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Bipartisan Budget Agreement

May 15, 1997

FINAL VERSION
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Bipartisan Budget Agreement between the President and the Leadership of Congress

1. The elements of this Bipartisan Budget Agreement provide for deficit reduction amounts that are estimated to result in a Balanced Budget by fiscal year 2002.

2. The Bipartisan Budget Agreement is approved by the President, the Speaker of the House of Representatives, the Senate Majority Leader, and the Senate Minority Leader. The President and the Congressional leadership agree to engage in a coordinated effort seeking to enact the Bipartisan Budget Agreement. Their coordinated effort shall seek to produce support for the Agreement by a majority of Democrats and Republicans in both the House and the Senate. This agreement represents commitments to good faith efforts; it does not purport to amend or suspend rules of the House or Senate. If bills, resolutions, or conference reports are deemed to be inconsistent, remedial efforts shall be made by all parties to assure consistency. Such efforts shall include bipartisan Leadership consultation and concurrence on amendments and scheduling as necessary.

3. Agreed upon budget levels are shown on the tables included in this agreement, including deficit reduction levels, major category levels for discretionary, mandatory, and tax and receipt changes.

4. Discretionary priority spending will be protected by the amounts set forth in this Agreement.

5. Agreed budget process items will be included in the budget resolution (as appropriate) and reconciliation, and are set forth in the budget process description included in this Agreement.

6. An increase in the debt limit sufficient to extend the limit at least to December 15, 1999 will be included in a reconciliation bill carrying out this Agreement.

7. Both Houses shall pass the 1998 budget resolution with reconciliation instructions fully reflecting the Bipartisan Budget Agreement. Such budget resolution shall contain 602(a) allocations consistent with this Agreement and shall instruct appropriate Committees to report, with or without a recommendation, legislation necessary to implement this Agreement. Conference reports on the reconciliation bills and appropriations bills that reflect the Bipartisan Budget Agreement shall be voted in both houses of Congress.

8. It is the intention of the leaders that Congress shall present the revenue reconciliation bill to the President after the spending reduction reconciliation bill. This assumes a good faith effort by all parties to enable such a legislative process to succeed.

9. If during the reconciliation process it is determined that the target of a balanced budget in fiscal year 2002 cannot be achieved, all parties to the agreement commit to seeking additional savings necessary to achieve balance.

10. To the extent possible, efforts will be exercised to exclude other mandatory savings and appropriations riders unacceptable to the Congressional Leadership or the Administration, as so identified in official Administration announcements, letters, Statements of Administration Policy, or other communications.

SUMMARY OF DEFICIT REDUCTION IN BUDGET RESOLUTION MARK

(Dollars in billions)

	1997	1998	1999	2000	2001	2002	5-Yr Total
Baseline deficits a/	67	89	109	121	95	105	
Discretionary:							
Defense	--	-3	-10	-18	-18	-28	-77
Nondefense	--	-1	-3	-8	-17	-32	-61
Mandatory:							
Presidential initiatives	--	6	6	7	7	6	31
Medicare	--	-7	-17	-23	-29	-40	-115
Medicaid	--	--	-2	-2	-4	-6	-14
Other mandatory	--	-1	-6	-14	1	-19	-40
Revenues:							
Net tax relief	--	7	11	22	23	21	85
Total policy changes	--	1	-19	-36	-37	-99	-190
Debt service	--	0	-0	-2	-4	-7	-14
Total deficit reduction	--	1	-19	-38	-41	-106	-204
Resulting deficit/surplus	67	90	90	83	53	-1	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. Revenue reduction shown as positive because it increases the deficit.

a/ Baseline includes fiscal dividend, CBO revenue update, and assumes discretionary spending increases at the rate of inflation.

Prepared by SBC Majority Staff, 15-May-97

Long Range Summary, 1997-2007
(In billions of dollars)

	Agreement						Projections					Totals	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	'98-'02	'98-'07
Current Services Deficit	67.2	89.0	109.1	121.3	84.5	104.9	103.2	108.6	133.3	127.8	117.0		
Discretionary savings:													
Defense	--	-3.0	-9.9	-17.9	-18.3	-27.7	-32.1	-33.0	-34.0	-35.0	-36.1	-76.8	-247.0
Nondefense	--	-1.0	-2.5	-8.0	-17.4	-32.3	-36.5	-39.9	-42.8	-45.1	-47.5	-61.2	-272.8
Subtotal, discretionary savings	--	-4.0	-12.5	-25.9	-35.7	-59.9	-68.6	-72.9	-76.8	-80.1	-83.6	-138.0	-518.9
Mandatory savings:													
Medicare, net	--	-6.5	-16.8	-22.7	-29.0	-40.0	-50.0	-60.0	-65.0	-70.0	-74.0	-116.0	-434.0
Medicaid, net	--	--	-1.5	-2.4	-3.6	-6.2	-7.1	-8.6	-10.2	-12.0	-13.9	-13.7	-65.5
Other mandatory													
Spectrum	--	--	-3.5	-3.5	-4.5	-14.8	-1.9	-1.0	-1.0	-1.0	-1.0	-26.3	-32.2
Other	--	-1.3	-2.1	-10.9	5.5	-4.4	-1.8	-3.2	-17.7	-4.9	12.3	-13.3	-28.2
Subtotal, mandatory savings	--	-7.8	-23.9	-39.5	-31.6	-65.4	-60.8	-72.8	-93.9	-87.9	-76.6	-168.3	-559.9
Debt service, net	--	0.0	-0.5	-2.0	-3.8	-7.4	-12.5	-18.2	-25.0	-32.5	-38.9	-13.6	-14[illegible].6
Subtotal, savings proposals	--	-11.8	-36.8	-67.4	-71.1	-132.8	-141.6	-163.9	-195.5	-200.5	-200.0	-319.9	-1,221.4
Domestic initiatives	--	5.9	6.1	6.7	6.5	6.0	6.6	7.0	7.0	7.0	7.0	31.2	65.8
Net tax cut	--	7.4	11.3	22.4	23.4	20.5	27.2	28.5	31.4	36.2	41.8	85.0	249.9
Total changes	--	1.5	-19.4	-38.3	-41.2	-106.3	-107.8	-128.4	-157.1	-157.3	-151.4	-203.7	-905.7
Resulting deficit/surplus (-)	67.2	90.4	89.7	83.0	53.3	-1.3	-4.6	-19.8	-23.9	-29.5	-34.4		

NOTE: 2000 and 2005 have 13 benefit payments and 2001 and 2007 have 11. The baseline has been adjusted to reflect normalization to 12 benefit payments in each year.

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Domestic Initiatives and Restorations in Agreement

(in billions of dollars)

	1998	1999	2000	2001	2002	5-year total
Assistance to immigrants:						
Elderly/Disabled						
Medicaid	0.4	0.4	0.3	0.3	0.3	1.7
SSI	1.7	1.6	1.6	1.2	1.2	7.5
Disabled kids (SSI only)[1]	0.1	0.1	0.1	0.1	0.1	0.3
Refugees/asylees	0.0	0.0	0.0	0.0	0.0	0.2
Subtotal, immigrants	2.2	2.2	2.0	1.7	1.6	9.7
Nutrition assistance:						
Add work slots for 18-50's	0.2	0.2	0.2	0.2	0.2	1.0
15% exemption for 18-50's	0.1	0.1	0.1	0.1	0.1	0.5
Subtotal, nutrition assistance	0.3	0.3	0.3	0.3	0.3	1.5
Welfare to work add to TANF	0.7	0.7	1.0	0.6	--	3.0
Subtotal, immigrants, nutrition, and work	3.2	3.3	3.4	2.4	2.0	14.2
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0
Federal land acquisition & exchange[2]	0.3	0.2	0.2	0.1	--	0.7
Environmental reserve	0.2	0.2	0.2	0.2	0.2	1:0
Offset low-income Medicare premiums	0.2	0.3	0.3	0.3	0.4	1.5
Total, Domestic Initiatives and restorations	6.3	6.6	7.3	7.0	6.5	33.6

1/ Medicaid costs reflected in elderly/disabled medicaid line

2/ Discretionary

Agreement on Discretionary Funding

(In millions of dollars)

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For functions specified below, implementing legislation will protect the function levels.

	FY 1998 BA	FY 1998 OL	FY 1999 BA	FY 1999 OL	FY 2000 BA	FY 2000 OL	FY 2001 BA	FY 2001 OL	FY 2002 BA	FY 2002 OL
-- National Defense	269,000	266,823	271,500	266,518	276,367	268,995	281,847	270,88	289,610	273,100
n-Defense Discretionary	257,857	286,445	261,499	292,803	261,826	295,270	260,185	293,73	261,464	287,699
al Discretionary	526,857	553,268	532,999	559,321	537,193	564,265	542,032	564,36	551,074	560,799
tected Functions:										
150 -- International Affairs	19,038	19,179	18,601	18,842	18,533	18,809	18,348	18,50	18,218	18,442
300 -- Natural Resources and Environment	22,807	21,393	22,222	21,857	21,568	21,944	21,185	21,82	21,152	21,472
400 -- Transportation	13,556	38,267	14,974	38,933	14,788	39,310	15,066	39,48	16,347	39,418
500 -- Education, Training, Employment and Social Services	46,721	43,185	47,015	46,107	47,858	47,065	48,478	47,78	49,199	48,559
750 -- Administration of Justice	24,405	22,170	24,795	24,191	23,887	24,998	24,094	25,60	24,675	24,713
Subtotal, Protected Functions	126,527	144,194	127,607	149,730	126,632	152,125	127,170	153,24	128,591	152,604
All Other	400,330	409,074	405,392	409,591	410,561	412,140	414,862	411,12	422,483	408,195
al Discretionary Spending	526,857	553,268	532,999	559,321	537,193	564,265	542,032	564,36	551,074	560,799

	FY 1998 BA	FY 1998 OL	FY 1999 BA	FY 1999 OL	FY 2000 BA	FY 2000 OL	FY 2001 BA	FY 2001 OL	FY 2002 BA	FY 2002 OL
Anomalies Included Above:										
Subsidized Housing (Function 600)	5,682	---	9,652	---	12,047	---	13,295	--	14,504	---
Fixed Assets (Up-Front Funding and Advance Appropriations):										
050 -- Defense	2,218	---	---	---	---	---	---	--	---	---
250 -- General Science, Space, and Technology	---	---	2,735	---	2,226	---	1,817	--	1,271	---
270 -- Energy	110	---	52	---	8	---	---	--	---	---
300 -- Environment	51	---	581	---	458	---	253	--	84	---
370 -- Commerce and Housing Credit	---	---	724	---	551	---	480	--	375	---
400 -- Transportation	---	---	675	---	724	---	424	--	208	---
550 -- Health	---	---	129	---	71	---	---	--	---	---
750 -- Administration of Justice	---	---	48	---	---	---	---	--	---	---
800 -- General Government	---	---	500	---	---	---	---	--	---	---
Total, Anomalies	8,061	---	15,096	---	16,085	---	16,269	--	18,440	---
tal Discretionary Less Anomalies	518,796	553,268	517,903	559,321	521,108	564,265	525,763	564,36	534,634	560,799

Protected Domestic Discretionary Priorities

(Funded at levels proposed in the President's FY 1998 budget.)

