

<sup>FOO</sup>  
DRAFT - 7/11/96 - 9:50 pm

The Honorable Gerald B. H. Solomon  
Chairman  
Committee on Rules  
U.S. House of Representatives  
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to transmit the Administration's views on actions that the House will take to comply with budget reconciliation instructions on Medicaid and welfare reform.

As you know, the President has proposed a plan that the Congressional Budget Office (CBO) said would reach balance in 2002. It protects and strengthens Medicare and Medicaid; reforms welfare to make work pay; invests in education and training, the environment, and other priorities to raise living standards and the quality of life for average Americans; and targets tax relief to help middle-income Americans raise their young children, pay for postsecondary education, and save for the future. It achieves all this without raising taxes on hard-pressed working Americans.

The President is committed to balancing the budget while reforming welfare and retaining the Federal guarantee of Medicaid coverage for our most vulnerable citizens including: senior citizens, people with disabilities, pregnant women, and poor families and children. But, as reported by the Commerce, Ways and Means, Economic and Educational Opportunities, and Agriculture Committees, the first reconciliation package, H.R. 3437, does not meet those objectives. The President has said repeatedly that he will not accept any legislation that would block-grant Medicaid and take away the guarantee of health coverage from millions of poor, elderly, and disabled Americans. For this and other reasons, if this bill is presented to the President in its current form, he will veto it.

Indeed, the Administration also has serious concerns about the welfare sections of the current bill. To be sure, the bill incorporates a number of key changes that the Administration recommended and that were in the National Governors Association and Castle-Tanner proposals. But the bill does not address several areas of concern, particularly in ensuring accountability and moving people from welfare to work. Nor does it address the provisions affecting benefits for food stamp households and legal immigrants.

Moreover, the President does not believe Congress should raise taxes on low-income working families. H.R. 3437 explicitly

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Michelle  
Crisi #66423

WR-SAPs

This is not up to date

The bill also ends many longstanding family and beneficiary protections. With these changes, families and beneficiaries may incur deep financial liabilities, and Federal taxpayers will have fewer assurances that their tax dollars are well spent. For example, the bill gives States broad discretion to impose any level of cost-sharing on many Medicaid beneficiaries. It also eliminates any quality assurance standards or monitoring responsibilities for many important health care providers, including managed care organizations and intermediate care facilities for the mentally retarded. It contains no mechanism to ensure that changes in benefits and cost sharing do not jeopardize the sufficiency of coverage. As a result, millions of middle class families could have to pay considerable out-of-pocket costs simply to ensure their relatives are able to receive the care they receive today.

The President believes we can give the States the flexibility they need to manage their Medicaid programs, while maintaining a strong federal-state partnership built on a foundation of shared resources, accountability to the taxpayers, and national protections for the most vulnerable Americans. Despite limited efforts to improve the bill at the committee level, the bill fails to meet these commitments. Consequently, it remains unacceptable.

#### WELFARE

As reported by its committees, the House's new bill, H.R. 3437, makes important improvements to the conference report on H.R. 4. It incorporates a number of key changes that the Administration recommended and that were in the National Governors' Association (NGA) and Castle-Tanner proposals. We urge the Committee to build on these bipartisan improvements. The bill, however, does not address several issues of concern, particularly in providing the resources and incentives to protect children and families, ensure accountability, and move people from welfare to work.

#### Improvements in H.R. 3437

We appreciate the Committee's efforts to strengthen provisions that are central to work-based reform, such as child care, and to provide some additional protections for children and families. In rejecting H.R. 4, the President singled out a number of provisions that were tough on children and did too little to move people from welfare to work. H.R. 3437 includes important changes to these provisions that move the legislation closer to the President's vision of true welfare reform. We are particularly pleased with the following improvements:

- Child Care. As the President has insisted throughout the welfare reform debate, child care is essential to move

people from welfare to work. The bill reflects a better understanding of the child care resources that States will need to implement welfare reform, adding \$4 billion for child care above the level in H.R. 4. The bill also recognizes that parents of school-age children need child care in order to work and protect the health and safety of children in care.

