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THE WHITE HOUSE
WASHINGTON

October 3, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Tobacco -- State Settlement: Rumors continue about an upcoming settlement between the states and the tobacco companies, as R.J. Reynolds and Brown & Williamson returned yesterday to the negotiating table. The parties, however, still have not worked out some difficult problems -- most prominently, how to prevent companies that do not join the settlement from gaining a competitive advantage -- and the return of RJR and B&W to the table may make resolution of these issues even more complicated. As you know, some plaintiffs' lawyers continue to suggest a broadening of the current negotiations to include the federal government. Both the states and the companies, however, have responded negatively to these proposals, fearing that the intrusion of the federal government would queer the deal they have been working on for so many months.

2. Health -- Medicare Managed Care Program: As you know, Friday marked the last day that HMOs participating in Medicare could decide whether to stay in the program for the upcoming year. Preliminary data from HHS indicates that some 25 companies in 320-400 counties serving 240,000-300,000 beneficiaries -- about 5 percent of the six million beneficiaries now in Medicare HMOs -- have decided to withdraw from the program. Most affected beneficiaries will have the option of joining another HMO in the same county. But in 60-100 counties, some 30,000-75,000 beneficiaries -- less than two percent of the total -- will no longer have any HMO option and will have to return to traditional fee-for-service coverage. Secretary Shalala has recommended that in these 60-100 counties we (1) expedite the approval of new plans, and (2) allow plans that have just withdrawn to come back into the market with increased premiums and/or decreased benefits. She argues that these steps will allow us to say that we have done everything possible to ensure that Medicare beneficiaries have access to managed care plans. We believe, however, that the second part of the Secretary's recommendation would reward bad actors and create perverse incentives for the future. We will meet with the Secretary and Erskine Monday to resolve our differences on this matter (and if necessary, come to you), so that we can announce our response as soon as possible.

3. Health -- CHIP Waiver Request: Governor Thompson is pushing HHS to approve a waiver that would allow Wisconsin to use federal match dollars from the Children's Health Insurance Program (CHIP) to provide insurance coverage for parents as well as

children. Thompson has broad support in Wisconsin for this proposal (including among some traditionally Democratic constituencies), and last week Senators Lott and Roth sent a letter to Secretary Shalala saying that she should grant the waiver and suggesting that they would seek legislation next year if she did not do so. HHS so far has refused to approve any waivers from CHIP, reasoning that we should first get the baseline program off the ground. HHS also has serious substantive objections to Thompson's proposal, believing that CHIP dollars were designed for children rather than adults, and that granting waivers of this kind could prevent us from reaching our goal of covering five million children. Many supporters of the CHIP program in Congress agree with HHS, including Senators Hatch, Rockefeller, Jeffords, and Chafee and Congressmen Dingell and Waxman. We believe that HHS should refuse the waiver request and work with this bipartisan group of legislators to try to defeat any legislative attempt to reverse this ruling.

4. Health -- Statistics on Uninsured: You asked last week about the increase in the uninsured population since 1993. About 43.4 million Americans are now uninsured, up almost 10 percent from 39.7 million in 1993. Among the total number of uninsured are 10.7 million children, up from 9.6 million in 1993. As we noted last week, the number of uninsured children did not increase at all last year, in part because of our focus on children's health. We anticipate that within two years, we will see a noticeable decline in the number of uninsured children as a result of the full implementation of CHIP. In contrast, the number of uninsured people ages 55 to 64 increased by 7 percent last year, validating the need for your initiative to increase coverage options for this population. We will soon send you a more detailed memo shortly describing the new Census data and outlining additional policy options.

5. Health -- Dean Ornish: We have worked with Dr. Ornish in recent weeks to obtain funding for his research on the impact of diet on prostate cancer. The conference report on the DOD appropriations bill now includes \$2.5 million for this research initiative. Although Ornish had hoped for a \$5 million grant, he was very pleased with this amount. Ornish also has requested that we provide assistance in his ongoing efforts to obtain Medicare reimbursement for his diet treatment plan. Ornish will meet with high-level officials at HCFA later this month to discuss this issue, and we will ensure that they give his proposal full and fair consideration. We also discussed ways for him to engage members and staff of the Medicare Commission on this issue. Ornish is pleased with the Administration's responsiveness and asked us to pass along his personal appreciation to you.