Department of Commerce

- National Institute of Standards and Technology (NIST)

Department of Education

- Education Reform (includes Technology Literacy Challenge Fund)
- Bilingual and Immigrant Education
- Pell ($300 increase in 1998 maximum award amount, to $3,000)
- Child literacy initiatives consistent with the goals and the concepts of the President's America Reads program.

Department of Health and Human Services

- Head Start

Department of the Interior

- National Park Service: Operation of the National Park System, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers)
- Bureau of Indian Affairs, Tribal Priority Allocations

Department of Labor

- Training and Employment Services, including Job Corps

Department of Treasury

- Community Development Financial Institution Fund

Environmental Protection Agency

- EPA Operating Program
- Superfund appropriations will be at the President's level if policies can be worked out.

Violent Crime Reduction Trust Fund, including COPS

Spectrum Auctions

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Spectrum	---	-3.5	-3.5	-4.5	-14.8	-26.3	-32.3

Note: Estimates for 1998-2002 were developed by the Congressional Budget Office (CBO). CBO has not formally provided estimates for 2003-2007. Tentative estimates for 2003-2007 are provided.

Four auction proposals and a penalty fee are assumed with expected receipts totaling $26.3 billion over five years and $32.3 billion over ten years (CBO scoring).

1. Auction of 78 Megahertz (MHz) of spectrum currently allocated to analog broadcasting: Codify current Federal Communications Commission (FCC) plans to reclaim surplus "analog" broadcast spectrum after broadcasters have migrated to new digital channels.

2. Auction of 36 MHz of spectrum currently allocated to television channels 60-69: 24 MHz will be reserved for public safety uses (e.g., police and emergency vehicle communications).

3. Broaden and Extend FCC Auction Authority: Expand the FCC's current authority to auction non-broadcast spectrum and extend FCC auction authority beyond 1998, when it currently expires. This proposal continues a policy to allocate spectrum via auctions.

4. Auction "Vanity" Toll Free Telephone Numbers: Authorize the FCC to award new generations of toll-free vanity telephone numbers (e.g., 1-888-BALANCE) through an auction.

5. Spectrum Penalty: As authorized by current law, a penalty fee would be levied against those entities who received "free" spectrum for advanced, advertiser-based television services, but failed to utilize it fully.

Student Loans

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Total, Student Loan savings	- 241	- 240	- 151	- 81	- 1,050	- 1,763	- 1,996

The Agreement provides for outlay savings of $1.763 billion over five years and $1.996 billion over ten years from the student loan programs:

- savings will be achieved without increasing costs, reducing benefits, or limiting access to loans for students and their families
- savings will be derived as follows:

  (a) $1,000 million over five years from guaranty agency reserves

  (b) $603 million over five years, and $606 million over ten years, from section 458.

  (c) $160 million over five years and $390 million over ten years from elimination of the $10 per loan fee paid to institutions participating in the direct loan program.

Civil Service Retirement

(deficit reduction in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Increased Agency Contributions	-597	-591	-586	-582	-577	-2,933	-2,933
Increased Employee Contributions	---	-214	-423	-571	-621	-1,829	-1,985

- Increase agency contributions (except Postal Service and D.C.) for Civil Service Retirement System (CSRS) by 1.51 percentage points effective October 1, 1997 through September 30, 2002.
- Phase in increased employee contributions to the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS).
- Employee contributions would increase 0.25 percentage points January 1, 1999; an additional 0.15 percentage points January 1, 2000; and a final 0.10 percentage points for a total cumulative increase of 0.50 percentage points January 1, 2001. Increased contributions remain in effect through December 31, 2002.
- Legislation provides that agency contributions to FERS would remain unaffected by this change.
- The CBO March Baseline is explicitly assumed for all Civil Service Retirement options, including any potential FEHB options.

U.S. Postal Service

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
End Transitional Payment for Worker's Compensation	---	-25	-33	-32	-31	-121	-261

- The proposal would repeal the payment to the U.S. Postal Service (USPS) to finance workers compensation benefits for employees injured before the USPS was created in 1971. USPS would be required to pay these costs out of the Postal Fund.

Veterans Home Loan Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Allow VA to use refund offset to collect deficiency balances...	-90	0	0	0	0	-90	-90

- This provision would allow VA to collect outstanding VA loan guaranty debts by Federal salary offset or Federal income tax offset. Currently VA is prohibited from using non-VA Federal offsets to satisfy debts unless the debtor consents in writing, or if a court has determined that the debtor is liable to VA for the deficiency.

- This will save the program $90 million in outlays in the first year of implementation.

Veterans Compensation Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Round down monthly compensation benefits after applying COLA	-23	-51	-88	-101	-128	-391	-1,469

- Authorizes VA to permanently round-down monthly compensation benefit payments to the nearest dollar after applying the annual COLA in each year, an extension of current law.

- The practice of rounding down monthly benefit checks is consistent with all other major pension programs including veterans pensions and military and civilian retirement benefits.

Medical Care Cost Recovery

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Mandatory Admin. Savings from moving receipts to discretionary	-118	-123	-128	-133	-139	-641	-1,427

- This proposal allows Medical Care to retain user fees to offset the cost of care provided in VA facilities. Currently, all receipts in excess of administrative costs are returned to Treasury. Under this structure, the administrative costs of debt collection are mandatory spending. Allowing the discretionary VA Medical Care account to retain all of these receipts and fund the cost of this activity out of its collections will result in a mandatory savings of $641 million over five years and $1,427 million over ten years.

Veterans Pension Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extension of OBRA Provisions for VA Pensions (See Note 1)	---	-133	-211	-143	-190	-677	-1,866

There are two OBRA savings provisions related to the veterans pension program. The overwhelming majority of the above savings are attributed to the $90 benefit limit described below.

- This provision extends the current limitation on VA pension benefits to Medicaid-eligible recipients in nursing homes. Under this provision veterans get to keep a greater monthly benefit (the $90 VA benefit). The full cost of the beneficiaries' nursing home care would be paid by the Medicaid program, where costs are shared with the states.

- This provision extends the authorization for VA to match income information submitted by beneficiaries with IRS and SSA records.

Note 1: The savings reflected in the table are net of Medicaid costs.

Veterans Housing Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Loan Asset Sale Authority	-5	-5	-5	-5	-5	-25	-50

- This provision would extend VA's authority to guarantee VA securities issued in the secondary market directly, thereby enhancing their value.

- To cover obligations of VA's home loan program, VA secures its direct or "vendee" loans and guarantees the certificates sold to investors. VA has its own securitization vehicle which issues multiple-class pass-through securities and is taxed as a Real-Estate Mortgage Investment Conduit (REMIC). VA's REMIC currently carries the full faith and credit of the United States.

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Higher Loans Fees/Resale Loss Provisions (OBRA) & increase home loan fees for non-veterans	-11	-228	-227	-224	-219	-909	-1,993

This includes two proposals—extend OBRA provisions and increase the fee for non-veterans financing through "vendee" loans.

- The OBRA provisions permanently extend three provisions that sunset September 30, 19998. This extends VA's authority to:

  1) charge borrowers using VA's home loan guaranty program a 2% instead of a 1.25% fee,
  2) charge veterans who use the loan guarantee benefit more than once a funding fee of 3 percent to reduce losses, and
  3) include expected losses on the resale of foreclosed properties.

- Second, this provision increases the fee for non-veterans using VA's vendee loan program to match FHA fees. When VA takes possession of properties resulting from defaulted veterans loans, the homes are ultimately sold to the general public. VA finances these properties through its vendee loan program, charging fees that are lower than those offered to veterans. This provision would raise these fees to 2.25% -- the same up-front funding fee that the general public pays for FHA loans.

FHA Assignment Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend FHA Assignment	-136	-145	-147	-128	-110	-666	-1,126

- This assumes continuation of current law policy to provide FHA with tools to encourage lenders to forbear for only up to 1 year. This would improve the targeting and efficiency of HUD's current program, and allow FHA homeowners experiencing temporary economic distress to stay in their homes.

Vessel Tonnage Duties

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Vessel Tonnage Fees	---	-49	-49	-49	-49	-196	-441

- This proposal would extend vessel tonnage duties at their current levels through 2002. These duties, which would otherwise be reduced after 1998, are collected by the U.S. Customs Service from commercial vessels entering U.S. ports from foreign ports, based on their cargo-carrying capacity.

Lease of Excess Strategic Petroleum Reserve Capacity

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Lease Excess SPR Capacity	---	-1	-2	-4	-6	-13	-43

- Proposal would lease excess Strategic Petroleum Reserve storage capacity to foreign nations for storage of their crude oil.

- Proposal assumes that a total of five million barrels of oil are stored with a fee of $1.20 per barrel.

Unemployment Trust Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Raise UTF Ceilings	---	---	-200	-208	-216	-624	-624

- Increases the ceilings of the Federal FUTA-funded accounts in the Unemployment Trust Fund to increase trust fund solvency.