- Food Stamps. The bill removes the annual spending cap on Food Stamps, preserving the program's ability to expand during periods of economic recession and help families when they are most in need.
- Child Nutrition. The bill no longer includes H.R. 4's provisions for a child nutrition block-grant demonstration, which would have undermined the program's ability to respond automatically to economic changes and maintain national nutrition standards.
- Child Protection. We commend the Committee for preserving the open-ended nature of Title IV-E foster care and adoption assistance programs, current Medicaid coverage of eligible children, and the national child data collection initiative.
- Supplemental Security Income (SSI). The bill removes the proposed two-tiered benefit system for disabled children receiving SSI, and retains full cash benefits for all eligible children.

The bill makes other improvements that will strengthen States' abilities to move people from welfare to work. It improves the performance bonus provisions by establishing a separate funding stream. It increases the cash block-grant contingency fund modestly and adds a more responsive trigger based on the Food Stamp caseload. In addition, it adopts more flexible exemptions from the time limit.

We remain pleased that Congress has decided to include central elements of the President's approach -- time limits, work requirements, the toughest possible child support enforcement, requiring minor mothers to live at home as a condition of assistance -- in this legislation.

#### Concerns With H.R. 3437

The bill still lacks other provisions that have earned bipartisan endorsement.

- Size of the cuts. The welfare provisions incorporate almost all of the cuts that were in the vetoed bill -- \$53 billion (including the EITC) over six years, under CBO's new baseline. These cuts far exceed those proposed by the NGA

or the Administration. Cuts in Food Stamps and benefits to legal immigrants are particularly deep. In addition, unlike the Administration's bill, H.R. 3437 would allow States to substantially cut their own spending on programs serving low-income families. The President's budget demonstrates that cuts of this size are not necessary to achieve real welfare reform, nor are they needed to balance the budget.

- Food Stamps. The bill makes deep cuts in the Food Stamp program, including a cut in benefits to households with high shelter costs that disproportionately affects families with children, and a four-month time limit on childless adults who are not given a work slot but are willing to work. The Administration strongly opposes the inclusion of a Food Stamp block grant, eliminating the Federal nature of the program and jeopardizing the nutrition and health of millions of children, working families, and the elderly.
- Legal Immigrants. The bill retains the excessively harsh and uncompromising immigration provisions of last year's vetoed bill. The bill bans SSI and Food Stamps for virtually all legal immigrants, and imposes a five-year ban on all other Federal programs, including Medicaid, for new legal immigrants. These bans would even cover legal immigrants who become disabled after entering the country, families with children, or current recipients. While we support the strengthening of requirements on the sponsors of legal immigrants applying for SSI, Food Stamps, and AFDC, legal immigrants who work, pay taxes, and contribute to society should not be denied access to basic safety net programs. The proposal unfairly shifts costs to States with high numbers of legal immigrants. Finally, the bill requires virtually all Federal, State, and local benefits programs to verify recipients' citizenship or alien status. These mandates would create significant administrative burdens for citizens and for State, local, and non-profit service providers.
- Medical Assistance Guarantee. The bill does not maintain the guarantee for medical assistance for all those now eligible or who reach the five-year time limit.
- Protection in Economic Downturn. The bill lacks adequate protection for States in the event of economic downturns. The contingency fund is too small and does not allow for further expansions (above the \$2 billion cap) during poor economic conditions and periods of increased need.
- Transfers to the Social Services Block-Grant (SSBG). We are deeply concerned that the bill provides the proposed cash assistance block grant with transfer authority to the SSBG. Transfers to SSBG could lead States to substitute Federal

dollars for State dollars in an array of State social services activities, potentially cutting or even eliminating the effective State maintenance of effort levels required for the cash block grant.

- Resources for Work. H.R. 3437 would not provide the resources States need to move recipients into work. CBO estimates about a \$9 billion shortfall over six years in resources for work under H.R. 3437 if States were to maintain their current level of cash assistance benefits to poor families and children. Moreover, the Education and Economic Opportunity Committee increased this shortfall and cut State flexibility by raising the weekly number of hours that States must place recipients in work activities and increasing the participation rates.
- Vouchers. The bill actually reduces State flexibility by prohibiting States from using block grant funds to provide vouchers to children whose parents reach the time limit. H.R. 4 contained no such prohibition, and the NGA opposes it. We strongly urge the adoption of the voucher language in the Administration's bill, H.R. 3266, and Castle-Tanner.

