December 9, 1996

MEMORANDUM TO ERSKINE BOWLES

FROM: Gene Sperling and Chris Jennings

SUBJECT: Medicare Budget Meeting Summary

The following is a summary of the substance of and reaction to last Tuesday's Medicare briefing we gave to the budget group. Attached to this memo is a copy of the walk-through document we used during the presentation.

Medicare Briefing

The briefing served to remind the principals where we ended up in this year's FY97 budget proposal relative to the Republicans. In short, CBO scored our policy to achieve $116 billion in Medicare savings over 6 years (roughly $124 billion off of the OMB baseline) and scored the Republicans at around $168 billion over a comparable time period. Both of our proposals were estimated to extend the life of the Trust Fund to about 2006. We achieved the 2006 date from a combination of traditional Part A savings and the transfer of financial liability of in excess of 100 home health visits to the Part B side of the program. The Republicans proposal strengthened the Trust Fund through higher Part A savings in the 6-year budget window, but they also assumed significantly greater (and probably policy and politically unrealistic) savings in the 2003-2006 budget window.

We also reminded the principals that the debate was not just over numbers, but also of significant differences in structural reforms (e.g. the Republican proposals to eliminate certain protections against overcharging by doctors, to establish Medical Savings Accounts, and to rely on arbitrarily-imposed budget caps.) In short, while we also want to modernize the Medicare program and provide for more private plan options, we fear that the Republican approach would segment the healthy from the sick and would structurally damage Medicare.

We then reviewed how the environment around the Medicare issue has changed. The most significant of these changes are: (1) Since we lost a year of savings, the Trust Fund will require more Part A savings ($160 billion) over 5 years to extend its life for 10 years; (2) the shorter budget window will require additional Medicare savings to get to balance; (3) Private sector health care growth rates have been declining and there is evidence that Medicare's growth could be cut back to similar levels without excessively hurting providers; (4) the Medicare actuary is scoring even greater Part A savings (from about $60 billion to about $80 billion) for our home health transfer policy, which means we will not have to have as many painful traditional Part A cuts as we otherwise would; and (5) even with the home health transfer, our current budget would now only extend the Trust Fund to 2005.

Principals' Reaction to Numbers

With perhaps the exception of the CEA, there was widespread agreement that whatever Medicare budget proposal we produce should be significantly less than the Republican 6-year $168 billion savings number. Most (in particular Leon, John Hilley, Ron Klain, and Donna Shalala) seem to want to hover around our old $124 billion number, with interest in increasing the savings number directly related to its ability to help push back the Trust Fund exhaustion date to 2006. Frank Raines was of course nervous that numbers in this range may make it difficult to reach his 2002 Medicare balanced budget savings target of between $38 and $44 billion.

Home Health Transfer

There was an extensive discussion about our significant reliance on the home health care transfer to extend the Trust Fund to 2006. This was underscored when everyone realized that more than half ($80 billion) of the $150 billion in 5-year Medicare Part A savings from our current budget would come from the home health transfer.

It was understandably hard for everyone to conceptualize how our 6-year $124 billion savings package of Part A and Part B cuts strengthened the Trust Fund to 2005. Everyone understood after we walked through how our old 6-year $124 budget translated into a 5-year savings of about $92 billion, of which about $70 billion comes from the Part A side of the program and about $22 from Part B. [$70 billion (of traditional Part A cuts) + $80 billion (home health transfer) = $150 billion over 5 years or a Trust Fund exhaustion date of about 2005].

There was also some discomfort surrounding the fact that our transfer of $80 billion in liability to the Part B side of the program was excluded from the calculation of the Part B premium. The Part B premium is calculated on the basis of its equivalence to 25% of program costs; many policy experts will argue that a transfer, which is effectively ignored for the calculation of premiums, is therefore little more than a "gimmick." While there was not that much attention to this policy last year, everyone acknowledged that our policy would get much more scrutiny and criticism by the Republicans, the media, and others during the upcoming budget debate.

While everyone accepted we were going to be criticized, there was also an understanding that we did not have any more attractive options. Some felt more comfortable with the proposal when they understood that the Republicans achieved their 2005 exhaustion date only because they assumed much larger and unrealistic out-year cuts. Second, in the Fall of 1995, virtually every House Republican voted for the same home health policy (before it was later dropped in Committee.) Moreover, Republicans had also consistently supported additional transfers of Part B savings into the Part A side of the program. In addition, in the absence of a transfer, much more significant traditional cuts -- over and above those

called for by the
Republicans -- would be necessary. And lastly, if we included the transfer in the calculation of the premiums, premiums would increase by about $10 a month in 2002. Although this would be about $10 less than the Republican premium we vetoed, many (including Leon) thought that such a premium increase would be quite noticeable. There was also a discussion that this might be something we could go to later in the negotiations.

Follow-Up Work

We concluded the meeting with a directive to develop about 5 options*:

1. Use our current proposal as a base package. (It should score in the $124-$130 range over 6 years, produce about $32 billion in savings in 2002, and extend the Trust Fund to about 2005.)

2. Amend the base package to increase Part A savings by about $10 billion in order to attempt to extend the Trust Fund exhaustion date to 2006, through some additional managed care cuts. The target range for the 2002 savings would be about $35 billion.

3. Amend the base package to include the Health Security Act version of the high income ($90,000 single/$115,000 couple) Medicare premium and target its savings (plus some additional savings, if necessary) to extend Trust Fund exhaustion date to 2006. Again, the target range for the 2002 Medicare savings would be about $35 billion.

4. Amend the base package to attempt to reach $44 billion in Medicare savings in 2002. (This is Frank Raines' high range Medicare savings number, and probably cannot be achieved without a much higher Medicare savings number than the Republicans proposed earlier this year.) This package might include the home health care transfer to be in the Part B premium calculation.

5. Amend the base package to get about $38 billion in Medicare savings in 2002. Deeper Part A cuts are envisioned, which would push back the insolvency date to about 2007. However, they might be offset by some additional benefits, which would assure the <u>net</u> Medicare number was adequately below the previous Republican proposal.

5b. Do the same as above, but include an option that assumes that the home health transfer is included in the calculation of the Part B premium.

We should have the above packages scored by the end of the week and available for a principals' review probably around Monday, December 16th.

* The savings associated from the 25% Part B premium extension, which has been assumed in every package we every introduced, could be redirected to the Part A Trust Fund. We are asking that the savings from the Part B extension provision be scored for every package above, so that we can tell whether the amount of savings is significant enough to push out another year of life for the Trust Fund. (Republicans previously advocated redirected savings from Part B premiums to the Part A program.)

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

'96 DEC 20 PM 7:14

MEMORANDUM FOR THE PRESIDENT

FROM: Donna E. Shalala D E Shalala

Today, 10 million--14 percent--of children are uninsured. Ninety percent of all uninsured children come from working families. Addressing the needs of these children requires a multi-dimensional approach:

- increase insurance coverage through Medicaid by reaching those eligible but not enrolled;
- guarantee twelve month eligibility for those children already enrolled in Medicaid;
- enhance partnerships with the states and private sector to help provide insurance for children; and
- expand access to community based care.

THE CHILDREN'S HEALTH INITIATIVE

Our goal ought to be to improve the insurance and access needs of half of the 10 million uninsured children. Because there is no single reason why these children are uninsured, no single solution effectively and efficiently addresses the problem. We also know that enrollment in insurance does not ensure access to quality care.

We must fulfill the promise of our existing programs and build upon innovative state programs for uninsured children. We must also allow states and communities to target efforts that best meet the needs of their children. Our initiative does not include federal subsidies to families with uninsured children because subsidies are generally costly, may require very high subsidy levels to attract the currently uninsured into a program, and may inadvertently substitute for employer subsidized insurance. The overall investment is almost $12 billion over five years, of which $4.7 billion has no scoring implications. The specific provisions and costs for the initiative to address the important health care needs of our nation's children are discussed below (see attached chart).

I. Medicaid Initiatives

A. Work with states to fulfill the promise of Medicaid for children who are already eligible under current law. An estimated 3 million children are currently eligible for Medicaid but not enrolled. Our proposal assumes that up to two-thirds of these children could be enrolled into Medicaid with enhanced outreach and other efforts targeted at enrolling eligible children. Full enrollment of all Medicaid eligible individuals has been a challenge since the enactment of Medicaid, and this challenge will continue as the new welfare reform bill is implemented. We must:

- eliminate barriers to effective enrollment of eligible children through managed care and other Medicaid state programs;
- streamline eligibility by enhancing the federal/state partnership and providing best-practice models and other technical assistance to states;
- increase coordination with other federal programs (day care, Head Start, school health, community health centers, food stamps, WIC) to improve outreach and enrollment;
- increase collaboration with foundations and insurers/managed care organizations to identify innovative ways to improve enrollment;
- develop public information campaigns to inform the public about opportunities to enroll in Medicaid; and
- encourage state use of 1115 authority to expand Medicaid coverage and enrollment.

This initiative will cover an additional two million children. This off-budget proposal will increase the cost of the Medicaid baseline by $4.7 billion for FY 1998-2002.

B. Extend continuous coverage for children age 1 year and older. In 1990, Congress required continuous eligibility for pregnant women throughout their pregnancy and for three months postpartum, and for infants through the first 12 months of life. This proposal will provide states with the option to allow continuous coverage to children for one year after eligibility is determined. Doing so will guarantee more stable coverage for children and better continuity of health care services. In addition, it will reduce the administrative burden on Medicaid officials, health care providers, social service providers, and families who are required to refile paperwork for children's eligibility determination.

This initiative will cover an additional 1.25 million children. This proposal is estimated to cost $3.5 billion for FY 1998-2002.

II. State Demonstrations

Provide funding for states to support innovative partnerships to insure children not otherwise qualified to receive Medicaid or employer sponsored benefits. Numerous states have joined forces with insurers, providers, employers, schools, corporations and others to develop innovative ways to provide coverage to uninsured children. We ought to provide matching funds to expand the number of states participating in such programs and to increase the number of uninsured children who have access to such programs. States will be given wide latitude in program design but will be required to assure the receipt of critical services including well-child care and other related services to reduce childhood morbidity and mortality. To manage costs, programs may include cost-sharing, managed care, and competitive bidding..

- Under this program, States will be encouraged to enhance efforts to enroll eligible children in Medicaid and to expand coverage to other children by creating new opportunities for insurance coverage thereby creating a seamless system of care for children in their state.

- For children not otherwise eligible for Medicaid, States will establish income guidelines, eligibility criteria including limits on access to employer-subsidized insurance, benefits, copayments and premiums up to the full cost of the program. States may limit coverage of items and services under the project, but will be required to assure the receipt of critical services including well-child care and other related services to reduce morbidity and mortality.

- Evaluations will be conducted on the effect of these efforts to learn about: (1) access to health care; (2) changes in health care insurance coverage; (3) costs with respect to health care; (4) benefits, premiums and cost sharing.

This initiative will cover an additional 1.5 million children per year. It is estimated to cost $750 million per year, for a total of $3.75 billion for FY 1998-2002.

III. Safety Net Initiatives

Enhance access to care through school health centers and consolidated health centers (CHCs). We will provide increased targeted funding for CHCs to enhance and expand services to working families and their children, including children enrolled in day care, Head Start programs, and schools. To strengthen the safety net of community-based providers in urban and rural areas, these funds will be directed to communities with high levels of uninsured children, including EZ/EC communities. Funds will be used to increase CHCs capacity to serve uninsured children and their families and to better meet the needs of those in their community whose insurance coverage is fragmented or incomplete. In addition to increasing their own capacity, CHCs will serve as a focal point for marshaling public and private community resources directed at child health and, with their partners, taking steps to mesh child health and related services into local integrated systems that serve children and their families.

We will also provide communities with the option of serving their children through school health centers. This effort will provide children with comprehensive primary care services including diagnosis and treatment of acute and chronic conditions, preventive health services, mental health services, health education and preventive dental care. School health centers will also be encouraged to link to other appropriate programs, including Healthy Start, state Maternal and Child Health, Héad Start, Community Schools, and Empowerment Zones/Enterprise Communities. We will encourage programs to develop billing systems to collect third party payment and participate in a community-wide health care delivery system.

This initiative will serve an additional 250,000 children per year. The cost of these programs to the discretionary budget will be $25 million per year, for a total cost of $125 million for the FY 1998-2002.

I look forward to working with you to fulfill our promise to children by making health care more affordable and accessible through these efforts.