Unemployment Benefits

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
UI Benefits Integrity	-118	-158	-160	-162	-165	-763	-1,658

- Provides savings in mandatory unemployment insurance (UI) benefits due to increased discretionary spending on UI integrity activities (e.g., increased eligibility reviews, tax audits).

- Assumes President's Budget requested level of funding for UI integrity ($89 million in 1998) is provided in addition to continuing integrity activities already funded in the base UI administrative grants to obtain these savings.

VA Medical Care Cost Recovery and SSA User Fees

(in millions of dollars)

		1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Estimated spending associated with the VA user fee proposal:								
	BA	604	628	654	681	710	3,277	7,282
	OL	544	620	651	678	707	3,200	7,788
Estimated spending associated with the SSA user fee proposal:								
	BA	35	75	80	90	100	380	1,065
	OL	33	73	80	89	99	374	1,054

The proposals described below are included in the 1998 Budget and are assumed in the Budget Agreement.

<u>VA Medical Care Cost Recovery Fees</u>

- The 1998 Budget included a proposal to shift existing offsetting receipts from the mandatory side to the discretionary side. The Agreement assumes that Medical Care Cost Recovery fees are available to support domestic discretionary spending associated with VA Medical Care.

- The shift of the offsetting receipts from mandatory spending to discretionary spending has been incorporated into the Budget Committee's adjusted baseline.

<u>SSA Fees</u>

- The Agreement assumes a proposal to increase existing fees to offset SSA-related spending.

Earned Income Tax Credit

(deficit reduction savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Earned Income Tax Credit	---	-13	-36	-37	-38	-124	-332

- Treasury announced a package of legislative initiatives in April concurrent with the release of an IRS study on EITC noncompliance levels. Final scoring is not available.
- Other mutually acceptable EITC reforms targeted to reducing noncompliance and fraud may also be considered within these total savings targets.

The Smith-Hughes Act of 1918

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Repeal appropriations under Smith Hughes	-1	-7	-7	-7	-7	-29	-64

- Eliminate the mandatory appropriation under the Smith-Hughes Act of 1918 in favor of increased discretionary spending on job training and vocational education in the Administration's GI Bill for America's Workers.
- Eliminating this program would save $29 million over five years and $64 million over ten years.
- Activities funded under the Smith-Hughes Act can be supported by the Department of Education's vocational education program.

Environmental Reserve Fund

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Orphan share spending	200	200	200	200	200	1,000	2,028

- The proposal would provide new mandatory spending for orphan shares at Superfund hazardous waste cleanup sites. Orphan shares are portions of financial liability at Superfund sites allocated to non-Federal parties with limited or no ability to pay.
- The funds will be reserved for this purpose based on the assumption of a policy agreement on orphan share spending.

Priority Federal Land Acquisitions and Exchanges

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Priority Federal Land Acquisitions and Exchanges	300	150	150	100	--	700	700

- Under this proposal, up to $315 million would be available from the Land and Water Conservation Fund (LWCF) to finalize priority Federal land exchanges in FY 1998 and FY 1999.
- Funding from the LWCF for other high priority Federal land acquisitions and exchanges (totaling $385 million) would be available in fiscal years 1999 through 2001.
- The funding will be allocated to function 300 as a reserve fund exclusively for this purpose.

Major Mandatory Programs

Medicare

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicare, net	-6.5	-16.8	-22.7	-29.0	-40.0	-115.0	-434.2

- Reduce projected Medicare spending by $115 billion over five years.
- Extend solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms (including the home health reallocation).
- Structural reforms will include provisions to give beneficiaries more choices among competing health plans, such as provider sponsored organizations and preferred provider organizations.
- The Medicare program reforms provide beneficiaries with comparative information about their options, such as now provided Federal employees and annuitants in the FEHB program.
- Maintain the Part B premium at 25 percent of program costs and phase in over seven years the inclusion in the calculation of the Part B premium the portion of home health expenditures reallocated to Part B.
- Reform managed care payment methodology to address geographic disparities.
- Reform payment methodology by establishing prospective payment systems for areas such as home health providers, skilled nursing facilities, and outpatient departments.
- Funding for new health benefits including: (1) expanded mammography coverage; (2) coverage for colorectal screenings; (3) coverage for diabetes self-management; and (4) higher payments to providers for preventive vaccinations to the extent it will lead to greater use by beneficiaries. Invest $4 billion over five years (and $20 billion over ten years) to limit beneficiary copayments for outpatient services, unless there is a more cost-effective way to provide such services to beneficiaries as mutually agreed.

Medicaid

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicaid, net	0.0	-1.5	-2.4	-3.6	-6.2	-13.6	-65.5

- Include net Medicaid savings of $13.6 billion over five years.
- Net Medicaid savings include a higher match for D.C., an inflation adjustment for programs in Puerto Rico and other territories, Part B premium interactions, and $1.5 billion to ease the impact of increasing Medicare premiums on low-income beneficiaries.
- The $13.6 billion in Medicaid savings do not reflect the health care investments for children's coverage, protections for legal immigrants under welfare reform, or the extension of veterans' Medicaid income protections.
- Savings derived from reduced disproportionate share payments and flexibility provisions.
- Include provisions to allow States more flexibility in managing the Medicaid program, including repeal of the Boren amendment, converting current managed care and home/community-based care waiver process to State Plan Amendment, and elimination of unnecessary administrative requirements.

Immigration, Nutrition Assistance and Work

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Immigrants	2.2	2.1	2.0	1.6	1.6	9.7	16.5
Nutrition Assistance	0.3	0.3	0.3	0.3	0.3	1.5	3.1
Welfare to Work	0.7	0.7	1.0	0.6	---	3.0	3.0
Total	3.2	3.3	3.4	2.5	2.0	14.2	22.5

Immigrants

- Eligibility for legal immigrants. Restore SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996. Those disabled legal immigrants who entered the U.S. after August 22, 1996, and are on the rolls before June 1, 1997 shall not be removed.

- Refugees and asylees. Lengthen the exemption for refugees and asylees from the first 5 years in the country to 7 years in order to provide SSI and Medicaid.

Nutrition Assistance

- Redirect existing food stamps employment and training funds and add $750 million in new capped mandatory funding to create additional work slots for individuals subject to the time limits.

- Permit States to exempt 15 percent of the individuals who would lose benefits because of the time limits (beyond the current waiver policy), at a total cost of $0.5 billion.

Welfare to Work

- Add $3.0 billion in capped mandatory spending through 2001 to TANF, allocated to States through a formula and targeted within a State to areas with poverty and unemployment rates at least 20 percent higher than the State average. A share of funds would go to cities/counties with large poverty populations commensurate with the share of long-term welfare recipients in those jurisdictions.

Children's Health

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0	38.9

- Spend $16 billion over five years (to provide up to 5 million additional children with health insurance coverage by 2002)

- The funding could be used for one or both of the following, and for other possibilities if mutually agreeable:

    1. Medicaid, including outreach activities to identify and enroll eligible children and providing 12-month continuous eligibility; and also to restore Medicaid for current disabled children losing SSI because of the new, more strict definition of childhood eligibility; and

    2. A program of capped mandatory grants to States to finance health insurance coverage for uninsured children.

- The resources will be used in the most cost-effective manner possible to expand coverage and services for low-income and uninsured children with a goal of up to 5 million currently uninsured children being served.

Budget Process

- Extend discretionary caps to 2002.
  - Extend and revise discretionary caps for 1998-2002 at agreed levels shown in tables included in this agreement, and extend current law sequester enforcement mechanism.
  - Within discretionary caps, establish separate categories (firewalls) for Defense and Non-Defense Discretionary (NDD) at agreed levels shown in agreement tables for each year 1998-1999 with associated sequester firewall enforcement as provided in BEA for 1990-93.
  - Retain current law on separate crime caps (VCRTF) at levels shown in agreement tables.
  - Extend and update special allowance for outlays; extend existing adjustment for emergencies.
  - Cap adjustment for exchanges of monetary assets, such as New Arrangements to Borrow, and for international organization arrears.
- Extend PAYGO to 2002.
- Revise the asset sales rule, which prohibits scoring the proceeds of asset sales, to score if net present value of all associated cash flows would not increase the deficit; scoring, if allowed, based on cash effect, not NPV.
- The Superfund tax shall not be used as a revenue offset.
- Reduce paygo balances to zero, including those derived from budget agreement.
- Provide for debt limit increase sufficient to extend limit to December 15, 1999.

Congress of the United States
Washington, DC 20515

May 15, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20515

Dear Mr. President:

We would like to take this opportunity to confirm important aspects of the Balanced Budget Agreement. It was agreed that the net tax cut shall be $85 billion through 2002 and not more than $250 billion through 2007. We believe these levels provide enough room for important reforms, including broad-based permanent capital gains tax reductions, significant death tax relief, $500 per child tax credit, and expansion of IRAs.

In the course of drafting the legislation to implement the balanced budget plan, there are some additional areas that we want to be sure the committees of jurisdiction consider. Specifically, it was agreed that the package must include tax relief of roughly $35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package should be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in the Administration's FY 1998 budget to assist middle-class parents.

Additionally, the House and Senate Leadership will seek to include various proposals in the Administration's FY 1998 budget (e.g., the welfare-to-work tax credit, capital gains tax relief for home sales, the Administration's EZ/EC proposals, brownfields legislation, FSC software, and tax incentives designed to spur economic growth in the District of Columbia), as well as various pending congressional tax proposals.

In this context, it should be noted that the tax-writing committees will be required to balance the interests and desires of many parties in crafting tax legislation within the context of the net tax reduction goals which have been adopted, while at the same time protecting the interests of taxpayers generally.

We stand to work with you toward these ends. Thank you very much for your cooperation.

Sincerely,

Newt Gingrich

Newt Gingrich
Speaker

Trent Lott

Trent Lott
Senate Majority Leader

Congress of the United States
Washington, DC 20515

May 15, 1997

Mr. Erskine Bowles
Chief of Staff to
the President
The White House
Washington, D.C. 20502

Dear Mr. Bowles:

We are writing to express our desire for continued cooperation between Congressional staff and the staff of the various Administration agencies during the development of the current budget agreement.

