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THE WHITE HOUSE
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June 11, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

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1. Tobacco -- Senate Update: The Senate passed several important amendments to the McCain bill this week. The Craig-Coverdell amendment, approved by a 52-46 vote, authorizes about \$2 billion per year for anti-drug efforts. Although we support most of these efforts, the money for them would come out of the funds previously reserved for public health programs: if the appropriators were to provide the full amounts authorized for these anti-drug efforts, funding for smoking cessation, education, and counteradvertising programs would decrease by about 80 percent. The amendment also prohibits the use of federal monies for needle exchange and allows states to give education vouchers to students who have been the victims of school violence.

The Senate also passed by a vote of 50-48 the Gramm tax-cut amendment. The Gramm amendment would cost \$16 billion over the first four years and an additional \$30 billion in the next five years; in these years, all the cost would come out of tobacco revenues. After 2008, the estimated cost of the proposal would increase dramatically to over \$10 billion each year; one-third of all tobacco revenues would go to pay for this tax cut, with other revenues (presumably the surplus) accounting for the rest. The amendment would provide all couples with annual incomes below \$50,000 a new tax deduction of \$825 this year, rising to \$3,300 in 2008, and would provide full deductibility of health insurance for the self-employed.

Finally, the Senate passed by a vote of 66-33 an amendment sponsored by Senators Kerry and Bond to require states to spend 25 percent of the funds they receive under the bill on child care subsidies. (States would have to spend another 25 percent of their funds on the menu of programs we negotiated with the NGA, which includes child care subsidies; states could do whatever they wished with the remaining 50 percent of their funds.)

As a result of these votes, key groups have expressed concern about the diminishing dollars available to them. The Governors have drafted a letter objecting to the state financing section of the bill because the funding level has dropped below the \$196.5 billion over 25 years originally provided in the bill (the same level contained in the June 20 settlement). The Governors also may object to the further restrictions placed on state spending by the passage of the Kerry-Bond amendment. At the same time, public health groups such as the Campaign for Tobacco Free Kids, the American Cancer Society, and the American Heart Association are

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deeply concerned that sufficient funding will not be available for anti-smoking programs. Erskine, Secretary Shalala, and we met with them on Friday to explain that the bill would not move through the Senate without funding for tax cuts and anti-drug programs, and to urge them to work hard over the next few days to achieve final passage.

With the addition of a tax cut and anti-drug programs, Republicans should find it more difficult to oppose the bill. Many Republican Senators, however, harbor a very deep hostility to this legislation, and they read new polls to suggest that obstructing it will have little electoral consequence. Senator Lott sharply criticized the bill on this Sunday's talk shows and indicated that it would not pass the Senate. He noted that the Senate still had not dealt with the issues of tobacco farmers or attorneys' fees and that either issue could cause the legislation to explode. (Actually, the Senate has rejected two amendments to cap attorneys' fees -- one limiting fees to \$250 per hour and the other limiting fees to \$1,000 per hour -- but apparently Lott believes this issue remains open.) He also indicated that while there were not 50 votes in the Senate to defeat the legislation, there also were not the 60 votes necessary to pass it.

You will be speaking on Monday to 150 high school Presidential scholars and can use the event to urge swift passage of the tobacco legislation.

2. Education -- National Testing: The National Academy of Sciences (NAS) released an interim report last week, as required by last year's Labor-HHS-Education appropriations bill, on the feasibility of linking scores from existing commercial and state reading and math tests to each other and/or to NAEP. The NAS concluded that it is not technically feasible to compare student scores on different tests to each other and/or to the NAEP standards. This conclusion of course undermines Rep. Goodling's argument that existing tests could be used to accomplish the purpose of a national test in reading and math. We do not expect, however, that this report will dampen his opposition to our testing initiative. Indeed, earlier this week, he received assurances from the Republican leadership about supporting an anti-testing rider on this year's appropriations bill. (The leadership provided these assurances when they decided to remove an anti-testing provision, as well as a sweeping education block grant provision, from the conference report on the Craig-Coverdell education tax bill; as you know, they believe that removing these provisions will make it harder for you to veto the bill.)