Attachment

Children's Health Care Coverage Initiatives

	Coverage by End of 2000	Cost in FY 02	5 Year Cost (FY 98-02)
1. **Expanded Medicaid Outreach (off-budget) 66% Success Rate**	2 million children	$1.5 billion	$4.7 billion
2. **Enhanced State Partnerships**	1.5 million children	$750 million	$3.75 billion
3. **12 Month Eligibility Option**	1.25 million children	$1.1 billion	$3.5 billion
Totals	4.75 million children	$3.35 billion	$11.95 billion

THE WHITE HOUSE

WASHINGTON

December 23, 1996

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling

Subject: Final Budget Memos

Attached are option memos designed to get your final sign-off on the remaining budget decisions needed for OMB to put your FY1998 budget in final form. We are working on resolving remaining Medicaid issues, but this will not be easy and could take away savings in 2002. We will be working on this further today.

Attached are the following:

1) **Raines Overview and Final Decision Memo**: Frank provides you with an overview of where we are and recommendations for resolving outstanding issues and appeals.

2) **Medicare:** You still need to give us your final word on whether you want to include a Medicare high income premium as part of your Medicare package. I have written you a confidential pro/con memo that summarizes the discussions so far.

3) **Children's Health Care Initiative**: What type of children's health care initiative do you wish to propose? Attached is an option memo that Chris Jennings has written. Secretary Shalala' memo on this topic is included in the final section.

4) **Summers Tax Decision Memo:** The Treasury Department has included an option memo that generally reflects the recommendations of the rest of your economic team.

5) **Shalala Memos:** Secretary Shalala sent you memos on child care and children's health issues. While these issues are summarized in other memos, I thought you would want to read her views yourself.

NOTES FOR YOU TO CONSIDER

1. RAINES MEMO:

Trigger: Remember that you do not have to make this decision until we see the CBO numbers, but you simply want to ensure that your decisions now are consistent with the trigger you might wish to propose later.

Welfare Reform: The OMB memo includes the final package on welfare, that includes an improved 18-50 year old food stamp provision -- with tougher work search requirements that will make it easier to defend. You should know that both Bob Greenstein and Stenholm support the 18-50 proposal we have included.

Child Care: The OMB memo states that all of the child care options are expensive. Because of the costs of the health care initiatives and because of any Medicaid modifications we may have to make, you may find that it is indeed something we cannot afford. As you know, however, Secretary Shalala, as well as some of your advisors do support a Dependent Child Tax Credit. There is a memo to you from her included in the last section.

International Affairs: While everyone is supportive of the 150 settlement, both Dan Tarullo and Sandy Berger feel strongly that a message needs to be sent that State needs to take seriously a management overhaul that would create outyear savings.

Hard Rock Mining Royalties: I just wanted to flag this for you and make sure that you are comfortable with it. The Vice President's concerns about using funds for reclamation is addressed.

2. TREASURY TAX MEMO: Your economic team met with Leon on tax issues and most of your economic team is in agreement with the Treasury recommendations.

Effective Date: You heard the pros and cons and we simply need your decision.

Section 127: Treasury recommends a 3 year extension. We did call for permanent extension over the summer, but 3 years shows a special commitment while not hurting your 2002 number.

Expiring Provisions: Treasury recommends extending the R&E tax credit and others for 1 year. In the past, we left out such expensive extenders on the notion that we would work with Republicans to include them. After last year -- where we never fully covered the cost of the extenders -- your economic team feels that we need to put them in this year.

Tax Simplification: Treasury recommends that we do not propose our tax simplification package as part of our budget proposal. Your economic advisors support this is because there are elements in the package that could be used to mischaracterize your budget, so we felt it would be better as a separate initiative since it did not have any real budget impact.

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

THE DIRECTOR

December 23, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines

SUBJECT: Wrap-Up of Final 1998 Budget Decisions

The memorandum summarizes briefly the decisions you have made thus far and seeks guidance on the few remaining open issues, including the effective date of your tax proposals, resolution of the six Cabinet appeals, and a handful of smaller issues. We also highlight several proposals that we did not discuss in our budget meetings with you last week. We need decisions prior to Christmas in order to complete the work necessary for the budget to be printed and released shortly after your State of the Union address.

OVERVIEW

Although our receipt and spending estimates are not yet final, we estimate that using OMB assumptions, your 1998 budget will reduce the deficit from $128 billion in 1997 to $118 billion in 1998 (assuming the tax cuts are effective July 1) to a $3 billion surplus in 2002. (A table showing the deficit path and savings by category is attached.) The $301 billion in gross spending cuts over this period are made up of $143 billion (47 percent) from discretionary programs, $100 billion (33 percent) from Medicare, $22.5 billion (8 percent) from Medicaid, $21 billion (7 percent) from other mandatories, and $14.5 billion (5 percent) in reduced debt service. These savings result in a cut in discretionary spending of 11 percent in real terms and mandatory real growth of 14 percent.

Even with large cuts in discretionary programs, the budget protects your priorities. Priority spending in education and training, the environment, science and technology, crime, and drug control grows $6 billion faster than inflation in 1998, 1999, and 2000, dipping only slightly below inflation in 2001 and 2002. Spending on discretionary priorities grows three percent in real terms over five years.

Your budget also includes $16.3 billion over five years to remedy the food stamps and immigrant provisions that were attached to welfare reform and $25 billion in net tax cuts, most of which encourage people to invest in education.

We have resolved all agency appeals with the exception of the six who brought their appeals to you last Thursday (discussed below). This spending, including our proposed resolution of the six pending appeals, has brought total 1998 discretionary outlays all the way up to the statutory discretionary outlay cap of $546.5 billion. (Actually, we spent more than allowed under the cap, but made room for the additional spending by moving some savings proposals from the mandatory to discretionary side of the budget.)

TRIGGER

Measured against our estimate of CBO's baseline, your budget will reduce the deficit from $133 billion in 1998 to $55 billion in 2002, requiring a policy to trigger additional cuts in 2001 and 2002 to eliminate the deficit if CBO's economic and technical estimates are more accurate than OMB's. The deficit path in your 1997 budget required a trigger of $71 billion in 2002. It is possible that the actual CBO baseline could be higher or lower than our current estimate. As discussed on Friday, while most of your advisors believe you should broaden the base against which an across-the-board trigger would apply, this is a decision you can make after the CBO numbers are released.

MEDICARE

You asked us revise the Medicare savings stream in the budget to reach $100 billion over five years (versus $98.5 billion). We will work on a final configuration of policies that achieves $100 billion in savings over five years and $138 billion over six years. We are waiting for your decision on whether to include an income-related premium in the Medicare package. If you decide to include the same premium that was in the Health Security Act, we estimate it would save $5 billion over five years. (There is a memo following this one fully describing the pros and cons.)

MEDICAID

On Friday, you decided on a Medicaid proposal that reduces disproportionate share (DSH) spending by $15.3 billion and uses a per-capita cap to save another $7.2 billion. We will work over the next few weeks to address the concerns about implementation of the DSH savings.

In addition, we talked about options to improve children's health coverage. There is a memo following this one laying out two options.

WELFARE REFORM

On Friday, you decided on a welfare reform package that includes $16.3 billion in food stamp and immigration restorations. The core feature of the immigrants package is to exempt the disabled and children from the SSI and Medicaid bans. The food stamp package removes the shelter deduction from the cap and re-indexes the program in 2002.

In addition, the package includes a new 18-50's proposal that toughens work requirements and expands work slots and wage supplementation for this group. In response to your concern that the work requirements be rigorous, we tightened the sanctions for those who refuse offered work. All 18-50's will be limited to 6 months of benefits in any 12 month period unless they participate in a qualifying work activity. Persons who fail to comply with the work requirements will lose eligibility for the longer of the six months or the State's relevant sanction. This penalty is significantly more strict than the underlying Food Stamp employment and training program. We also strengthened the standards for valid work activities (e.g., work slots must be 20 hours a week, which cannot be entirely dedicated to job search).

We also added $270 million over five years to create an additional 400,000 work slots, to give real force to the time limit. Almost all individuals subject to the time limit who are unable to find employment would be offered a work slot and forced to make the choice of living up to the responsibilities of accepting food assistance or becoming ineligible for the program.

On Friday we also discussed options to expand Federal assistance for child care. All of the options we have reviewed thus far -- making the dependent care tax credit refundable, and increasing the Child Care Block Grant to reach certain populations -- are very expensive. Making the tax credit refundable costs $4.9 billion over five years and $1.4 billion in 2002. Using the Block Grant to reach half a million more children would cost $3.5 billion over five years and $1.5 billion in 2002. Scaling the Block Grant up further to reach one million children with a smaller subsidy would cost $4 billion over five years and $2 billion in 2002. Given that we are now carrying a very small surplus in 2002, we do not recommend including any of these options in the 1998 budget.

REVENUES

On Friday, we discussed with you the effective dates of the tax credit for dependent children and the incentive for education and training. Our current estimates include effective dates of July 1, 1997, for the largest tax cut proposals -- the $500 tax credit for children and the education tax incentives. OMB and Treasury recommend that the provisions be effective upon enactment, and that we use July 1, 1997, as the effective date for budget purposes.

The arguments for the earlier effective date were that these proposals are central to the middle-class tax cut, and that we want to deliver the largest possible tax cut to households in April of 1998. Also, with a July 1 effective date, the pro-rata child tax credit would be 50 percent (6 months out of 12) of the planned $300 first-year phase-in credit, or only $150.

However, the January 1 effective date produces a substantial net revenue loss in 1998 ($8.7 billion, compared to $0.3 billion in 1997, and $3.2 billion in 1999). Also, because the budget will not be published until February of 1997, those who would have benefited from the education tax cuts as of January 1 will not have known of the provisions when they signed up for schooling or training. In any event, the date we display for budget purposes does not prevent us from urging immediate enactment of these provisions with an early effective date.

The July 1 effective date reduces the $8.7 billion revenue loss by about $6.6 billion. Currently, the 1997 deficit is $128 billion and will be $124 billion in 1998 with the January 1 effective date. If we use the July 1 effective date, the 1998 deficit will drop to $118 billion, giving us a larger cushion against last-minute estimating changes. Even with the later effective date, your combined tax proposals will produce a net tax cut of $2.1 billion in 1998 alone.

DECISION -- Revenues

Propose tax cuts effective as of January 1, 1997 ________

Propose tax cuts effective as of July 1, 1997 (Recommendation) ________

SPECTRUM

In response to the Vice President's questions regarding the timing of spectrum sales, we have reviewed the current status of scoring differences between OMB and CBO.

We are currently claiming the proceeds of an auction of the analog spectrum that the broadcasters will return after they convert to digital spectrum. There is a general agreement that the conversion from digital to analog spectrum will not permit the return until 2006, a year later than previously expected. Savings are scored in the year an auction takes place, and we shifted the sale date from 2002 to 2003 to preserve a three-year gap between auction and transfer.

If the auction is held in 2002, there will be a four-year rather than a three-year span between the purchase of the spectrum and the availability of the spectrum for use by the new purchaser because of the delay from 2005 to 2006. If we move the auction back to 2002 so that the savings can be realized in that year, even our scoring will reflect the fact that the price will be reduced, and the $17 billion that we are showing for 2003 would fall to approximately $14 billion.

Given CBO's history of conservative spectrum scoring, they will probably argue that a four-year lag between the auction and the return makes the entire auction impractical (primarily because of the uncertainties of technological change between the auction date and the time at which buyers can use the spectrum). At a minimum, they will show extremely low proceeds. If CBO assigns none of these proceeds to 2002 and our OMB balance requires spectrum savings, we run the risk of having CBO characterize the budget as not even balancing under OMB assumptions. We will continue to pursue technical discussions with CBO to get a better understanding of how they might respond if we move the sale back to 2002. For now, we anticipate that if we use the spectrum sale in 2002, it will be solely for the purpose of reducing the trigger.

DEPARTMENTAL APPEALS

Department of Education. For student loans, the recommended settlement includes making our college opportunity program even more generous by cutting in half the origination fees paid by needy students. Our settlement also reduces the level of cuts imposed on banks and guaranty agencies. The revised 1998 budget proposal would result in bank cuts only somewhat larger than those included in the vetoed reconciliation bill. These changes to the student loan program have no deficit impact in either 1998 or 2002. The 1997 budget did not change the fees, and had somewhat lower costs to the banks.