We are concerned that the bill repeals the Family Preservation and Support program, which may mean less State spending on abuse and neglect prevention activities. We are also deeply concerned that the bill does not include adequate protections against worker displacement.

The Administration strongly supports several provisions included in S. 1795, as reported by the Senate Finance Committee. These provisions include: allowing transfers only to the child care block grant, increasing the maintenance of effort requirement with a tightened definition of what counts toward this requirement, improving the fair and equitable treatment and enforcement language, prohibiting sanctions for families with children below 11 for failure to participate in work if due to lack of child care, and eliminating the child protection block grant. We urge the Congress to include these provisions in H.R. 3437.

The Castle-Tanner proposal addresses many of our concerns, and it would strengthen State accountability efforts, welfare to work measures, and protections for children. It provides a foundation on which this Committee should build in order to provide more State flexibility; incentives for AFDC recipients to move from welfare to work; more parental responsibility; and protections for children.

The President has sent Congress a comprehensive welfare reform proposal. It would replace the current system with one that demands responsibility, strengthens families, protects

children, and gives States broad flexibility and the needed resources to get the job done.

We strongly support the recent bipartisan welfare reform initiatives from our Nation's governors, and from moderate Republicans and Democrats in both Houses of Congress. We also strongly support bipartisan efforts of the governors and the Castle-Tanner group to reform welfare without dismantling Medicaid. Congress should stop holding welfare reform hostage, and send the President a bipartisan, stand-alone welfare bill that does not eliminate the guarantee of health care for poor children, the disabled, and the elderly.

The President and Congress share the goal of a balanced budget, but we have grave concerns about the approach adopted in this bill. The President and the Republican leadership have more than enough savings in common to balance the budget and provide targeted middle class tax relief. Congress should work with the President to give Americans the balanced budget they deserve.

Sincerely,

Jacob J. Lew  
Acting Director

IDENTICAL COPIES SENT TO THE HONORABLE JOHN J. MOAKLEY, THE HONORABLE JOHN R. KASICH, AND THE HONORABLE MARTIN O. SABO

[Guide]

WR-SAPs

① HHS Comments - italics ?  
or strikeout

date

② NEC Comments - in bold

③ Comments from John Angell  
and Chris Jennings are  
marked as such

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Chairman  
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As you know, the President has proposed a plan that the Congressional Budget Office (CBO) said would reach balance in 2002. It protects and strengthens Medicare and Medicaid; reforms welfare to make work pay; invests in education and training, the environment, and other priorities to raise living standards and the quality of life for average Americans; and targets tax relief to help middle-income Americans raise their young children, pay for postsecondary education, and save for the future. **It achieves all this without raising taxes on hard-pressed working Americans.**

Chris Jennings

The President is committed to balancing the budget while reforming welfare and retaining the Federal guarantee of Medicaid coverage for our most vulnerable citizens including: senior citizens, people with disabilities, pregnant women and poor families and children. But, as reported by the Commerce, Ways and Means, Educational and Economic Opportunities, and Agriculture Committees, the first reconciliation package, H.R. 3437, does not meet those objectives. Not does this reconciliation package balance the budget.

The President wants real welfare reform. But, as he has said repeatedly, he will not accept any legislation that would block grant Medicaid, thus undermining its guarantee of health coverage to millions of vulnerable Americans. *The welfare reform section of the bill also continues to raise serious concerns.* Thus, if this bill is presented to the President in its current form, he will veto it.

In addition, the President does not believe Congress should raise taxes on low-income working families, as this package would do. H.R. 3437 raises taxes on more than 4 million low-income working families -- including 7 million children -- by cutting the Earned Income Tax Credit (EITC) and we are concerned that Congress may include more EITC cuts in future reconciliation bills -- maybe as much as \$18.5 billion more as called for in the FY97 Budget Resolution. **These EITC cuts could total over \$20 billion and are particularly ill conceived when considered in the context of welfare reform which is trying to encourage work and make work pay.**

Moreover, if the majority includes the \$122 billion in tax cuts, (permitted in the reconciliation instructions), in this package at the Rules Committee, the legislation will achieve only about \$2 billion in deficit reduction. Indeed, that package would increase the deficit by about \$35 billion over the next three years, producing average deficits of over \$130 billion for six years.