3. Crime -- PRIDE Study: The National Parents' Resource Institute for Drug Education (PRIDE) will release on Thursday its annual survey on teen drug use and violence for the 1997-98 school year. We have not yet seen the data on drug use among teens, but PRIDE has shared with us some of its findings on school violence. The study finds that the percentage of students who reported carrying a gun to school decreased by over a third since the 1993-94 school year -- from 6 percent to 3.8 percent (or nearly 1 million students). Of those students who brought a gun to school, almost half did so six or more times, over half threatened to harm a teacher, and nearly two-thirds threatened to harm another student. Drug use was very high among students carrying guns: 30 percent used cocaine in the month prior

X to carrying a gun to school; 32 percent used stimulants such as methamphetamine; and 31 percent used hallucinogens. Perhaps most important, the survey reaffirms the effectiveness of involving kids in after-school programs and school activities. Students who did not bring guns to school were 53 percent more likely to be involved in after-school programs and 34 percent more likely to be active in school activities (such as band and sports teams) than those who carried guns.

4. Child Care -- House Legislation: The First Lady and Secretary Shalala joined House Democrats last week as they unveiled a comprehensive child care bill that includes all the pieces of your child care initiative, plus a tax credit for families with a stay-at-home parent and children under four years of age. The \$20 billion package will be sponsored by more than 100 members. The proposal does not specify funding sources.

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X **5. Child Care -- After-School Event:** You are currently scheduled to announce on Wednesday \$40 million in grants for after-school programs. These grants, the first awarded under the new 21st Century Learning Centers Program, will allow 315 schools in 36 states to establish or expand after-school initiatives. You also will release a new report, titled *Safe and Smart: Making the After-School Hours Work for Kids* and jointly authored by the Departments of Justice and Education, which finds that quality after-school programs decrease juvenile crime and improve the academic performance of participating children. This event, also involving the First Lady and Vice President, will support our efforts to expand the 21st Century Learning Centers Program in this year's appropriations process.

6. Health -- Patients' Bill of Rights: Larry Stein and Chris Jennings met with Rep. Dingell last week to discuss patients' bill of rights legislation. Dingell said he would work closely with the Administration in the event that he and Rep. Norwood begin to talk seriously about developing a unified bill to be brought to the floor by way of a discharge petition. For the moment, Dingell believes (and we agree) that he should stand firmly behind his bill as written, including its state-court liability enforcement provisions, rather than signal any willingness to compromise. Dingell noted, however, that the CBO may soon issue a high estimate of the costs associated with his bill's enforcement provision. We have heard that the Republican leadership has insisted on reviewing the CBO's estimate before it is released and is subjecting the CBO staff to relentless pressure. We will talk with Dingell about an appropriate response when we learn more about the CBO's estimate.

7. Health -- Vice President's Announcement of the Quality Forum: The Vice President is scheduled to unveil on Wednesday a planning committee to establish a "Quality Forum," a private sector entity that will develop and disseminate uniform standards for high-quality health care. Your Quality Commission recommended establishing this Forum, and you asked the Vice President to oversee the process. In conjunction with this announcement, we are releasing a report that highlights the many shortcomings of the current system: the report will note, for example, one study's estimate

that preventable errors in hospital care lead to 180,000 needless deaths each year. Developing uniform measures of quality and encouraging health plans to adopt these measures has great potential to improve health outcomes, increase confidence in the health care system, and save costs. We will describe this effort as the natural complement to our patients' bill of rights proposal in the effort to promote health care quality.

8. Health -- FDA Commissioner: We plan to announce the nomination of the new FDA commissioner, Jane Henney, as soon as the Senate completes consideration of the McCain bill. (We do not think it would be helpful either to confirming Henney or to passing the tobacco bill to announce her nomination in the middle of the current debate in the Senate.) So far, advance word of her nomination has prompted neither major objections nor strong support. It is possible that Republicans will try to portray Henney as a David Kessler protégé essentially chosen by Senator Kennedy. One positive development is that Senator Domenici has agreed to accompany Henney on courtesy visits to Republican members of the Senate Labor Committee.