On the discretionary side, the recommended settlement provides another $81 million over the last offer, and brings total Education Department spending to $28.0 billion in 1998, plus the Pell Grant increase of $958 million, for a total discretionary increase of 10.5 percent over 1997. With the additional $81 million, we:

- increased bilingual education by $50 million, for a 50 percent increase over 1997 (overall, we increase the bilingual/immigrant program by 35 percent over 1997);

- added $29 million for assistance to school districts with high concentrations of Federally-connected students, for a total of $658 million; and

- added $2 million to ensure full funding for training and testing teachers, for a total of $17 million.

DECISION -- Education

Accept recommended settlement ________ **Other** ________

Department of Health and Human Services. The recommended settlement provides $34.4 billion for HHS programs, $100 million more than the comparable 1997 level. The recommendation includes $170 million to bring NIH up to $12.9 billion, an increase over 1997 equal to one-half the rate of inflation. This is the same treatment given to the National Science Foundation. Within the $600 million we provided to HHS in our last offer, OMB will work with HHS and the NEC to ensure that funds are reallocated to better match your priorities.

Below are some areas where the NEC thought you might have some concerns. As we work out the final details, please let us know whether there are any areas you would like us to protect:

($ in millions)	1997 enacted	1998 proposed
CDC (total):	2,304	2,230
Diabetes	23	33
Immunizations	468	430
Breast cancer	140	142
Ryan White	996	1,015
Healthy Start demos	96	70

DECISION -- Health and Human Services

Accept recommended settlement ________ **Other ________**

Department of Housing and Urban Development. The recommended settlement increases spending on HUD programs from $19.4 billion in 1997 to $25.7 billion in 1998. Most of the increased funding reflects renewal of contracts on existing subsidized housing.

Secretary Cisneros appealed to prevent *outyear* spending cuts in two programs -- homeless assistance and the Community Development Block Grant. The recommended settlement spends an additional $450 million to maintain homeless programs at the 1997 level through 2002. CDBG is not similarly protected; it is straightlined in 1998 at the 1997 level, cut 10 percent in 1999, and maintained at the 1999 level through 2002. Protecting CDBG as well would cost another $2 billion over five years and $500 million in 2002.

DECISION -- Housing and Urban Development

Accept recommended settlement ________ **Other ________**

International Affairs. In 1998, the recommended settlement provides $19.2 billion, 5 percent more than 1997, for international programs. OMB's original recommendation for the out-years included flat funding (excluding anticipated completion of arrears payments to international organizations and multilateral development banks and the phase-out of Newly-Independent States (NIS) and Central European programs).

To keep up with inflation and demonstrate a strong commitment to maintaining the posture of U.S. foreign policy, the Secretary of State has requested spending growth of 3.5 percent over 1998-2002. We propose to settle this issue by providing for out-year increases (at a 2 percent rate or slightly below projected inflation) in funds for key foreign assistance programs (humanitarian spending, development assistance, non-Middle East economic support funding and foreign military financing) and by retaining higher funding levels for NIS and Central Europe through 2002, assuming that these funds are likely to be needed for other international purposes.

U.N. Arrears. In addition to providing for regular United Nations dues and peacekeeping assessments, our original mark included $50 million to make a partial payment of international organization (IO) and peacekeeping arrears in 1998. Ambassador Albright has requested an additional $53 million. She would use $50 million as partial payment of peacekeeping arrears and the additional $53 million to pay off all arrears specifically owed to the United Nations proper, which she considers a priority. My recommendation is to add $3 million, permitting the priority U.N. arrears to be paid and deferring the peacekeeping arrears to be paid from the $1 billion advance appropriation for 1999.

DECISION -- International Affairs

Accept recommended settlement ________ **Other ________**

Department of Transportation. Our last offer reduces total Departmental budget authority from $36.7 billion in 1997 to $36.0 billion in 1998-2002. Budget authority falls between 1997 and 1998 because the Federal Aviation Administration will be collecting substantial new user fees in 1998 to support its programs. In the aggregate, we propose the same amount of funding for DOT in 1998 that they received in 1997.

In its appeal, DOT asked for $4.8 billion in higher spending on ISTEA programs -- highways, transit and rail; our last offer maintains all of these programs at 1997 enacted levels. Under the recommended settlement, the 1998 budget would include an ISTEA reauthorization that provides contract authority at the DOT appeal level, but would impose an obligation limitation at the level of OMB's last offer, thus freezing total obligations for surface transportation at 1997 levels through 2002. As we discussed last week, this would reiterate our support for higher spending in principle, but would not actually fund the higher levels at this time.

DECISION -- Transportation

Accept recommended settlement ________ **Other ________**

Department of Veterans Affairs. Our last offer provided funds to keep veterans' medical care even with 1997. The recommended settlement provides VA medical care with $550 million more than 1997 and $14 billion more over 1998-2002 relative to the out-year path in your 1997 budget. These levels match VA's appeal for medical care in full. They also:

- Allow VA to retain all collections from private insurance carriers and user fees charged to veterans to support the health care system, an innovation VA has wanted for years that will give the Department an incentive to collect more.

- Provide a 3.2 percent increase in medical care program level relative to 1997, a larger increase than the Department received a year ago.
- Allow VA to continue serving all current users, including all higher-priority veterans plus approximately 193,000 lower-priority veterans who now use the system.

DECISION -- Veterans Affairs

Accept recommended settlement ________ Other ________

JUDICIARY

The proposed 1998 budget transmits the Judiciary's budget request to Congress without change, as required by law, but includes a "negative allowance" of $117 million. The allowance reduces Judiciary 1998 spending growth from 11 percent to 6 percent, a rate equal to the Judiciary's annual growth for the past five years and roughly the 1998 increase for the Department of Justice. (The combined growth rate in 1998 for all offices in the Executive Office of the President will be less than four percent, excluding the one-time transfer from the White House Communications Agency.) As you know, Judge Arnold objects to the negative allowance, which was last included in your 1995 budget, in any amount. Removing the negative allowance from the budget would cost $117 million in 1998, and $540 million over five years.

DECISION -- Judiciary

Include negative allowance (Recommendation) ________ Other ________

FEDERAL EMPLOYEE PAY

The current 2.8 percent pay raise for civilian and military personnel in 1998 (which rises to 3.0 percent in 1999 and thereafter) is financed within agency budgets. Raising the 1998 pay raise to 3.0 percent would cost $247 million in 1998, $358 million in 2002 and $1.6 billion over five years.

A higher pay raise would either have to come from agency budgets (and reduce their program levels) or be added to their budgets and increase the deficit. The Defense Department strongly objects to a higher pay raise in 1998, which would cost them $88 million in 1998 and $600 million over five years. John White believes that the current pay raise achieves comparability; in addition, Defense would strongly object if the cost of the additional pay raise reduced funds for other priorities. Other departments would raise similar concerns if we increased the pay raise and asked them to absorb it within their current funding levels.

DECISION -- Pay

Keep pay raise at current 2.8 percent (Recommendation) _______

Propose 1998 pay raise of 3.0 percent _______

(a) Provide additional funding to agencies _______

(b) Require agencies to absorb increase _______

FOR YOUR INFORMATION

Funding for Smaller Agencies and Selected Individual Programs

There are a number of small programs and agencies that we did not cover in our sessions last week. In several cases, even though agencies did not appeal, we thought it appropriate to make selected increases, generally based on your priorities and public statements. Our recommended settlement levels are described below.

Coast Guard Drug Funding. The NSC would like to increase funding for Coast Guard (CG) anti-drug activities beyond that provided in OMB's last offer, even though the Department of Transportation did not appeal this level. The last offer would increase the CG's drug law enforcement funding by $47 million, or 14 percent, over 1997. Those added funds would allow a 43 percent increase in aircraft flying hours for the CG's drug interdiction programs, and would support "Operation Steel Web," which targets high threat areas around Puerto Rico and the Eastern Pacific -- an area ONDCP has identified as "high priority" for increased surveillance. Sailing hours by CG boats/ships would remain fixed in 1998 and 1999. The Coast Guard would add 45 staff positions to its intelligence collection unit, and 28 positions to its international training detachment. Finally, new drug sensing devices would be purchased.

The recommended settlement would provide no funding beyond the increase already agreed to for CG drug interdiction activities. The proposed 1998 budget includes an increase over 1997 enacted of nearly $600 million for all anti-drug efforts, including a $98 million, or 10 percent, increase in drug interdiction activities by Customs, the Immigration and Naturalization Service, and the Coast Guard. Defense Department drug control activities are even at 1997 levels (excluding one-time P-3 aircraft refurbishment). NSC is concerned that if the one-time P-3 costs are included, the budget will show a spending decrease in 1998. We recommend against a further increase because operational program levels are actually increasing. If additional funding is provided for anti-drug programs, we recommend that the resources be directed to ONDCP's Special Forfeiture Account, and allocated at their discretion.

Defense Counter Drug Program (SOUTHCOM). ONDCP has asked to add $80 million to the Department of Defense counterdrug program to fund a new initiative to interdict river and air traffic in South America, as proposed by the U.S. Southern Command. This program has not yet been reviewed or approved by the Defense Department or by the Joint Chiefs of Staff. Therefore, the recommended settlement provides no new funds for this initiative. However, we have given the ONDCP sufficient flexibility to use its Special Forfeiture Account -- a total of $175 million is available in 1998 -- to review and develop the SOUTHCOM proposal, prior to consideration for funding in the 1999 Defense budget.

Next Generation Internet. Over the summer you announced a Next Generation Internet initiative. This was initially designed as a five-year, $500 million program, but to avoid having to find such significant offsets, only the $100 million for the first year was announced. Spending in 1998 will be offset by reductions in six agencies. The NEC and OVP staff have argued that we should include five years of spending in the budget, but will settle at three years. They believe it is important to have a three-year presentation to garner commitments from the university and private sectors. OMB has several serious concerns about program design and accountability, and would like the policy to be better developed before we make a long-term commitment. OMB has included two years of funding in the current budget proposal.

National Science Foundation. The recommended settlement provides an increase of one half the rate of inflation for 1998. That amounts to $50 million, and is the same treatment given to the National Institutes of Health.

Community Development Financial Institutions. OMB, Treasury, and the NEC support a recommended settlement that provides total CDFI spending of $1 billion over 1998-2002.

Temporary Emergency Food Assistance Program (TEFAP). OMB and NEC support a settlement that adds $45 million for TEFAP/Soup Kitchens food purchases to the $100 million provided in the welfare reform bill.

Libraries. The settlement adds $22 million to bring the Library budget even with 1997, a level consistent with your statements.

Non-Health Mandatory Proposals

The proposed budget includes a number of new non-health mandatory proposals that we have discussed at the staff level but have not yet raised to your attention. Including reproposals from last year, non-health mandatory savings reduce the deficit by $11.6 billion in 2002 (including a portion of the revenues from spectrum auctions). Given that our current policies produce only a small surplus in 2002 of $2.8 billion, we need to retain these proposals to eliminate the deficit in 2002. However, we wanted to alert you to the new proposals.

Agriculture Market Transition Payments. The 1996 Farm Bill replaced income-support payments that varied by market prices with fixed annual payments to producers through the Agriculture Market Transition Act (AMTA). Under the Farm Bill, if a producer who enrolls land into the AMTA drops out of the program, such as by entering the land into the Conservation Reserve Program (CRP), the payments that would have gone to the producer are not saved, but are redistributed to increase payments to other producers. Under this proposal, if a producer leaves the AMTA program, the funds that the producer would have received are permanently deducted from the total pool. This approach is consistent with how the CRP has operated under the old farm program structure, in which income-support spending was reduced when producers retired their cropland through the CRP. This proposal saves $865 million over five years and $210 million in 2002.

SSI Benefits Administration Fees. As part of the SSI Program, the Social Security Administration (SSA) administers State supplemental payments at a State's option. For those States that choose to have SSA administer these payments, OBRA 1993 established a per case fee for SSA's services. Recoveries from the fee fall short of SSA's costs to administer the program by about $70 million annually. This proposal raises the fee to collect the full costs to SSA, and saves $360 million over five years and $90 million in 2002.

VA Home Loan Program. When VA takes possession of properties resulting from defaulted veterans loans, the homes are ultimately sold to the general public. VA finances these properties through its vendee loan program, charging fees that are lower than those offered to veterans. This provision would raise these general public fees to 2.25 percent, the same up-front funding fee that the general public pays for FHA loans. This proposal saves $133 million over five years and has the support of the Department of Veterans Affairs.

Alien Labor Certification User Fee. In an effort to protect U.S. workers, the Employment and Training Administration (ETA) of the Labor Department administers a program designed to determine the admissibility of aliens to work in the United States. In 1996, ETA spent $60 million to process about 178,000 certification and attestation applications filed by employers seeking to hire alien workers. The National Performance Review recommended charging employers a user fee for these services. This proposal saves $225 million over five years and $62 million in 2002.

