ENVIRONMENTAL INITIATIVES

OVERVIEW: Under the theme of protecting communities from toxic chemicals, these are several initiatives building on the Administration's environmental record:

1. Double the pace of Superfund cleanups at the nation's worst toxic waste sites, with the goal of cleaning up two-thirds of the sites on the current priority list. (cost: $1.5 - $2 billion)

2. A new set of proposals to clean up and re-develop "Brownfields" to complement the Administration's previously announced tax incentive. (cost: ($400 million)

3. Safe drinking water for all Americans' communities through implementation of the recently enacted Safe Drinking Water Act reauthorization, and protection of drinking water sources. (cost: $800 million)

4. Expanding the community right-to-know program to collect and make available via computer local information about toxic threats in air and water. (cost: $355 million)

5. An environmental crimes legislative proposal that would increase penalties for the worst environmental offenders and strengthen the federal government's partnership with state and local law enforcement. (cost: zero)

TOTAL COST:

Total 4-Year Cost for this agency-proposed agenda: $3.05 - 3.55 billion

The package summarized above is set out in greater detail in the following pages. To construct an environmental package at lower cost, *two alternative packages* may be considered:

Alternative Package A: (cost: $2.9 billion)

- Low end of Superfund range would be selected. (revised cost: $1.5 billion)
- Brownfields same as above. (cost: $400 million)
- The scope of the right-to-know initiative would be limited to fewer communities. (revised cost: $250 million)
- The drinking water budget would be trimmed. (revised cost: $750 million)
- Environmental crimes, same as above. (cost: none)

Alternative Package B: (cost: $1.5 billion)

- Erase the Superfund Backlog: provide sufficient funding to permit EPA to clear out its current backlog of 70 Superfund sites which are ready to be cleaned up, but for which funds have been unavailable. (New sites would continue to be added, however.) We would also expand the Reagan executive order to give more environmental agencies (in addition to EPA) authority to order cleanups. This proposal would end the waiting for communities with Superfund sites at which all preliminary assessments and design work has been completed but actual cleanup has been stalled because of a lack of funds. (cost: $500 million)

- Brownfields: Increase the EPA grant program to local governments for brownfields site assessment and cleanup as discussed in item II, but at a lower level. (cost: $245 million)

- Safer Drinking Water Implementation as described in item III, below, but at a lower level and without source water protection. (cost $400 million)

- Community Right-to-Know: As described below in ~~item~~ IV. (cost: $355 million)

- The Environmental Crimes legislative proposal describ~~ed item V~~.

Note: Both CEQ and EPA believe that the resources in this alternative are too few, and too thinly spread among proposals, to support a presidential initiative on toxics, specifically, that will be either credible or well-received among major constituencies. There are other difficulties as well: the proposal to "clear the Superfund backlog" highlights the fact that we have created a backlog by inadequate budget requests; the drinking water request is likely to be derided by any constituency informed about the magnitude of the need.

I. ACCELERATED SUPERFUND CLEANUPS (cost: $1.5 - $2 billion)

OVERVIEW: There are currently 1,387 Superfund toxic waste sites. Some 362 cleanups have been completed, and at current levels of funding, a total of 650 sites will be cleaned up by the year 2000. This proposal would increase the total number of cleanups by the year 2000 to some 900 sites, allowing us to say two-thirds of the current sites will be cleaned up and the pace of additional cleanups doubled.

The proposal:

- *Accelerate the Pace Of Cleanup.* Set an ambitious new goal for Superfund: doubling the pace of cleanup so that two-thirds of the existing Superfund sites are cleaned up by the year 2000.

- ***Issue an executive order to provide agencies with new authority to make polluters clean up toxic waste sites they created.*** By executive order, give Interior, USDA, and NOAA new authority to make polluters clean up toxic pollution, which will boost site cleanups and clean water protection. (These agencies already must oversee cleanup at many sites that are not on EPA's priority list, but lack full authority. This would modify the Reagan executive order delegating Superfund authority.)

Potential Negatives

The fight with Congress over reauthorization has generally been very positive for the Administration in terms of our position that the largest polluters must pay their fair share. However, the congressional leadership has sought to suggest that we take our position just to be friendly to the trial lawyers as they say we have sought to do in other areas.

We have based this initiative on our estimates of the time and money typically involved in cleaning up a Superfund site. Despite our best efforts at sampling and other work to determine the extent of contamination at a Superfund site, we do sometimes find levels or types of contamination that take longer to remediate than originally anticipated. Such unanticipated circumstances -- or other unexpected delays (severe weather, labor problems, etc.) -- could keep us from reaching the goal set out in this initiative. We do believe that clean up will be completed or substantially completed on the additional sites covered by the initiative by 2000.
As with other aspects of our "polluter pays" message, the executive order expanding Superfund cleanup authority may generate criticism from those companies who are liable at particular sites. These are primarily mining sites managed by Interior, USDA, and NOAA that mining companies have contaminated and abandoned.

II. CLEANUP AND REDEVELOPMENT OF BROWNFIELDS (cost: $400 million)
Numbers reflect combined impacts of a new EPA initiative and the President's proposed Brownfields tax incentive.

OVERVIEW: This initiative would clean up and redevelop up to 30,000 contaminated brownfield sites in 300 communities. Brownfields sites are contaminated, abandoned, properties. The contamination is not serious enough for EPA to list the site on its ranking of the worst sites requiring cleanup, but serious enough that banks generally will not lend money for redevelopment because of their fear of potential liability for the contamination. Thus the site stays idle and remains a blight on our cities and communities. GAO estimates that there are some 450,000 brownfield sites in the Untied States. Of that number, EPA and Treasury estimate that some 130,00 would be eligible for the brownfields tax credit -- a fair estimate of the number of sites that are good candidates for redevelopment. This program would, therefore, help clean up as much as 25% of the sites that are candidates for redevelopment. This proposal will result in improved quality of life for 15 million Americans living within 5 miles of at least one brownfield site. It would also create new jobs in cleanup and redevelopment work, increase the local tax base; spur private-sector investment; and discourage urban sprawl by enhancing preservation of "greenfields." The proposal includes:

- *Enactment of the Administration's Brownfields tax incentive,* announced in the State of the Union and later introduced in the House and Senate, to accelerate brownfields cleanup ($2 billion cost already budgeted).

- *$340 million EPA brownfields grants program;* grants to cities for site assessment (up to $200,000 each) and cleanup (up to $500,000 each).

- *$40 million EPA state voluntary cleanup program support:* provides technical support and needed expertise for states offering cleanup guidance to industry.

- *$20 million EPA Worker Training Program* to train citizens living in brownfield communities in cleanup technologies to create opportunity for employment at these sites.

Potential Negatives

This proposal would only provide a marginal increase in sites (13,000, not 30,000) cleaned up. The proposal "double counts" the number of clean-ups that will result from the Administration's announced $2 billion tax incentive (17,000 sites).

III. SAFER WATER FOR ALL AMERICAN COMMUNITIES. (Cost: $800 million over 4 years in addition to funding already included in our budget. EPA, NOAA, Interior, USDA.

OVERVIEW: This proposal reflects the recently signed Safe Drinking Water Act's expansion of EPA's drinking water program. The proposal incorporates a series of steps to stop toxic pollution from entering our drinking water sources and other streams and rivers, while providing new resources to state and local governments fighting toxic pollution. The proposal makes use of existing authority to make polluters clean up toxics that threaten our lands and waters. Legislative proposals for reauthorization of the Clean Water Act would advance these principles and strengthen protection against toxic pollution, especially from polluted runoff.

- *Making Polluters Clean Up More Toxic Threats to Lands and Waters.* (no cost) Replace the Reagan Administration Executive Order that limits agency authority to compel polluters to clean up toxic waste sites that threaten our lands and waters with a new Executive Order that expands the authority of Interior, NOAA, and USDA to compel polluters to clean up.

- *Protection for Drinking Water Sources.* ($400 million) Congress has not yet provided full funding for the Safe Drinking Water bill, which you signed earlier this month and which contains proposals to strengthen the ability of EPA and state and local governments to protect drinking water supplies. This proposal would challenge Congress to restore the money for communities to protect their drinking water, through the Safe Drinking Water Revolving Fund that you proposed and provide additional funding for communities to protect their drinking water sources.

- *Protecting Communities from Toxic Mine Wastes.* ($332 million) Dedicate a Hard Rock Mining Reclamation Fund (DOI) and an expanded cleanup program to stop toxic discharges from hundreds of mines and restore thousands of miles of rivers to productive use. USDA would also undertake related activities.

- *Targeting Farm Bill Resources to Reducing Toxic Cleanup.* (cost: none) The 1996 Farm Bill provided a number of opportunities for USDA to work in partnership with local governments and soil conservation districts on voluntary, community-oriented conservation projects. This initiative would direct USDA to focus those programs on reducing toxic and agricultural pollution into our waterways, beginning with an effort to focus the Conservation Reserve Program on water quality goals. These efforts should result in water quality protection efforts covering more than 50 million acres of lands nationwide.

- *State and Local Protection of Rivers and Beaches.* (cost: $64 million) In order to provide front-line protection of rivers and beaches this initiative would have you direct EPA and NOAA to create new partnerships with state and local governments to control polluted runoff, and to manage critical coastal zone areas.

Potential Negatives

The new resources for drinking water that may be viewed as an inadequate financial commitment, when needs are estimated to be in the tens of billions of dollars. In addition; other elements similarly may be regarded as inadequate to the magnitude of the need.

IV. HONORING AMERICANS' RIGHT TO KNOW ABOUT TOXICS (Cost: $355 mil.)

OVERVIEW: Announce a broad initiative to enhance the Right-To-Know program. Under this proposal, by the year 2000, EPA, the Department of the Interior, and NOAA will make more local environmental information about the quality of the air and water -- which for ordinary citizens can often be impossible to find -- available instantly for all American communities. This information would be coupled with information about food and products that present major risks to families. This new service would complement the information available from EPA's Toxics Release Inventory, which has been highly effective in informing citizens about chemical data from major manufacturing facilities in their neighborhoods.

- *A Call for Expanded Right-to-Know Legislation.* (cost: none) Cabinet agencies will be directed to build on the success of our right-to-know laws to help families make informed choices about the products they use. The Administration will work with parents, scientists, the business community, and the Congress to provide better information to families, so that they will have the tools to protect themselves. This initiative will include common-sense and cost-effective ways to meet the following objectives:

-- Assist parents in assessing and avoiding unique environmental health risks to children from products and chemicals;

-- Provide information on the whole range of environmental health risk from toxics, including cancer, developmental, endocrine, and reproductive risks; and

-- Encourage informed consumer choices by providing improved information.

- *Making Right-to-Know Accessible to all Americans.* (cost: $250 million) By the year 2000, every American should have access to timely information about toxic and other pollutants in their local air, land, and water through a comprehensive monitoring system with computer links to schools, libraries, community centers and home computers in all cities with populations over 100,000.

  -- For the first time, set up a nationwide, federally funded, network to monitor key health indicators in the air and water. Monitoring would provide families with access to timely health-related data to make informed choices that directly affect their health, without requiring private parties to report more. For example, timely air quality information can mean the difference between hospitalization and a healthy day for an asthmatic child. Asthma is now the leading cause of hospitalization for young children in the United States.

  -- Expanding Right-to-Know About Water Quality. (cost: $85 million) Federal agencies now monitor water quality in only half the nation's rivers, lakes, streams, and beaches. President Clinton is expanding the effort so that communities across America have information about what are the sources of pollution to their rivers, lakes and beaches.

  -- Increasing Availability of Right-to-Know Information. (cost: $20 million) President Clinton is directing EPA to lead an effort to ensure that, by the year 2000, Americans have one-stop access to all of the environmental information available. Several government agencies, like NASA, the Interior Department, and the Commerce Department will bring together the information they already collect, so that citizens can get access through one place.

Potential Negatives

Right to Know is criticized as increasing the paperwork burden facing industry in a manner unrelated to real environmental risks. These concerns, however, should not apply to an approach that makes better use of existing reporting requirements and that focuses on vital common public health resources, such as clean air and water.

V. GETTING TOUGH ON ENVIRONMENTAL CRIMES (Cost: none)

OVERVIEW: This proposal would increase penalties for the worse offenders, strengthen our partnership with state and local law enforcement agencies, and plug loopholes in existing laws that allow environmental crimes to go unpunished.

Illegal dumping of toxics and other environmental crimes are real crimes, and our families are the victims. Prosecutors, police, and investigators need better tools to protect our communities from the toxic threat posed by environmental criminals. To address these problems, we recommend the Administration propose a new Environmental Crimes Bill, which will strengthen community protection against environmental criminals. Illegal dumping of toxics and other pollutants is real crime, and communities are the victims. Police, prosecutors, and investigators need better tools to protect our communities from the toxic threat posed by environmental criminals. This bill will ensure that the assets of environment criminals can be secured even before conviction, and are used to restore the communities they victimize. The bill would impose stronger penalties for the worst environmental crimes, and strengthen our partnership with state and local prosecutors. The bill will include provisions to:

- *New authority for prosecutors to secure the assets of environmental criminals,* even before conviction, when those assets are needed to repair the environmental harm that has been done. Prosecutors should be able to secure the assets of environmental criminals when they threaten our communities. Criminal defendants are often able to shield their assets from prosecutors, and communities are often at risk that the damage done by the crime will remain unrestored.Authorize prosecutors to get a prejudgment order making placing criminal defendants' assets within the control of the court, to make sure those assets are available to clean up the environment. Broader even than a lien, this provision will allow prosecutors, after a hearing, to secure any of the assets belonging to an environmental criminal and make sure the money is there to clean up the environment for victimized communities.

- *Impose stronger penalties for the worst environmental crimes,* and strengthen our partnership with state and local prosecutors with more tools and resources. Current law has no provision for environmental criminals whose offenses result in death or injury to the public, including to police and other law enforcement personnel. This proposal would enhance penalties for environmental crimes that result in death or serious bodily injury to law enforcement personnel or the public;

- *Outlaw "attempts" to commit environmental crimes.* There are no laws against attempted environmental crimes, which hampers efforts to capture criminals before environmental damage is done through "sting" operations and other undercover work. This proposal will make it possible to conduct undercover operations and otherwise to make an arrest before toxics are released into the environment.

- *Modify statutes of limitation to allow additional time for prosecution* (not to exceed a total of eight years from the date of the violation) where a criminal tries conceals an environmental crime. Current statutes of limitations have no exceptions for those who conceal their environmental crimes, with the result that some of the most egregious environmental crimes cannot be prosecuted.

- *Strengthen environmental law enforcement partnerships.* Local law enforcement agencies often lack the resources to support environmental crimes prosecutions or to train their officers on detection and handling of environmental crimes. This problem hampers joint federal-state prosecutions, and has been made more urgent by the government shutdown and other efforts to cut EPA's enforcement budget and take the environmental cop off the beat. This initiative would provide that state and local officials would be able to receive an award of their costs in joint prosecutions with federal authorities of environmental crime, and the cost award would be added to the criminal fine the defendant would have to pay. The bill would seek $1,000,000 in new money for training and support of state and local law enforcement officials.

- *Assure restitution for victims of environmental crimes.* The authority of courts to require environmental criminals to provide "restitution" to communities victimized by environmental crime should be clear. The communities that are victims of environmental crime should the right to have their environment and natural resources restored. The proposal would clarify the law to ensure that the courts may order convicted criminals to pay restitution for their crimes, by making payments to remediate or restore the quality of the environment to the full extent that it is damaged by an environmental crime.