9. Housing/Welfare Reform -- Welfare-to-Work Housing Vouchers: The Senate Appropriations Subcommittee for VA and HUD last week voted in favor of a demonstration program that would give \$40 million to seven cities or counties for 7,000 "self-sufficiency" housing vouchers targeted to people moving from welfare to work. The seven sites chosen were New York City, Los Angeles, Cleveland, Miami-Dade County, Anchorage, Charlotte, and Prince George's County. Although the Subcommittee provided substantially fewer welfare-to-work vouchers than the Administration requested -- 7,000 instead of 50,000 -- the vote is a good first step for the Administration's initiative. The Chair of the VA/HUD Subcommittee in the House (Jerry Lewis) has expressed interest in the program, and we are hopeful that he will support a greater number of vouchers.

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10. Welfare Reform -- Portland Study: HHS is preparing to release an evaluation of Portland, Oregon's mandatory welfare reform program which shows that the program has led to increased employment and earnings and reduced welfare expenditures. The study, conducted by Manpower Demonstration Research Corporation as part of HHS's national evaluation of welfare-to-work strategies, tracked over 5,500 recipients from 1993 through mid-1996. The study found that after two years, participants in the program had earnings that were 35 percent higher and employment levels that were 11 percent higher than comparable individuals in the control group. Participants also received 17 percent less in welfare payments than people in the control group; 41 percent of program participants still received welfare after two years, as compared with 53 percent in the control group. The program had a measurable positive impact both for people with few barriers to employment and for people considered harder to place.

Portland required all welfare recipients with children older than one year to participate in its program and sanctioned 21 percent of recipients for failure to comply with program rules. (The sanction rate is in the mid-range for comparable programs.) The

program generally had a strong employment focus, but a significant number of participants also participated in short-term education and training activities. The staff emphasized child care arrangements in their case management, and the program had relatively high child care usage and costs. The program, however, did not increase overall welfare costs.

✓ 11. **Welfare Reform -- New Jersey Family Cap Study:** Secretary Shalala has sent you a memo on the draft Rutgers University study issued last week which concluded that New Jersey's family cap policy has resulted in a "small but non-trivial" effect on abortion rates (an estimated additional 240 abortions per year). As the memo relates, both New Jersey and HHS have raised serious questions about the study's methodology and findings. Rutgers is currently revising the study in response to these criticisms. A total of 22 states have adopted a family cap policy since the passage of the welfare law (up from 15 states that had waivers to implement this policy).

✓ 12. **Disabilities -- Bunning-Kennelly Legislation:** The House last week passed legislation, sponsored by Reps. Bunning and Kennelly and supported by both the Administration and the disability community, to move SSDI and SSI beneficiaries into the workforce by using a "pay for performance" approach. People on the SSDI and SSI rolls currently get rehabilitation services through state vocational rehabilitation agencies, which receive reimbursement for their costs. Under Bunning-Kennelly, beneficiaries could choose their own rehabilitation providers from among a number of public and private entities. Providers that successfully assist beneficiaries to leave the rolls and return to work would receive a percentage of the disability benefits saved. These payments would continue as long as the person remained off the rolls, up to a maximum of five years. The premise of the bill is that providers will have a greater interest in their clients' long-term success if they are rewarded for results rather than reimbursed for costs. Notwithstanding widespread support for this approach, the bill's fate in the Senate is uncertain. Senators Jeffords and Kennedy may not want to move the bill unless it is paired with their proposal to extend Medicare and Medicaid benefits to those leaving SSDI or SSI. We have a number of problems with the Jeffords-Kennedy bill, including its cost (estimated at over \$1 billion each year) and complexity. We are meeting this week with staff for the Senators to discuss these issues, as well as the possibility of moving the Bunning-Kennelly bill forward.

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