Hardrock Mining Royalties. This proposal would authorize a 5 percent royalty on the gross proceeds derived from hardrock mining on public lands, beginning in 1998. No receipts would be collected in 1998 during preparation of the regulations, but revenues on 1998 production would be collected in 1999 and 2000 such that annual royalties would average $35 million. Revenues would be deposited into a fund for reclamation of abandoned mining sites. This proposal saves $175 million five years and $35 million in 2002.

The Administration last proposed a mining royalty in the 1994 budget. The royalty was much higher -- 12 percent -- than the one proposed here, and the revenues were not dedicated to reclamation. Moreover, the royalties were proposed in conjunction with other proposals objectionable in the West -- the BTU tax and grazing fees -- neither of which are in the 1998 budget.

Power Marketing Administration Pensions and Health Benefit Costs (Western, Southeastern, Southwestern and Bonneville). This is not a proposal to sell PMAs. By law, the PMAs are required to recover the full cost of producing and transmitting power. Currently, the PMAs recover only a portion of their employee pension and health benefit costs. The 1998 budget will propose that the PMAs increase their rates to customers to recover the portion of pension and post-retirement health costs not now recovered. This proposal saves $164 million over five years and $44 million in 2002.

Ginnie Mae Servicing Fee. This proposal would subject to competitive bidding the fee earned by Ginnie Mae mortgage-backed securities issuers servicing FHA and VA mortgages underlying Ginnie Mae securities. This change would reduce borrower costs. The reduction in costs and corresponding increase in Ginnie Mae fees would generate savings of $230 million over five years and $40 million in 2002. HUD did not appeal this proposal.

Other Items of Interest

Interest Rate Increase for SBA Disaster Loans. You asked in a recent briefing about the interest rate on Small Business Administration loans. I wanted to clarify our response.

The proposed 1998 budget retains current interest rates on all SBA *business* loans. The interest rate on SBA *disaster* loans, however, increases from the current maximum of 4 percent to the Treasury's cost of borrowing (currently about 6 percent). Households that do not qualify for a loan at the higher interest rate would be eligible for grants from FEMA. Should you wish to keep the interest rate on disaster loans at current levels, the cost of SBA's disaster loan program would increase by $71 million in 1998 and $87 million in 2002.

Boston Harbor. Since you committed to spending $400 million to clean up Boston Harbor, we have succeeded in convincing Congress to appropriate $375 million. The Massachusetts delegation is pushing very hard for us to repeat to $100 million per year commitment for two more years.

It remains somewhat unclear how much of the cost of the treatment plant remain to be funded. Our position has been to fund up to the $100 million level again, provided that the remaining costs justify the commitment. There has been substantial discussion between White House Legislative Affairs, EPA, OMB and the Massachusetts delegation about the appropriate funding level. EPA originally suggested $35 million, which OMB raised to $50 million. EPA is now reviewing project costs to determine whether a higher funding level can be justified, and we will add the necessary resources as appropriate. Our objective is to complete the commitment that you originally made without embarking on a longer term and potentially expensive additional commitment.

District of Columbia. We are working with the interagency task force on proposals regarding the District of Columbia for inclusion in the budget. Discussions are being held with affected departments and with D.C. officials. We expect to submit a decision memorandum to you in time to include in the budget. The proposals will likely decrease the deficit in 1998 and decrease the surplus in 2002.

Attachment

OMB BALANCE IN 2002 WITH 6 YEAR MEDICARE AND MEDICAID
(in billions of dollars)

	1997	1998	1999	2000	2001	2002	'98-'02
OMB current services......................	126.2	123.6	129.0	121.2	106.3	$\boxed{102.3}$	
CBO base (OMB guesstimate)........	130.0	135.0	140.0	145.0	150.0	$\boxed{160.0}$	
Presidential spending proposals..	0.0	1.5	2.4	2.7	2.0	0.8	9.4
Presidential proposals and other tax cuts and increases, net........	0.3	2.1	2.6	5.2	7.8	7.4	25.1
Priorities....................................	—	1.6	2.3	1.8	-0.2	-3.5	2.0
Defense.....................................	—	-8.8	-9.8	-16.5	-23.8	-26.7	-85.6
Other nondefense	—	-1.5	-5.9	-8.4	-18.2	-22.9	-56.9
Welfare reform...........................	1.4	2.8	3.0	3.3	3.1	4.1	16.3
SSI regulations...........................	0.3	0.4	0.6	0.6	0.6	0.6	2.8
Medicare (6 year goal)	—	-3.4	-11.0	-21.6	-28.1	$\boxed{-35.7}$	-99.8
Medicaid (6 year goal)................	—	0.2	-1.6	-4.1	-7.3	$\boxed{-9.7}$	-22.5
Spectrum....................................	—	-2.1	-1.8	-3.8	-6.3	-7.3	-21.3
Other mandatories......................	-0.3	1.0	1.6	1.9	0.6	-4.3	0.8
Debt service...............................	0.1	-0.1	-0.7	-2.0	-4.4	-8.2	-15.4
Resulting OMB deficit/surplus(-)......	128.0	$\boxed{117.3}$	110.7	80.4	31.9	$\boxed{-3.1}$	
Resulting CBO deficit/surplus(-).......	131.8	128.7	121.7	104.2	75.7	$\boxed{54.7}$	
Required trigger..........................	—	—	—	—	-19.0	-53.8	-72.8
Debt service...............................	—	—	—	—	-0.4	-2.1	-2.5
Resulting OMB deficit/surplus(-)......	128.0	117.3	110.7	80.4	12.5	$\boxed{-58.9}$	
Resulting CBO deficit/surplus(-).......	131.8	128.7	121.7	104.2	56.2	$\boxed{-1.2}$	

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THE WHITE HOUSE

WASHINGTON

December 23, 1996

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling

Subject: Medicare High Income Premium: Pros/Cons

At the close of the last meeting, you had settled on $100 billion over five years for Medicare and $138 over six years, but you had not given us a final decision on whether or not to include a higher premium on individual filers making over $90,000 and couples making over $115,000 -- less than 3% of recipients. As you recall, most of your advisors expect that such a means-tested premium increase would be in a final agreement. The question for decision therefore, is whether it should be something that we open with in our initial budget or something we are willing to agree to at the negotiating table. Because of the sensitive nature of this memo, we are holding this memo very tight. I have tried to lay out the most complete and fair statement of the pros and cons to help you consider your decision.

GESTURE ARGUMENT:

Supporters Feel it Would Be an Important Gesture: Rubin, Sperling and others believe that a high income premium increase would send an important signal to opinion leaders, Republicans and moderate Democrats that you are taking a leadership role toward bipartisanship. They feel that a high income premium increase still allows you to say that you are protecting 97% of recipients while at the same time breaking an important barrier by allowing for some premium increase. Rubin feels that this has been a major issue as he has done major editorial board meetings.

Opponents Argue that $138 Billion is enough of a Gesture: Some of your other advisors including John Hilley and Leon Panetta have argued that moving to $138 billion over six years will be enough of a gesture that you do not also need to include a premium increase at this time. They argue that the $124 billion was a well-known number and that going $14 billion higher will be noticed. Furthermore, some feel that the gesture rationale is overstated and that using a premium increase to attain it has too high a risk for unsure benefits.

IMPACT ON DEMOCRATS:

Opponents Argue that It Will Hurt us with Daschle and Base Democrats: While Raines says that Bonior has come out for means-testing, John Hilley has found that Daschle feels that key members of the Democratic Caucus will not like a high income premium proposal because Medicare premiums were a bright line issue for Democrats and that we should not do anything at the beginning of the session that might fracture that consensus, especially when we will need their solidarity later.

Supporters State that High Income Premium Increase Will Help Keep Support of Blue Dogs and Moderate (Breaux-Chafee) Democrats. The moderate budgets -- Breaux-Chafee and Coalition budgets -- have heavy means-testing in their proposals and, and while we will not be anywhere near their level of means-testing, we would do much to show them our seriousness to them having at least a small high income premium increase. Those who are for it, argue that once the President comes out for premium increases on upper-income individuals, average Democratic members will be hard-pressed to object.

CATASTROPHIC-CARE REDUX REACTION?

Opponents Fear Catastrophic-Care Reaction: Opponents, including Leon, argue that these premium increases hit many of the higher income seniors who led the catastrophic revolt several years ago. Even though our HSA income premium increase affects only 3% of recipients, this could still mobilize a back-lash by those who are among the most powerful and organized of the seniors.

Supporters Feel Issue Not Analogous: Proponents argue that our proposal only affects the top 3% -- much less than affected by catastrophic; that we still leave in a subsidy even for the well-off, and that there has been no sign of major opposition to this so far even when Republicans had far higher means-testing proposals.

BEST STRATEGY FOR NEGOTIATIONS:

Opponents State that We Should Save to Give Away at the Table: Opponents argue that we need to save as many of our chips as possible so that we have as much to give away as possible at the table. Breaking the premium barrier in our opening bid, gives away a significant chip before we have even made it to the table.

Supporters Feel that Helps: Supporters acknowledge that we are giving up something pre-negotiations, but feel that it helps create an environment that gets the

President to the table with moderate support, while leaving much to negotiate on because the HSA premium increase is so small.

FLIP-FLOP or PRESIDENTIAL LEADERSHIP?

Opponents argue that we will be instantly hit for "flip-flop" -- with Republicans saying that we have right away admitted that we did need premium increases all along. They will contend that we have given up a clear bright line position that we took all through 1995-1996 -- and that this reflects a pattern of us changing positions right after elections. Furthermore, some contend that by stressing that we are only raising premiums on the top 3% or couples making over $115,000, we will lock ourselves into a "class-warfare argument that may make it difficult to agree to more of a premium increase as part of a deal. Indeed, Republicans will point out that a high income increase is excessively higher than $268 a couple for those affected.

Supporters Say Presidential Leadership: Supporters argue that we will be criticized no matter what we do, but that taking a clear step towards them will be seen as Presidential leadership towards a bipartisan agreement. Supporters contend that we can defend against a flip-flop argument by stressing that it is only on the top 3%, that a high income premium increase was in the HSA and Putting People First, and that we always said that we were not philosophically opposed to it. Furthermore, the President can appeal to the public that he is making a change as a means of breaking out of last years gridlock.

HELPS WITH HOME HEALTH CARE TRANSFER:

Supporters State that Helps with Home Health Transfer: Advocates of the high income premium increase also feel that we can better justify not applying the premium to the home health transfer if we can say that we are concerned about the impact on low-income recipients, but that we are partly compensating by having a high income premium increase. Shalala, Rubin and Raines feel that it gives them more to point to when fending off Congressional criticisms.

Opponents Feel that This is a Stretch: Opponents feel that it will be too complicated to explain to people that we are transferring a portion of Medicare to Part B, not applying premiums generally but trying to partially compensate for that omission by raising premiums on one small group of high income people.

RECOMMENDATION:

________ **Include High Income Premium**

________ **Do Not Include High Income Premium**

CHILDREN'S COVERAGE EXPANSION OPTIONS

There are currently about 10 million uninsured children in the nation, 3 million of which are eligible for Medicaid but are not enrolled. Within the balanced budget constraints we face, we have developed two options for your consideration. (Both of these options assume that we do not fund the last year -- FY2002 -- of the workers'-in-between-jobs initiative and reject more traditional childrens' subsidy/tax credit approaches that could lead to substitution of Federal dollars by employers and/or states.)

Option 1: **Decrease the number of uninsured kids by about 5 million -- $3.4 billion ($1.9 billion in the budget table) in FY2002 and about $12 billion ($7.3 billion in the budget table) over 5 years.** 3 complimentary policies:

(A) Medicaid outreach -- adding between 1-2 million children. We would start work with the Governors at the February NGA conference to develop new ways to sign-up the 3 million Medicaid eligible, but currently unenrolled children. (This could include ad campaigns, innovative enrollment techniques, 1115 waivers, etc.) Since there is no way to measure how effective this would be and because it would make no sense to unilaterally require outreach (because Governors would view it as an unfunded mandate), this probably should be an executive (not legislative) initiative that could be scored at little or nothing on our FY98 budget tables and current baseline. (A 33% success rate -- about 1 million kids -- would cost about $750 million in '02, $2.4 over the 5-year budget; a 66% success rate -- about 2 million kids -- would cost about $1.5 billion in '02 and $4.7 billion over 5 years.)