Potential Negatives

May be concern in industrial community about aggressive enforcement.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

CLOSE HOLD

August 13, 1996

MEMORANDUM FOR GENE SPERLING
NATIONAL ECONOMIC COUNCIL

FROM: ERIC J. TODER
DEPUTY ASSISTANT SECRETARY (TAX ANALYSIS)

SUBJECT: Options for Treatment of Capital Gains from the Sale of a Principal Residence

Attached, at your request, is a paper prepared by the Office of Tax Policy (OTP) regarding proposals for the treatment of gains from the sale of a principal residence.

After discussing this paper with Deputy Secretary Summers, and further review of the details of the Dole plan, we both agreed that a scaled back version of Option 2 might be the best alternative. The Dole plan is Option 2, but with an exclusion of $250,000 ($125,000 for single returns) instead of $500,000 ($250,000 for single returns) and an increase in the exclusion for houses held at least 10 years (instead of 15 years) up to a maximum of $500,000 instead of $1,000,000 for joint returns after 19 years (instead of 24 years).

Although it is not mentioned explicitly in the description, our understanding is that the Dole plan would eliminate rollover, however, and therefore impose higher taxes on some home sales. We could propose a scaled back version of Option 2 (with an exclusion equal to or above the Dole proposal, but less than our original option), but with <u>rollover explicitly retained</u>. We are currently preparing a revenue estimate for such an option.

Attachment

August 13, 1996

Options Regarding Proposals for the Treatment of Gains from the Sale of a Principal Residence

This memorandum summarizes our original proposal from last year (as modified earlier this summer) and two alternatives. More complete descriptions of each alternative are attached.

Background -- Current Law

- Gain can be deferred through the purchase of a new home of equal or greater value.
- One-time election for taxpayers over 55 to exclude up to $125,000 of gain from the sale of a principal residence.

The interaction of these two provisions can introduce significant distortions into taxpayers' housing decisions, by encouraging younger taxpayers to continually "buy up" until they are eligible for the one time exclusion. In addition, although less than 4 percent of home sales result in gains that are actually taxed, most homeowners are required to maintain detailed records spanning many decades because of the potential for tax. Those paying tax are generally in one of three categories: taxpayers moving from a market with high housing costs to one with lower costs; taxpayers experiencing financial difficulties who sell their home to access the capital it represents; and older taxpayers moving to a less expensive house or rental property whose gain exceeds the $125,000 exclusion.

Option 1: Original Proposal

- Replace both provisions of current law with a $500,000 exclusion (indexed for inflation), available once every two years. The maximum exclusion would be $250,000 for taxpayers other than those who are married filing jointly.
- The exclusion would increase by $50,000 per year ($25,000 for non-joint returns) for taxpayers living in the same home for at least 15 years, up to a maximum of $1 million ($500,000 for non-joint returns) after 24 years.
- Revenue loss (1996-2002): $2.4 billion

This proposal would result in significant simplification for most taxpayers selling a house. Approximately 95% of all home sales involve a sales price lower than the $500,000 exclusion amount, thus these taxpayers could be certain that no tax is due without even computing the actual gain from the sale of the home. The proposal would also eliminate the incentive for younger taxpayers to "buy up."

The proposal is intended primarily as a simplification and rationalization of existing law, not as "tax relief" for the small percentage of taxpayers who currently pay tax on the sale of a home. Thus although the new exclusion would reduce the number of taxpayers paying tax on gains from the sale of homes from about 150,000 per year to under 10,000 per year, the repeal of the rollover provision would result in a tax increase for approximately 2,000 taxpayers with large gains that exceed the proposed exclusion amounts.

Option 2: Original Proposal Plus Retain Rollover

- Replace the current exclusion for taxpayers 55 and over with a $500,000 exclusion (indexed for inflation), available once every two years. The maximum exclusion would be $250,000 for taxpayers other than those who are married filing jointly.

- The exclusion would increase by $50,000 per year ($25,000 for non-joint returns) for taxpayers living in the same home for at least 15 years, up to a maximum of $1 million ($500,000 for non-joint returns) after 24 years.

- Gains in excess of the new exclusion could still be deferred by purchasing a new home.

- Revenue loss (1996-2002): $2.8 billion

By retaining the provision allowing rollover of gains, this alternative ensures that no taxpayer experiences an increased tax liability as compared to current law. It would increase the cost of the proposal by approximately $0.4 billion, and would somewhat reduce the simplification aspects of the proposal by requiring rules governing the interaction of two separate provisions for gains on the sale of a home.

Option 3: Expand One-time Exclusion and Allow Rollover into IRA's

- Increase current exclusion for taxpayers 55 and over to $200,000 per person (i.e., $400,000 for joint returns with both spouses age 55 or over, and indexed for inflation).

- Retain current rollover rules

- Taxpayers not using the exclusion would be permitted to offset any tax that would otherwise be due by contributing up to $200,000 per person ($400,000 for joint returns, and indexed for inflation) into an IRA.

- Revenue loss (1996-2002): $1.4 billion

This alternative is primarily intended to provide a smaller amount of tax relief at lower cost and to reduce the costs to taxpayers of purchasing replacement residences that cost less than the previous residence. It updates the onetime exclusion for taxpayers aged 55 and over for increases in house prices since the provision was last changed in 1982. It also provides tax relief for taxpayers who "buy down" by allowing them to invest the proceeds from the sale of a home in productive assets, instead of providing them an incentive to buy continually larger houses to avoid tax

As a result of a change in focus, this alternative would introduce new complexities into the treatment of home sales and would not be a simplification of existing law in most cases. While this proposal has much lower revenue costs, the number of beneficiaries is substantially reduced. Furthermore, unlike the alternatives discussed above, this option would provide no relief to taxpayers who sell a home to access capital during periods of financial difficulties.

Housing Gains Proposal in the Dole Plan

The Joint Committee on Taxation description of the Dole Plan tax reduction proposals includes an exclusion for capital gains on housing. The Dole proposal would allow taxpayers to exclude up to $250,000 ($125,000 on a single return) of gain from the sale of principal residences. To qualify, individuals would have to have used the property as a principal residence for at least three of the preceding five years. The $250,000 maximum exclusion would be prorated for individuals forced to sell their principal residences within three years of purchase. The maximum exclusion would be increased $25,000 per year ($12,500 for single taxpayers) for each year the house was used as a principal residence beyond the tenth year, up to a maximum exclusion of $500,000. The proposal would apply to sales after December 31, 1996. The description of the proposal does not mention rollover of gains so that presumably it is retained as in option 2.

Comparison of Alternative Housing Gains Proposals

Benefits and Costs	Current Proposal	Current Proposal, Plus Retain Rollover	Increase Age 55 Excl. to $200/400 +IRA Rollover
Benefits			
Simplification			
Lifetime record keeping from rollovers	Eliminated	Eliminated /1	Retained
Computation of basis, gain	Eliminated /1	Eliminated /1	Onetime elim.
IRC Code and regulations on rollovers	Eliminated	Retained	Retained
Additional complexity/regulations	N.A.	N.A.	New IRA rules
Housing distortions and problem cases			
Incentive for ever more expensive houses to avoid tax	Eliminated	Eliminated /1	Rollover to IRA
Tax on sales by unemployed	Eliminated /1	Eliminated /1	Retained
Incentive to delay until age 55	Eliminated /1	Eliminated /1	Increased /3
One-time exemption spoiled by 2nd marriage	Eliminated /1	Eliminated /1	Eliminated /4
Approximate Number of Households Affected /2			
Reduced recordkeeping	95%+ of H.H.	95%+ of H.H.	4%+ of H.H.
Tax reduction (per year)	127,000	127,000	14,000
Rollover into IRA			52,000
Tax increase (per year)	2,000	None	None
Revenue Costs			
1996-2002	-$2.4 b	-$2.8 b	-$1.4 b
1996-2002, omitting $1m ratchet	-$1.9 b		

/1 Eliminated for taxpayers under the limit for this proposal.
/2 Estimates of the numbers of households are approximations for comparison as this varies by year and is subject to sampling error due to small numbers of observations.
/3 Some households with one spouse under age 55 would have an increased incentive to defer sales until both spouses are eligible.
/4 By special provision.

Proposals to Simplify the Taxation of Capital Gains on the Sale of Principal Residences

Fiscal Years
(Millions of Dollars)

Date of Announcement	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1996-01	1996-02	1996-06
$500K/$250K Exclusion /1	0	-308	-451	-439	-427	-414	-401	-389	-376	-364	-357	-2039	-2440	-3926
Retain Rollover /2	0	-315	-461	-489	-497	-505	-513	-521	-529	-539	-546	-2287	-2800	-4935
Exclusion, Rollover into IRA /3	0	-146	-226	-243	-258	-272	-281	-292	-301	-311	-320	-1147	-1428	-2652

... would repeal the $125,000 exclusion for taxpayer's 55 years and older, and the rollover of capital gains on sale of principal residence. The proposal would tax gains according to holding period. Homes held under 2 years would be ... except for forced sales. Forced sales would get an exclusion equal to $500,000 for joint returns and $250,000 for non-joint returns times the fraction of the 2 year holding period that has elapsed. Homes held 2 years or more but under ... get an exclusion of $500,000 for joint returns and $250,000 for non-joint returns. Homes held over 15 years would get an additional $50,000/$25,000 exclusion for each year additional year held, up to a maximum of $1,000,000/$500,000 ... indexed for inflation, with appropriate rounding rules to be determined later. Assumes a 8/1/96 announcement date.

... would repeal the $125,000 exclusion for taxpayer's 55 years and older, but retain the rollover of capital gains on sale of principal residence. For gains that are not rolled over, the proposal would tax gains according to holding period. Homes ... would be taxed when sold, except for forced sales. Forced sales would get an exclusion equal to $500,000 for joint returns and $250,000 for non-joint returns times the fraction of the 2 year holding period that has elapsed. Homes ... years would get an exclusion of $500,000 for joint returns and $250,000 for non-joint returns. Homes held over 15 years would get an additional $50,000/$25,000 exclusion for each year additional year held, up to a maximum of ... All values are indexed for inflation, with appropriate rounding rules to be determined later. Assumes a 8/1/96 announcement date.

... increase the over 55 exclusion on the sale of principal residences to $200,000 per person (i.e., $400,000 for joint returns). The $200,000 is indexed for inflation, with appropriate rounding rules to be determined later. ... rollover capital gains on the sale of principal residences into a new home or a new home of greater value can rollover all or a portion of the taxable gain into an IRA. Joint filers who have a spouse under the age of 55 are eligible for the IRA ... of gain above the $200,000 exclusion taken by the spouse 55 years or older. The amount that can be rolled over is capped at $200,000 per person (i.e., $400,000 for joint returns). The $200,000 is indexed for inflation. Assumes a 8/1/96 ... This proposal is stacked after the President's IRA proposal in the FY97 Budget.

... Treasury ... Analysis

08-Aug-96
04:34 PM

NEW EXCLUSION OF GAINS ON SALE OF PRINCIPAL RESIDENCE

Current Law

Under current law, capital gains from the sale of principal residences are subject to taxation. However, as the result of two special provisions, only a small percentage of such gains are actually taxed.

First, taxpayers can postpone the tax on the capital gain realized on the sale of a principal residence if they purchase another principal residence within a specified replacement period that begins two years before and ends two years after the date of the sale. To postpone the entire capital gain from a sale, the purchase price of the new principal residence must exceed the adjusted sales price of the prior principal residence.

Second, taxpayers who have reached the age of 55 (or whose spouses have reached the age of 55) are eligible for a one-time exclusion of up to $125,000 of accumulated capital gains realized on the sale of principal residences. To elect the one-time exclusion, the taxpayer who is age 55 or older must have owned the home and used it as a principal residence for a total of at least three years during the five-year period before the sale. A taxpayer is eligible for the exclusion only if the taxpayer and the taxpayer's spouse have not previously benefited from the exclusion.

Reasons for Change

Calculating capital gain from the sale of a principal residence is among the most complex tasks faced by a typical taxpayer. By excluding from taxation capital gains on principal residences below a relatively high threshold, almost all taxpayers should not have to keep records for income tax purposes of transactions related to their house. Many taxpayers buy and sell a number of homes over the course of their lifetime, and are generally not certain of how much housing appreciation they can expect. Thus, despite the fact that as a result of the rollover provisions and the $125,000 one-time exclusion, most homeowners never pay any income tax on the capital gain on their principal residences, detailed records of transactions and expenditures on home improvements must be kept, in most cases, for many decades. To claim the exclusion, many taxpayers must determine the cost basis of each home they own, and appropriately adjust their current cost basis for any untaxed gains from previous housing transactions. This requires augmenting the original cost basis by expenditures on improvements. In addition to the record-keeping burden this creates, taxpayers face the difficult task of drawing a distinction between improvements which add to cost basis, and repairs which do not. The failure to account accurately for all improvements leads to errors in the calculation of capital gains, and in some cases, to an under-estimate of the value of improvements, and hence an over-estimate of the capital gains on principal residences.

To postpone the entire capital gain from the sale of a principal residence, the purchase price of a new home must be greater than the sales price of the old home. This provision encourages some taxpayers to purchase larger and more expensive houses than they otherwise would, in order to avoid a tax liability, particularly those who move from areas where housing costs are high to lower cost areas. Current law also may discourage some elderly taxpayers from selling their homes. Taxpayers who would realize a capital gain in excess of $125,000 if they sold their home and taxpayers who have already used the exclusion may choose to stay in their homes even though the home no longer suits their needs. By raising the $125,000 limit and by allowing multiple exclusions, this constraint to the mobility of the elderly would be removed.

While most homeowners do not pay capital gains tax when selling their homes, current law creates certain tax traps for the unwary that can result in significant capital gains taxes or loss of the benefits of the current exclusion. For example, an individual is not eligible for the one-time capital gains exclusion if the exclusion was previously utilized by the individual's spouse. This restriction has the unintended effect of penalizing individuals who marry someone who has already taken the exclusion. Households that move from a high housing cost area to a low housing cost area may incur an unexpected capital gains tax liability. Divorcing couples may incur substantial capital gains taxes if they do not carefully plan their house ownership and sale decisions.

Proposal

Married taxpayers filing jointly would be allowed to exclude up to $500,000 of capital gains realized on the sale of a principal residence. The maximum exclusion for single taxpayers, heads of households and married persons filing separately would be $250,000. For taxpayers who live in a home for at least 15 years, the maximum allowable exclusion would be increased by $50,000 per year ($25,000 for non-joint filers), up to a maximum of $1,000,000 after 24 years ($500,000 for non-joint filers). The exclusion limits would be indexed for inflation. As long as the holding period requirements were satisfied, this exclusion could be used on gains realized each time a taxpayer sold a principal residence.

To be eligible for the exclusion, taxpayers generally must have owned a home and used it as their principal residence at some time during the two years prior to the sale of the residence. In addition, the exclusion will generally be available only once every two years. Taxpayers forced to move on account of a change in place of employment without meeting these requirements would be eligible for the exclusion.

In the case of joint filers not sharing a principal residence, an exclusion of $250,000 would be available on a qualifying disposition of the principal residence of one of the spouses. Similarly, if a taxpayer who has not used the exclusion marries someone who has used the exclusion within the prior two-year period, the proposal would permit the newly-married couple to exclude a gain on the sale of their principal residence of up to $250,000.

This proposal would be effective for all sales after the date of announcement. Current-law provisions allowing rollover of gains into a new residence and the one-time exclusion of up to $125,000 of gains for taxpayers age 55 and over would be repealed.

Revenue Estimate (in billions of dollars)

	Fiscal Years						
	1996	1997	1998	1999	2000	2000	1996-2001
New Exclusion of Gains on Sale of Principal Residence	*	-0.3	-0.5	-0.4	-0.4	-0.4	-2.0
	2002	2003	2004	2005	2006	1996-2002	1996-2005
	-0.4	-0.4	-0.4	-0.4	-0.4	-2.4	-3.9

Department of the Treasury
Office of Tax Analysis

August 8, 1996

NEW EXCLUSION OF GAINS ON SALE OF PRINCIPAL RESIDENCE

Current Law

Under current law, capital gains from the sale of principal residences are subject to taxation. However, as the result of two special provisions, only a small percentage of such gains are actually taxed.