~~Further, the size of the tax cuts is misleading. For one thing, the cost of the child tax credit inexplicably falls in the year 2002, meaning either the revenue estimate for the credit is too low or part of the credit itself disappears. For another, the level of permitted tax cuts is actually higher than \$122 billion. In fact, Republicans have talked about total tax cuts of \$170-\$185 billion. The \$36 billion from extending expiring provisions (from last year's vetoed reconciliation bill) and \$26 billion from closing corporate loopholes and other tax measures (from the last Republican offer) were not in the budget resolution. Thus, the majority apparently is reserving these revenues to pay for excessive tax cuts. Rather than finance such tax cuts, the revenues could offset some of the unnecessarily deep cuts that Republicans have proposed in Medicaid and welfare as well as Medicare and other priorities.~~

*In addition, the tax cuts -- which purport to be \$122 billion - are understated and misleading. For one thing, the cost of the child tax credit mysteriously falls in the year 2002, meaning that the revenue estimate for the credit is too low or part of the credit itself disappears. For another, the level of permitted tax cuts is actually higher. Not only does the resolution omit \$35 billion in revenues from extending expiring provisions in last year's vetoed reconciliation bill, it also omits \$26 billion in revenues from closing corporate loopholes and other tax measures from the last Republican offer. The resolution appears to reserve these revenues to pay for higher tax cuts. If incorporated in this resolution, these revenues could offset some of the unnecessarily deep cuts in Medicare, Medicaid, and other important priorities and make it unnecessary to raise taxes on 4 million families. This financing arrangement could produce total cuts of \$250 billion in services and coverage. Again, the President's budget demonstrates that we can balance the budget and provide targeted tax relief for those who need it most without making unnecessarily deep cuts in these and other priority programs.*

John  
Angel

From  
OMB  
Health  
Division  
(Washington)

The Administration has the following specific comments on the Medicaid and welfare portions of the package, as reported by House Committees:

### MEDICAID

The President has made clear that Medicaid reform must promote three basic principles: 1) a real, enforceable federal guarantee of coverage for a meaningful set of benefits; 2) adequate and appropriately shared federal and state financing; and 3) more state flexibility with beneficiary protections, quality standards, and accountability. Unfortunately, the bill that the House Commerce Committee approved does not satisfy these principles.

The Committee's bill undermines the guarantee to meaningful health benefits for our most vulnerable citizens. It repeals *the requirement that States use* the federal standard for defining

Chris  
Jennings

disability and substitutes a provision that could lead to 50 separate state definitions, leaving millions of people with disabilities at risk of losing their guarantee to coverage. Moreover, while the bill continues current law extensions of mandatory Medicaid coverage for children ages 13 to 18 in families below the federal poverty level, it ends the federal right of action for Medicaid beneficiaries and eliminates requirements for the comparability, statewideness, *or and adequacy of* amount, duration, and scope of benefits. Without such protections, these children *and all Medicaid enrollees* have no real guarantee of coverage and millions of children could see their benefits cut back.

Put simply, The bill would create a block grant. It would not protect states from unexpected increases in Medicaid enrollment due to an economic crisis, such as a recession. Transforming Medicaid's federal-state partnership to a block grant could force states to limit or deny benefits to millions of *families and* children, people with disabilities, pregnant women and the elderly who depend on Medicaid for their health and long-term care. Clearly, that approach cannot, and does not, meet the President's principle of guaranteeing meaningful benefits for eligible populations.

Chris  
Jennings

~~For many states, the bill raises the federal contribution rate to Medicaid, and cuts the level of state funds needed to collect federal matching funds. The Committee's deep cuts -- \$72 billion -- combined with the potential for even deeper cuts by the states, could produce total cuts in services and coverage of up to \$250 billion.~~

*The Committee cuts overall federal Medicaid spending by \$72 billion. It exacerbates these deep cuts by raising the federal matching rate for many States, thereby enabling these States to draw their total federal allotment with fewer States to draw their total federal allotment with fewer State funds.* The President has demonstrated that we can balance the budget without this level of cuts.