(B) Enhanced state partnerships -- adding about 1.5 million children. This proposal, projected to cost about $750 million in '02 and $3.75 billion over 5 years, would provide Federal matching funds to build on recent state successes (like Pennsylvania) in working with insurers, providers, employers, school corporations and others in developing innovative ways to provide coverage to children. Recipient states would have wide latitude in setting up benefits and copayments and would be held accountable only on the basis of lowering the number of the uninsured and childhood morbidity/mortality rates.

(C) State option to assure 12 months of coverage once Medicaid eligible -- about 1.25 million children. This proposal, estimated to cost about $1.1 billion in '02 and $3.5 billion over 5 years, would extend continuous coverage for children for 12 months. It would reduce administrative burdens on states, families and health care plans who now have to determine eligibility on a monthly basis.

Option 2: **Decrease the number of uninsured kids by about 2.5 million -- about $2 billion ($750 million to $1 billion in the budget table -- if you don't count outreach) in FY2002 and about $6 billion ($3.5 -$4 billion in the budget table) over 5 years.** This option would drop either package B or C above and would likely assume a lower Medicaid outreach success rate.

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON

MEMORANDUM FOR PRESIDENT CLINTON

THROUGH: SECRETARY RUBIN R.E.R.

FROM: DEPUTY SECRETARY SUMMERS

SUBJECT: Tax Issues in FY 1998 Budget

This memorandum reviews seven tax issues in the FY 1998 budget for your decision.

1. Effective Date for Tax Cuts. The proposed tax cuts -- especially the child credit and the tuition credit/deduction -- will have a large revenue effect in FY 1998 if they are made retroactive to January 1, 1997. This occurs because the gap between the assumed date of enactment (August 1) and the effective date doubles up revenue costs for FY 1998 to include both those claimed retroactively for tax year 1997 on returns filed in 1998 and those claimed for tax year 1998 through withholding in 1998. Delaying the effective date of the child credit and the tuition credit/deduction to July 1, 1997 would save approximately **$6.1 billion** in FY 1998 ($3.1 billion for the child credit and $3.0 billion for the tuition credit/deduction) and $6.7 billion in fiscal years 1997-2002. But this would also mean that the tax benefits would be much smaller in the first year. The child credit for 1997 would be only $150 (instead of $300) and the tuition credit/deduction would apply only to costs incurred after July 1, 1997, instead of costs for the entire year.

RECOMMENDATION: Delay the effective date of the child credit and tuition credit/deduction until July 1, 1997.

Approve July 1, 1997 Effective Date ____

Retain January 1, 1997 Effective Date ____

Other ____

2. Extension of Employer-Provided Educational Assistance - Section 127. In a speech last summer, you proposed permanent extension of the tax exemption for employer-provided educational assistance (Section 127) and a new 10 percent tax credit for education assistance provided by small businesses. Permanent extension costs **$3.8 billion** in Fiscal Years 1997-2002 and **$834 million** in 2002 alone. Limiting the proposed extension in the budget to 3 years would reduce the 1997-2002 cost to **$2 billion** and FY 2002 cost to zero. A 3-year extension would still place employer-provided educational assistance on a higher footing than other incentives you have strongly supported and previously sought to extend permanently. (See item 3 below).

RECOMMENDATION: Extend Section 127 for three years and propose the new 10 percent tax credit for educational assistance by small business for the same time period.

Approve 3-Year Extension ____

Extend Permanently ____

Extend for Only One Year ____

Other ____

3. Other Expiring Provisions. Other tax incentives that will expire in 1997 include the research and experimentation (R&E) tax credit, the orphan drug credit, the work opportunity tax credit (WOTC), and the deduction for contributions of appreciated stock to private foundations. The FY 1997 budget document included language that supported working with Congress to achieve the "revenue-neutral" extension of these incentives, but did not include costs of extension within the budget totals. This year, maintaining credibility may require explicitly including at least a one year extension of these incentives in the budget. Failure to do so, especially in light of the longer-term extension of Section 127, could upset supporters of these incentives (the high tech community for R&E; Congressman Rangel and urban/low income constituencies for the WOTC) and, in the case of the WOTC, would be hard to justify in light of the proposed three year expansion of the WOTC to new categories of welfare and food stamp recipients. A one-year extension of all the expiring provisions would cost **$2.7 billion** in Fiscal Years 1997-2002. Most of this cost ($2.1 billion) is for the R&E Credit.

RECOMMENDATION: Propose extending the R&E tax credit, the work opportunity tax credit, the orphan drug credit, and the deduction for contributions of appreciated stock to private foundations for one year past the current expiration dates.

Approve 1-Year Extension ____

Support in Concept, But Do Not Include in Budget ____

Other ____

4. Equitable Tolling. You requested that an "equitable tolling" proposal to extend the statute of limitations for tax refund claims be included in the FY 1998 Budget. The issue is what effective date to use. Compared to an option that would provide retroactive relief for all pending claims at a cost of **$550 million** over the budget period, making the proposal prospective only (i.e., for taxable years ending after the date of enactment) would cost about **$55 million**. An intermediate effective date limiting relief to claims for which the statute of limitation expires after date of enactment would cost $400 million. Delaying the effective date would still deliver the message, but would not benefit some taxpayers who are currently litigating.

RECOMMENDATION: Make the proposal prospective.

Approve Making Prospective ____

Make Fully Retroactive ____

Intermediate Effective Date ____

5. Tax Simplification. The theme of simplification of administration for taxpayers and the IRS is timely and important to improve the lives of both. We have designed a package of close to 70 items designed to be revenue neutral. Most are not of great significance individually, but the totality is consequential. Generally they are non controversial and about 40 are accepted from prior Congressional packages. An illustrative table of the major ones is attached.

RECOMMENDATION: Include a general statement in the budget that Treasury will release a revenue neutral package of simplification proposals for enactment this year, including a new Taxpayer Bill of Rights 3. Avoid cluttering the budget document with an extensive listing of minor proposals.

Approve Statement in Budget ____

Defer Entirely to Post-budget ____

Other ____

6. Expatriation Departure Tax. We proposed to tax unrealized gains of wealthy persons who give up their U.S. citizenship. Our proposal was accepted by the Senate last summer, but the House prevailed in a conference with a much weaker version. Part of the reason for the House version's success was that JCT scored the revenue raised from their proposal higher than ours. We are confident that our method of scoring is accurate. A reproposal now that the House version is law would raise $0.4 b. in 2002 under our estimate from last year, but would lose $0.1 b. under JCT scoring. CBO will use JCT and our reproposal will have virtually no chance of passage.

RECOMMENDATION. Do not repropose. Wait one or two years to see our experience under the enacted version.

Approve Omitting from Budget ____

Reintroduce 1996 Proposal ____

Other ____

7. FSC Software. During the summer we tried very hard to get the Congress to amend the export trade incentive of current law, which covers movies, recordings, etc., to include export of software that enables the purchaser to produce the same intangible product. Including this item in our budget would fulfill a position we took (not publicly announced). The revenue cost is $90 mm in 2002 and $340 mm for the five year period ending in 2002.

RECOMMENDATION. Include proposal in budget.

Approve _____

Disapprove _____

Other _____

HIGHLIGHTS OF SIMPLIFICATION PACKAGE

Proposals already announced by the Administration

Exclusion for Capital Gains on Sale of Principal Residence replacing existing law rollover of basis to succeeding residences

Equitable tolling of the Statute of Limitations for taxpayer under disability (part of new Taxpayer Bill of Rights)

Require Average Cost Basis to determine gain from sale of a portion of holdings of substantially identical securities

Interest on extended payment arrangements on estate tax attributable to closely held business assets would be made non deductible but at a lower rate

Determining the classification of workers as employees or independent contractors (proposed by Treasury last year after last year's budget)-permits waiving of back years' liability for taxes due because of misclassification if taxpayer corrects prospectively and allows Tax Court to resolve such issues as independent arbiter, also on a prospective basis for good faith errors; enable IRS to provide simplified guidance to prevent errors.

Selected illustrative new proposals

Taxpayer Bill of Rights 3-a set of 10-15 proposals continuing the popular TBOR 2 signed last summer, including equitable tolling and independent contractors described above and

A consistent regime of reasonable cause penalties

Global interest netting of interest on under and over-payments

Innocent spouse protection expansion for liability of errant spouse on joint return

Corporate alternative minimum tax reform to eliminate the tax from small corporations with gross receipts under $15,000,000 a year

Increase standard deduction for dependent filers to eliminate filing for 2.4 currently taxable dependents

Simplify rules applicable to tax free real estate swaps that now require complex 3 party arrangements to permit rollover by direct sale and reinmvestment, but limit reinvestment to similar properties (protecting common middle class residential rental property)

Simplified Rules for Child Dependency Exemption(subject to revenue cost)

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

DEC 20 1996

MEMORANDUM FOR THE PRESIDENT

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SUBJECT: A Refundable Child Care Tax Credit

For the first time in American history, this country will have a seamless system for supporting child care expenses. By making the Child Care Tax Credit refundable, every working family in America will have access to some child care support.

Currently, the Child Care Tax Credit provides essential child care support for millions of working families with employment-related child care expenses. However, the credit is not available for working families who have no federal income tax liability. By making the credit refundable, the tax credit would be available for the first time to all working families with children. The new group consists of low wage earners who pay 20 percent of their income for child care, a disproportionate share of their income when compared to higher income families who pay only six percent of their income. By the year 2002, Treasury estimates that refundability would benefit over two million low wage working families who have little or no tax liability. Most of these working families have incomes below $30,000 and would receive an average benefit of $500-600 annually toward their child care expenses.

Using a tax mechanism to provide child care assistance is both good policy and good politics. The Child Care Tax Credit is enormously popular. Since families see the results on their income tax returns, it is one of the most positive benefits they know they are getting from the federal government. Ask any family that uses the credit, and almost inevitably they will be able to tell you how much help they received toward their child care expenses.

The Child Care Tax Credit has long enjoyed bipartisan support. In the last two decades, the U.S. Senate has voted to make the credit refundable several times. President Bush proposed making this credit refundable and child care organizations and women's groups strongly support it. Further it is anticipated that the Republicans will propose significant tax cuts for the wealthy. As a result, it will be difficult as a result for them to argue against an Administration tax proposal to help hard-working low income families with significant child care costs.

Making the tax credit refundable helps low income working families get child care assistance without going through the welfare line. While the welfare reform law (The Personal Responsibility and Work Opportunity Reconciliation Act) authorizes $20 billion in federal child care funding over six years, most of the funds will be needed to support welfare families moving to work, leaving little room for assisting working poor families. We expect that the credit will be used largely by working families who do not receive direct subsidies. Using the tax code to serve these families is an equitable and nonstigmatizing approach that complements the Administration's initiatives -- Earned Income Tax Credit, minimum wage, health care portability and Family and Medical Leave -- for working families.

At a time when we are devoting significant attention and resources to families receiving welfare, this would be a visible source of help to working families who are not on welfare but are struggling to stay in the labor force. For the first time in history, all working families with child care expenses would receive some federal support.

Donna E. Shalala

THE WHITE HOUSE

WASHINGTON

'97 JAN 14 AM 9:49

January 13, 1997

MEMORANDUM FOR THE PRESIDENT

THE PRESIDENT HAS SEEN
1-14-97

FROM: GENE SPERLING

SUBJECT: Balanced Budget Amendment Strategy

The NEC and your top political and legislative advisors met last week to map out the Administration's strategy for the Balanced Budget Amendment. The following recommendations reflect the consensus of the group, but we wanted to make sure you feel good about the strategy.

I. **Oppose the Amendment, While Laying Out a Clear Message of Being the Leader on Balancing the Budget.** The consensus of the group was that we should fight the amendment, but ensure that we lay out a message that makes clear that you are leading the fight for actually balancing the budget. The NEC will work with your communications and political advisors to determine the exact wording of such a message.

II. **Strong Public Statements by Key Members of Your Economic Team.** While your public statements should focus on fighting for a balanced budget, key leaders of your Economic Team will make strong public statements opposing the amendment. Secretary Rubin will appear as the lead Democratic witness testifying the amendment in the Senate on January 17. We will also look for opportunities for Director Raines to make public appearances opposing the Amendment. These statements by members of your economic team will help make clear to outside groups and our allies on the Hill that we are unified in opposing the Amendment.