First, taxpayers can postpone the tax on the capital gain realized on the sale of a principal residence if they purchase another principal residence within a specified replacement period that begins two years before and ends two years after the date of the sale. To postpone the entire capital gain from a sale, the purchase price of the new principal residence must exceed the adjusted sales price of the prior principal residence.

Second, taxpayers who have reached the age of 55 (or whose spouses have reached the age of 55) are eligible for a one-time exclusion of up to $125,000 of accumulated capital gains realized on the sale of principal residences. To elect the one-time exclusion, the taxpayer who is age 55 or older must have owned the home and used it as a principal residence for a total of at least three years during the five-year period before the sale. A taxpayer is eligible for the exclusion only if the taxpayer and the taxpayer's spouse have not previously benefited from the exclusion.

Reasons for Change

Calculating capital gain from the sale of a principal residence is among the most complex tasks faced by a typical taxpayer. By excluding from taxation capital gains on principal residences below a relatively high threshold, almost all taxpayers should not have to keep records for income tax purposes of transactions related to their house. Many taxpayers buy and sell a number of homes over the course of their lifetime, and are generally not certain of how much housing appreciation they can expect. Thus, despite the fact that as a result of the rollover provisions and the $125,000 one-time exclusion, most homeowners never pay any income tax on the capital gain on their principal residences, detailed records of transactions and expenditures on home improvements must be kept, in most cases, for many decades. To claim the exclusion, many taxpayers must determine the cost basis of each home they own, and appropriately adjust their current cost basis for any untaxed gains from previous housing transactions. This requires augmenting the original cost basis by expenditures on improvements. In addition to the record-keeping burden this creates, taxpayers face the difficult task of drawing a distinction between improvements which add to cost basis, and repairs which do not. The failure to account accurately for all improvements leads to errors in the calculation of capital gains, and in some cases, to an under-estimate of the value of improvements, and hence an over-estimate of the capital gains on principal residences.

To postpone the entire capital gain from the sale of a principal residence, the purchase price of a new home must be greater than the sales price of the old home. This provision encourages some taxpayers to purchase larger and more expensive houses than they otherwise would in order to avoid a tax liability, particularly those who move from areas where housing costs are high to lower cost areas. Current law also may discourage some older taxpayers from selling their homes. Taxpayers who would realize a capital gain in excess of $125,000 if they sold their home and taxpayers who have already used the exclusion may choose to stay in their homes even though the home no longer suits their needs. By raising the $125,000 limit and by allowing multiple exclusions, this constraint to the mobility of the elderly would be removed.

While most homeowners do not pay capital gains tax when selling their homes, current law creates certain tax traps for the unwary that can result in significant capital gains taxes or loss of the benefits of the current exclusion. For example, an individual is not eligible for the one-time capital gains exclusion if the exclusion was previously utilized by the individual's spouse. This restriction has the unintended effect of penalizing individuals who marry someone who has already taken the exclusion. Households that move from a high housing cost area to a low housing cost area may incur an unexpected capital gains tax liability. Divorcing couples may incur substantial capital gains taxes if they do not carefully plan their house ownership and sale decisions.

<u>Proposal</u>

Married taxpayers filing jointly would be allowed to exclude up to $500,000 of capital gains realized on the sale of a principal residence. The maximum exclusion for single taxpayers, heads of households and married persons filing separately would be $250,000. For taxpayers who live in a home for at least 15 years, the maximum allowable exclusion would be increased by $50,000 per year ($25,000 for non-joint filers), up to a maximum of $1,000,000 after 24 years ($500,000 for non-joint filers). The exclusion limits would be indexed for inflation. As long as the holding period requirements were satisfied, this exclusion could be used on gains realized each time a taxpayer sold a principal residence.

To be eligible for the exclusion, taxpayers generally must have owned a home and used it as their principal residence at some time during the two years prior to the sale of the residence. In addition, the exclusion will generally be available only once every two years. Taxpayers forced to move on account of a change in place of employment without meeting these requirements would be eligible for the exclusion.

In the case of joint filers not sharing a principal residence, an exclusion of $250,000 would be available on a qualifying disposition of the principal residence of one of the spouses. Similarly, if a taxpayer who has not used the exclusion marries someone who has used the exclusion within the prior two-year period, the proposal would permit the newly-married couple to exclude a gain on the sale of their principal residence of up to $250,000.

This proposal would be effective for all sales after the date of announcement. The current-law one-time exclusion of up to $125,000 of gains for taxpayers age 55 and over would be eliminated. Taxpayers would also be allowed to continue to roll over capital gains into a new residence as under current law.

<u>Revenue Estimate (in billions of dollars)</u>

Fiscal Years

	1996	1997	1998	1999	2000	2000	1996-2001
New Exclusion of Gains on Sale of Principal Residence	0	-$0.3	-$0.5	-$0.5	-$0.5	-$0.5	-$2.3
	2002	2003	2004	2005	2006	1996-2002	1996-2005
	-$0.5	-$0.5	-$0.5	-$0.5	-$0.5	-$2.8	-$4.9

Department of the Treasury
Office of Tax Analysis

July 30, 1996

MODIFICATIONS TO THE TREATMENT OF GAINS ON SALES OF PRINCIPAL RESIDENCES

Current Law

Under current law, two special provisions govern the taxation of capital gains from the sale of a principal residence. First, taxpayers can postpone the tax on the capital gain realized on the sale of a principal residence if they purchase another principal residence within a specified replacement period that begins two years before and ends two years after the date of the sale. To postpone the entire capital gain from a sale, the purchase price of the new principal residence must exceed the adjusted sales price of the prior principal residence. Second, taxpayers who have reached the age of 55 (or whose spouses have reached the age of 55) are eligible for a one-time exclusion of up to $125,000 of accumulated capital gains realized on the sale of principal residences. To elect the one-time exclusion, the taxpayer who is age 55 or older must have owned the home and used it as a principal residence for a total of at least three years during the five-year period before the sale. A taxpayer is eligible for the exclusion only if the taxpayer and the taxpayer's spouse have not previously benefited from the exclusion.

Reasons for Change

To postpone the entire capital gain from the sale of a principal residence, the purchase price of a new home must be greater than the sales price of the old home. This provision encourages some taxpayers to purchase larger and more expensive houses than they otherwise would, in order to avoid a tax liability, particularly those who move from areas where housing costs are high to lower cost areas. Both the taxpayer and the economy would benefit if the taxpayer were free to invest a portion of the sales price in more productive assets.

The $125,000 exclusion has not been increased since 1982, and does not reflect the increases in housing costs in the last 15 years. In 1982, the $125,000 exclusion was almost double the median price of existing homes sold. In 1996, however, the $125,000 exclusion is lower than the median sales price of existing homes in the west and northeast, and only slightly above the median for the whole U.S. Thus, while many elderly taxpayers can ultimately determine that they have no tax liability from the sale of a home under current law, the erosion in the value of the exclusion has increased the number of taxpayers who must engage in complex computations using house purchase, sale and improvement records to determine whether any gain is taxable. By increasing the exclusion to a relatively high level (and indexing the amount for future inflation), this record-keeping burden could be eliminated for over 95% of homeowners over age 55.

In addition, the erosion in the value of the exclusion may discourage some middle-income elderly taxpayers from selling their homes. Taxpayers who would realize a capital gain in excess of $125.000 if they sold their home may choose to remain in their home even though the home no longer suits their needs. Furthermore, current law may create traps for the unwary that can result in significant capital gains taxes or loss of the benefits of the current exclusion. For example, an individual is not eligible for the one-time capital gains exclusion if the exclusion was previously utilized by the individual's spouse. This restriction has the unintended effect of penalizing individuals who marry someone who has already taken the exclusion.

Proposal

The $125,000 exclusion for taxpayers aged 55 and over would be increased. Married taxpayers filing jointly would be allowed to exclude up to $400,000 of capital gains realized on the sale of a principal residence if both spouses meet the age requirements and have not previously used the exclusion. The maximum exclusion for single taxpayers, heads of households, married persons filing separately, or joint filers if only one spouse is eligible would be $200,000. The exclusion limits would be indexed for inflation The proposal would be effective for all sales after the date of announcement.

If the exclusion described above does not apply (either because the taxpayer has not reached the age of 55, or because the election is not made) taxable capital gain which would otherwise result from the sale of a house could be offset by making a contribution to a qualified individual retirement account (IRA). For example, if a taxpayer who had purchased a house for $100,000 sold the house for $150,000 and purchased a new home for $130,000, the taxpayer could make a $20,000 contribution to an IRA, thus reducing the taxable capital gain to zero. The maximum amount that could be contributed to an IRA under this provision would be $400,000 for a married couple filing jointly and $200,000 for others.

Revenue Estimate (in billions of dollars)

Fiscal Years

	1996	1997	1998	1999	2000	2001	1996-2001
Modifications to the Treatment of Gains on Sale of Principal Residence	0	-$0.1	-$0.2	-$0.2	-$0.3	-$0.3	-$1.1

	2002	2003	2004	2005	2006	1996-2002	1996-2005
	-$0.3	-$0.3	-$0.3	-$0.3	-$0.3	-$1.4	-$2.7

Department of the Treasury
Office of Tax Analysis

August 8, 1996

Options for Expanding Tax Benefits for Educational Savings Bonds

SUMMARY

This memorandum, prepared at your request, evaluates two options for expanding the exclusion from taxable income for interest on Savings Bonds redeemed to pay qualified educational expenses:

- Broad option: Eliminate income limits and other restrictions.
- Narrow option: Conform income limits and other restrictions to those used in the President's tuition tax credit and deduction proposal.

BROAD OPTION

For Savings Bonds issued after 11/1/97, when redemption proceeds are used to pay for qualified educational expenses:

- Remove income limits and age requirements and substitute an annual, indexed cap of $5,000 per student on the amount of excluded interest;
- Include room and board and books and supplies in the definition of qualified educational expense;
- Expand the definition of eligible educational institution to include certain proprietary institutions;
- Allow grandparents to claim the exclusion with respect to bonds redeemed to pay the qualified educational expenses of their grandchildren; and
- Exclude Savings Bonds from assets taken into account to qualify for Federal student aid.

Pros:

- Removes the major impediment to using Savings Bonds as a vehicle for financing higher education.
  - Bond holders would not be constrained by uncertainty as to what their income will be in the year of redemption.
  - The complexity of current rules is replaced with a simpler instrument that potential savers can better understand

- Increases Savings Bond sales relative to sales of regular Treasury securities, thereby producing outlay savings.

- Limits benefits to high-income taxpayers and others by placing an annual limit on excluded interest.

- Because savings bonds are more accessible to low-income people, this may complement Administration proposals to increase access to IRAs and pension plans.

Cons:

- Is inconsistent with the President's approach of targeting tax cuts to middle income families. The tuition tax credits and deductions, the IRAs for higher education and other purposes, and the child credit all are constrained by income limits.

- Makes taxpayers' calculation of excluded interest more complex if multiple taxpayers claim exclusions for the expenses of a single student.

- Increases the revenue loss of educational savings bonds by making it available to high-bracket taxpayers.

- Tax-exemption generally creates an inefficient subsidy because interest savings to the borrower is less than the revenue loss to the Treasury. (Domestic Finance disagrees with this analysis as it applies to Savings Bonds.)

- Requires significantly greater administrative effort to ensure redemption proceeds actually are being used to pay qualifying education expenses, particularly if room and board qualify and if multiple taxpayers can claim exclusions with respect to the same student. Allowing persons other than students and their parents to claim the exclusion makes it easier for taxpayers to claim the exclusion for nonexistent students. In negotiations with the Department of Education regarding the tuition and deduction proposals, Treasury has emphasized the record keeping and reporting requirements necessary to prevent fraud. Treasury should not make a legislative proposal with the same flaws.

- Creates inequity by requiring working young adults to pay living expenses out of after-tax dollars but allowing students to pay for living expenses out of pre-tax dollars.

- Provides a lower rate of return on educational savings than generally would be experienced by savers taking advantage of the President's IRA proposal. This occurs because IRAs can invest in otherwise taxable vehicles, which tend to earn higher yields than tax-preferred instruments.

- The Department of Education opposes the exclusion of Savings Bonds in Federal aid calculations.

Your response:

Pursue this option ____ Drop this option ____ Let's discuss ____

NARROW OPTION

Conform income limits and other restrictions on the exclusion of interest on Savings Bonds to the Administration's tuition tax credit and deduction proposal. Specifically:

- Increase the income limits applicable at the time Savings Bonds are redeemed to match the income limits in the proposal;

- Conform the definition of eligible educational institution to the proposal, i.e., those proprietary institutions eligible to participate in the Department of Education's student assistance programs would be eligible institutions;

- Substitute the rule that the exclusion cannot be claimed by any taxpayer who is a dependent of another for the age 24 purchase requirement;

Pros:

- Maintains consistency with other tax incentives proposed by the Administration.

Cons:

- These changes alone would not significantly increase Bond sales or improve accessibility to education saving vehicles.

Your response:

Pursue this option ____ Drop this option ____ Let's discuss ____

Background: Current Law and Practice

Taxpayers can elect to defer tax on all accumulated Savings Bond interest until redemption. Since 1990, if redemption proceeds are used for qualifying educational expenses by taxpayers who meet certain income limits, the interest is exempt from tax.

The exclusion of Savings Bond interest when redemption proceeds are used to pay for higher education was enacted in 1988, effective for bonds purchased after 12/31/89. The Bush Administration had made the proposal (including income limits) as part of its FY 1989 budget. Neither tax-writing committee seriously considered the proposal; it was added to the Senate version of the bill as a floor amendment by Senator Kennedy and accepted by the conferees, in part because of its low estimated short-run revenue loss -- $16 million over the FY 1989-91 period.

To limit the scope of the provision, its benefits are limited to taxpayers who have relatively low incomes. (For 1995, the indexed phase-out range was $63,450 - $93,450 for joint returns.) It was deemed completely impractical to impose income limits based on income at the time of purchase because the tax return for the year of interest exclusion would have to reference income in a prior tax year when records might not be available. The alternative of a separate series only for education was deemed impractical because there was no way for issuing agents to verify the purchaser's income at the time of purchase.

The exclusion can only be claimed for the educational expenses of the taxpayer, his or her spouse, or a dependent. In addition only bonds that are issued when the owner is at least 24 years old qualify for the exclusion. This rule was intended to prevent taxpayers from evading the income limitations by having their dependent children own and redeem the bonds.

The estimated revenue loss attributable to deferral was estimated based on a projection of about $1 billion of additional purchases of Savings Bonds per year. Revenue losses associated with the exemption were largely outside the budgetary window used in 1988. No information is available as to the amount of exemption actually claimed since 1990. Qualitatitive assessment by the Savings Bond Division at Treasury indicates little increased interest in Savings Bonds from the existing education provisions.

SECOND TERM AGENDA IDEAS
11-23-96

I. EDUCATION AND TRAINING

A. School Reform

Challenge: The U.S. has the finest university system on earth, but our public school system for elementary and secondary education does not measure up to international standards -- even though we spend $300 billion a year on K-12. No mission of government is more important to our children's future, and no arm of government more desperately needs to be reinvented.

Minimum/maximum attainable: Nothing would do more to expand opportunity for all Americans and increase America's long-term economic potential than to transform the public schools by raising standards for students, teachers, and schools; injecting choice and competition; making the most of new technology in the classroom; and challenging parents to get more involved in their children's education. On the other hand, the direct federal role is small, the political opposition to change is fierce, and the magnitude of the problem is substantial.

