisions preserved many of the Administration's priorities including: new plan options, such as preferred provider organizations and provider sponsored organizations; preventive benefits, including mammography expansions and colorectal screening; and traditional provider and beneficiary savings, which when combined with your home health care reallocation, will extend the life of the Medicare trust fund for at least a decade. The Finance Committee legislation also reduced the size of the Medical Savings Account demonstration to 100,000 people. The committee

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included a number of reforms that expose beneficiaries to new costs, including an income-related deductible, a \$5 per visit home care co-payment, and a gradual increase in the Medicare retirement age from 65 to 67. We anticipate, however, that all three of these provisions will be dropped either on the Senate floor or in conference.

The Medicaid provisions include a Disproportionate Share Hospital (DSH) proposal that cuts payments to high DSH states much more significantly than either your original budget proposal or the House Commerce Committee legislation. Though we will try to soften the impact on these states, we are having difficulty attracting much Congressional support for this effort. The Finance Committee also failed to provide the full amount of investments specified in the budget agreement for the District of Columbia, Puerto Rico, and low-income Medicare beneficiary protections. In preliminary conversations, the Republican leadership has indicated some willingness to restore these investments.

9. Crime -- Juvenile Crime Update: Last week, the Senate Judiciary Committee released a new Chairman's mark of its juvenile crime legislation. This version is better than both the original Senate bill and the House-passed bill. The new mark removes provisions that we considered objectionable, such as a death penalty for minors and a mandatory 6-level sentence enhancement for gang activity. The mark, however, still falls short of our Anti-Gang and Youth Violence Act: the mark has no major gun provisions (it neither mandates child safety locks nor extends Brady to violent juveniles); no dedicated prevention funding; insufficient funds for prosecutors and courts; and inadequate protections for juveniles incarcerated in state facilities. The Senate was originally scheduled to mark up the legislation last week, but the session was postponed and no new markup date has been scheduled.

10. Education -- Testing Initiative: Mike Cohen met with Bob Chase last week to discuss NEA support for your national testing initiative. Chase will push for the NEA, at its convention in early July, to repeal existing policy, adopted during the Bush Administration, opposing any federal efforts to develop educational tests. Delegates to the convention almost certainly will approve this proposal, which already has the support of the NEA's Board of Directors. Chase also will introduce a motion specifically supporting our testing initiative if he believes he has the votes to pass it.

11. Disabilities -- ADAPT Protest: As you know, disability advocates have long pushed for Medicaid to cover personal attendant services and to put community-based services on an equal footing with nursing homes. The disability group ADAPT uses disruptive tactics to convey this message. Last November, in the midst of such a disruption, the Office of Public Liaison agreed that you would hold a meeting with ADAPT and other disability groups on this topic in the first quarter of the year. That meeting has just been scheduled for September. This week, ADAPT demonstrated outside Alexis Herman's office to protest our lack of action. ADAPT also is putting pressure on Speaker Gingrich, who committed to ADAPT last year that he would introduce legislation on the subject. The DPC, Public Liaison, and HHS are meeting with ADAPT next Wednesday and are working together on options in advance of that meeting.

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can we do/say
anything
before
Sept 1st*