6. Education -- Charter Schools: We are hopeful that Congress will pass charter school legislation prior to adjourning this year. House and Senate staff met last week to pre-conference the bill, and reached agreement on virtually every issue. We think that they will finish their work within the next few days, and that the leadership then will bring up the bill for a vote. The NEA and AFT continue to be lukewarm to the legislation, but we do not now anticipate that any Democrats will try to derail it.

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7. Education -- Class Size Reduction: We are talking with Democrats in Congress about whether to insist on a scaled-down class size reduction initiative in the Labor-HHS-Education appropriations bill. Senators Murray and Harkin have developed a proposal to provide \$500 million in new Title 1 funds specifically for class size reduction. Secretary Riley believes that if we push hard enough, we can get the Republicans to sign on to this kind of proposal. Senate Democrats appear supportive of this approach. House Democrats, however, have sent mixed signals about whether to get a class size initiative in the bill or leave it out and preserve a campaign issue. We will continue to engage them on this matter.

8. Welfare Reform -- Noncustodial Fathers Study: The Manpower Demonstration Research Corporation released last week the first full-scale study of a program focusing on the non-custodial fathers of children on welfare (the Parents' Fair Share program, which was created by the Family Support Act). The results were generally disappointing. The program, which operated in 7 cities, raised child support payments by an average of \$173 or 7 percent, but failed to improve participants' employment status or earnings level. We are currently holding discussions with policy experts and government officials to try to find more effective approaches. Many states are using their Welfare-to-Work funds to serve the fathers of children on welfare, and we want to make sure that these funds are put to the best possible uses. We are hoping to have policy proposals ready for this year's budget and State-of-the-Union.

9. Welfare Reform -- Federal Welfare-to-Work Hiring Numbers: Federal agencies hired 926 former welfare recipients last month, bringing the total number hired to 7,087 since April 1997. As you recall, our goal is to hire 10,000 welfare recipients by the year 2000, so we are well on our way to success in this area.

10. Crime -- COPS Grants: You asked last week about the total number of law enforcement officers that the COPS program has funded. The program now has provided \$5.2 billion to fund over 88,000 new and redeployed officers across the country. We will probably reach the 100,000 mark ahead of schedule -- in the middle of Fiscal Year 1999, rather than at the end of Fiscal Year 2000. As you know, however, there is a lag of about 18 months between the time funding is provided to hire police officers and the time the officers actually hit the street.

11. Crime -- NAPO Event: You are currently scheduled to participate in the NAPO Top Cops Award ceremony on Friday. Although we are still considering message options, we probably will recommend that you blast Congress for failing to pass legislation that would extend education benefits to surviving children of law enforcement officers killed in the line of the duty, despite widespread bipartisan support. At the same time, you could criticize Congress for failing to pass a host of measures that would continue our progress in fighting crime.

*OKS with
- Home improvement*

12. Drugs -- Medical Marijuana: Five states (AK, WA, OR, NV, CO) and the District of Columbia have medical marijuana initiatives on their ballots for November 3. We are working with ONDCP and other federal agencies on a targeted media and outreach strategy to inform the public about the Administration's position on this issue. The strategy will place special emphasis on D.C.'s medical marijuana initiative, and will include communications to local opinion leaders, elected officials, churches, and law enforcement officials. There are currently eight states with medical marijuana statutes.

13. Children and Families -- Head Start Reauthorization: We expect that Head Start Reauthorization (part of the Community Services bill that also includes LIHEAP and IDA demonstrations) will pass by the end of next week. The bill coming out of conference is generally quite good -- authorizing the program at levels near your request and adding an important new "school readiness" goal for Head Start grantees. The bill does include a requirement -- championed by Congressman Goodling and insisted upon by the Republicans in conference -- that a greater percentage of Head Start dollars be spent on activities to promote quality. Currently, 25 percent of dollars are set aside for quality improvement; this bill requires that 60 percent be set aside in fiscal year 1999, 50 percent in 2000, 47.5 percent in 2001, 35 percent in 2002, and 25 percent in 2003. Unless we obtain additional investments in Head Start in the future, this requirement will prevent us from reaching our goal of serving one million children by 2002.

14. Community Empowerment -- CDFI Fund: The CDFI Fund awarded \$75 million to 190 institutions last week. Of the total, \$44 million in loans and grants went to 42 CDFIs in 21 states, \$2.9 million in technical assistance grants went to an additional 70 CDFIs, and \$27.9 million went to traditional insured depository institutions that have increased their lending to distressed areas or invested in CDFIs. We are working closely with Treasury to ensure appropriate funding of your Fiscal Year 1999 CDFI budget request.