- Best-case scenario: Math, science, and reading scores rising by the year 2000. Standards, testing, and charter school and public choice laws in place in every state. Every school connected to the Internet. Budget deal secures federal funding for charter school and other reform efforts, literacy, education technology.

- Worst-case scenario: Scores stay flat. Lots of talk about standards and reform, but no real progress. Congress rejects federal initiatives. Computers end up in school closets.

- Most likely scenario: Slight rise in scores. Charter schools take off, along with some private and public choice experiments, but with mixed results. Congress passes some money for reform and technology, but not tutors. Pressure continues to build for sweeping overhaul of public schools. National mobilization/attention to 3rd grade reading on a consistent systematic basis could make a noticeable difference.

Legislative options:

1) Push a school-reform bill: An education reform bill would offer states and/or communities substantial incentives for reform. Any state or community with a plan for charter schools, public choice, high standards and testing, etc. could get funding. This bill would give the President a tool besides the bully pulpit for reform. But it would run two obvious political risks: 1) Republicans would rerun the Goals 2000 debate over federal intrusion; and 2) Republicans would insist on a private-school voucher initiative as the price of passage. If the President is willing to sign a bill that includes an MSA-style experiment on school vouchers in return for substantial new federal resources for his own reform agenda, introducing a school reform bill might be worth it. If any voucher experiment is going to guarantee a veto, we should not try for federal legislation.

2) Use college aid as a stick to drive public school reform: Instead of looking for some small new federal grant program to provide seed money for reform, we could try to make our massive existing college aid programs an engine for higher standards and more rigorous public school performance. For example, the President could say that by the year 2000, every state must establish its own system of high standards and testing, and every high school senior must pass a rigorous exam based on those standards in order to graduate and receive federal student aid. We could make that a condition of the HOPE scholarship -- as an alternative to the B average, or in addition to it. These measures would be controversial with some in the education community (e.g., the Education Department), but they would force states to get serious about standards, and might help solidify bipartisan support for college aid over the long term.

3) National Effort on New Literacy: One of our most concrete standards is the President's challenge for every child to read by the end of 3rd grade. We could think of others -- e.g., every child should be computer literate by the 6th grade, able to do algebra by the 8th grade, able to find the U.S. on a map by the 12th grade, etc. But the general notion is that the President can make literacy for the 21st century a major legacy. Our legislative measures include:

- America Reads legislation that would combine a $1 billion increase over five years in National Service with an America Reads mandatory legislation that put 30,000 volunteer coordinators and reading specialists.

- Work Study -- legislate that half of new funds go to public service jobs, with at least 100,000 for tutoring young children.

- Technology Literacy Challenge -- in this year's budget agreement we won funding for the first $200 million of our $2 billion proposal. We will have to fight each year in order to increase funding to meet $2 billion goal over five years.

Executive Action Options:

1) Visit program in Cincinnati or New York City program in which the teachers union and school boards are working together to streamline the process of getting rid of incompetent teachers. Sign a directive to the Education Dept. to develop guidelines for such programs.

2) Issue an Education Dept. study of charter schools (or some other reform effort)

3) Conduct an audit of what selected school districts spend on administrative overhead and bureaucracy.

4) Follow up on the international 8th grade math/science test results announced this week by making that test available to any school district that wants to use it as a benchmark for its students.

5) Waive work study match for schools that use work study students for tutoring young children. (This is happening)

Bully Pulpit Options

1) Travel to 3 state legislatures over the next year to push for charter school legislation, standards, etc.

2) Give radio address in December on school reform after Ohio and/or Pennsylvania legislatures pass charter school legislation.

3) Challenge governors at NGA winter meeting in February to work with business community to develop acceptable method of assessment.

4) Identify with every reform effort we can find: visit Mayor Daley to discuss his takeover of the Chicago schools; meet with General Becton and the new Board of Trustees here in D.C.; meet with Mayor Giuliani about partnerships with parochial schools; visit a school district that has just adopted school uniforms; visit a charter school; etc.

5) Deliver a tough speech to the NEA on the urgency of school reform -- for example, a speech that criticized the Republicans over private school vouchers and teacher-bashing but called for charter schools, public choice, teacher testing and/or getting rid of burned-out teachers. Such a speech entails obvious political risks, and might not be worth the pain it inflicted. On the other hand, the elite press will not believe we're serious about reform unless we are willing to stand up to the teachers unions.

6) Stronger call for requiring students to pass tests in order to pass from school to school.

7) Enlist the PTA in a national campaign to encourage parents to take responsibility for getting involved in their children's education.

8) Announce some kind of Presidential competition for school reform that would allow us to spotlight 20 innovative districts.

9) Literacy events: Meet with college presidents to commit to use work-study for community service State of the Union announcement that 50 college presidents have committed 50,000 work study students for tutoring young children on reading.

10) Declare the first Saturday of each month "America Reads Day" and call on localities to open up the schools on these Saturdays to hold monthly parent workshops and child tutoring sessions.

11) Hold a tutoring session for DC kids with AmeriCorp volunteers and parents on the South Lawn of the White House

12) Inauguration: America Reads Day

13) Call for an end to forced school busing (?)

B. Universal College Participation:

Challenge: A key aspect of the President's economic growth plan is that higher education ins key for opportunity for individuals, but also to creating the high-skilled work force that will allow America to be the source of high valued added production and services that produce higher paying jobs. Therefore, the President's legacy should be that he was the President who made two years of higher education and lifetime learning a new national norm.

Minimum/maximum attainable:

- Maximum Attainable: Pass Hope Scholarship, $10,000 education deduction, keep significant increases in Pell Grants, national service, work study: have President use the bully-pulpit to promote universal two years of college, and actually see a noticeable increase in the number of people doing some college work. [An effort to replicate Georgia Hope program in each state would be more profound legacy, but would be far more expensive and make balancing the budget more difficult.

- Minimum Attainable: Lead national campaign on the importance of two years of higher education; some education tax cut and increase in Pell Grants and national service to show

- Risk: That we stress the tax credits as leading to more college access -- instead of just helping families -- and that our entire effort is judged by the success of our tax cuts. Larger national trends could overwhelm the impact of tax cuts. We need to define our mission more in terms of creating a new national norm -- as opposed to success at a specific statistic.

- Reasonable Attainable: Some education tax cut: steady increases in Pell Grants, work study. Direct Lending stays established. Key would then be whether the President could communicate new national norm, and then look at benchmarks we could point to for success.

Possible Actions:

- Legislative Actions: HOPE, IRAs, $10,000 deduction, expand work study, $1000 honors scholarships, increase Pell grants

- Executive Actions/Bully Pulpit

    - Develop Treasury Dept. campaign to use Rubin bonds to save for college.

    - Advertize How IRAs and $10,000 education deduction can lead to tax-free savings for college.

- Meet with state legislatures and college presidents to hold down college costs.

- Major campaign to high schoolers to graduate and use the first year of Hope Scholarship.

C. **Modernizing our Schools for the 21st Century:** (some of technology area here overlaps with Section A.)

Challenge. Getting our children ready for the 21st century means getting our schools ready. Our education technology initiatives can be looked at as part of an overall literacy initiative, yet our education technology is also part of modernizing our schools. This together with the challenge to respond to the GAO report on education infrastructure and school construction shows that there is a challenge to modernize our schools. Furthermore, schools of the future must allow after school instruction and recreation to keep children out of trouble and on the right track.

Maximum Achievable: Pass school construction for $5 billion and get full funding for $2 billion, and be seen as leading national effort to get all schools modern and wired to internet. It is possible that here we could reach some universal goals: nearly all schools connected; a high percentage of classrooms. It will be harder to have as major of an impact on school construction with only $5 billion to leverage over four years, yet if we raised public attention enough, the bully-pulpit leverage impact could be far more significant.

Minimum Achievable: Lead major national bully-pulpit on technological literacy, give high profile to CEO citizen efforts in this areas; lead more Net Days.

Legislative Action:

- Passing our school construction initiative. There are some rumors that there could be some bipartisan support for some type of School Construction Initiative.

- Increase Funding for Technological Literacy Initiative

- Pass new After-School Initiative

Executive Action and Bully-Pulpit:

- National Net Day Conference

- Forceful call on private sector to work with local school districts and put in place systems for donating and installing used computer equipment into classrooms.

- Work with Redstone CEO group to develop private sector participation with forceful call on private sector in each state to help wire every classroom in every school by a certain date (just the running of the cables)

- Challenge States to Lead Efforts to Rebuild Schools

D. Training:

Challenge. Movement from job to job is a vital challenge for the 21st century and America is well-behind. We have a plan to consolidate the programs and move them to a more market-oriented system.

Maximum Achievable: We could be seen as consolidating the entire federal training programs: turning it to a voucher with one-stop application and one-stop information gathering, with placement rate information accessible to make training a more market-oriented system.

Minimum Achievable: Minor consolidation, but turn major dislocated program to vouchers.

Risk: There is risk from the right and left. Unions often resist our reforms to revamp the employment programs and on the other side, Republicans mays seek to use a major consolidation effort as a plan to "block and cut" -- seeking to consolidate our major priorities and cut overall funding with little basic reform.

Legislative Actions:

1) Propose Same GI Bill that failed in Congress last year.

2) Propose putting GI Bill on Mandatory side and trying to pass it as part of the budget deal.

3) Rob Shapiro has proposed that we apply the same rules to training that we do to health care and pensions: Firms should only be permitted to deduct the cost of training so long as they make some form of training generally available to all permanent workers, not just executives.

Executive Action & Bully Pulpit

1) Continue Corporate Citizenship push with stress on-the-job training.

E. Recommended Strategy

Our goal in any budget deal is to accomplish as much of our education agenda as possible -- and will likely include some form of education tax cut. The President should use the bully pulpit (and executive action where possible) throughout the first half of 1997 to build public support for his education agenda. We should look for the areas where we have the best chance of bipartisan support for legislation. We should stay focused on how much we can do through the a broad national challenges on our key areas. We can get considerable amount done through mobilizing the nation.

II. ENDING THE PERMANENT UNDERCLASS

A. Welfare to Work

Legislative Action

1) Pass Welfare-to-Work Plan as Part of Budget Deal: We should work with House and Senate moderates to develop a bipartisan welfare-to-work plan -- based on our campaign proposal -- that can get enacted as part of a budget deal. We should be able to pass our $400 million tax credit with Republican support, but the $3 billion for hiring incentives, placement vouchers, and work money will only pass if we can convince Republicans that it is tough-minded, simple, and aimed primarily at private sector placement.

2) Softening Immigrant and Food Stamp Cuts: Our ability to soften the cuts we opposed in the welfare bill will depend on our overall leverage in the budget debate, and on the amount of bipartisan support we can generate from affected mayors like Giuliani and governors like Bush. Republicans should feel vulnerable after losing Florida and getting clobbered in the Hispanic vote, but these fixes cost a lot of money.

Executive Action / Bully Pulpit

1) Presidential directive on Electronic Benefits Transfer (EBT): The welfare law requires states to move to electronic delivery of welfare benefits. We are working on possible ways to accelerate this trend.

2) Develop guidelines on delivery of welfare services by religious and charitable organizations: The welfare law expands the ability of churches and charities to get involved in welfare reform. This is a controversial provision, but it had the President's support, and could make a real difference in many communities where the church is the only social institution still intact. We could develop guidelines similar to those on religious expression in the schools.

3) Launch national competition on welfare-to-work: Under the welfare law, we will be working with the governors to develop a system of performance bonuses to reward states for success in moving people from welfare to work. We will announce the rules for that competition sometime in mid-1997, and start awarding money in the next fiscal year. These performance bonuses are one of the President's signature items in the welfare law. They will lead to the first nationwide ranking of states on moving people from welfare to work, and could have an impact on the welfare reform debates that will be going on in every state legislature next year.

4) Develop regulations for individual development accounts: The welfare law gives Treasury the authority to develop rules that will enable states to help poor people set up savings accounts, which will fulfill one of the President's campaign promises from 1992. Along with our microenterprise loan program, these new IDA accounts represent an important philosophical shift toward empowerment instead of maintaining people in dependence.

5) Issue a report on personal responsibility contracts: At the President's urging, the welfare law allows states to require welfare recipients to sign personal responsibility contracts that spell out their responsibilities for receiving assistance (e.g., staying in school, going to work, no additional benefits for additional children, etc.). On their recent visit to Nashville, the President and Vice President pointed out that 12,000 recipients in Tennessee have already signed these contracts (and nearly 1,000 are no longer on welfare because they refused to sign them). We could issue a report on what Tennessee and other states are doing. Over the next year, we could issue a series of reports and/or manuals on good ideas states should adopt as they debate welfare reform.

6) Develop national anti-fraud registry: Each state will now keep track of how long its own recipients have been on welfare, but eventually we will need a central registry to keep track of that information across state lines (and to enable one state to check with others to make sure a recipient isn't receiving aid in two places).

7) Award welfare-to-work and research money: We have a small appropriation for demonstration projects and research and evaluation. Soon, we should be able to give Goodwill Industries a $10 million grant for its welfare-to-work model program in Florida and Louisiana, which the President promised during the campaign.

8) Announce 800-number for employers moving people from welfare to work: We have nearly worked out the details with Fred Grandy, the CEO of Goodwill, to have his company staff the 800-number that Sprint has offered us for any employer interested in hiring people off welfare. We're also working with the governors to make sure we can link employers directly to the welfare-to-work programs in each state.

9) Announce plan by Manpower Inc. to locate job placement outlets in every major city: Manpower Inc., the largest placement company in America, is planning to expand into the inner city to help meet the new demand created by welfare reform. Manpower used to be a temp agency, but now 70% of its placements are for permanent jobs. The President could make this announcement as part of our effort to promote our welfare-to-work plan.

10) CEO meeting at the White House, and other CEO efforts: The President should meet with a small group of committed CEOs at the White House, and we should put a CEO in charge of the recruitment effort (perhaps the head of United Airlines).

B. Child Support, Teen Pregnancy, Statutory Rape

Legislative Action

1) We should continue to push our bill to make it a felony to cross state lines to avoid paying child support.

2) We should consider other ideas, such as calling on states to establish mandatory work program that require deadbeats to work off the support they owe. In Massachusetts, Gov. Weld has proposed jail time for serious offenders, and is looking at a proposal to let

communities bar high school students who get pregnant or father a child from participating in extracurricular activities.

Executive Action

1) We should be able to develop a few executive orders to carry out the child support provisions of the welfare law.

2) Under the welfare law, HHS is required to propose a plan early next year on how to reduce teen pregnancy by 25%.

3) Under the welfare law, the Justice Department is developing ways to help states crack down on statutory rape. We will look at whether we can use Violence Against Women funds for this purpose.

B. Crime, Gangs, and Drugs [RAHM TO FILL IN]

- Legislative Action

1) Pass Anti-Gang Bill: Our new anti-gang and youth violence bill will give prosecutors greater discretion to try juveniles as adults, fund juvenile gun and drug courts, and amend the crime block grant to hire more anti-gang prosecutors.
2) Victims Bill of Rights
3) Drug testing for drivers licenses
4) Cop killer bullets
5) Other anti-gun ideas, such as one gun a month
6) Keeping schools open late

- Executive Action
1) State prison drug testing guidelines
2) Youth gun report

C. Other Ideas

- End public housing as we know it: Convert public housing into vouchers (perhaps with time limits). Raze run-down projects.

- Limit low-skill legal immigration: Help improve the entry-level job market for people leaving welfare.

- Other community development: more empowerment zones, community development banks, etc.