Much of the most difficult work in connection with the budget agreement will involve the development of the revenue provisions that will satisfy the parameters of the agreement. Historically, the staff of the Joint Committee on Taxation has provided technical legal and quantitative support to the House and Senate. The Budget Act *requires* the use of Joint Committee on Taxation revenue estimates. Ken Kies and his staff are committed to facilitating our work on the tax provisions of this budget agreement. You can be assured that they will cooperate with Administration counterparts in receiving Administration input as they carry out their statutory responsibilities.

The revenue estimating staffs of the Joint Committee on Taxation and the Office of Tax Analysis at Treasury have a long history of cooperation and communication among analysts. It is our understanding that steps have already been taken to insure that the cooperative efforts of these two staffs will be intensified during the current budget process. It is also our understanding that the professional staffs at the Office of Tax Analysis at Treasury and the Joint Committee on Taxation will consult and share information necessary to understand fully the basis of their revenue estimates and to minimize revenue estimating differences. The proposal shall not cause costs to explode in the outyears.

Now that we have agreed upon the overall parameters of this significant agreement, an inordinate number of details concerning specific provisions must be drafted and analyzed by the JCT and the committees of jurisdiction. We look forward to working with the Administration.

Sincerely,

Newt Gingrich
Speaker

Trent Lott
Senate Majority Leader

BAB

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

AUG 4 1997

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 2014 - Taxpayer Relief Act of 1997
Sponsor - Rep. Kasich (R) Ohio

Last Day for Action

August 13, 1997 - Wednesday. (If you decide to exercise the line-item veto authority with respect to any provision in H.R. 2014, the Treasury Department recommends that you do so "contemporaneously with the signing of the enrolled bill.")

Purpose

Enacts the tax provisions of the Bipartisan Budget Agreement.

Agency Recommendations

Office of Management and Budget	Approval (Signing statement attached)
Department of the Treasury	Approval (Signing statement attached)
Department of Agriculture	Approval
Department of Commerce	Approval (Informally)
Department of Housing and Urban Development	Approval (Informally)
Small Business Administration	Approval (Informally)
Department of the Interior	No objection (Informally)
Department of Labor	No objection (Informally)
Office of Personnel Management	No objection (Informally)
Department of Education	Defers (Informally)
Department of Energy	No comment (Informally)
Department of Health and Human Services	No comment (Informally)
Department of Justice	No comment (Informally)
Department of State	No comment (Informally)
Department of Transportation	No comment (Informally)
Department of Veterans Affairs	No comment (Informally)
Environmental Protection Agency (EPA)	No comment (Informally)

Discussion

This enrolled bill -- together with H.R. 2015, the "Balanced Budget Act of 1997" -- would implement the Bipartisan Budget Agreement announced on May 2, 1997. According to the Joint Committee on Taxation, this legislation (together with the tobacco tax provisions contained in H.R. 2015) will result in an estimated $95 billion in net tax reductions over five years (FYs 1998-2002) and $275 billion in net reductions by FY 2007. (This Office will not be scoring H.R. 2014 for pay-as-you-go purposes, consistent with the requirement of Section 10213 of H.R. 2015 that this Office not score this legislation. All estimates in this memorandum reflect preliminary congressional scoring.)

The enrolled bill identifies 79 provisions that are subject to the line item veto. The review of H.R. 2014 for purposes of the Line Item Veto Act by this Office and the Treasury is underway. If an item(s) is identified as potentially suitable for cancellation, this information will be provided to you separately.

Tax Credit for Dependent Children

H.R. 2014 establishes a tax credit of $400 for CY 1998 and $500 for CY 1999 and thereafter for each dependent child under the age 17. The credit would begin to phase out for married couples with adjusted annual gross incomes greater than $110,000 and for one-parent families with incomes greater than $75,000. The credit is calculated ("stacked") before the Earned Income Tax Credit (EITC) for families with one or two children. For families with three or more children, the credit is also refundable to the extent that payroll taxes exceed the EITC.

Education-Related Provisions

Tax Credits for Education Expenses. The enrolled bill establishes two different tax credits for education-related expenses. For each of the first two years of post-secondary education, a taxpayer may claim a "HOPE Scholarship" credit equal to 100 percent of the first $1,000 of eligible expenses and 50 percent of second $1,000 of eligible expenses paid by the taxpayer, the taxpayer's spouse, or a dependent child. A separate credit is available for each student in the taxpayer's household who is in the first two years of postsecondary education. The student must be enrolled on at least a half-time basis in a program leading to a recognized educational credential at an eligible educational institution.

The HOPE Scholarship credit is available for tuition and fees required to attend an eligible education institution. It is not available for expenses incurred to purchase books or for charges and fees associated with meals, lodging, student activities, athletics, insurance, or transportation. Expenses for room and board are also excluded. The credit is phased out for single taxpayers with adjusted gross incomes between $40,000 and $50,000 and between

$80,000 and $100,000 for joint filers. The HOPE Scholarship credit is effective with respect to payments made after December 31, 1997, for education furnished after that date.

The second tax credit, the "Lifetime Learning" credit, can be claimed for 20 percent of the first $5,000 of eligible expenses (defined in the same way as for HOPE Scholarships) generally through December 31, 2002, and 20 percent of the first $10,000 thereafter. The limits on eligible expenses apply regardless of the number of students in the taxpayer's household. As with the HOPE Scholarship credit, the Lifetime Learning credit can be claimed for expenses paid by the taxpayer, the taxpayer's spouse, or a dependent child. The credit is phased out over the same income range as the HOPE Scholarship credit. In contrast to the HOPE Scholarship credit, a taxpayer may claim the Lifetime Learning credit for an unlimited number of taxable years, graduate-level and professional courses, and expenses incurred while enrolled on less than a half-time basis. The Lifetime Learning credit is effective with respect to payments made after July 1, 1998, for education furnished after that date.

A taxpayer may claim either the HOPE Scholarship credit, the Lifetime Learning credit, or the exclusion from income of distributions from an Education IRA (see below) for each eligible student.

Education Individual Retirement Accounts (IRAs). H.R. 2014 creates an Education IRA, into which single taxpayers with incomes up to $95,000 and married couples with incomes up to $150,000 can contribute up to $500 per child. The account is held in the child's name. This $500 annual contribution is phased out for single taxpayers with adjusted gross incomes between $95,000 and $110,000 and for joint filers with incomes between $150,000 and $160,000. The contributions would not be tax deductible but earnings would accumulate tax-free, and distributions from Education IRAs would be excluded from income if they are used for post-secondary education expenses, including tuition, fees, books, supplies, equipment, and certain room and board expenses. The Education IRA provisions would take effect on January 1, 1998.

The enrolled bill also allows penalty-free withdrawals from regular IRAs for undergraduate, graduate, and post-secondary vocational expenses.

Other Education Provisions. In addition, the Taxpayer Relief Act:

- extends for three years the exclusion from taxable income of up to $5,250 of employer-provided undergraduate education benefits;

- allows a deduction for up to $2,500 per year, phased-in over four years, of interest on education loans for expenses of students enrolled at an institution of higher education;

- excludes from taxable income the amount of student loans forgiven by certain charitable or educational institutions in return for community service;
- repeals the $150 million cap for tax-free bonds issued by private higher education institutions and certain other charitable institutions;
- provides tax incentives for elementary and secondary public school repair and renovation in poor neighborhoods through "Education Zone Academy Bonds";
- enhances the charitable contribution deduction from income for corporate donations of computer equipment made berfore 2001 to schools and certain nonprofit organizations that support elementary and secondary education; and
- permits State prepaid tuition plans' earnings -- which are taxed only at the time of withdrawal -- to cover a student's room and board expenses, broadens the types of educational institutions eligible for such plans, and expands the definition of family members who can receive a tax-free rollover or transfer of balances from prepaid plans.

Individual Retirement Accounts (IRAs)

H.R. 2014 gradually increases the income level at which eligibility for deductible IRAs is phased out from the current range of $25,000-$35,000 to $50,000-$60,000 in 2005 for individuals and from $40,000-$50,000 to $80,000-100,000 in 2007 for couples. The bill permits deductible contributions for spouses of individuals who are in an employer-sponsored retirement plan. This deduction is phased out for taxpayers with incomes between $150,000 and $160,000.

Effective January 1, 1998, the enrolled bill creates new "Roth IRAs" into which taxpayers may make nondeductible contributions of up to $2,000 annually. The nondeductible contributions phase out for individuals with annual incomes between $95,000 and $110,000 and for couples with incomes between $150,000 and $160,000. The $2,000 contribution limit is indexed for inflation. Distributions of amounts held for at least five years in Roth IRAs are tax-free if they are made after the taxpayer meets certain other conditions. Tax-free withdrawals can also be made for expenses of a first-time homebuyer, subject to a $10,000 lifetime cap. (The enrolled bill also allows penalty-free withdrawals from existing IRAs for first-time home purchases.) Only taxpayers with incomes less than $100,000 are eligible to roll over or convert an IRA into a Roth IRA.

Capital Gains

H.R. 2014 allows couples to exclude from their taxable income up to $500,000 of gain from the sale or exchange of their principal residence; single taxpayers are permitted to exclude up to $250,000 of any gain. To be eligible to use the exclusion, a taxpayer must have owned and occupied the property as a principal residence for at least two of the five years prior to the sale or exchange. Taxpayers who cannot meet the two-year occupancy requirement due to a change in place of employment, health, or other unforseen circumstances, may exclude an amount that is proportionate to the period of the two years they did occupy the property. This exclusion could be used every two years.

The bill reduces the maximum capital gains rate for individuals to 20 percent (10 percent for taxpayers in the 15-percent bracket), effective May 7, 1997, for investments held for more than 18 months. The present maximum 28-percent rate will be retained for collectibles and, effective July 29, 1997, for assets held between one year and 18 months. Taxes on gains from assets sold after being held for more than five years are reduced further. Begining in 2001, taxpayers in the 15-percent brackets will be taxed at eight percent on these gains. Capital gains taxes on other taxpayers who sell an asset after holding it for five years will drop to 18 percent, beginning in 2006.

Alternative Minimum Tax

H.R. 2014 provides that depreciation on tangible personal property will be computed using shorter recovery periods than are now allowed for alternative minimum tax purposes.