III. **You Make Calls to Swing Members.** John Hilley has provided you with a list of swing Members that we recommend you call as soon as you can, consistent with your prep for the Inauguration. The calls are important not just for influencing their positions, but also for groups to know that we are taking key steps to defeat the amendment. At the same time, we are not recommending that you go out of your way to make strong public statements opposing the Amendment at this time. Such statements might overly antagonize the Republicans, who would gear up for a larger fight, and heighten their rhetoric. We recommend that you save your public statements for now for stressing the importance of balancing the budget.

IV. **Internal Plan.** We will continue to develop our Balanced Budget Amendment strategy in our principal budget strategy group. Barbara Chow, in John's shop, will lead a legislative working group to work on legislative strategy and coordinate message with allied members. I will also be asking the NEC to help Barbara co-lead this group and coordinate outreach with groups and constituents.

DECISION: ✓ ______ **Proceed** ______ **Discuss Further**

THE WHITE HOUSE

WASHINGTON

January 15, 1997

THE PRESIDENT HAS SEEN
1-20-97

MEMORANDUM TO THE PRESIDENT

FROM: Chris Jennings and Nancy-Ann Min

SUBJECT: Children's Health Investments and Medicaid Update

You recently asked Gene Sperling for the status of your children's health care investments. What follows is a summary of your policy and a brief review of the likely reaction to your Medicaid and health investments from advocates, the Hill, and the Governors.

Uninsured Children and FY 1998 Budget.

There are currently about 10 million uninsured children in the nation. Your budget includes a new 5-year, $8.5 billion investment to cover uninsured children. It includes all major initiatives outlined in Secretary Shalala's attached memo to you. We believe that these proposals, in combination with your Workers Between Jobs Health Initiative (which will extend coverage to 700,000 children annually) and the 1 million children (aged 14-18) who will be added to Medicaid during your second term under current law, will cover between 4 and 5 million uninsured children* by the end of 2000.

Specifically, your FY 1998 budget includes four new initiatives explicitly designed to expand coverage and/or services to children:

(1) **Support for Innovative State/Private Children's Coverage Expansions for Populations Above Medicaid Eligibility Line.**
Investment: $3.75 billion. Coverage: About 1 million children.
Indirect Investment: $1.1 billion Coverage: About 400,000 (These indirect numbers are the result of the actuaries' assumption that Medicaid eligibles will be enrolled when they apply for the state innovation proposal outlined above.)

(2) **State Option to Extend Medicaid Coverage To 12 Months Without Eligibility Re-Determination.**
Investment: $3.6 billion. Coverage: About 1 million children.

(3) **Outreach to the 3 Million Medicaid Eligibles Not Enrolled.**
Investment: None. Future baseline. Coverage: Now Unknown. Perhaps 1-2 million.

(4) **Support for Increased Access to Services through School-Based and other Community Health Centers.**
Investment: At least $25 million. Coverage: Increases services/not coverage.

This is important!

Medicaid and Health Investments: Likely Reaction to the FY'98 Budget

While the public may embrace your proposal to expand coverage to children and workers in-between jobs, the base Democrats, the Governors, the advocates, and providers will not necessarily share such enthusiasm. They will be displeased about our $22 billion Medicaid reduction and our use of a per capita cap and disproportionate share (DSH) payment cut to achieve this savings number. Not surprisingly, all of these groups claim that the baseline has come down so far as to no longer justify more savings. They also fear that any savings number will only increase during negotiations.

Our response to these groups will be three-fold: (1) Our $22 billion reduction actually works out to a modest $9 billion savings number after the Medicaid and welfare improvements are netted out; (2) Our retention of the per capita cap is primarily a budget safeguard that assures that out-year spending does not rise too quickly; and (3) Supporting a fiscally responsible per capita approach is in the long-run interest of the program (as protection against future moves to block grant it).

In general, we believe that the Blue-Dog Democrats and the Republicans will be relatively receptive to your Medicaid proposal. The Blue-Dogs will like it because it is fiscally responsible and consistent with their past policy. The Republicans will like it because they will think they can simply tighten up the per capita cap's index to achieve more savings. They will also like it because it gives them cover with their Republican Governors. (In short, the Republican Leadership does not want to have a block grant fight; they do want to blame us, however, for the need to stick with a per capita cap.) It remains unclear how both these groups will respond to your health investments. They will probably want to see how much room they have to operate under the new CBO baseline and how much steam your proposals pick up before being either overly supportive or critical.

We will keep you apprised of developments on the Hill with regard to the proposal to expand coverage to children. In brief, Senator Daschle and Congressman Gephardt are pushing for a fairly expensive and difficult to administer tax credit; Senators Kennedy and Kerry are advocating for a costly subsidy program; and Senators Rockefeller and Chafee appear to be quietly working on more modest, targeted approaches. Tomorrow the Democrats are scheduled to hold a press conference on Kid's Health Initiative.

Because of the interest in tax credits/deductions by the Leadership (and perhaps some Republicans), we will write you a separate memo on the strengths and weaknesses of this type of approach. Even though there may well be insurmountable administrative and structural problems (e.g., the amount of substitution of private and state dollars that takes place with higher subsidies and tax credits/deductions), being overly critical of any kids' investment proposal seems unwise until after the Congress has locked in on an investment number for a kids coverage expansion.

* **There will be double-counting or overlap in a number of our policies. We believe, however, that our future Medicaid outreach initiatives (which are not now scored in the budget) will make it possible for us to credibly claim that your policies will expand coverage to about 5 million children. Having said this, since there appears to be an increasing uninsured problem, coverage of 5 million more children may not represent half the uninsured children in 2000. Therefore, while many will infer we are going to address "half" of the problem, we may want to avoid specifically stating it ourselves until/unless we get outside validation for doing so.**

Children's Health Care Coverage Initiatives

	Coverage by End of 2000	Cost in FY 02	5 Year Cost (FY 98-02)
1. Expanded Medicaid Outreach (off-budget) 66% Success Rate	2 million children	$1.5 billion	$4.7 billion
2. Enhanced State Partnerships	1.5 million children	$750 million	$3.75 billion
3. 12 Month Eligibility Option	1.25 million children	$1.1 billion	$3.5 billion
Totals	4.75 million children	$3.35 billion	$11.95 billion

THE WHITE HOUSE

WASHINGTON

January 16, 1997

PRESIDENT HAS SEEN

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

CC: FRANK RAINES, BRUCE REED, JOHN HILLEY

SUBJECT: Child Health Investments and Medicaid Update

As you have recently inquired about our child health investments, I asked Chris Jennings and Nancy-Ann Min to provide you with a summary of the child health care initiatives in our FY98 budget. Secretary Shalala's memo is also attached.

> **Child Health Initiative.** Your budget includes a new 5 year, $8.5 billion investment to cover uninsured children. It includes all of major initiatives outlined in Secretary Shalala's memo to you. Chris and Nancy Ann believe that this new initiative will cover between 4 and 5 million uninsured children by the end of 2000, when combined with your Workers Between Jobs Health Initiative.
>
> **Medicaid.** Even though your children health initiative is likely to be popular, base Democrats, governors, liberal health advocates, and providers, are likely to be less enthusiastic about your $22 billion Medicaid reduction which uses a per capita cap and disproportionate share (DSH) payment cut to achieve the savings. On the other hand, because it will be viewed as fiscally responsible, moderates are likely to be relatively receptive to your proposal as a responsible way to protect the Medicaid guarantee.
>
> While we don't want to give out exact details on our budget at this time, you can establish that your proposal will meet the following 4 principles:
>
> 1. Protect the fundamental guarantee of Medicaid, recognizing its importance to our core values -- protecting health care for children in poor families, the disabled, and safeguarding health care for millions of middle class families with family members in nursing homes.
>
> 2. Must have a real long term budget safeguard that ensures that outyear spending does not rise too quickly, and overall entitlement do not grow out of control.

3. Provide more coverage for uninsured children. [When we decide to talk about details of our budget, we could let groups know that our $22 billion reduction actually works out to a modest $9 billion savings after the Medicaid and welfare improvements are netted out]

4. Provide states with the flexibility to meet their unique needs, while covering more people and ensuring the integrity of the individual guarantee of solid Medicaid health benefits.

Leon, Erskine, Chris Jennings, Nancy-Ann Min, and I did a conference call with governors this week, and Chris, Nancy-Ann and I met with the AARP yesterday. In both conversations, strong concerns were raised about reports that we were including a Medicaid per capita cap. Without confirming details, we stressed our belief that inclusion of a responsible budget safeguard would help protect the individual guarantee because with no budget constraint, it could open the door to Republicans seeking to re-propose a Medicaid block grant.

Joe was mistaken
- spectrum receipts
do not account for
the increase in the
deficit.

— Pauline

i:/pauline/erskine.117

January 17, 1997

MEMO FOR ERSKINE BOWLES

FROM: GENE SPERLING

RE: Why the budget deficit is projected to rise in FY19

The Administration's FY98 Budget will project that the deficit will be higher in FY97 than in FY96, and then decline, although it still may be higher in FY98 than it was in FY96. OMB will have the actual deficit projections shortly, but we know there are several factors that account for the FY97 increase:

1. **Anomalies in the Calendar.** Due to anomalies in the calendar, there were only 11 months of SSI and veterans benefit checks in FY96, while there will be 12 months in FY97. As a result, we expect to spend about $3 billion more in FY97 than in FY96.

2. **Lower Receipts of Savings and Loan Asset Sales This Year.** We expect that receipts from the sale of Savings and Loan assets will be more than $4 billion lower this year than last year.

3. **Fiscal 1996 Was The Last Year To Pay Increased Taxes Under OBRA93.** The top 1.2% of taxpayers who faced increased income tax liability under our 1993 Economic Plan were allowed to pay the increase in their 1993 taxes over FY1994-1996. This factor accounts for about a $5 billion change in receipts in FY97.

4. **Cautious Projections of Receipts.** We have been relatively cautious in projecting that the large increase in tax revenues in FY1996 will continue in the future.

Possible Q & A:

Q: *Why will the budget deficit increase this year?*

A:
- For several years now we have known that the deficit would likely rise in fiscal 1997 relative to fiscal 1996. For instance, in 1993 right after enactment of the President's Economic Plan, OMB was already predicting an increase in the budget deficit in FY1997.
- The Republican budget plan last year also projected the budget deficit would increase in FY97 compared to FY96.
- There are several very technical reasons for the increase. For example, we will mail out one more month of SSI and veterans benefit checks this year than last.
- What is important is that the President has a credible plan to balance the budget by the year 2002 while cutting taxes and protecting Medicare, Medicaid, education and the environment.

65

THE WHITE HOUSE

WASHINGTON

January 18, 1997

20197

MEMORANDUM FOR THE PRESIDENT

FROM: HELEN HOWELL

SUBJECT: Recent Information Items

We are forwarding the following recent information items.

(A) **Bill Daley memo to Erskine Bowles on management reforms at Commerce.** Daley proposes that the Department: *1)* Suspend trade missions for 90 days, and develop rules to determine when and where missions will go, the criteria for selection of companies to participate, and who makes those decisions. *Erskine would like to see this accomplished in a shorter time period. Perhaps a 60-day suspension, and the adoption of rules within 30 days;* and *2)* Reduce the number of political appointees in the Department mainly within the Special Assistant and Confidential Assistant categories, as well as by reorganizing the International Trade Administration (reducing the number of divisions from four to three). *Erskine notes that if Daley doesn't reduce the number of political slots by 50, Congress probably will, and he stresses the need to focus on an overall reinvention plan to both save the Commerce Department, and more effectively utilize it.*

(B) **Sperling memo on child health investments and Medicaid.** ***Child health.*** Your budget includes a new 5-year, $8.5 billion investment to cover uninsured children. Chris Jennings and Nancy-Ann Min believe it will cover 4-5 million uninsured children by the end of 2000, when combined with your Workers Between Jobs Health Initiative. ***Medicaid.*** Although your child health initiative is likely to be popular, base Democrats, governors, liberal health advocates and providers will be less enthusiastic about your $22 billion Medicaid reduction which uses a per capita cap and disproportionate share payment cut to achieve the savings. However, your proposal will protect the guarantee of Medicaid, provide more coverage for uninsured children, provide states with flexibility, and have a budget safeguard that ensures that outyear spending does not rise to quickly. Leon, Erskine, Chris, Nancy-Ann, and Gene have started discussions with the governors and the AARP. *Gene includes a Sec. Shalala memo, and one by Chris and Nancy-Ann.*

(C) **Emanuel follow-up on various questions.** ***Letter from Sheldon Hackney.*** Rahm believes we should seek Hackney's assistance on reaching out to historians. ***Cabinet Report note about Brady Law.*** You highlighted the two cases involving domestic violence. Rahm will publicize these if you'd like, but urges caution. "We cannot afford to make this issue more volatile with police groups than it already is right now." ***Eli Segal memo.*** Rahm and Bruce met to discuss Eli's memo, and plan to meet with Eli and

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

January 31, 1997

THE DIRECTOR

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines

SUBJECT: ***DECISION REQUESTED*** -- Mechanism for Reaching a Balanced Budget under CBO Assumptions

At our budget meeting last week, we discussed with you the various mechanisms we are considering to ensure that the Congressional Budget Office (CBO) will score your budget as achieving balance by 2002 using their own economic and technical assumptions. On January 28, CBO released their baseline deficit projections, which in 2002 are $66 billion higher than the baseline deficit OMB projects. Under OMB projections, your budget produces a surplus of $17 billion in 2002, which means the mechanism will need to produce an additional $49 billion in policy savings in 2002 to balance under CBO projections. Since we have already decided to use a broad-based mechanism that cuts both discretionary and mandatory programs, the purpose of this memorandum is to address the narrower question of whether to include Medicare and Medicaid in the mechanism.