III. COMMUNITY/SERVICE [Ask Prince and Steve Waldman to fill in.]

January 23, 1997

MEMORANDUM FOR **DON BAER**
MICHAEL WALDMAN

FROM: **GENE SPERLING**

SUBJECT: **POLICY IDEAS FOR THE STATE OF THE UNION**

This memorandum lays out for you policy proposals submitted by the Departments of the Treasury, Labor, and Commerce, the Council of Economic Advisers, the Small Business Administration, and the policy staff of the NEC for consideration for the State of the Union address. I anticipate that over the next ten days -- working in close concert with the Domestic Policy Council -- the NEC will forward to you additional information to assist in the preparation of the address, specifically key economic facts, themes, anecdotes, and success stories.

Section I of this memorandum provides the overall framework that the economic team would suggest for the address.

Section II addresses in detail a select number of priority policy proposals within the context of our suggested framework.

Section III covers other proposals which, if you are interested, we could explore further. Please be aware that several proposals in this memorandum require vetting.

I. OVERVIEW

The overall framework of the State of the Union address, from the perspective of the economic team, should be *preparing America for the 21st century.* When President Clinton took office, our country was adrift on some of the key areas that we needed to be strong on to enter the 21st century.

A. WHAT WE INHERITED: DRIFT IN FOUR KEY AREAS OF READINESS FOR THE 21st CENTURY

(1) Fiscal Soundness and Responsibility for a Strong Economy: We lacked the fiscal credibility we needed to maintain our leadership position in the world and to ensure that we were entering the 21st century on solid footing and with a strong economy.

(2) Equipping People for the 21st Century: We lacked direction on equipping people with the tools they needed -- particularly education and technology skills -- for the 21st century.

(3) Danger of Being Divided: We were losing our sense of community -- America was in danger of losing its sense of family and community and being subject to division.

(4) World Leadership in Question: Some were questioning our leadership role in world peace and prosperity.

B. THE PRESIDENT HAS STRENGTHENED IN ALL FOUR AREAS AND WILL CONTINUE THIS IN THE NEW TERM

1. Fiscal Soundness and Responsibility for a Strong Economy

The President should recite his record: deficit cut by 63%; interest rates brought down; 11 million new jobs created; and the best deficit record of any major economy in the world. Prospectively, the President should focus on balancing the budget, increasing savings, and improving retirement security through entitlement reform.

- The President should emphasize that he **strongly supports balancing the budget**. His language must be strong and must urge that this be done now.

- **He opposes the balanced budget amendment** as a mere diversion from the hard choices that the American people expect their leaders to make. With this predicate, he can describe the balanced budget amendment as a distraction from getting the job done now.

- Under the umbrella of **Savings and Retirement Security** for the 21st century, the President should focus on the following initiatives:

  -- Long-term entitlement reform on Medicare and Social Security;
  -- Pension access and security;
  -- Indexed bonds; and
  -- IRAs.

- **Issue to consider:** *The President could heighten the drama of the speech by formally proposing a specific timeframe for the budget negotiations.*

- **Issue to consider:** *Should the President mention Social Security as it relates to the balanced budget amendment?*

- **Issue to consider:** *The President could illustrate the sense of bipartisan cooperation that currently exists on Medicare savings by specifically citing the* *supportive comments by Kasich and Archer of January 21.*

- **Issue to consider:** *Do we consider as one goal balancing the budget while increasing education?*

2. **Equipping People for the 21st Century**

In four years, the Administration has succeeded in showing that we could bring the deficit down while providing Americans with the tools they need for the information-based economy at all stages in life. These initiatives include school-to-work, increasing Head Start by $1 billion, Goals 2000, National Service, doubling job training, student loan reform, income contingent loans, and a new technology literacy initiative.

- The President should use the address as an opportunity to act in a dramatic and historic way on education by promising an **"Education Works" campaign** or a **National Education Mobilization** to benefit Americans at all stages of life.

- The President can stress that the information age need not be an era of division where only a select few succeed. Instead, this new era creates opportunities for every child to have access to education, technology, and information.

- Our challenge is to see that all 8-year olds can read, all 12-year olds are literate on the Internet, all 18-year olds go to college, and all workers keep learning new skills. To meet this challenge, the President should emphasize the initiatives that would constitute the "Education Works" campaign or a National Education Mobilization:

  -- New education standards and accountability;
  -- The "America Reads" initiative;
  -- Universality of education technology;
  -- HOPE Scholarships to ensure that college is accessible to all;
  -- School construction;
  -- Skill grants; and
  -- Worker training.

- This section of the address should be sweeping in scope. It should be framed as a call to the American people to empower themselves and their families using the tools of education and technology.

- **Issue to consider:** *The President's "education budget," which he will be formally unveiling the next day, should be the most prominent portion of the State of the Union address. I recommend that he focus on this issue even at the expense of other proposals.*

- **Possible new ideas:**

  -- Executive order to agencies promoting 0-3 learning;
  -- College presidents pledging work study students to tutor for the "America Reads" initiative; and
  -- All 6th grade teachers getting Internet training.

3. **Bringing America Together: Community and Family**

In four years, the President has helped to heal division in this country. He prevented issues of affirmative action and immigration from splitting us, reconciled concerns of economic growth and environment, made Family and Medical Leave the law, and addressed issues of crime, television violence, and tobacco.

- Now the President will continue this effort of bringing American communities and families together through a **Comprehensive Urban Work Agenda**, by focusing the Administration's energies on the following programs. We are not recommending "comprehension" -- but how we can make our initiatives bigger by showing how they fit together.

  -- Welfare-to-work;
  -- CEO challenge;
  -- Family and Medical Leave;
  -- Community Reinvestment Act;
  -- Community Development Financial Institutions;
  -- EZ/ECs; and
  -- Brownfields initiative.

- Environment and Public Health Initiative

- Service: The President could emphasize a broad message on service, particularly focusing on the proposal encouraging high school students to conduct public service.

4. **International Leadership**

The President showed leadership and courage on Bosnia, Haiti, and the Mideast. He took two major stalled trade agreements and finished the job. He showed that the American economy is the envy of the world and that America is the indispensable nation for promoting peace and expanding democracy.

- Now the President must continue to lead for fair, free and open trade; for a unified Europe; for NATO enlargement; for progress in the Mideast; for new Asia-Pacific proliferation; and more. Specifically, the President should push fast track authority for trade agreements.

- **Issue to consider:** *How broad is our international economic message and where does it fit?*

- **Issue to consider:** *The President should avoid using the term "fast track," referring instead to our efforts to open markets and strengthen democracies in a manner that helps American businesses and our economy.*

II. PRIORITY POLICY PROPOSALS

A. Fiscal Soundness and Responsibility for a Strong Economy

1. *Balanced Budget*

Balanced Budget Amendment. Restoring the budget to balance does not mean supporting a balanced budget amendment to the Constitution. Such a policy would be extremely dangerous to the stewardship of our economy. It could undermine the nation's creditworthiness, hold emergency spending measures hostage to a willful minority, force automatic across-the-board sequestrations, and not reduce spending by one cent. Additionally, it is almost certainly unenforceable. (Treasury)

2. *Savings and Retirement Security*

Boosting Savings. Raising the national savings rate is necessary to increase investment, boost worker productivity, and increase living standards for the future. While reducing the deficit increases national savings levels, this Administration has pursued additional measures to enhance retirement security. The President has strengthened pension portability for workers who change jobs. The Administration has also introduced inflation-indexed securities (according to *Newsweek*, "the safest bonds ever"), which are the first U.S. government securities that protect individuals' savings from the perils of inflation. Additionally, we plan to introduce an inflation-indexed savings bonds in smaller denominations for the average individual saver. Looking forward, we will develop and implement additional initiatives including expansion of IRAs and further pension reform. (Treasury)

Pension Simplification. While highlighting the achievements the Administration made in the first term on pension reform -- including enactment of the Small Business Jobs Protection Act which simplified the pension system and made it easier for employers to set up and maintain plans -- the President could challenge employers to make use of what we've provided to expand coverage, particularly for low- and moderate-income workers for whom savings is difficult. This includes retaining and making defined benefit plans more effective for workers who change jobs; establishing defined contribution plans -- including the new SIMPLE IRA, which can be established with a one-page form you do not even have to send to the IRS; helping workers -- through matching contributions and education -- use defined contribution plans; and helping workers with defined contribution plans better understand their investment needs and choices. A related challenge would be to workers to (i) understand their retirement needs and opportunities; (ii) take advantage of defined contribution plans where they are offered; and (iii) work with employers to make sure the dollars employers spend on pensions are spent in ways that are most in workers' interest. (Seidman, Labor)

B. Equipping People for the 21st Century

1. *Education*

America Reads. To help parents, community leaders, and educators across the country make sure that all children are reading independently by the end of the 3rd grade, the President has proposed the $2.75 billion "America Reads" challenge. This challenge includes the Parents as First Teachers Challenge Grant Fund; America's Reading Corps; a major expansion of Head Start; and additional private sector assistance. To facilitate this effort, the President has further proposed to dedicate at least half of new college work study funds to community service, including 100,000 work study slots for reading tutors.

HOPE Scholarships. Last year, the President proposed to make 14 years of education -- at least two years of college -- the standard for all Americans. The President's HOPE Scholarship tax cut builds on his comprehensive program to guarantee that a college education is both accessible and affordable to all Americans at any time in their life. It includes a $1,500 tax credit for college tuition, a $10,000 tax deduction for all education and training, and Pell Grant Scholarship increases for lower-income students.

College Tax-Free Savings. The President could refer to both the $10,000 tuition tax deduction and the use of IRAs for education expenses as two new ways for American families to save tax-free for education. (Sperling)

School Construction. Last July, the President announced an initiative designed to help local communities and states rebuild the nation's schools. The goal was to spend $5 billion over four years to spur $20 billion in school construction spending. The President may be prepared to introduce legislation within the next few weeks.

Educational Technology Initiative. To ensure that teachers and students are as comfortable with a computer as they are with the chalkboard, the President could propose the following: challenging Congress to support the Administration's $2 billion Technology Literacy Challenge Fund; asking for the private sector to commit to matching the government's investment; swift action by the FCC to make telecommunications affordable for our schools; and encouraging teachers to learn how to use these new tools as well as parents and volunteers to pitch in on NetDay. (Kalil)

6th Grade Teachers on the Internet. A new educational technology idea is to challenge all 6th grade teachers to become literate on the Internet by the summer of 1998. This will help to ensure that every 12-year old will be able to log onto the Internet. (Sperling)

Executive Order on 0-3 Learning. The President could issue an Executive Order to all federal agencies instructing them to develop programs and policies that promote 0-3 learning. (Sperling)

"America Reads"- College Work Study Challenge. In the effort to recruit one million volunteers nationwide for the "America Reads" challenge, the President has asked 20 college presidents to pledge to dedicate at least half of their new Work Study slots to college students who work as reading tutors in public schools. This initiative does not require any additional funding and will help thousands of young children learn to read. We are currently trying to determine the status of the college presidents' efforts. (NEC)

Education Standards. We fully support the prominence of Secretary Riley's and Bruce Reed's proposals for a reading test for 4th graders and a math test for 8th graders. (Sperling)

Completion of School-to-Work. School-to-Work has already successfully enabled half a million students from 1,800 schools in 11 states to prepare for high-skill, high-wage careers. The President can announce his intention, contained in the budget, to complete the phase-in of school-to-work in every state during the next year. (Labor)

2. *Worker Training*

Skill Grants. The President should discuss his proposal to replace numerous job training programs with an integrated system that minimizes red tape and maximizes individual choice in each local community. Unemployed and low-income workers would be able to get individual Skill Grants to use as they choose for learning new skills.

Extension of Section 127. The President's budget proposal contains an extension, through the year 2000, of section 127, the tax exclusion for employer-provided educational assistance. This program gives employees a tax break by allowing them to receive educational assistance from their employers without paying income taxes on the expenditure. The President's budget proposal also contains a 10% tax credit for small businesses with gross receipts of $10 million or less that provide educational assistance to workers. (Labor)

3. *Technology*

Next Generation Internet. The Internet exemplifies why we need to invest in R&D. It is creating new entrepreneurial firms and hundreds of thousands of high-wage jobs, and establishing America as the leader in the information economy. Although the Internet is a household name today, government investment in computer networks began in 1969, more than 25 years ago. To continue investing in our economic future, the Administration proposes in its budget to invest $300 million over the next three years in the Next Generation Internet -- by connecting universities and increasing the speed of today's Internet by one hundred to one thousand times. (Kalil)

C. Bringing America Together: Community and Family

1. *Welfare-to-Work Initiatives*

Youth Opportunities Areas Initiative. Recognizing the special problems of out-of-school youth, especially in inner city neighborhoods, the President's budget proposes $250 million per year in new competitive grants concentrated in high poverty neighborhoods of communities to train and employ youth in private sector jobs. (Labor)

Welfare-to-Work Tax Credit. The President signed into law the Work Opportunity Tax Credit (WOTC) on August 20, 1996, which expands eligible businesses to include those who hire young adults living in EZ/ECs. Building on the new WOTC, the President has proposed a new, welfare-to-work tax credit permitting employers to claim a 50% credit on the first $10,000 of wages for long-term welfare recipients, to claim this credit for up to two years, and to treat employer-provided education, training, health care, and dependent care as wages. The current WOTC would also be expanded to cover adults age 18-50 who are no longer eligible for food stamps. These tax incentives would supplement the President's proposed $3 billion welfare-to-work jobs initiative. (Treasury)

Microlending. The Administration could expand SBA's microloan demonstration program to assist more welfare recipients in obtaining the technical assistance and capital necessary to become self-sufficient through starting a small enterprise as well as to assist micro-entrepreneurs to hire those on public assistance. (SBA)

2. *Family and Medical Leave*

FMLA Expansion. The fourth anniversary of the President's signing of FMLA is the day after the State of the Union. In September, he sent to Capitol Hill a proposal to add 24 hours of additional unpaid leave per year for a limited list of extra activities, including parent-teacher conferences and routine doctor visits for older parents and children. There are also proposals to increase the coverage of FMLA by lowering the threshold of covered companies from those with 50 or more employees to those with 25 or more employees. This latter idea could extend the law's coverage to 10-13 million more people. The President could reiterate his support for his initial proposal or tout the expanded idea. (Labor)

FMLA Toll Free Phone Number. On January 21, CBS aired nationally "A Child's Wish," a made-for-television movie (with a cameo appearance by the President) about FMLA's positive impact on one family. Following the show, CBS aired a 15-second public service announcement of an 800 number (1-800-959-FMLA) which the public could call to access information about the FMLA. In the four hours following the movie, over 2,000 phone calls were made to the 800 number regarding FMLA. The President could potentially announce the 800 number again during his State of the Union address. (Labor)

3. *Community Development*

Community Reinvestment Act. The Administration reformed CRA regulations to emphasize performance, not paperwork, and stood firm against efforts to eviscerate CRA. During this Administration, nonprofit community groups estimate that the private sector has pledged $96 billion going forward, which is more than two-thirds of all commitments made since CRA's enactment in 1977. National banks supervised by the Office of the Comptroller of the Currency made over $403 million in innovative community development investments in 1995, a 422% increase over 1992, leveraging an additional $1.6 billion in private and public resources. And since 1993, hoem mortgage lending to African Americans increased by 70%, lending to Hispanics is up nearly 48%, and lending in low and moderate income neighborhoods increased by over 25%, according to recent Home Mortgage Disclosure Act data. (Treasury)

Community Development Financial Institutions Fund (CDFI). Through grants, loans, equity investments, and technical assistance, the CDFI Fund will help create a network of community development financial institutions in distressed communities across the country. In the first round, 32 CDFIs received $37.2 million. Another $13 million was awarded to 38 mainstream financial institutions for increasing their investment in community development. The President's balanced budget proposal calls for over $1.6 billion for the CDFI Fund. (Treasury)