Moving People Off Welfare

Welfare-to-Work Tax Credit. The enrolled bill provides employers a 35 percent credit on the first $10,000 of annual wages paid to long-term welfare recipients during their first year of employment and a 50 percent credit on the first $10,000 of annual wages during the second year.

The credit is limited to two years per eligible recipient. An employer could treat employer-paid education and training assistance, health care, and dependent care expenses as wages eligible for this credit.

Extend and Expand the Work Opportunity Tax Credit. H.R. 2014 extends from October 1, 1997, through June 30, 1998, the tax credit that employers can claim for the first $6,000 paid to individuals they hire from specific groups.

The enrolled bill also:

- adds SSI beneficiaries as an eligible group;

- establishes a two-tiered credit allowing a 25 percent credit for wages paid to a eligible person employed for 120-400 hours and a 40 percent credit for persons employed for 400 hours or more; and

- does not include the Administration's proposal to include as a target group childless able-bodied Food Stamp recipients ages 18-50 who are subject to the Food Stamp time limit and work requirements.

Distressed Areas Initiatives

Empowerment Zones. Effective January 1, 2000, the enrolled bill authorizes two additional urban Empowerment Zones (EZs) , which will receive the same tax incentives as EZs designated pursuant to the Omnibus Budget Reconciliation Act of 1993. The designation of these EZs must take place within 180 days of the bill's enactment and will generally be effective for ten years.

The bill also authorizes a new round of 20 competitively selected Empowerment Zones (15 in urban areas and 5 in rural areas). The designation of the additional EZs must take place before January 1, 1999, and will generally be effective for ten years. The new round of EZs will be selected using expanded eligibility criteria, and businesses located in these areas will receive a different mix of tax incentives than was available to earlier EZs.

Brownfields Cleanup. H.R. 2014 allows the immediate write-off of costs incurred to clean up environmentally contaminated land and buildings located in designated areas and used in a trade or business. The designated areas include: (1) Empowerment Zones and Enterprise Communities; (2) the 76 EPA Brownfields Pilot sites announced before February 1997; (3) a population census tract with a poverty rate of 20 percent or more; and (4) certain industrial and commercial areas that are adjacent to such tracts. This provision applies only to eligible expenditures incurred in taxable years ending after the date of enactment of the enrolled bill and before January 1, 2001.

Estate Tax Relief

The enrolled bill increases the unified credit, which is applied to the cumulative total of taxes on a taxpayer's gifts transferred during his or her lifetime and at death. This, in effect, increases the amount that a taxpayer can transfer free of gift and estate taxes from $600,000 to $1 million by 2006.

H.R. 2014 also establishes a new exemption for a taxpayer's interest in a family-owned farm or small business if that interest comprises more than half of a decedent's estate and certain other requirements are met. This exclusion for a family-owned business interests may be taken only to the extent that when combined with the unified credit, the total exclusion does not exceed $1.3 million.

Transportation Taxes

Airline Ticket Taxes. Effective October 1, 1997, H.R. 2014 lowers the current 10 percent excise tax on domestic airline tickets to 7.5 percent over two years and establishes a new fee to be charged for each flight segment (i.e., each takeoff) which increases from $1 in CY 1997 to $3 in CY 2002. The enrolled bill extends the departure tax on international flights and increases that tax from $6 to $12 per passenger. The bill imposes a new $12 arrival fee for international flights.

Amtrak Taxes. H.R. 2014 provides the National Railroad Passenger Corporation ("Amtrak") with a mechanism to receive a tax refund equal to approximately $2.3 billion by, in effect, carrying back net operating losses against the liability of Amtrak's railroad predecessors for all taxable years beginning before January 1, 1971. The bill requires Amtrak, in exchange, to agree to pay States that are not receiving Amtrak service one percent of the refund it receives and use the balance for equipment, rolling stock, and capital improvements. The enrolled bill requires that no refund based on this provision can be made unless Federal legislation is enacted to authorize reforms of Amtrak.

Highway Fuel Taxes. The enrolled bill requires the permanent 4.3-cents-per-gallon tax assessed against highway fuels to be transferred to the Highway Trust Fund. Currently, these funds are deposited in the General Fund. This provision will result in the earmarking of an additional $39.6 billion to the Highway Trust Fund over the next six years. These funds will be available only for highway and transit programs, subject to appropriations. The Treasury Department notes in its views letter that this provision "may spur efforts to move the trust funds off budget and create pressure to increase ground transportation spending to levels significantly higher than contemplated by the bipartisan budget agreement."

District of Columbia Taxes

H.R. 2014 designates economically depressed areas within the District of Columbia as the "D.C. Enterprise Zone," within which businesses and individual residents are eligible for special tax incentives. These incentives include: a 20 percent wage credit for the first $15,000 of wages paid to D.C. residents who work in the D.C. Enterprise Zone; immediate deduction of an additional $20,000 of expenditures for qualified zone property; and special tax-exempt financing for certain zone facilities.

The enrolled bill eliminates, for 10 years, the capital gains tax on the sale of qualified assets held for more than five years and located in any census tract within the District of Columbia in which the poverty rate is 10 percent or more.

The bill also provides first-time home buyers a tax credit of up to $5,000 for the purchase of a principal residence in the District of Columbia. This credit phases out for individual taxpayers with adjusted gross incomes between $70,000 and $90,000. For joint filers, the credit phases out between $110,000 and $130,000. The credit is available for residences purchased after the date of enactment and before January 1, 2001.

Small Business Tax Relief

H.R. 2014 provides that a home office qualifies as the "principal place of business" and, therefore, meets the requirement to claim a deduction for the business portion of expenses related to operating the home (e.g., a portion of rent or depreciation and repairs) if: (1) the office is used by the taxpayer to conduct administrative or management activities of a trade or business and (2) there is no other fixed location of the trade or business where the taxpayer conducts substantial administrative or management activities of the trade or business.

The enrolled bill repeals the corporate alternative minimum tax for small business corporations, generally corporations with less than $5 million in gross receipts, beginning after December 31, 1997.

The enrolled bill increases the percentage of health insurance premiums that self-employed individuals can deduct from their income to 100 percent by 2007. Current law permits a deduction of 40 percent of health insurance premiums in 1997, increasing to 80 percent in 2006.

Tobacco Taxes

The enrolled bill allows tobacco companies to apply the increased excise tax contained in the Balanced Budget Act of 1997 (H.R. 2015) toward the payments required under the proposed tobacco industry settlement agreement of June 20, 1997. H.R. 2015 increases the tax on a pack of cigarettes from 24 cents to 34 cents in CY 2000 and to 39 cents in CY 2002 to help fund the Children's Health Initiative.

Treasury Department Views

The Treasury Department recommends approval of H.R. 2014, noting that it contains versions of most of your tax-cut initiatives. According to Treasury, the enrolled bill passes the four tests that the Administration established for this legislation: (1) fiscal responsibility and avoidance of an explosion in out-year costs; (2) a fair balance of benefits for working Americans; (3) encouraging economic growth; and (4) consistency with the bipartisan budget agreement, including a significant expansion of opportunities for higher education.

Treasury notes that several objectionable provisions of the House and Senate versions of the bill, including tax incentives for primary and secondary school tuition and indexing of capital gains for inflation, were deleted in conference.

In its views letter, Treasury expresses reservations about certain provisions of the enrolled bill. Specifically, the capital gains provisions "would disproportionately benefit the wealthy;" the IRA provisions "will create a windfall for high-income individuals;" and the increase in the estate tax credit to $1 million "is too expensive and will be of no benefit to the vast majority of families." Treasury also states that the enrolled bill "will contribute significantly to complexity for taxpayers."

Treasury expresses disappointment over the omission from H.R. 2014 of several Administration proposals, including proposals to: (1) extend the excise tax exemption for ethanol; (2) stimulate investments in Community Development Financial Institutions; (3) facilitate restructuring the Nation's affordable housing portfolio; and (4) provide tax incentives for new economic activity in Puerto Rico.

Conclusion and Recommendations

We join Treasury and other interested agencies in recommending approval of H.R. 2014, which passed the House by a vote of 346-85 and the Senate by 92-8.

A signing statement is attached for your consideration. It has been reviewed and approved by the Departments of the Treasury, Agriculture, Education, Health and Human Services, and Transportation, and the Environmental Protection Agency, and the Small Business Administration.

(signed)

Franklin D. Raines
Director

Enclosures

STATEMENT BY THE PRESIDENT

I have today approved H.R. 2014, the Taxpayer Relief Act of 1997. Together with the Balanced Budget Act of 1997, this legislation implements the bipartisan budget agreement.

I have long considered tax cuts for middle-income Americans and small businesses a top priority. In 1993, I worked with Congress to cut taxes for 15 million working families by expanding the Earned Income Tax Credit, and by providing investment incentives for small businesses. A year later, I proposed my Middle Class Bill of Rights, including child tax credits, deductions for higher education, and expanded Individual Retirement Accounts. Then, in 1996, I signed into law a number of other tax benefits for small businesses and their employees -- including greater expensing for small-business investments, greater deductibility of health insurance premiums for small businesses and their employees, and expanded and simplified opportunities for retirement savings. Also in 1996, I signed into law a $5,000 tax credit for adoption expenses ($6,000 for adopting children with special needs) and higher limits for tax-deductible contributions by spouses to Individual Retirement Accounts.

This year, I once again proposed my Middle Class Bill of Rights. On May 2, 1997, the Congressional Leadership and I reached a historic bipartisan budget agreement that included the broad outlines of key elements of my tax-cut plan.

As we have worked with the Congress over the last few months to develop the details of the balanced budget agreement, I have insisted that the tax-cut package meet four basic tests. First, the tax cuts must be fiscally responsible by avoiding an explosion in revenue costs in years outside the budget windows. Second, the tax cuts must provide a fair balance of benefits for working Americans. Third, the tax cuts must encourage economic growth. Fourth, the tax package must reflect the terms of the bipartisan budget agreement, including a significant expansion of opportunities for higher education for Americans of all ages.