Description of the Trigger Mechanism

We will design the trigger mechanism in the 1998 budget to ensure that CBO scores the budget as reaching balance in 2002. To obtain CBO scoring last year, the 1997 budget was designed to reach balance with a "trigger on" of additional resources in 2001 and 2002 if OMB proved to be correct. While we again will have to propose a similar "trigger on" to obtain CBO scoring, we have made a concerted effort to avoid any impression that the "real" Administration budget is anything less than the full budget based on OMB scoring.

Unlike last year, when the budget contained proposals designed to reach balance under both OMB and CBO assumptions, this year's budget will contain only proposals designed to reach balance under OMB assumptions. In fact, while we requested the CBO baseline in November, it was not provided to us until January 28, after we sent the budget to the printer. We will describe the trigger in a separate technical document submitted to CBO for scoring after the budget is released, and we will publicly describe the OMB budget as one that "triggers off" certain resources shown in the printed budget as necessary to reach balance under CBO assumptions.

We are considering two primary options. Under both options, the tax cut sunset and the discretionary cuts begin in 2001, in order to generate sufficient outlays in 2002. The mandatory and non-Social Security COLA cuts begin in 2002.

- **Option 1** applies an across-the-board cut of 2.2 percent to all Federal spending (except Social Security) to reach balance under CBO assumptions.

- **Option 2** exempts Medicare and Medicaid from further cuts, bringing the across-the-board cut in discretionary and other mandatory spending up to 3.8 percent. The one exception to the across-the-board cut is in non-Social Security COLAs. Because the 3.8 percent cut is greater than the amount of the COLA (2.7 percent), we would have to limit the COLA cut to 2.7 percent in 2002.

  An alternative approach to COLA programs would be to phase in the COLA savings over two years, leaving half of the COLA in place in each year. We would still describe it as an across-the-board approach, with a phased-in elimination of one COLA. The across-the-board reduction in discretionary and other mandatory outlays would still be 3.8 percent.

Under both options, the major tax cuts sunset -- that is, they begin in 1998 and stop in 2001. (The major tax cuts are the child care tax credit, education incentives, expanded IRAs, and the distressed areas incentives.) Republicans are positioning themselves to use the tax cut sunset as evidence that the 1998 budget is not credible. Although we used the tax cut sunset in the 1997 budget, we were starting a year earlier and the tax cuts were in effect for four years; now the trigger would limit the tax cuts to three years if CBO is right.

You were asked in your press conference earlier this week whether your budget will include a net tax cut. You answered correctly that the budget will include a net tax cut; the $98 billion in tax cuts and $76 billion in revenue-raisers net to a $22 billion tax cut. Your critics may argue, however, that with the mechanism, the budget actually includes a net tax increase due to the tax cut sunset. (The $22 billion tax cut in the printed budget, minus the $29 billion over two years in the tax cut sunset, could be viewed as a $7 billion net tax increase under CBO assumptions.)

Pros of Including Medicare and Medicaid

- The larger the base of spending to which we apply the trigger mechanism, the smaller the percentage we have to cut in 2002 to reach balance under CBO's baseline. If our mechanism produces the additional $48 billion in savings by cutting all Federal spending (except Social Security) and turning off the tax cuts, the percentage across-the-board cut in 2002 would be 2.2 percent. If we narrow the base by excluding Medicare and Medicaid, the cut in all remaining spending rises to nearly 4 percent. The smaller the percentage cut, the more credible it will be.

- The limited nature of the trigger mechanism allows us to include more programs at lower risk. Because the Gramm-Rudman-Hollings (GRH) sequester was supposed to eliminate the deficit, with potentially large sequesters, it was designed to protect certain programs

-- primarily low-income programs -- from potentially enormous cuts. Thus, the original GRH exempted Social Security, Food Stamps, SSI, and the EITC. While it did not exempt Medicare, it capped the Medicare sequester at 2 percent. The Budget Enforcement Act of 1990 raised the cap on the Medicare sequester to 4 percent.

- The additional Medicare cuts are small. Under Option 2, the 2.2 percent Medicare cut produces about $5 billion in additional Medicare savings in 2002, compared to the $34.6 billion in Medicare cuts in 2002 in the printed budget. This is a 14 percent increase in Medicare savings in 2002.

- The more programs we include in the mechanism, the smaller the contribution each individual program makes to achieving balance in 2002. For example, if we exempt Medicare but not Medicaid, our critics may argue that we are unfairly cutting low-income programs. If we exempt both Medicare and Medicaid, they will argue that we are allowing the burden of deficit reduction to fall on the remaining low-income programs (Food Stamps, the new welfare block grant, and SSI, etc.).

Cons of Including Medicare and Medicaid

- Using a mechanism that cuts Medicare and Medicaid creates a precedent that will allow the use of such a mechanism in the future, for purposes other than balancing the budget.

- Many Congressional Democrats, who think the Medicare and Medicaid savings policies in the budget are too large, will not like exposing those programs to further cuts. Based on this concern, Leon Panetta argued strongly against further cuts to Medicare and Medicaid.

- If we remove Medicare and Medicaid from the mechanism, the across-the-board cut rises from 2.2 percent to 3.8 percent. Both cuts are substantially smaller than the one used in the 1997 budget to balance under CBO assumptions.

Recommendation

On balance, I think that the advantages of a broad base -- one that includes Medicare and Medicaid -- outweigh the costs. Frankly, those who wish to criticize the budget will not like the trigger mechanism no matter how carefully we craft it. A broad trigger that we believe will never be used (because our deficit projections will be more accurate than CBO's) will be easier to defend than a mechanism that implies we have made careful choices about what to exempt and what not to exempt.

Gene Sperling has attached a separate memo indicating the recommendations of other members of the economic team.

Option 1: Include Medicare and Medicaid in the mechanism to reach balance under CBO assumptions (Recommendation) ______

Option 2: Exempt Medicare and Medicaid from further cuts in 2001 and 2002 ______

COLA reduction in 2001 only ______

COLA reduction in 2001 and 2002 (half in each year) ______

Discuss further ______

Attachment

THE WHITE HOUSE

WASHINGTON

February 3, 1997

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling

Subject: Economic Team Recommendations on Spending "trigger"

Two Options on Spending Policies to Reach Balance Under CBO: Attached is a memo from Frank that lays out the two options under consideration for the policy steps (previously called triggers) that we will need to announce on Thursday to show how our budget will balance under CBO. As Frank mentions in the attached memo, we are all in agreement that we should publicly describe and defend our budget as the OMB budget and defend why our past record makes clear that we have every reason to believe our assumptions are accurate if not conservative.

Nonetheless, we have all agreed that on the day we announce the budget we will also announce the specific policies we will implement to show how our budget will balance under the CBO baseline. (We will not know until later how CBO will actually score all of our savings).

Agreement on Reductions Across Wider Base: As discussed in prior meetings with you, everyone has been in agreement on two things concerning how to show balance under CBO: One, we should suspend the tax cuts, and two, that our reductions in spending policy be across a broader spectrum of savings than our last balanced budget proposal. In that balanced budget plan, our spending cut "trigger" affected only non-defense, non-priority discretionary spending. Because all of the extra "cuts" were on such a small base, it led to severe outyear cuts in non-defense, non-priority spending in the outyears.

This year, everyone is in agreement that the base that should be cut should be significantly broader. This approach ensures that the cut to any particular program will be relatively small -- in the 2.2%-3.8% range. It will be far easier for your Cabinet and Economic team to explain that if and only if the highly accurate OMB assumptions did not occur, we would only have to ask for a few percentage points cut from each program to make sure the budget was in balance. Nonetheless, you should realize that there will be some downsides to this broader approach. Defense spending and programs such as Head Start, WIC and mandatory programs like, SSI and food stamps will now be subject to an across-the-board cut.

Recommendations on Whether to Include Medicare/Medicaid In Base for Across-the-Board Cut: The main policy choice we are presenting to you is whether or not we should include Medicare and Medicaid in the base to be cut. If Medicare and Medicaid are included in the across the board cuts, the percentage across the board cut is 2.2%. Excluded from the cuts, the across the board is higher at 3.8% (In both of these options, adjustments are made to ensure that benefit programs are not cut by more than the COLA).

Most of your advisors including myself believe you should include Medicare and Medicaid in the across-the-board cut, because we believe it is easier to explain such a small percentage cut and because we do not have to explain why we spared Medicare, but not SSI, food stamps or veterans. Frank, Esrkine, Bob Rubin and myself all favor this approach. John Hilley is ambivalent (a slight preference for excluding Medicare and Medicaid), but is fine with the recommendation to include Medicare and Medicaid in the base for the trigger. Nonetheless, I want to make sure you are fully aware of the downsides of such inclusion.

For example, Leon Panetta was strongly opposed to such inclusion of Medicare and Medicaid, fearing that Democrats would fear we would be encouraging across the board Medicare cuts in future budget negotiations. Furthermore, Republicans -- and some of the elite Media -- will assume that the across-the board cuts will happen, and will add them to our saving totals. Therefore, some will refer to our Medicare cuts as $143 billion and not $138. Likewise, Medicaid will also be $3 billion higher. Some will also feel that the relative advantage of having a 2.2% cut compared to a 3.8% is not worth the political costs of including Medicare and Medicaid. Such people feel that 3.8% will sound virtually as small to average voters as 2.2%.

Under either option, our strategy will be to not acknowledge that such cuts will ever have to take place but to insist, that 1) we believe the record shows that our assumptions will be right and our budget and tax cuts will be implemented: 2) that if we are wrong, we will have a expedited procedure to work with Congress to come up with new, specific savings.

THE PRESIDENT HAS SEEN
3-31-97

THE WHITE HOUSE

WASHINGTON

Copied
Sperling
Lew
COS

March 28, 1997

Good
Really

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**
JACK LEW

SUBJECT: **Report on Budget Meetings**

Following up on your budget meeting last week, we spent much of this week in meetings with House and Senate budget staff, both Democrats and Republicans, to explain our budget proposals on a broad range of issues and to begin to explore the areas of disagreement between us in preparation for meetings with the members and our budget team after the congressional break.

While the meetings were very preliminary and did not launch any true negotiations, they have been very positive and helpful. In each area, there have been suggestions about alternative approaches that warrant consideration, and we agreed to take back these items for analysis and further discussion next week. Overall, the meetings have been as productive as preliminary conversations can be. On both sides, work on numerous follow up items will hopefully frame the discussions for members and the full budget team when the principal level meetings resume. We will have a much better sense of how much progress we are really making when those meetings begin the week after next.

The meetings this week covered Medicaid, expanded health care coverage for kids, welfare, and the defense and international components of discretionary spending. Next week the meetings will cover Medicare, non-defense discretionary spending and other mandatory issues (such as spectrum).

Administration participation at the meetings has been limited to ourselves, White House Legislative Affairs, and White House/OMB policy experts in each area. Congressional participation in all but the health sessions is limited to budget committee staff. For the health meetings, the authorizing committees have also been represented. All of the meetings have been kept confidential and there have been no substantive leaks.

The highlights of the meetings are briefly summarized below:

-- Republicans -- particularly Dominici's staff -- have sought to frame the issue in a way that puts a strong onus on us to justify any new program or benefit expansions, nonetheless, the Republican staff was clearly concerned that they are vulnerable on kids health. They made several alternative suggestions to expand coverage which we are following-up on to discuss further with them. Even if the specific suggestions turn out not to be productive, the direction of the conversation was encouraging.