Presidential Awards for Micro-Enterprise Development. Treasury has launched a new Presidential Awards program for micro-enterprise development, which this fall will celebrate innovative and outstanding programs that help empower low-income Americans. (Treasury)

Empowerment Zone Initiative: Round Two. The President could cite the successes of the Empowerment Zone/Enterprise Community (EZ/EC) initiative, and highlight the Administration's second round of EZ/ECs. The President has proposed a new tax incentive to help spur the private sector to clean up and put back into productive use environmentally contaminated properties in distressed communities, or Brownfields. This incentive, which costs $2 billion over 7 years, is expected to leverage $10 billion in private sector cleanup investment, and help clean up 30,000 Brownfields sites. The new round of EZs and ECs will also include over $1 billion in tax incentives, including Brownfields, additional small business expensing, private activity bonds, plus a 25% credit to all taxpayers who invest in venture capital funds that will invest in new and expanding businesses in low- and moderate-income communities. The President could also note how applications and private co-investment in CDFIs in the first round was more than five times the amount of funding available for federal co-investment -- and that's why we're proposing increased federal co-investment to meet the demand. (Treasury, Dimond)

4. *Environment*

Children's Environmental Health. To honor the President's August 1996 commitment to American families to provide expanded information about toxic pollutants and to protect the health of every American child from increasingly pervasive environmental threats, the Administration could take two related actions. First, the President could issue an Executive Order on Children's Environmental Health, which would recognize and address the oftentimes greater impact that environmental pollutants have upon the health of children, by committing the government to set health and safety standards tailored to protecting children and by coordinating areas where additional research is necessary. Second, the President could challenge Congress to pass legislation that would provide enhanced labeling information to assist families in making informed choices about consumer products exposing children to toxic chemicals. The NECand DPC are currently working with several agencies on these possible initiatives. (Holstein)

5. *Crime*

Spectrum Allocation for Law Enforcement and Public Safety. Law enforcement and public safety officials need additional spectrum in the war against crime and for rapid responses to emergencies and disasters. The Administration has identified some spectrum that would be ideal for their use, but has not publicly announced this. (Kalil)

D. International Leadership

1. *International Trade*

Fast Track Authority. This Administration has a strong record of opening foreign markets for U.S. businesses. Through trade agreements such as NAFTA, GATT/WTO, and the U.S.-Japan Framework negotiations, exports have risen by 34% supporting 1.4 million new jobs. We must now seek, and Congress should grant, fast track authority to initiate additional trade liberalizing agreements. Our goal is to remove all barriers to free trade throughout the Western Hemisphere and APEC nations early in the next century. (Treasury)

III. OTHER POLICY PROPOSALS

A. *Budget*

Fair Balanced Budget. One idea on the budget front might be to combine the goal of balancing the budget with a goal of ensuring that the poor do not bear the brunt of the cuts. The President could propose that the Administration will maintain the twin goals of a balanced budget by 2002 and a poverty rate ceiling of perhaps 10 or 12 percent by 2002 as well. (Mazur)

B. *Savings and Retirement Security*

Savings. Additionally, while the Administration wants to encourage savings, we limit contributions to pension plans, and impose a 15% surtax on excessive accumulations. We should consider eliminating the 15% surtax. Further, anomalies in the tax law mean that the combined effect of the pension surtax, the income tax, and the estate tax results in marginal tax rates in excess of 90% for some individuals. These provisions especially discourage savings by the elderly. (CEA)

C. *Taxes*

Taxpayer Bill of Rights. The Administration has worked to provide targeted tax cuts, simplify the tax system, reduce paperwork burdens, protect taxpayers and improve the operations of the IRS. We plan to enact incentives to invest in education, savings, family and home ownership during this legislative session. While some advocate structural tax reform, we believe it is better to work with Congress to further simplify the current system. Already, we have implemented the second Taxpayer Bill of Rights which strengthened the rights of all taxpayers in their dealings with the IRS (could develop some examples here) and have plans to introduce a third Taxpayer Bill of Rights during this next legislative session. (Treasury)

Tax Simplification. Currently, three-quarters of taxpayers have a tax form that could be put on a postcard; the IRS could calculate their tax liability at negligible costs. While these changes are little more than cosmetic, they could alter perceptions of the intrusiveness of the tax system in individuals' lives. Treasury has prepared a number of low-cost modifications to the tax code which would simplify the process for significant numbers of taxpayers. (CEA)

Inheritance Taxes and the Step-up in Basis. One of the most significant distortions associated with our tax system is the provision for the step-up in basis at death for purposes of capital gains taxation. This provision is costly (roughly $30 billion in foregone revenue in FY 1997) and leads to the "lock in" effect (the portfolios of elderly individuals are kept in their estates). CEA raises the possibility of greatly reducing the estate tax in order to eliminate the step-up in basis provision. This proposal would require significant analysis. (CEA)

D. *Worker Training*

Tax Incentives. The President could announce new tax incentives to induce employers to subsidize training costs for dislocated workers. (CEA)

Training Network on the Internet. The President could announce that the Department of Defense, the Department of Labor, 20 of America's most advanced companies, community colleges, and leading universities across the country are joining to create a Training Network on the Internet that will make available for free a catalogue of all of their training courses and provide a platform for making a host of new, interactive training courses available conveniently on the Internet for a fee. (Dimond)

E. *Technology*

"Digital Laboratories of Democracy". All over America, local communities are finding new ways to solve the challenges they face. For example, some cities are offering low-interest rate mortgages to police officers who buy homes in distressed communities. This increases home-ownership among young police officers, adds a sense of stability and security to the neighborhood, and allows officers to see signs of trouble before they become major problems. Our challenge is to share ideas like this across America's local communities via a "Digital Laboratory of Democracy," which would use new Internet technologies to collect and disseminate the best grassroots ideas for solving the major challenges facing America today. (Kalil)

Information Society/Information Economy. The President has talked about the transition to an information society in general terms, but he has not talked extensively about the range of ways in which these new technologies can contribute to our national goals. The President could direct his Cabinet to report back to him within 60 days on at least five creative ways in which they intend to use information technology to carry out their mission more effectively and efficiently. This report will be posted to the Internet -- so that we can get the best ideas not only from the Cabinet, but from the American people. One example of these creative efforts is New York City's law enforcement officials using computer-generated maps to target resources to high-crime neighborhoods. Similarly, on the health care front, information technology can extend quality care to rural areas (telemedicine), cut down on paperwork and administrative costs (electronic claims), and allow people to make more informed decisions (consumer health information). (Kalil)

Children's Hospital Initiative. The Vice President has been working on a private sector commitment to connect at least one children's hospital in each state to allow bed-ridden children to interact with each other and with their teachers and classmates. (Kalil)

Commercializing Environmental Technologies. The Rapid Commercialization Initiative is an interagency cooperative venture -- among Commerce, Energy, DOD, and EPA -- that accelerates the commercialization of innovative environmental technologies. The program capitalizes on the $2 billion plus federal R&D investment in environmental technology by connecting the on-going federal environmental technology programs together to bring technologies quickly to market. It is a key step in developing the new technologies that will be needed to meet continuing environmental challenges -- such as those posed by global climate change. (Commerce)

Bringing the Global Information Infrastructure to All Americans. Passage of the Telecommunications Reform Act last year was a tremendous step forward in advancing the promise of the Global Information Infrastructure (GII). While implementation of that legislation will lead to increased competition, more choices for consumers, and new services over the next several years, the Administration will continue to work with industry to ensure that all Americans have access to the benefits of these technologies. We are already working through the Telecommunications and Information Infrastructure Assistance Program (TIIAP) to ensure that the GII can be used in meaningful ways by those who have been traditionally underserved in our country, whether in the rural hills of Appalachia or urban core of South Central Los Angeles. (Commerce)

F. *Welfare-to-Work*

Work Opportunity Tax Credit for Non-Profits. To assist in the effort to create new jobs for those on welfare who are hardest to employ, the President could propose expanding the WOTC so that non-profit, private sector organizations that hire eligible welfare-to-work participants can sell the $5,000 tax credit to for-profit firms and investors. This is an investment in work and opportunity that will pay rewards to employers and investors and, more importantly, to every person who is able to benefit from the rewards of a real paycheck and the dignity of work. This announcement would require amending the budget. (Dimond)

America's Job Bank Expansion. America's Job Bank (AJB) is the help-wanted page of the 21st Century -- an Internet site that lists more than 600,000 jobs and allows job-seekers to search for appropriate positions. It lists job openings from some of the nation's biggest employers, including IBM, and is one of the most visited sites on the Internet, receiving millions of hits per month. Job seekers do not need a computer because the Labor Department has an agreement with community colleges to have the site and is putting them in all local Employment Service offices. The President could announce that AJB is expanding to also include a skills-training search center so the public could search for training programs that fit their needs and specifically for Pell-approved programs. The AJB could also help to match welfare recipients with jobs. Further, the President could challenge other large businesses to follow IBM's example and list their job openings on the Job Bank. (Labor)

Job Placement. The President could announce that Manpower, the largest job placement firm in the country, has committed to opening inner-city offices in major cities all across the country; and major retailers and service providers that hire entry-level workers are joining to help their trained workers who want to move up to find new and better jobs throughout local labor markets. The President could then challenge other businesses and private placement agencies to follow suit: if we want to continue to grow the economy with low inflation and lower unemployment, the private sector must show the way in better connecting job-seekers to new job openings. This does not cost anyone else a job: instead, it provides gainful employment, on-the-job-training, and new earnings and an increasingly productive workforce to help spur demand and growth for all in every local region. (Dimond)

Summer Jobs. The President could encourage localities to target their summer jobs slots on children of welfare recipients. This program gives participants their first work experience and reinforces the skills they have learned during the year. (Labor)

G. *Community Development*

Tax Incentive for Equity Investments in CDFIs. The President has proposed a new, 25% tax credit for equity investments in CDFIs. This $100 million tax incentive is expected to leverage $400 million in private sector investment in community development. (Treasury)

Empowerment Contracting. Under the President's executive orders, businesses bidding on federal contracts will receive incentives to locate in economically distressed areas. (Treasury)

Pooling and Resale of Community Development Loans. Treasury and Commerce have begun an effort to determine whether the government can help pool community development loans and resell them to private investors, in effect recycling a portion of available capital back into inner city community development. Just as we now have a fully liquid secondary market for home mortgage loans, helping make homeownership affordable for millions of Americans, we should consider the possibilities that a secondary market (even in private placements) for community development loans would create for communities in need of capital and investment. (Treasury)

Assisting the Unbanked. Last year, Congress ordered that all federal payments (except tax refunds) be made electronically by 1999. However, there are approximately 10 million Americans who receive Social Security, veterans, or other government checks who do not have bank accounts and often rely on expensive check cashing services. Treasury is weighing options on how to arrange for electronic funds transfer for these 10 million unbanked. If we can get them into the banking system for the first time, not only will it give them a more efficient way to cash checks and access other financial services, but it may also encourage people to save and plan for their financial future. The Administration will be working closely with the private sector to encourage financial institutions to develop innovative products that will help serve the needs of these and the millions of other unbanked. (Treasury)

Challenge to the Non-Depository Institutions. In the context of talking about our community development/empowerment agenda, the President could ask the financial services regulators, Levitt, Raines, Rubin, and perhaps state securities and insurance regulators to work with the non-depository institution part of the industry to challenge them to find the sound business investments that are available in all of our communities. The President could ask that the group report back to him by October 15 with recommendations on how to open these untapped markets to the full range of financial services. If we are going to do this, however, it needs to be carefully developed, and Rubin, Greenspan and Levitt need to be brought on board. Raines and Ludwig already like the idea. (Dimond, Seidman)

H. *Environment*

"Parks 2000". The "Parks 2000" conservation initiative harnesses a range of community and civic groups, corporations, the National Parks Foundation, state governments, and the federal government to upgrade our national parks and monuments in both rural and urban areas across the country. This effort could also include AmeriCorps, summer jobs programs, and youth organizations to help restore the crown jewels of America's natural heritage. (Dorval, McGinty)

Protecting Communities from Toxic Pollution. As part of the President's commitment to protect communities from toxic pollution, the National Oceanic and Atmospheric Administration (NOAA) is committed to better right-to-know for water quality -- establishing a new national coastal watershed monitoring program that will continuously monitor sites such as beaches and recreation areas and provide data to reduce the threat of pollution. This will work in connection with increased efforts to protect the Great Lakes by working in partnership with states and communities to reduce the flow of toxic substances into the Great Lakes. (Commerce)

I. *Easing the Burden of Job Dislocation*

Job Dislocation Loans. The market is especially loathe to lend to individuals when they are unemployed. As a result, the President could propose providing government loans to the unemployed. Loans to such people can be modelled after our highly successful student loans (e.g., with an income-contingent option, and a write-off after a certain maximum period). It is imperative that effective guarantees of repayment be put into place -- through collateralization of home equity, through the IRS, or, for retired individuals, through direct deduction of payments from Social Security checks. (CEA)

Greater Flexibility for IRA Use. The Administration could propose that we allow unemployed individuals not only to withdraw certain amounts without penalty, but to reinvest those funds over three years following the unemployment episode. Greater flexibility of IRAs would encourage individuals to make greater use of them, potentially increasing national savings, while also promoting greater economic security. (CEA)

J. *Crime*

Tough Federal Enforcement. During the second term, the Administration will continue its strong anti-crime record. We will fight money laundering and other financial crimes both at home and abroad to deny drug cartels what matters most -- their profits. In the future, narcotics traffickers will face tighter reporting restrictions on money remitters, blocked assets, and fewer people willing to risk doing business with them. They will also find it harder to import their illicit shipments. Building on the success of Operation Hardline, which strengthened the Southwest Border and increased total narcotics seizures by 29% last year, we will enhance our narcotics interdiction efforts across the rest of our borders to stay a step ahead of the traffickers. (Treasury)

Gun Control and Anti-Terrorism. Treasury has taken innovative steps to preempt illicit sales of guns and explosives. Project Lead, a new software program, enables us to identify gun trafficking patterns and prosecute unauthorized dealers -- especially those who sell guns to kids. Additionally, the President could emphasize that he will continue to protect the Brady Law and the Assault Weapons Ban from attacks by special interests and implement the Lautenberg Amendment which prohibits those who commit domestic violence crimes from possessing handguns. We are also actively studying the use of taggants, or tracer elements, in explosive materials to crack down on bombings and terrorist incidents. (Treasury)

K. *International Trade*

International Financial Institutions. America's global leadership reaches beyond the trade arena to the international financial institutions it helped to create. These institutions, led by the World Bank and IMF, help ensure a fair trading system, build new markets, and safeguard the global financial system on which we all depend. We must honor fully our funding commitments to these institutions, particularly where we have fallen behind, because it serves our own economic self-interest to do so. The stability of the global economy is critically important to U.S. economic, political and security interests, and we need to engage and provide leadership in this arena. (Treasury)

Mexico. Mexico underscores the importance of the U.S. remaining engaged globally. Two years ago, the President made a courageous decision to protect America's economic and national security interests by assisting Mexico during its liquidity crisis. This week, Mexico repaid the final installment of the loan -- three years ahead of time. As a result of the President's leadership, Mexico forestalled a prolonged recession, regained access to the international capital markets and imported a record amount of American-made goods. In addition, his actions produced a profit for American taxpayers of $580 million and a corresponding decrease in the budget deficit. (Treasury)

Boosting Small Business Exports. Because most of our future job growth lies with small business, the needs of small business exporters are critical. Currently, only 12 percent of U.S. small businesses export. Our goal is to double this number over the next 5-10 years. Commerce, SBA, and Ex-Im have brought federal trade promotion and finance programs together in a nationwide network of 17 one-stop U.S. Export Assistance Centers to make them more easily accessible to the small business community. The Administration is streamlining government trade finance programs that assist small exporters to fulfill their export potential and is developing innovating new trade finance mechanisms, such as SBA's Export Express program, to reach more small businesses and lenders. (Commerce, SBA)