I believe that H.R. 2014 meets these tests. It will provide an estimated $95 billion in net tax cuts over the next five years. It is a fair plan that places a priority on education tax cuts and provides a child tax credit to families who work hard and pay taxes. It also incorporates Republican priorities in a good-faith effort to honor the budget accord and to reach final agreement on a tax cut the American people deserve. This legislation will not only provide needed tax relief for middle-class Americans, but will promote a fairer tax system and encourage economic growth. It is also fiscally responsible: the costs of these tax cuts are fully offset in accordance with the balanced budget agreement.

I am especially pleased that the legislation includes, with certain modifications, the key features of my Middle Class Bill of Rights designed to give middle-income families the tax relief they need to help them raise their children, save for the future, and pay for postsecondary education.

<u>Education</u>

I have long believed that the tax system should better encourage investment in college education and job training. This legislation incorporates the key aspects of my proposals for a $1,500 HOPE Scholarship to make two years of college universally available and a 20 percent tuition credit to make the third and fourth years of college more affordable and to promote lifelong learning.

The legislation also contains a number of other education initiatives that this Administration has strongly supported. These include tax incentives for public school repair, renovation, and educational enhancement in poor neighborhoods through Education Zone Academy Bonds; student-loan interest deductions and loan forgiveness exemptions similar to those that I have previously proposed; tax incentives to help public elementary and secondary schools obtain up-to-date computer technology; increased availability of tax-exempt financing for new capital expenditures by private colleges and universities; and a special tax-favored savings vehicle to help families save for higher education.

The bill also includes a three-year extension of the exclusion of employer-provided educational assistance from taxable income. While I am disappointed that Congress did not adopt my proposal to extend this exclusion permanently or to include graduate education, I intend to continue to work with Congress to achieve these important goals.

<u>Child Credit</u>

I have long advocated a child tax credit for tax-paying working families. Consistent with my proposal, H.R. 2014 will provide $500 per child tax credits ($400 in 1998) for families with children under 17. In working with Congress to develop this legislation, I have insisted that the group that can benefit from the child credit include working families with incomes between $15,000 and $30,000. I am pleased that the child credit as contained in H.R. 2014 meets this requirement.

<u>IRAs and Other Savings Incentives</u>

Since 1994, my budget has contained proposals to provide greater tax incentives for long-term savings for retirement and other important purposes. I am pleased that, consistent with my budget proposals, H.R. 2014 permits penalty-free withdrawals from existing IRAs to finance higher education expenses and for first-time home purchases, makes deductible IRAs more widely available, and gives taxpayers the choice of a new backloaded IRA. I am pleased that the Congress moved from its original position so that the backloaded IRAs as contained in H.R. 2014 are more targeted to lower- and middle-income families. I am concerned, however, that the Congress did not move far enough, and that the bill contains other features that will provide a windfall to high-income individuals who will merely shift savings from taxable vehicles into IRAs, rather than create new savings.

<u>Distressed Areas and Urban Tax Initiatives</u>

Revitalizing distressed urban and rural areas throughout the country is a high priority of this Administration. I have proposed a number of initiatives to increase investment in disadvantaged areas. I am pleased that H.R. 2014 includes versions of most of these initiatives. As I have earlier proposed, the bill would encourage the cleanup of polluted urban and rural areas known as brownfields by allowing a current deduction for certain costs incurred by businesses to remediate environmentally contaminated land in certain areas. I am disappointed, however, that this provision is scheduled to sunset after three years.

My 1993 tax plan included certain tax incentives for nine empowerment zones and 95 enterprise communities. Over 500 communities submitted applications for these 104 designations. The final designations were announced in December 1994. To build upon the success of this program, and to mobilize more communities to promote business development and to create jobs, I had proposed two additional urban Empowerment Zones pursuant to the 1993 legislation, and had proposed a second round of competition to designate 20 additional empowerment zones, with a different mix of tax incentives, and 80 additional enterprise communities. I am pleased that H.R. 2014 provides for the designation of the additional empowerment zones, but disappointed that it does not make provision for the new enterprise communities.

It has been an important goal of this Administration to encourage employment of disadvantaged residents of the District of Columbia and to revitalize those areas of the District where development has lagged. I am pleased that H.R. 2014 includes tax incentives for the District of Columbia. I am disappointed, however, that it does not include my proposals to create an Economic Development Corporation for the District, to stimulate investments in Community Development Financial Institutions, or to facilitate the restructuring of our Nation's affordable housing portfolio.

Welfare-to-Work

I am pleased that H.R. 2014 includes a modified version of my welfare-to-work tax credit proposal, which is designed to generate new job opportunities for long-term welfare recipients. I am also pleased that the bill extends the Work Opportunity Tax Credit (WOTC), but am disappointed that it modifies the structure to allow employers to claim the WOTC for hiring workers for a very short period of time and does not expand the program to cover childless, able-bodied adults ages 18-50 who are subject to the Food Stamp time limit and work requirements.

Small Business Tax Cuts

I am pleased that H.R. 2014 enacts many of the recommendations of the 1995 White House Conference on Small Business. For example, it includes my proposal to exempt from the alternative minimum tax (AMT) corporations with gross receipts less than $5 million. Under this proposal, roughly 95 percent of all corporations (more than two million) would be spared the complication of calculating the AMT.

Earlier this year, the Administration announced its support for expansion of the home office deduction and the small business capital gains incentive. These proposals were intended to help high-tech and bio-tech entrepreneurs, start-up companies, parents who work out of their homes, and other Americans who are seizing the opportunities of the new economy. I am pleased that H.R. 2014 expands the home office deduction, but disappointed that it contains only limited modification of the small business capital gains incentive.

<u>Capital Gains Relief</u>

I am pleased that H.R. 2014 includes my proposal to exempt over 99 percent of home sales from the capital gains tax, dramatically simplifying taxes and record keeping for over 60 million homeowners.

I had also proposed a 30 percent exclusion for capital gains. I continue to have concerns that the across-the-board capital gains relief in H.R. 2014 is too complex and will disproportionately benefit the wealthy over lower- and middle-income wage earners. I am pleased, however, that H.R. 2014 does not contain the House provision to index capital gains, which would have caused even greater complexity and would have contributed to an explosive revenue cost after 2007.

<u>Estate Tax Relief</u>

I am pleased that, consistent with my proposal, H.R. 2014 contains a special exemption for interests in qualified farms or small businesses that, when combined with the unified credit, will exempt up to $1.3 million in value. I am also pleased that the bill includes a version of my proposal to provide liquidity relief for estates containing small businesses and farms. H.R. 2014 also increases the unified estate and gift tax credit on a phased-in basis to reach $1 million in 2006.

We continue to have concerns that this provision is too expensive and will be of no benefit to the vast majority of American families.

Tobacco Taxes

I had earlier proposed an increase in tobacco taxes that would be separated into a trust fund and dedicated entirely to expanding health coverage for children, addressing other children's development issues, and improving the overall public health. I am pleased that such a provision has been included in H.R. 2015. I am concerned, however, that H.R. 2014 provides that the increase in tobacco taxes collected is to be credited against the total payments made by parties pursuant to the tobacco industry settlement agreement of June 20, 1997.

Simplification

I am pleased that H.R. 2014 includes many of the items previously contained in my April package of some 60 measures designed to simplify the tax laws and enhance taxpayers' rights. I am concerned, however, that the sheer multitude of miscellaneous tax code amendments contained in H.R. 2014, many with little policy merit, will contribute significantly to complexity for taxpayers and tax planners. I am also concerned that some of the provisions that will affect many taxpayers, such as the capital gains provision, are unduly complex. I continue to support revenue-neutral initiatives to simplify the tax laws and to promote sensible and equitable administration of the tax laws. I urge the Congress to continue to work with me to achieve these goals. In addition to supporting legislative initiatives, the Administration is committed to taking appropriate administrative action to implement this tax legislation in a manner that minimizes taxpayer burdens, and further to simplify the tax laws and enhance procedural safeguards for taxpayers.

Other Presidential Initiatives

My tax plan included extensions of the research tax credit, the orphan drug credit, and the tax incentive for contributions of appreciated stock to private foundations. I am pleased that H.R. 2014 includes such extensions. I am also pleased that H.R. 2014 includes my proposal to extend the foreign sales corporation benefit, which exempts a portion of income for tax purposes, to include computer software licensed for reproduction abroad.

I am disappointed, however, that H.R. 2014 omits a number of my important initiatives, including my proposal to protect the rights of disabled persons by extending the time people are allowed to claim a tax refund to include time that they are medically determined to be mentally or physically impaired.

The bill also omits my proposal to restore the wage-based tax incentive for new investments in Puerto Rico. While I agreed last year to ending the credit related to certain investments in Puerto Rico, I opposed phasing out the wage-based incentive. It is a mistake not to continue this credit and open it to new investments in Puerto Rico, which has a jobless rate three times the national rate.

I am also very disappointed that the tax incentives for renewable fuels were not extended in this budget. Earlier this year, I had proposed extension of the excise tax exemption for ethanol in our surface transportation reauthorization proposal. I urge Congress to extend the ethanol subsidy when it considers the reauthorization bill later this year.

Other Issues of Concern

H.R. 2014 extends the Airport and Airways Trust Fund taxes and sets new fee structures without the benefit of the pending study by the National Civil Aviation Review Commission. The

Administration may propose changes to these provisions after it reviews the Commission's recommendations.

H.R. 2014 also transfers the 4.3 cents per gallon in fuel taxes currently dedicated to deficit reduction from the General Fund to transportation trust funds. While the transfer provision itself has no revenue or spending effect, I am concerned that transferring the revenue may spur efforts to move the trust funds off-budget and create pressure to increase ground transportation spending to levels significantly higher than contemplated by the bipartisan budget agreement.

H.R. 2014 contains a provision that is intended to address the capital needs of Amtrak, the National Railroad Passenger Corporation. The provision is contingent on the enactment of subsequent Amtrak reform legislation. Although the provision is highly problematic in terms of tax policy, my Administration looks forward to working with the Congress to secure the enactment of Amtrak reform legislation that is fair to all parties.

Conclusion

Despite my reservations, H.R. 2014 meets the basic tests established by my Administration, and provides needed tax relief for working Americans. I am grateful for the bipartisan support that this measure received in the Congress, and I am pleased to sign it into law.