John  
Angell

The Committee approved an amendment to maintain the current prohibition against provider taxes and donations, authorizing the Secretary of Health and Human Services to waive the prohibitions on a state-by-state basis after two years. But, to prevent states from resorting to these illusory financing schemes for cutting the state Medicaid contribution, the prohibition must remain permanent and unwaivable. The bill also unwisely ~~scraps~~ *repeal* the limits on provider payments to disproportionate share hospitals (DSH), enacted in the President's 1993 economic program. These limits have curbed states' "recycling" of federal Medicaid funds through DSH hospitals. Their repeal, along with weakening the prohibitions on provider taxes and donations, could lead to fewer "real" state dollars being spent on Medicaid. ~~resulting in even deeper total spending cuts.~~

The bill also ends many longstanding family and beneficiary protections. With these financing changes, *families and beneficiaries may incur deep financial liabilities, and federal taxpayers may end up paying for more of Medicaid, and will have fewer assurances that their tax dollars are well spent.* For example, the bill gives states broad discretion to impose any level of

cost-sharing on many Medicaid beneficiaries. It also eliminates any quality assurance standards or monitoring responsibilities for many important health care providers, including managed care organizations and intermediate care facilities for the mentally retarded. It contains no mechanism to ensure that changes in benefits and cost sharing do not jeopardize the sufficiency of coverage. As a result, millions of middle class families could have to pay considerable out of pocket costs simply to ensure their relatives are able to receive the care they receive today.

The Administration believes we can give the states the flexibility they need to manage their Medicaid programs, while maintaining a strong federal-state partnership built on a foundation of shared resources, accountability to the taxpayers, and national protections for the most vulnerable Americans. Despite limited efforts to improve it *the bill* at the committee stage level, the bill fails to meet these commitments. Consequently, it remains unacceptable.

## WELFARE

As reported by its committees, the House's new bill, H.R. 3437, makes important improvements to the conference report on H.R. 4. It incorporates a number of key changes that the Administration recommended and that were in the National Governors' Association (NGA) and Castle-Tanner proposals. We urge the Committee to build on these bipartisan improvements. The bill, however, does not address several issues of concern, particularly in providing the resources and incentives to protect children and families, ensure accountability, and move people from welfare to work.

### Improvements in H.R. 3437

We appreciate the Committee's efforts to strengthen provisions that are central to work-based reform, such as child care, and to provide some additional protections for children and families. In rejecting H.R. 4, the President singled out a number of provisions that were tough on children and did too little to move people from welfare to work. H.R. 3437 includes important changes to these provisions which move the legislation closer to the President's vision of true welfare reform. We are particularly pleased with the following improvements:

- Child Care and Work. As the President has insisted throughout the welfare reform debate, child care is essential to move people from welfare to work. The bill reflects a better understanding of the *child care* resources that states will need to implement welfare reform, adding \$4 billion for child care above the level in H.R. 4, ~~which lacked adequate child care resources for those required to move from welfare to work and low-income working families at risk of welfare dependency.~~ *The bill also recognizes that parents of school-age children need child care in order to work and protect the health and safety of children in care.*
- Food Stamps. The bill removes the annual spending cap on Food Stamps, preserving

the program's ability to expand during periods of economic recession and help families when they are most in need.

- Child Nutrition. The bill no longer includes H.R. 4's provisions for a child nutrition block-grant demonstration, which would have undermined the program's ability to respond automatically to economic changes and maintain national nutrition standards.
- Child Protection. We commend the Committee for preserving the open-ended nature of Title IV-E foster care and adoption assistance programs, current Medicaid coverage of eligible children, and the national child data collection initiative.
- Supplemental Security Income (SSI). The bill removes the proposed two-tiered benefit system for disabled children receiving SSI, and retains full cash benefits for all eligible children.

The bill makes other improvements that will strengthen states' abilities to move people from welfare to work. It improves the performance bonus provisions by establishing a separate funding stream. It increases the cash block-grant contingency fund modestly and adds a more responsive trigger based on the Food Stamp caseload. And it adopts higher exemptions from the time limit and requirements that teen mothers live at home and stay in school.

We remain pleased that Congress has decided to include central elements of the President's approach -- time limits, work requirements, the toughest possible child support enforcement, requiring minor mothers to live at home as a condition of assistance -- in this legislation.

#### Concerns With HR 3437

The bill still lacks other provisions that have earned bipartisan endorsement.