Promoting Free and Fair Trade. The Department of Commerce has developed a new initiative by creating a Trade Compliance Center. Using the Internet to provide information and government assistance directly to businesses, this new Trade Compliance Center will help American business gain maximum advantage from the 200 trade agreements and declarations successfully concluded over the past four years. The Center will not onlyexpand the government's ability to successfully open foreign markets, it will also increase our ability to assist U.S. business in resolving trade disputes, and increase the deterrence value of U.S. trade enforcement efforts. The Trade Compliance Center demonstrates this Administration's continuing commitment to ensuring that foreign governments fully live up to their obligations under international law and treaty. (Commerce)

Fighting Bribery to Level the Playing Field for Our Companies Overseas. The Administration has led the charge against bribery and corruption overseas on several fronts, and over the past year we have made significant progress. We will continue to work toward implementation of the first hemispheric agreement criminalizing bribery in all countries and punishing foreign entities who take part in corruption. (Commerce)

I. *Small Business Growth*

ACE-Net. Only several thousand firms receive venture capital each year, leaving many entrepreneurs in desperate need of capital to grow their small businesses. The Administration, led by SBA and other agencies, has developed the ACE-Net system (the Angel Capital Electronic Network) on the Internet linking small businesses seeking venture capital with "angel" investors. (SBA)

Expanded Capital Access for Underserved Populations. In October 1996, the President announced the nationwide expansion of SBA's Women's Prequalification Pilot Loan program, which "prequalifies" certain women business owners for partially-guaranteed loans. The President could announce that he similarly plans to expand the Minority Prequalification Pilot Loan program nationwide from the 16 sites where it is currently available. (SBA)

Contracting Agreement with the Big Three. Consistent with efforts to forge public-private partnerships, Administrator Lader will shortly sign a Memorandum of Understanding with the Big Three automakers -- Ford, Chrysler, and General Motors -- to initiate a program expanding opportunities for minority-owned companies as suppliers and contractors to the large companies that are the traditional suppliers of steel, plastic, glass, and other raw materials purchased by the automakers. As many as 5,000 minority-owned companies, including many firms in SBA's 8(a) program, will benefit from this initiative. (SBA)

Access to Business Education and Training. The Administration can assist more aspiring entrepreneurs by expanding the number of SBA's One Stop Capital Shops, Women's Business Centers, and Microloan intermediaries across the country. (SBA)

M. *Health*

Long Term Care. While most of the discussion of the aged has focused on Social Security and Medicare, long term care remains a difficult problem as well. The President could call for further improvements in the market for long term care insurance, including further incentives for individuals to purchase such insurance, such as providing asset protection. (CEA)

$1 Billion Award for Eradicating HIV-AIDS. Unlike the historic "big government" projects of the industrial era -- FDR's Manhattan Project or JFK's effort through NASA to race the Soviets to the moon -- this could be the first reward of this new age of discovery and renewal. It will challenge enterprising scientists, researchers, immunologists and bio-techies, universities and medical research centers, and private investment, venture capital and firms to enter a noble competition to invent, produce and deploy a sufficient quantity of effective vaccine to end the HIV-AIDS epidemic in the U.S. The reinvented role of the federal government is also clear in this new venture: to assure the essential economic and market incentives (the prize) and regulatory conditions (FDA review, indemnification procedures) that make this competition possible; to support extending the frontiers of science in the process (NIH funding, catalyzing venture capital and firm investment, focusing attention); and to develop and implement the most efficient public health immunization program (CDC) to assure that HIV-AIDS will be eradicated once effective vaccines are discovered and produced. (Dimond)

N. *Compliance with Labor Regulations*

Garment Initiative Next Steps. On August 2, the President announced, with garment CEOs, unions and non-governmental organizations, an Apparel Industry Partnership that would get back to him within six months (February 2, 1997) with recommendations on how to assure consumers that their goods are made in compliance with minimum wage and child labor laws. That group is meeting January 23 to finalize their recommendations to the President. If they are able to finish their recommendations in time, he could announce that they met his challenge and describe the next steps. (Labor)

Internet Employment Law Assistance. The President could announce that the Labor Department is moving its customer service function into the 21st Century by providing "expert systems" -- E-LAWS -- on the Department's Internet homepage. This service would inform workers and small business owners about their rights and responsibilities under Department of Labor regulations and statutes while also helping to increase compliance by employers as well as free-up resources for the Department to increase its enforcement efforts in areas of more serious non-compliance. (Labor)

O. *Corporate Citizenship*

Ron Brown Award. Last spring, the President announced the establishment of the Ron Brown Corporate Leadership Award to commemorate the outstanding public service of the late Secretary of Commerce and to celebrate those businesses that are most committed to ensuring that the workplace is family- and worker-friendly. (Commerce)

P. *Privatization*

To underscore the end of the era of big government, the Administration may seek opportunities to privatize various assets or services the government no longer needs to provide. Together with OMB, Treasury can develop a list of likely privatization projects for inclusion in the State of the Union. (Treasury)

Q. *Natural Disasters*

National Mitigation Strategy. Over the past four years, in the face of serious challenge, the Administration, particularly through FEMA, has built an extremely impressive record in the area of natural disaster response and rebuilding. But at the same time, this has been terribly expensive -- for individuals, businesses, local economies, the federal government, and the insurance industry. FEMA has been trying to move communities toward a strategy that will make them more disaster-resistant, and has put out a national mitigation strategy to help in this effort. The idea is that communities themselves should understand that it is not in their interest to over-develop fragile (or flood-prone) lands or to allow shoddy construction where proper building methods aren't all that much more expensive. Communities also need to take natural hazards risk into account as they site and build public buildings and infrastructure.

It appears that the budget will, for the first time, include money for pre-disaster mitigation. The President could make a big difference in both how Director Witt's efforts are perceived and what happens on the ground by combining praise for what we have done on response and recovery with a call for communities to help themselves by making themselves more disaster-resistant -- before disaster strikes. (Seidman)

October 30, 1997

MEMORANDUM FOR GENE SPERLING

FROM: **NEC Staff**

SUBJECT: **Potential New Policy Initiatives: Some Preliminary Ideas**

This memorandum is a preliminary list of new policy initiatives for possible consideration for the FY99 budget process and the State of the Union. We have tried to provide a fairly detailed description of each initiative, including its objectives, current status, likely budgetary impact, pros and cons, and suggested next steps. We will continue to refine this document, adding several more initiatives and providing greater detail to those discussed herein.

Absent are a few of the larger policy items which will require separate memoranda, such as entitlement reform.

Most of the initiatives discussed below fall under the theme of giving all Americans the tools they need to succeed in the new economy in that they largely focus on education, training, and community empowerment. Obviously, a number of these initiatives are only in the formative stage.

There are also three attachments to this memo covering three of the specific policy proposals discussed below: (1) a proposal for the development of high-quality instructional software for the Learning on Demand initiative; (2) an "information society" initiative which uses technology to improve people's quality of life; and (3) child care proposals.

6th GRADE MENTORING INITIATIVE

The NEC has undertaken a lengthy policy process, and recently held a principals meeting, on an initiative to reach out to low-income children by the seventh grade in order to (1) make them aware of financial aid for college, and (2) provide intensive and sustained mentoring and academic support through high school graduation.

At a recent principals meeting, there was general support for the concept of pursuing these goals through strong partnerships between colleges and high-poverty schools. Consultations with the education community have begun, and a decision memo will be finalized soon. An announcement could be made in the State of the Union.

HISPANIC EDUCATION ACTION PLAN

At the President's request, the NEC has developed an action plan to improve educational opportunities for Hispanic Americans (or limited-English proficient students generally). The current draft plan, based on input from the Hispanic Caucus and constituency groups, includes a number of administrative actions that agencies will take, as well as possible targeted investments. The plan would be released along with a report from a panel of researchers that were named by Secretary Riley last year to look into the Hispanic dropout problem.

IT'S NEVER TOO LATE TO GRAD-U-ATE

The National Adult Literacy Survey, carried out in 1993 by ED/NCES, found that over 20 million adults were in the lowest level of basic skills. For these adults -- many of whom are working at low paying jobs, have children, or are trying to get off public assistance -- Goals 2000 and school-to-work come too late and Hope Scholarships are out of their reach.

This initiative would commit resources to programs that help adults earn their high school equivalency certificate, learn English, and/or learn basic skills. These are the credentials that allow them to take advantage of college aid, etc. (This would probably involve funding for Adult Education, possibly Even Start, as well as research and development in the area of adult literacy.)

Pros:
- Broad, positive goal that will help specific populations that tend to be low-income and minority.
- Addresses the needs of immigrants (Hispanic in particular), especially the huge need for English classes.
- Addresses the needs of the former welfare population.

Cons:
- Not seen as a mainstream issue -- even though it is.

DOUBLE PELL GRANT FOR HARD WORK AND HIGH SKILLS

This initiative would double the Pell Grant for students who take a college prep curriculum in high school and are in the top 10 percent of their high school graduating class. This rewards students for merit, but by basing the award on Pell, it remains a means-tested scholarship. The most funding would go to students at the highest poverty schools (where more students are eligible for large Pell Grants). This would replace the Presidential Honors Scholarship proposal that has been included in recent Administration budgets, but which has not sparked any interest from the interest groups nor from Congress.

Pros:
- Fits into theme of standards, accountability, personal responsibility.
- Cost should not be high because it is just the top 10% and those already

eligible for Pell.

- Gives schools one more reason to improve their curriculum, and gives students a reason to take the tough classes.

<u>Cons</u>:

- Might create specter of Federal government deciding what is or is not a "college prep" curriculum. (The proposal could leave that up to the school, but there might still be a fear of Federal intrusion).

CLIMATE CHANGE

$5 Billion Climate Change Package. The President has committed to a $5 billion package over five years for tax incentives and R&D to promote low-carbon technologies. The Treasury Department is already working on a possible package of tax incentives to be included in the FY 1999 budget, and DOE has a proposal on the expenditure side.

We need to make the following decisions:

- Year-by-year total funding level
- Split between spending and tax incentives
- Composition of tax incentives
- Composition of spending
- Pay-fors for the tax incentives

Because of the inter-relationships between these decisions, it may make most sense to have the NEC chair a staff-level working group that would include OMB (TJ), Treasury (Sholtz and Gruber), EPA (Doniger and Gardner), DOE (Mazur, Reicher, and Romm), CEA (Frankel), and any other interested parties.

Our proposed schedule would be:

Working group meetings	Early November
Draft proposal discussed with Sperling and other principals	November 13
Options refined	November 14-21
Principals meeting, if necessary	November 24
Memo to the POTUS	November 26

This schedule is intended to provide enough time to include the proposals in the FY 1999 budget.

Bonn and Kyoto. We face a series of essentially diplomatic questions -- how to build a coalition in favor of an approach that is acceptable to us -- which will need to be discussed in oversight meetings and elsewhere. But the issues are not of a fiscal or domestic policy nature, and therefore they do not seem to play directly into the budget or the State of the Union.

Federal Energy Management. DOE is taking the lead on developing an Executive Order, as well as other components of a Federal energy management initiative. They are working with OMB, CEQ, DOD, and other relevant agencies.

LEARNING ON DEMAND

This initiative that would accelerate the development of a market for "anytime, anywhere" computer-based education and training for adults. Although the Administration has an aggressive strategy for improving K-12 education through the use of technology, we currently have no counterpart initiative for higher education and adult training. We think that it makes sense to explore such an initiative, particularly given (a) the growing number of adults who would like to acquire additional skills, but find it difficult to attend traditional campus-based classes; and (b) the increased household penetration of personal computers, the Internet, and other technologies.

To date, the NEC has held two inter-agency meetings. All of the agencies involved have been enthusiastic; DPC has also been supportive. Below is a status of the specific items in the initiative and a rough sense of the potential budgetary impact.

<u>Remove legal barriers to distance learning</u> that may exist in current financial aid laws. No dollars involved. Education still reviewing in context of HEA reauthorization; not prepared to make recommendations at this time. Education is moving towards granting experimental status to the Western Governors University (Roemer's project).

[illegible]

<u>Promote the development of high-quality instructional software</u> through grants to consortia of industry, universities, labor unions, and software developers, particularly in areas such as basic and remedial skills. We have proposed a new $75 million program in this area (see attachment #1).

<u>Make the government a cutting-edge user of technology-based training</u>. Defense Department is prepared to take the lead on this and will actually have their first public workshop on November 3. This can probably be done within existing budgets.

<u>Invest in longer-term R&D</u> to improve the "state-of-the-art" for learning software and to conduct evaluation. OSTP should have final recommendations in a week. NSF is prepared to fund much of what we want if they get the increase they asked for.

<u>Expand "America's Training and Education Network"</u> so that firms and workers can easily discover training that meets their needs. Labor has a detailed proposal that builds on their "one-stop" funding. They could use an additional $5 million.

<u>Target the "working poor" for technology-based career development and training opportunities</u>.

Labor is still working on a proposal; they say that this may overlap with a "welfare to work" initiative.

Encourage dissemination of federally-sponsored computer-based training. Labor prepared to do this as well within existing budgets.

Next steps. This could definitely be ready by the State of the Union or soon after the budget roll-out. The major piece that needs to be decided is the level of funding for a program that is essentially a "challenge grant" for higher education/training software. Kalil would recommend putting the whole program at Education, although one could put the higher ed part at Education and the training portion at Labor.

Grants to schools
70m - 1/1
fun

TEACHER TRAINING FOR TECHNOLOGY

Almost all press and expert analysis of the President's Educational Technology Initiative concludes that teacher training is critical to the success of the program. The President has also expressed an interest in doing more in this area.

After talking with a number of leaders in the field, we have come to the following conclusions:

- Trying to provide meaningful in-service training to all teachers would be prohibitively expensive. Assuming a cost of $3,000/teacher for two weeks of instruction and 2.5 million teachers -- the total cost would be $7.5 billion. Also, it is not clear that the infrastructure is in place to do this kind of training.

- Picking a grade (e.g., all 6th graders) would be seen as arbitrary.

- It makes more sense to focus on new teachers, since two million new teachers will be entering the workforce over the next ten years. Obviously, we could do both (new teachers, existing teacher workforce); however, Kalil believes that we will get more leverage from focusing on the new teachers as the national goal.

- Teaching teachers the mechanics of using technology is necessary, but not sufficient. The more important part -- and the harder part -- is curriculum integration and the new styles of teaching and learning that are enabled by technology (e.g., project-based learning). Therefore, any new initiative we launch in this area should address both the "content" and teacher training together.

- It makes sense to build on our existing programs (e.g., TLCF, innovation grants) as opposed to starting new programs.

Option 1: Expand Innovation Grants by $150 million/year -- make sure that all new teachers

are ready to teach using technology in four years

$150 million expansion of innovation grants -- targeted to professional development, schools of education, and curriculum integration. Unlike current challenge grant program, this would be more targeted and strategic. This would require a change in the enabling legislation.

A. <u>$100 million</u> would go to two-year, (average) $500,000/year grants to schools of education. Over four years, this would give grants to 400 schools -- a large fraction of the accredited teachers colleges. Schools of education could use funds to:

- -- Acquire necessary technology infrastructure
- -- Establish partnerships with local school districts to ensure that student-teachers have the opportunity to use technology during internships
- -- Provide training and staff development for faculty

These grants would require matching funds from non-federal sources (the university, the private sector, states, foundations) and a technology plan from school of education.