BAB

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

AUG 4 1997

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Enrolled Bill H.R. 2015 - Balanced Budget Act of 1997
Sponsor - Rep. Kasich (R) OH

Last Day for Action

August 13, 1997 - Wednesday

Purpose

Enacts the spending provisions needed to achieve a balanced budget by fiscal year 2002.

Agency Recommendations

Office of Management and Budget	Approval (Signing statement attached)
Department of Health and Human Services	Approval
Department of Agriculture (USDA)	Approval
Department of Veterans Affairs	Approval
Social Security Administration (SSA)	Approval
Department of the Treasury	Approval (Informally)
Department of Energy	Approval (Informally)
Department of Housing and Urban Development	Approval (Informally)
Department of Education	No objection (Informally)
Department of Commerce	No objection (Informally)
Department of Transportation	No objection (Informally)
Department of the Interior	No objection (Informally)
Department of Labor (DOL)	No objection (Informally)
Office of Personnel Management	No objection (Informally)
U.S. Enrichment Corporation	No comment (Informally)
General Services Administration	No comment (Informally)
Federal Communications Commission	No comment (Informally)
Office of National Drug Control Policy	No comment (Informally)

Department of Justice	Defers to other affected agencies
United States Postal Service	No recommendation

Discussion

This enrolled bill -- together with H.R. 2014, the "Taxpayer Relief Act of 1997" -- would implement the Bipartisan Budget Agreement announced on May 2, 1997. This legislation would result in an estimated $768 billion in deficit savings over the next ten years (FYs 1998-2007), producing a balanced budget in FY 2002. (As stipulated by section 10213 of the bill, this Office will not be scoring H.R. 2015 for pay-as-you-go purposes. All estimates in this memorandum reflect preliminary Congressional Budget Office scoring of the bill.) This Office's review of H.R. 2015 for the purposes of the Line Item Veto Act is underway. If an item(s) is identified as potentially suitable for cancellation, this information will be provided to you separately.

H.R. 2015 contains the spending provisions needed to achieve a balanced budget by FY 2002. It would reduce projected mandatory spending by a net estimated $122 billion over the next five years. H.R. 2015 would, in part, enact: (1) critical long-term entitlement reforms; (2) the largest investment in health care for children since the passage of Medicaid in 1965; (3) protections for the Nation's vulnerable populations; and (4) assistance to help move people from welfare to work.

The conference report on H.R. 2015 passed the House by a vote of 346-85 and the Senate by a vote of 85-15 . The bill's major provisions are highlighted below.

Long-Term Entitlement Reform

H.R. 2015 would reduce Medicare outlays by $112 billion during FYs 1998-2002 ($385 billion during FYs 1998-2007) and would extend the life of the Hospital Insurance Trust Fund until 2007. H.R. 2015 would provide structural reforms that would give beneficiaries more informed choices among competing health plans; establish prospective payment systems for home health agencies, skilled nursing facilities, and hospital outpatient departments; incorporate prudent purchasing reforms; create a number of new anti-fraud programs; and provide the necessary funding to establish a wide array of cost-effective new benefits, including mammography and colorectal screening.

H.R 2015 would also establish a Government-financed pilot program of Medicare Medical Savings Accounts (MSAs). Under the new pilot program, Medicare MSAs would be available to 390,000 Medicare enrollees.

H.R. 2015 would also establish a 17-member Medicare Commission consisting of eight Democrats, eight Republicans and a chairman who would be selected jointly by the President and the congressional leadership. The Commission would be required to release a report by March 1, 1999, making recommendations on the future of the Medicare program. To ensure bipartisanship, each recommendation would need the approval of 11 of the Commission's 17 members.

H.R. 2015 would reduce Medicaid outlays by approximately $14 billion during FYs 1998-2002. The bill achieves the savings through lower disproportionate share hospital payments and greater State flexibility. In particular, States would have more flexibility in establishing provider payment levels, allowing managed care for most Medicaid recipients without Federal waivers, and eliminating unnecessary administrative requirements.

H.R. 2015 would increase from 50 percent to 70 percent the Federal matching payment for Medicaid in the District of Columbia. It would also increase Federal Medicaid payments for Puerto Rico and other territories.

Children's Health Initiative

H.R. 2015 would provide $24 billion to the States during FYs 1998-2002 through a combination of Medicaid and grant funds for children who do not currently have health insurance coverage. This will help provide meaningful health coverage, including a full range of benefits to as many as 5 million uninsured children. H.R. 2015 would increase the current tax on a pack of cigarettes from 24 cents to 34 cents in CY 2000 and to 39 cents in CY 2002 to help fund this initiative.

States would have the option of expanding health coverage to children through Medicaid, a grant, or a combination of the two options. If a State chooses the grant option, it must choose one of three minimum benefits packages: (1) a health plan equivalent to one of three benchmark plans; (2) a plan with the same actuarial value as one of the benchmark plans, provided that, if certain benefits are covered by the benchmark plan (e.g., mental health, prescription drugs, vision care, hearing care), they will be provided in the children's coverage as well; or (3) a plan approved by the Secretary of HHS. The three benchmark plans are the FEHBP Blue Cross/Blue Shield PPO option, a State-employee plan that is generally available, and the most popular HMO plan in the State.

States could choose to provide insurance coverage for children whose income is up to 200 percent of poverty or 50 percentage points above the State's Medicaid eligibility limits, whichever is higher. H.R. 2015 would include limits on cost sharing depending on the family's income.

H.R. 2015 would prohibit States from using the children's health initiative funding for abortion services, except in cases of rape, incest, or endangerment of the mother's life.

Protecting the Vulnerable

H.R. 2015 would restore funding to certain welfare recipients who otherwise would lose Federal assistance under P.L. 104-193, the welfare reform law signed on August 22, 1996. A summary of the most important of these provisions follows.

Benefits for Immigrants. P.L. 104-193 restricts legal immigrants' eligibility for Federal benefits, including SSI, Medicaid, and Food Stamps. H.R. 2015 would provide $11.5 billion during FYs 1998-2002 to restore SSI and Medicaid benefits to legal immigrants who were receiving them before August 22, 1996. In addition, the bill would enable legal immigrants who had entered the United States as of August 22, 1996, but become disabled in the future, to receive SSI and Medicaid benefits.

H.R. 2015 would extend refugees and asylees' current-law, five-year exemption from the immigrant aid restrictions to seven years. In addition, it would treat Cuban and Haitian entrants and Amerasian immigrants as refugees, making them eligible to receive SSI, Medicaid, and other means-tested benefits.

Food Stamps. P.L. 104-193 imposes a work requirement on certain individuals in order for them to be eligible to receive Food Stamp benefits. For example, it restricts Food Stamp eligibility for able-bodied childless adults between the ages of 18 and 50 to three months in any 36-month period (up to six months in certain circumstances) unless they: (1) work at least 20 hours per week or (2) participate in a State-approved work or job training program. H.R. 2015 would modify these requirements.

Specifically, H.R. 2015 would increase Food Stamp program spending by $1.5 billion during FYs 1998-2002. This amount includes $580 million to allow States to exempt up to 15 percent of their Food Stamp caseloads from the "three-in-36" time limit. In addition, it includes $920 million for States to: (1) create approximately 235,000 work slots for able-bodied childless adults between the ages of 18 and 50, and (2) provide Food Stamp benefits to those individuals subject to the time limit. H.R. 2015 would require States to maintain 100 percent of their 1996 spending on Food Stamp Employment and Training in order to qualify for the additional Federal funding.

Medicaid for Disabled Children. H.R. 2015 would restore Medicaid benefits for disabled children who would otherwise lose those benefits because they are no longer eligible for Supplemental Security Income (SSI) under the new, stricter definition of childhood disability in P.L. 104-193. This provision would ensure that 30,000 children retain their health care coverage in FY 1998.

Welfare to Work Grants

H.R. 2015 would provide $3 billion during FYs 1998-1999 for formula and competitive grants to States and localities to assist long-term welfare recipients secure lasting unsubsidized employment. Among other purposes, the funds could be used to provide: (1) job creation through wage subsidies to private-sector employers to encourage them to hire welfare recipients, or (2) job vouchers for placement, readiness, and post-employment services. The grants would be administered locally by Private Industry Councils and federally by the Department of Labor, and they would be targeted to high-poverty/high temporary assistance for needy families caseload areas.

H.R. 2015 would include worker protection provisions to ensure welfare-to-work participants do not displace current workers, are afforded workplace health and safety protections, are not subject to discrimination on the basis of gender, and have access to a grievance procedure and appropriate remedies for violations of worker protections.

Spectrum Allocation

H.R. 2015 would broaden and extend the Federal Communications Commission's (FCC) authority to auction the spectrum beyond the current expiration date of CY 1998 and reallocate 120 Megahertz (MHz) of spectrum for assignment by competitive bidding. The bill would require the FCC to reclaim surplus "analog" broadcast spectrum after broadcasters have migrated to a new digital channel. A portion of this spectrum (24 MHz) would be made available for public safety services.

H.R. 2015 does not contain a firm date for the termination of analog broadcasting, but specifies a target date of 2006. It would eliminate the regulatory bans on joint ownership of a newspaper and a television station and joint ownership of two television stations in the same market for digital broadcasters. It would manipulate payments to the universal service fund and substitute appropriated funds to create surplus receipts in FY 2002. Universal service payments to carriers to ensure access to telecommunications services would not be altered.

District of Columbia Revitalization

H.R. 2015 would require the Federal Government to take over the District of Columbia's pension plans for police officers, firefighters, teachers, and judges, thereby assuming responsibility for most of the plans' $4.8 billion unfunded pension liability. The authorization for the annual Federal payment to the District ($660 million in recent years) would be repealed, and an appropriation of $190 million for a Federal "contribution" to the District would be authorized for FY 1998. The District would be allowed to borrow up to $300 million from the Treasury to finance the District's accumulated deficit.

During "control years" (years in which certain powers are vested in the D.C. Financial Responsibility and Management Assistance Authority under current law), mayoral appointments of certain Department heads would be subject to approval by the Authority, and the Authority itself could make the appointments in certain cases. The power to remove Department heads would be vested in the Authority (or the Mayor with the approval of the Authority). In addition, the District Government would be required to develop and implement management reform plans for various departments and functions.