- Size of the cuts. The welfare provisions incorporate almost all of the cuts that were in the vetoed bill -- \$53 billion (including EITC) over 6 years, under CBO's new baseline. These cuts far exceed those proposed by the NGA or the Administration. Cuts in Food Stamps and benefits to legal immigrants are particularly deep. In addition, unlike the Administration's bill, H.R. 3437 would allow states to substantially cut their own spending on programs serving low-income families. The President's budget demonstrates that cuts of this size are not necessary to achieve real welfare reform, nor are they needed to balance the budget.

- Food Stamps. The bill makes deep cuts in the Food Stamp program, including a cut in benefits to households with high shelter costs that disproportionately affects families with children, and a four-month time limit on childless adults who are not given a work slot, but are willing to work. It also includes an unacceptable block grant, eliminating the

John  
Angell

Federal nature of the program and jeopardizing the nutrition and health of millions of children, working families, and the elderly.

- Resources for Work. *H.R. 3437 would not provide the resources states need to move recipients into work. CBO estimates about \$9 billion shortfall over six years in resources for work under H.R. 3437 if states were to maintain their current level of cash assistance benefits to poor families and children. Moreover, the Education and Economic Opportunity Committee increased this shortfall and cut state flexibility by raising the weekly number of hours that States must place recipients in work activities and increasing the participation rates.*
- Legal Immigrants. The bill does not change the excessively harsh and uncompromising immigration provisions of last year's bill. While we support the strengthening of requirements on the sponsors of legal immigrants applying for SSI, Food Stamps, and AFDC, *legal immigrants who work, pay taxes, and contribute to society should not be denied access to basic safety net programs.* The bill bans SSI and Food Stamps for virtually all legal immigrants, and imposes a 5-year ban on all other Federal programs, including Medicaid, for new legal immigrants. These bans even would cover legal immigrants who become disabled after entering the country, families with children, or current recipients. The proposal unfairly shifts costs to states with high numbers of legal immigrants. Finally, the bill requires virtually all federal, state, and local benefits programs to verify recipients' citizenship-and-alienage or alien status. These mandates would create significant administrative burdens for citizens and for state, local and non-profit service providers.
- Medical Assistance Guarantee. The bill does not maintain the guarantee for medical assistance for all those now eligible or who reach the five-year time limit.
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- Vouchers. The bill actually reduces State flexibility by prohibiting states from providing a safety net for children ~~by not allowing them to use block grant funds to provide non-cash assistance vouchers for children in families subject to the five-year time limit.~~ H.R. 4 contained no such prohibition, and the NGA opposes it. *We strongly urge the adoption of*

*the voucher language in the Administration's bill, H.R. 3266 (Castle-Tanner).*

We are also concerned that the bill repeals the Family Preservation and Support program, which may mean less State spending on abuse and neglect prevention activities.

*The Administration strongly supports several provisions included in S. 1795, as reported out by the Senate Finance Committee. These provisions include: allowing transfers only to the child care block grant, increasing the maintenance of effort requirement with a tightened definition of what counts toward this requirement, improving the fair and equitable treatment and enforcement language, prohibiting sanctions for families with children below 11 for failure to participate in work if due to lack of child care, and eliminating the child protection block grant. We urge you to include these provisions in H.R. 3437.*

The Castle-Tanner proposal addresses many of our concerns, and it would strengthen state accountability efforts, welfare to work measures, and protections for children. It provides a foundation on which this Committee should build in order to provide more State flexibility; incentives for AFDC recipients to move from welfare to work; more parental responsibility; and protections for children.

The President has sent Congress a comprehensive welfare reform proposal. It would replace the current system with one that demands responsibility, strengthens families, protects children, and gives States broad flexibility and the needed resources to get the job done.

We strongly support the recent bipartisan initiatives from our Nation's governors and moderate Republicans and Democrats in both Houses of Congress. We also strongly support bipartisan efforts of the governors and the Castle-Tanner group to reform welfare without gutting Medicaid. Congress should stop holding welfare reform hostage, and send the President a bipartisan, stand-alone welfare bill that does not eliminate the guarantee of health care for poor children, the disabled, and the elderly.

The President and Congress share the goal of a balanced budget, but we have grave concerns about the approach adopted in this bill. The President and the Republican leadership have more than enough savings in common to balance the budget and provide targeted middle class tax relief. Congress should work with the President to give Americans the balanced budget they deserve.

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