B. <u>$50 million</u> would go to fund curriculum integration and other projects that will have a national impact. For example "virtual departments" focused on curriculum integration in a particular discipline (e.g., math, science, reading). Virtual departments would:

- -- Be composed of schools of education, university professors, and professional societies -- with private sector partners;
- -- Develop and disseminate instructional material that explains how teachers in particular subjects can use technology effectively to support learning objectives;
- -- Evaluate existing commercial software, and help define user requirements for new software;
- -- Serve as a focal point for increasing the quantity, quality, and organization of networked resources in a particular subject;
- -- Manage online networks to providing on-going support for teachers in a particular subject.

Option 2: Direct the states to spend the increase in the TLCF on teacher training -- increase TLCF to $600 million.

The Technology Literacy Challenge Fund is currently budgeted to increase from $425 million in our FY98 request to $500 million in FY99. We could increase TLCF to $600 million, and direct the states to invest at least 1/3 of their TLCF allocation ($200 million) to teacher training. Although this would attach some strings to what has been a formula program, this is not an unreasonable request. Experts believe that spending about a third of total ed tech budgets on professional development makes sense.

What could states do with the $200 million if they spent it on teacher training? Assume that:

- Cost of two-week summer institute is roughly $3,000 per teacher.
- Non-federal (states plus private sector) match dollar for dollar.
- This trains more than 130,000 teachers per year, or more than four percent of the teaching workforce per year (assuming 3 million teachers).
- Over three years, one in every seven teachers is trained -- making a "train the trainers" scenario likely.
- Note that we could do even more if teachers were willing to wave their right to a stipend. Of the $3,000 cost for a two week summer institute -- $2,000 is the teacher salary cost.

Next steps. We will have a more detailed proposal by the end of next week (November 7). Obviously, we need to work closely on this with DPC, Education, and OVP. Kalil would recommend (a) transmitting the proposal to Mike Smith, Mike Cohen, Don Gips, and OMB; and (b) convening a meeting at whatever level you feel is appropriate.

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OVERALL R&D FUNDING

General Conclusions

<u>If we are unable to protect the entire R&D budget, we should at least protect university-based R&D</u>. University-based R&D has a high return on investment because: it is focused on the long-term R&D that industry will not do; tech transfer occurs through people (graduates leave and start new companies); and results are widely diffused because they are published.

<u>Of the $75 billion in FY98 R&D budget, only $13.3 billion was university-based R&D</u>. Top performers were: NIH ($7.5 billion); NSF ($1.96 billion); DoD ($1.34 billion); NASA ($800 million); and Energy ($600 million).

<u>Of these budgets, Kalil believes it is most important to focus on NSF and DoD basic research</u>, for a number of reasons, including:

- Congress always increases the NIH budget by more than the Administration's request;
- Kalil assumes that the increase in funding for climate change research will result in an increase in Energy support for university research;
- NSF and DoD fund basic research across a number of important disciplines; and
- NSF would use a substantial portion of their increase to fund Presidential priorities, such as Next Generation Internet, research on educational technology, and a new research initiative called Knowledge and Distributed Intelligence.

Last year OMB made a decision that NSF couldn't grow faster than NIH. Kalil thinks this needs to be revisited -- given that NIH is so much larger than NSF -- and NSF covers a very wide range of basic research.

Kalil thinks it makes sense to create a "wedge" in the year 2000 R&D budget and encourage agencies to spend calendar 1998 developing proposals for it. There are all sorts of exciting new areas where additional R&D could be done, such as *functional genomics* (using the results of the Human Genome Project to solve specific diseases) and *nanotechnology* (manufacturing at the molecular level). However, agencies are reluctant to propose new ideas in the current budget environment because they perceive the budget to be a "zero-sum" game. A pot of money for FY2000 would create incentives for agencies to be bold and imaginative.

Specific Issues

Next Generation Internet: Kalil would like to make NGI a five-year initiative as opposed to a three-year initiative -- and make sure that the money is "new." Last year, some of the agencies were not given any additional funding for NGI and merely relabelled existing funds as "NGI."

Dual-use: DoD usually underfunds certain dual-use programs such as flat-panel displays and advanced lithography -- the tools used to make computer chips. Currently, the U.S. has only 10 percent of the market for lithography; it is important that we maintain investment in this area to catch up.

Next steps. Kalil can provide more detailed information on this, and plans to work with OSTP and OVP. Podesta is also interested in getting a more detailed write-up.

INFORMATION SOCIETY

The idea behind this initiative is to promote different applications of information technology (e.g., improving the quality of life for people with disabilities, digital libraries, a user-friendly, on-line government, etc.). Part of this would also involve additional social science research on the impacts of information technology.

This idea has been discussed in our telecom working group, but would obviously need the participation of a much broader group of agencies. A longer memo (attachment #2) on this is attached, but Kalil will continue to refine this proposal.

ONE-YEAR CAMPAIGN ON HIGHER EDUCATION ACCESS

At some point in the next several months, President Clinton could kick off a one-year campaign to inform every family in America about the new higher education tax and grant incentives. The NEC is currently working on a detailed plan with the Treasury and Education departments.

The goal of this campaign would be: to heighten public awareness of new tax and grant incentives to pursue higher education; to drive home the message that higher education is now truly accessible to everyone who wants to pursue it; and to reiterate that higher education is the key to higher earnings over a lifetime.

Timing:

- Treasury will be releasing regulations and guidelines in coming months.
- Tax breaks, Hope Scholarship and deductions for past-four years will be available when people file their 1998 tax forms in April 1999 for college or classes attended in 1998.
- Higher Pell grants will be available beginning in Fiscal Year 1998.

Proposal:

- Announce a year-long campaign to highlight the increased accessibility of higher education and the life-long benefits of higher education.

- Follow-through with extensive effort by White House, Education and Treasury to make public aware of new incentives to pursue higher education through such avenues as:

  -- Developing plain-English parents' guides with basic Q&A to the new tax incentives and the array of new benefits that make it easier to attend college (e.g., more generous Pell grants, improved student loans).
  -- Targeting information campaign at those NOT already planning on going to college (e.g., low-income families, people looking to improve or change careers).
  -- Mounting public awareness effort toward the end of this year to ensure that parents understand that only tuition paid in calendar year 1998 will be eligible for tax relief.
  -- Conducting events when Treasury or Education release any information about new benefits.
  -- Hosting conference with financial aid officers and student loan groups to ensure that tax incentives are used widely and do not simply replace financial aid offered by colleges.
  -- Holding press conference with student newspapers to broaden awareness of new tax incentives and grants to make college more affordable.

ECONOMIC EMPOWERMENT/URBAN INITIATIVES

Housing Portability/Choice. The package could include the following elements, among others:

1) Provide $20 million in the FY 1999 budget to increase the number of Regional Opportunity Counseling (ROC) ~~sites. Under the~~ ROC program, public housing

authorities partner with nonprofits to provide counseling to Section 8 certificate and voucher holders, to ensure that they are aware of the full range of housing options. When Section 8 families are ready to move, they tend to search for housing in areas similar, and in close physical proximity, to their original high-poverty neighborhoods.

2) Encourage the use of exception rents (i.e., up to 120 percent of the "fair market rent") as a tool for opening up more expensive suburban housing markets.
3) Eliminate obstacles to portability of Section 8 vouchers.
4) Support voluntary efforts to establish and maintain integrated communities, through, for example, pro-integration mortgage loan funds.
5) Reduce racial disparities in mortgage loan denial rates through a partnership with the mortgage and real estate industries.
6) Expand the number of Homeownership Zones from six to about 20 (?). HUD provided $10 million in FY 97 and has requested an additional $50 million for FY 99. A major purpose of the program is to facilitate construction of large, single-family developments designed to attract stable, middle-income families to, and retain them within, central cities.
7) Implement Homeownership Vouchers. This initiative, already proposed in the Administration's public housing reform legislation, would allow recipients of Section 8 tenant-based assistance to use their vouchers and certificates for mortgage payments, rather than strictly for rent.

HUD submitted these proposals as part of the economic empowerment group process; Parker is following up with them in the hope of getting the housing choice and fair lending (see below) packages in shape to be unveiled at a December race initiative event.

Discuss with Gene:	Already done, follow-up discussion possible
Principals meeting:	Probably not needed
Decision memo to President:	May not be needed; if so, week of November 17

Urban Intercity Bus Facilities Redevelopment. A provision in NEXTEA would make intercity bus facilities eligible for Surface Transportation Program dollars; this item is in the Senate legislation but not the House bill. According to Transportation, these NEXTEA funds would largely be devoted to bus terminals which are publicly-owned intermodal centers (where individuals transfer from one mode to another) and have already received Federal and/or State funding. These are generally located in major metropolitan areas.

The Department of Transportation proposes to, in addition, make available approximately $50 million in grants and loans to spur redevelopment of bus terminals in smaller, older urban areas and in rural regions. Attracting private investment (i.e., in retail establishments) in and around the facilities would be an integral part of the redevelopment efforts.

Discuss with Gene: Week of November 10

Childhood Lead Poisoning Prevention Bonus Program. Under this performance-based program, communities would receive bonuses for reducing childhood blood lead levels -- the initiative would be targeted to communities with a high prevalence of elevated blood lead levels in children. The program might also reward communities for progress with regard to other home health hazards such as rat infestation. This initiative would create jobs in the lead hazard evaluation and control field, as well as addressing a grave threat to children's health.

Provide Additional Funds for Job-creating Projects in Urban Areas. The Administration would request new Economic Development Administration (EDA) funding dedicated to infrastructure and other projects that will stimulate private sector job creation in especially distressed urban areas.

Capital Access Program. This would be a national pilot program under Treasury's CDFI Fund to test a model that has proven effective at the State level. The program, rather than providing loan guarantees, would match loan insurance premiums put up by the borrower. This proposal is apparently in Treasury's FY 99 budget request.

Ease Tax Code Constraints for Public-Private Infrastructure Development.

- Raise the current cap on "private benefit" from tax exempt debt (e.g., from 10 to 20 percent); and
- Increase the cap on transportation bond proceeds usable for non-transit purposes from 5 to 20 percent.

These two proposals are intended to stimulate retail and other spinoff development from transit projects.

Discuss with Gene: Week of November 10

Residential Historic Rehabilitation Tax Credit. Establish a tax credit similar to the 20 percent commercial rehabilitation credit for renovation of owner-occupied homes in disadvantaged inner-city historic districts. The provision should be tightly targeted, with the goal of stimulating the purchase and rehab of homes in distressed urban areas, rather than subsidizing home improvements for individuals residing in middle and upper-income neighborhoods. This proposal is still in the preliminary stage.

Fair Lending/Fair Housing Initiative. This initiative could include:

1) An examination of the impact of credit scoring and risk-based pricing on the availability of credit/capital to lower-income and minority individuals;
2) The banking regulators could also issue guidance on certain key credit scoring issues and, possibly, on risk-based pricing;
3) A Presidential call to the FDIC and the Federal Reserve to obtain more data on reasons for home mortgage loan denials (OCC and OTS already collect such information);
4) Collection of race and income data as part of the Equal Credit Opportunity Act/CRA small business and small farm lending reporting requirement;
5) Strengthening civil penalties for lenders who violate the Fair Housing Act;
6) A Presidential request to the Government-Sponsored Enterprises (GSEs -- Fannie Mae and Freddie Mac) to retain loan denial data for further analysis of lending patterns; and
7) Explore pre-application fair lending testing, as well as application testing of non-regulated lenders (regulators have access to the data of lenders that fall under their jurisdiction and are thus better able to detect discrimination after the fact).

Michael Barr is leading an interagency fair lending working group which has made considerable progress developing this package. Paul Weinstein and Parker have asked him to finalize the proposals by the beginning of December if possible (see above). This would have little or no budgetary impact.

Discuss with Gene:	Week of November 10
Principals meeting:	If needed, week of November 17
Decision memo to President:	May not be needed; if needed, by November 21

Voluntary CRA-type Provisions for Non-Bank Financial Institutions. Given that an increasing percentage of financial services business is now in the hands of institutions other than banks (e.g., mortgage and other finance companies, mutual funds and insurance companies), it is appropriate and necessary to explore methods of extending CRA principles to these entities, on at least a voluntary basis. Caution is required in this area, since the issue is a political minefield. Secretary Rubin, for example, is apparently wary of action in this direction. This too would have little or no budgetary impact.

Discuss with Gene:	Week of November 10
Principals meeting:	Week of November 24

Voluntary Agreement by Private Sector Vendors to Allow Targeted Entities (e.g., providing jobs, training or other services) in Distressed Areas to Purchase from the GSA Schedules. An informal estimate by GSA suggests that entities such as small businesses and community development corporations in distressed areas could realize savings of 15 to 30 percent on information technology and communications items by purchasing from the GSA schedules.

Discuss with Gene: Week of November 17

PENSIONS

Simplified defined benefit plan. Ellen Seidman's pension working group has spent several months developing a simplified defined benefit plan for small businesses, based on the SAFE plan proposed by the American Society of Pension Actuaries (ASPA). The group was, however, unable to reach a consensus (Treasury opposes, for what Parker views as legitimate reasons, even the modified version crafted by the group). Ellen began an options memo for principals which Parker will complete shortly.

Discuss with Gene:	Week of November 10
Circulate proposal:	Week of November 17
Principals meeting:	Week of November 24

CHILD CARE

See attachment #3.

PAID FAMILY LEAVE

This policy proposal would provide financial support to help parents stay home with their newborn babies and get them off to a good start. This idea has not yet been discussed outside of the NEC. The initiative is designed to strengthen our 0-3 agenda, and would:

- Build on the foundation the President has laid: The President pushed and signed the Family Leave law to ensure that parents stayed home after a baby was born would not lose their jobs. The law has been a success, but as the First Lady pointed out last week at the Child Care Conference, "it's hard to argue it's a realistic choice when it's unpaid." The early childhood conference laid the intellectual basis and added urgency for additional action. (Note: Employer provided paid family leave is extremely rare. According to the latest BLS benefit survey, only 2% of employees at large, medium, and small-sized companies are eligible for paid family leave.)

- Complement Child Care Initiative: This proposal would go hand in hand with our child care proposals resulting in a two-pronged approach to help parents do right by their kids. The child care initiatives are solid, but alone they are open to the charge that nothing is being done to help parents who want to stay home. In an excerpt from an AP story last week, the first lady made this point: "the first lady said any program for improving child care should include help for stay-at-home moms. 'We don't do a very good job in this country, despite our rhetoric about family values, to create work and family situations that permit more families to make the choice that they think is right for them,' she said."

As initially conceived, the paid family leave would be administered through the UI system, which is well-positioned to accept applications and send out checks. Several key variables would determine the cost of the proposal, including:

- Coverage: About 4 million babies are born each year -- an upper bound of coverage. Coverage could be narrowed by, for example, by phasing the benefit out at a certain or in other ways, including a prior work requirement or receipt of other public assistance. (Note: the UI ratio is used below for illustrative purposes to give an idea of the range of possible costs. Tying the benefit to this ratio would leave out families we would want to help).

- Duration of benefit: The family and medical leave law is for 12 weeks. Paid leave of a similar duration would be consistent. To keep costs down, six weeks is another possibility to consider.

- Amount of benefit: The average UI benefit is about $200.

Rough Annual Cost Range	6 weeks of $200 benefit	12 weeks of $200 benefit
36% - UI ratio	$1.7 billion	3.4
Half (illustrative)	2.4	4.8
Assuming all 4 million babies	4.8	9.6

While run through the UI system, a higher payroll tax is not envisioned as the pay-for. An alternative possibility would use part of the money from the past revenue raisers that have been rejected (rough estimate of about $27 billion over 5 available - proposals need to be re-scored following passage of tax cut because of interactions). Funds would be transferred from Treasury to the UI system. (Note: the benefits could be use to extend employer paid leaves. Payments would start after employer leave ends).

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