With respect to criminal justice matters, the bill would: (1) authorize Federal appropriations for the operation of the D.C. court system; (2) transfer to the Federal Government oversight of the District's felony offenders; (3) require the closure of the Lorton Correctional Complex in Virginia by CY 2001; and (4) require the Bureau of Prisons to house 2,000 sentenced felons by CY 1999 and at least 50 percent of the District's sentenced felons in private contract facilities by CY 2003. This bill would also establish a commission to recommend to the D.C. Council changes to the D.C. Code regarding the sentencing of District felony offenders. If the D.C. Council fails to act on the sentencing recommendations, the Attorney General of the United States could promulgate amendments to the D.C. Code concerning sentencing.

The requirement to close the Lorton facility by CY 2001 and the requirement to privatize or contract out 50 percent of D.C.'s prison population poses a number of practical problems that will have to be overcome (e.g., having sufficient prison space available elsewhere to house the Lorton inmates). We will work closely with the Department of Justice and the Congress to determine the best way to address this requirement.

Other Major Program Changes

H.R. 2015 would make a number of changes affecting housing, student loans, Federal employees, veterans, asset sales, and a user fee.

Housing. H.R. 2015 would extend a number of current law provisions resulting in savings of $1.8 billion during FYs 1998-2002. In particular, it would limit the application of annual adjustment factors for housing projects where rents are in excess of local fair market rents and reduce the annual adjustment factor for Section 8 units with no tenant turnover. In addition, H.R. 2015 would give the Federal Housing Administration (FHA) more flexibility to advocate the use of alternatives to foreclosure when dealing with homeowners who are in default on their mortgages. This would avoid costs to the FHA insurance fund and minimize financial hardship to borrowers. The bill would provide the FHA with the tools to encourage lenders to forebear for up to one year, improving the targeting and efficiency of the program.

Student Loans. H.R. 2015 would make various reforms to the student loan programs that would reduce program spending by $1.8 billion during FYs 1998-2002, without reducing benefits or increasing costs to students and their families. Specifically, it would amend the Higher Education Act of 1965 to require guaranty agencies participating in the Federal Family Education Loan Program to return one billion dollars of current excess cash reserves to the Treasury in FY 2002. A timetable is provided for the orderly recall of the excess reserves between FYs 1998-2002, and the Secretary of Education would be authorized to ensure guaranty agency compliance.

The enrolled bill would repeal the requirement that the Federal Government pay fees to institutions of higher education participating in the Direct Loan program for their administrative expenses. H.R. 2015 would also achieve savings by authorizing reduced funding for Federal expenses in administering the student loan programs during FYs 1998-2002. It also includes a formula for determining Federal administrative cost allowance payments to guaranty agencies in the Federal Family Education Loan program.

Civil Service Retirement. H.R. 2015 would make a number of changes to civil service retirement resulting in savings of $5 billion during FYs 1998-2002. It would increase employee and agency contributions to the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). H.R. 2015 would increase employee contributions by 0.5 percent of pay in three stages beginning in FY 1998 and ending on December 31, 2002. It would also increase, by 1.51 percent of pay, non-Postal agency (including the District of Columbia) contributions to CSRS for FYs 1998-2002. In addition, the enrolled bill would prevent significant increases in employee health insurance premiums. This would be accomplished by replacing an expiring formula for computing the Federal share of premiums in the Federal Employee Health Benefit Program with a new formula that should maintain employee premiums at current levels.

Veterans. H.R. 2015 would make several changes to veterans programs that would reduce projected spending by $2.7 billion during FYs 1998-2002. The most significant change would allow VA to keep the medical care copayments and other fees it collects and use these funds to pay for the Department's medical care expenses. These funds would be deposited into a special fund for distribution through appropriations. H.R. 2015 would provide for a one-year failsafe mechanism authorizing additional appropriations for medical care in the event there is a shortfall of $25 million or more in actual versus anticipated collections.

Asset Sales and User Fee. H.R. 2015 includes four provisions, based on Administration proposals, to extend user fees or sell or lease Federal assets. The Vessel Tonnage Fee, which supports Coast Guard services to the maritime industry, is extended for four years, through FY 2002. It would generate an estimated $196 million in user fees during FYs 1998-2002. The bill also requires the sale of Governors Island in New York Harbor (estimated $500 million in FY 2002) and the air rights above Union Station in Washington, D.C. ($40 million in FY 2002). Finally, the bill authorizes the Federal Government to lease excess Strategic Petroleum Reserve capacity. (Contrary to the Administration's proposal, revenues from these leases would be earmarked for purchasing oil beginning in FY 2008 instead of being used for deficit reduction.)

Budget Enforcement

The enrolled bill would extend existing procedures for the enforcement of budget discipline. For discretionary spending, the bill establishes caps that would result in savings of $139 billion through FY 2002. (There are separate limits for defense and non-defense programs in FYs 1998 and 1999 and a combined limit for FYs 2000-2002. Separate limits for the Violent Crime Reduction Trust Fund are established through FY 2000 at levels proposed in the President's Budget.) In addition, H.R. 2015 extends the "pay-as-you-go" requirement for tax measures and mandatory spending through FY 2002.

Public Debt Limit

The enrolled bill increases the public debt limit to $5.95 trillion. This level is consistent with the budget agreement. According to the Treasury Department, it should accommodate necessary borrowing until December 1999.

Conclusion and Recommendations

We join other affected agencies in recommending approval of H.R. 2015. Attached for your consideration is a signing statement. The statement is generally laudatory and also addresses some agency concerns (e.g., constitutional concerns that Justice has identified with respect to some of the bill's provisions). This statement has been reviewed and approved by USDA, SSA, DOL, Treasury, and Justice.

(signed)

Franklin D. Raines
Director

Enclosures

STATEMENT BY THE PRESIDENT

It is with great pleasure that I have signed into law today H.R. 2015, the "Balanced Budget Act of 1997." This Act, together with the tax cut legislation that I will also sign today, implements an historic agreement that will benefit generations of Americans.

These bills will balance the budget in a way that honors our values, invests in our people, and cuts taxes for middle-class families. They are a victory for all parents who want a good education for their children and for all families working to build a secure future. This package is the best investment we can make in America's future, and it prepares our Nation for the 21st century. After decades of deficits, we have put America's fiscal house in order again.

H.R. 2015 is a balanced package of spending provisions that includes targeted program cuts, while it invests in America's future. It includes the following noteworthy features.

First, it strengthens our families by extending health insurance coverage to up to 5 million children. By investing $24 billion, we will be able to provide quality medical care for these children -- everything from regular check-ups to major surgery. We want every child in America to grow up healthy and strong, and this investment takes a major step toward that goal. I am also pleased that Congress agreed to pay for the children's health care in part with a new 15-cents-a-pack tax on cigarettes. Not only will this new revenue help to pay for health care, it will help prevent children from taking up smoking in the first place.

Second, the bill helps finish the job of welfare reform, providing $3 billion to move welfare recipients to private sector jobs and $1.5 billion in Food Stamp assistance for people who want to work, but cannot find a job. In addition, it keeps my promise to provide $12 billion to restore disability and health benefits for 350,000 legal immigrants.

Third, H.R. 2015 honors our commitment to our parents by extending the life of the Medicare Trust Fund for a decade. It also provides structural reforms that will give Medicare beneficiaries more informed choices among competing health plans, authorizes a number of new anti-fraud provisions, and establishes a wide array of new preventative benefits.

H.R. 2015 includes proposals to revitalize the District of Columbia. It includes my proposals to assume financial and administrative responsibility for certain District pension plans and to increase the Federal contribution to the District's Medicaid program. The revitalization measures will benefit the city and the region by reducing the city's financial burdens and improving the delivery of city services. The Federal assumption of these State-like responsibilities will enable the District Government to focus more intensively on local issues, such as education and law enforcement.

This Act also establishes a sentencing commission of District and Federal representatives to develop a Truth-in-Sentencing system, and it provides for the Federal Government to assume the costs and responsibilities of the District of Columbia's courts, public defender, pretrial services, and felony offender incarceration, supervision, and parole. This assistance will strengthen the District's criminal justice system and improve public safety. Unfortunately, the Act fails to guarantee that the Justice Department's Bureau of Prisons will have the time, management flexibility, and resources needed to achieve a safe transition of responsibility for District of Columbia inmates. We look forward to working with the Congress to rectify these problems.

The Department of Justice has identified a number of Establishment Clause constitutional concerns with respect to section 4454 of H.R. 2015, entitled "Coverage of Services in Religious Nonmedical Health Care Institutions Under the Medicare and Medicaid Programs," and with respect to section 4001, concerning the Medicare Plus program and treatment of religious fraternal benefit society plans. The Department of Health and Human Services will consult with the Department of Justice regarding how best to address these concerns.

Section 4422 of the bill purports to require the Secretary of Health and Human Services to develop a legislative proposal for establishing a case-mix adjusted prospective payment system for payment of long-term care hospitals under the Medicare program. I will construe this provision in light of my constitutional duty and authority to recommend to the Congress such legislative measures as I judge necessary and expedient, and to supervise and guide my subordinates, including the review of their proposed communications to the Congress.

H.R. 2015 also broadens and extends the Federal Communications Commission's authority to auction the right to use radio and television spectrum. This authority has been a successful means of shortening the time to license spectrum and facilitating the deployment of new and innovative information technologies into the market place. I remain concerned, however, about the lack of a firm date for the termination of analog broadcasting, which made it necessary to find alternative and troubling savings from the universal service fund. I am also concerned about the waiver of media concentration rules.

This legislation is a compromise, and an historic one. All in all, and together with its companion tax cut legislation, H.R. 2015 is a monument to the progress that people of good will can make when they put aside partisan interests to work together for the common good and our common future. It reflects the values and aspirations of all Americans.

This summer, we had an historic opportunity to strengthen America for the 21st century -- and we have seized it. Now our Nation can move forward stronger, more vibrant, and more united than ever. For that, I am profoundly grateful.