-- There is an encouraging openness to discussing legal immigrant restorations. Opposition to the food stamp restorations appears to be much deeper from Kasich's people, particularly on Welfare-to-Work issues involved and whether our money shouldn't come later because TANF has funds now, and concern over the creation of new programs on top of TANF. → this can really be used for food stam

-- Senate Republicans are more supportive of our Medicaid per-capita cap than the Democrats; yet it is also clear Republicans will be unlikely to give Medicaid expansion for children's coverage without a Medicaid budget constraint.

-- There is support from Republicans for our Welfare-to-Work tax credit.

-- Defense spending in the out years appears to be bounded by our budget, which is greater than the congressional level from last year's budget resolution. It will be difficult to reconcile their desire for higher spending in the short term on congressional adds with our desire to fund a long term defense program. When we discuss non-defense discretionary spending next week the very difficult issue of total discretionary spending will be joined more fully.

On the technical question of how to score defense outlays, which will be crucial to producing a declining deficit in FY 98 under the new CBO baseline, we made good progress and agreed to OMB/CBO technical meetings with the budget committees.

-- On foreign affairs spending we had a very useful discussion on the UN and MDB arrearages. While they in no way accepted our proposed levels, they devoted a good deal of time to pursuing technical questions about how to guarantee that funds allocated for arrearages might be "fenced" both to ensure that reforms are accomplished and to ensure that appropriators did not reallocate the resources.

The issue of "firewalls" within discretionary spending will be a significant issue. We should keep quiet on this and work internally to see if this can or cannot work to our advantage.

~~CONFIDENTIAL~~ ~~CONFIDENTIAL~~

JGP, 9/23/04

April 4, 1997

cc Rahm/Bruce

Gene

Let's discuss

win themes of summit

pre-empt?

BC

MEMORANDUM TO THE PRESIDENT

From: **Gene Sperling**

Subject: **On Children: A Big Statement**

This is the memo I have always wanted to write to you. It may be more from the heart than from the mind, but I like to think it is from both.

I need to stress that this is not an NEC memo and the ideas here have not been vetted or gone through a process. I have discussed this memo only with Erskine, and he told me he thought I should simply send it to you as a personal memo.

I. AIM FOR A MAJOR STATEMENT: Confront the moral gap between our ideal of opportunity and the desperate conditions for the poorest of poor children.

You have an opportunity to make a compelling statement to the American people. Not just a swift tactical move on the budget, or one that impresses opinion leaders with your leadership, but the type of statement that Presidents are long remembered for.

There are no perfect recipes for a great statement. Yet, one recipe is when a President makes the nation come face to face with a moral gap between its timeless ideals and the harsh realities of a particular moment in history that contradicts those ideals.

Certainly racial discrimination is one of those harsh realities. Both Kennedy and Johnson are remembered for the moments where they used their platforms as President to force the nation to directly confront its contradictions between racial discrimination and our belief in the equality of all people. At this moment in time, the deepest contradiction in our national character is between our belief in equal economic opportunity based on individual hard work and merit, and the deplorable conditions of children in the poorest urban centers (and rural as well) of our nation. The American value is certainly one of equal opportunity and not of equal results. While we maintain a decent safety net so that people do not starve, we rightly allow and even encourage significant differences of wealth and fortune because we believe in giving people the opportunity to fail or succeed based on their hard work and individual merit. The stain on this ideal that creates the gap between our ideal and our reality, is the incredibly poor opportunities of the poorest of our urban (and often rural) children.

For the children born into the most hopeless crime-ridden areas -- where there is a lack of jobs, and health care and quality education -- the promise of opportunity is a false one.

Many people in our society have addressed this issue. But surely neither Nixon nor Ford nor Carter nor Reagan nor Bush ever used the Presidency to directly force the nation to grapple with this fundamental gap in our values. You have addressed this in a myriad of ways, from the EITC to our efforts to provide universal health care.

But I believe the step that will stir the conscience of the nation, and be remembered as such -- is a direct speech to the American people that solely focused on our belief that every American child should have a fair chance to make it; that the realities of our poorest urban centers now make that promise unreal for millions, and that you are willing to tell the nation that we have a moral imperative to direct our national will and our national resources to perfect the nation -- no matter how difficult the choices.

II. THE OUTLINE OF THE STATEMENT:

You should deliver a nationally televised address to the nation on the moral imperative for us to commit ourselves to making the American ideal true for even the poorest of poor children, while announcing a full-scale effort to move us there. This should be largely a tough challenge to parents, businesses, churches, government officials on their role.

But what will make it real and lasting, is to at the same time lay out politically bold steps to take us there.

1. A Pro-Children's Budget: State that our first obligation is to take care of our children: the way to do that is to balance the budget with a pro-children's budget. Pro-children because it saves for their future, but pro-children because it invests in them and in repairing this breach in our values. We can save more for our children's tomorrows; while taking bold steps to save a current generation of children today.

2. First Job is to Balance the Budget and Take Bold Action on Children:
To take care of our children we must focus on the four stages.

> **Stage 1: 0-5:** Early learning, positive love, nutrition, health care, child support, two parents, and pre-school are the ingredients for allowing each child to enter school ready to learn.
>
> **Stage 2: Elementary Schools:** Safety in the neighborhood; tough standards, individual tutoring and mentoring, access to education technology
>
> **Stage 3: 12-17:** Hope and high expectations: Pell grants awarded to poor children in 6th grade. One million mentors; community schools that are open and give teens a safe place to learn after school hours. Safe school and youth anti-violence initiatives.

Stage 4: True College Opportunity: Dramatic increase in Pell Grants: strong college opportunity agenda.

3. First Step is to therefore pass a balanced budget that makes dramatic steps to help children. We can then vote for tax cuts later if that helps us reach the first goal.

4. Say clearly that this nations budget priorities go too much to people who don't need them, and too little to the poorest children. Particularly, we need to look at whether too much is going to elderly Americans who don't need it and too little to poor children who desperately need our help.

5. Make Clear that the Tough Choices to Make this Statement are Real -- But Make CLEAR THAT IT IS CONDITIONAL ON AT LEAST HALF THE FUNDS GOING TO CHILDREN AND HALF TO DEFICIT REDUCTION.

- **High Income Premium and Premiums on Home Health Shift over $30,000 to raise $12 billion:** As mentioned before, this could be dedicated to health care for poor children, and directly shows the commitment to more generational equity.

- **A .3-.5 CPI adjustment in the Cost-of-Living.** A unilateral endorsement of .3 would be significant and seen as a strong step toward getting to a balanced budget. A bolder move -- likely to secure opinion leader approval -- would be .5 with adjustments for poor Social Security Recipients. The problem is that it may be too much for Democrats and they could revolt, even though a guarantee of it not paying for tax cuts could help.

- **Tobacco Tax targeted for children.** Although it will lead to incredible manipulation that we are "taxing the world," the tax itself is good children's policy and it could be a great fight for us. The demagoguery we will receive should not be underestimated, but it is courage and good policy, and raises significant funds for both deficit reduction and children's health care.

Any two of these items together, would be seen as strong. All three would be bold.

6. With these savings we can balance the budget; Make structural progress on Social Security; and have the funds to:

- Give health care to over 5 million poor children
- New funding for childcare and pre-school/Head Start
- New nationwide initiative on 0-3
- Funding for America Reads/Mentoring/Educational Technology
- New Community Schools Initiative
- Even Greater Increase in Pell Grants

II. OUTCOME?

Risks: This would be a major political roll of the dice. Senior groups and labor might launch a campaign against the COLA adjustment. Labor will show how much we are reducing wages for the working poor; senior groups may do advertisements about seniors losing thousands of dollars over their retirement. Some Republicans will claim that all of the savings are needed to balance the budget under CBO and that we shouldn't be spending any new money. Some commentators will say that this was a move to keep Powell from getting leadership on children, and some editorial pages will still say that you have not made the hard choices on Social Security and Medicare yet. The biggest risk is that Democrats feel that we have made it too easy for Republicans to come up with funds to get out of their box of how to do a budget proposal that pays for tax cuts. They will admire your words, but may say that you have allowed Republicans huge funds they can pocket and that save them.

Yet, if you put the new savings in the context of paying for key children's initiatives, then the it is an offer conditional on Republicans accepting his priorities and Democrats will see these moves as tightly linked to accomplishing their key priorities and therefore harder to resist.

Rewards: While the risks are great, so are the rewards. This statement would give the second term of the Clinton Presidency a clear and concise moral foundation that makes clear that the good we are trying to do is far larger than any of the hits other are trying to impose on us. All of our proposals -- from education to safe streets to deficit reduction to tobacco to television violence -- will now be wrapped into a clear and understandable theme of giving all of our children a chance. We will have stepped up to the plate for the elite media who want to see middle-class entitlements shaved -- but we will step up not as "Eisenhower Republicans" or Bond Market Democrats, but as progressive reformers out to use government to help every child simply have an even break. For millions of Clinton supporters and even millions of Clinton doubters, the clear moral statement for children will win their hearts.

When all of the pain is put in the context of paying for this progressive agenda for children, the hits from our side will be more muted. Because half of the savings -- and a growing amount as time goes by -- goes to deficit reduction, Republicans and deficit hawks will find it harder to criticize the overall move as "big spending." Key senior groups might be able to be somewhat muted if we make clear that we would never go above .5.

While your initial speech must be on the poorest children to show clear moral leadership and the lack of any pandering, our initiatives around the nation could still maintain the great quality of disproportionately helping the poorest children while also appealing to the broad middle class. And if we fail; it turns out to be poor politics, then we did so in the best of causes and it will be remembered as such.

April 8, 1997

NOTE FOR THE CHIEF OF STAFF

FROM: Jack Lew and Gene Sperling

SUBJECT: Potential Reductions to Discretionary Spending in the 1998 Budget

Attached per our conversation today is one possible package to reduce the discretionary spending in the 1998 budget by $11 billion over five years.

We have eliminated some of the more difficult cuts (e.g., in technology and training) by adding other reductions, including a lower Judiciary allowance and elimination of the Presidential Honors Scholarships (which Bruce Reed agreed to). Like most of the other items in the package, the cuts we added are in programs to which we added dollars during the internal appeals process last fall.

Also attached is a list of the items we removed from the package we reviewed with you this morning.

Attachment

Savings Proposals Removed from Draft Package

NOAA Satellites
NIST Manufacturing Extension Partnerships
Higher Food and Drug Administration user fees
Child Care and Development Block Grant
HUD Vouchers for Witness Relocation Programs
HUD Regional Opportunity Counseling
HUD Housing Counseling
CDGB Set-Asides for Homeownership
National Park Service operating expenses
Security and maintenance of U.S. missions abroad
JTPA programs
Coast Guard drug law enforcement
Veterans Medical Care
CFTC
Neighborhood Reinvestment Corporation
SBA Minoriry Technical Assistance Education and Training

Savings Proposals Reduced in the Draft Package

TEFAP cuts reduced by half
EDA cuts reduced half
Delay Army Corps reductions one year

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, Agriculture	BA	-90	-90	-90	-90	-90	-450
	OL	-67	-86	-89	-89	-90	-421
Subtotal, Commerce	BA	-131	-131	-131	-131	-131	-655
	OL	-28	-51	-78	-97	-127	-381
Subtotal, Education	BA	-132	-141	-145	-148	-150	-716
	OL	-16	-107	-137	-144	-148	-552
Subtotal, Energy	BA	-70	-45	-45	-45	-45	-250
	OL	-32	-52	-50	-45	-45	-224
Subtotal, HHS	BA	-30	-30	-30	-30	-30	-150
	OL	-30	-30	-30	-30	-30	-150
Subtotal, HUD	BA	-200	-81	-81			-362
	OL	-67	-67	-20	-58	-71	-283
Subtotal, Interior	BA	-40	-71	-84	-102	-115	-412
	OL	-38	-58	-72	-87	-99	-354
Subtotal, International	BA	-96	-96	-96	-96	-96	-480
	OL	-37	-64	-88	-93	-96	-379
Subtotal, Labor	BA	-271	-278	-284	-291	-298	-1,422
	OL	-32	-159	-250	-281	-288	-1,010

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, Treasury	BA				-500	-500	-1,000
	OL				-450	-500	-950
Subtotal, Independent Agencies	BA	-2,914	-483	-612	-534	-491	-5,034
	OL	-1,213	-1,419	-1,052	-561	-507	-4,752
GRAND TOTAL	**BA**	**-3,974**	**-1,446**	**-1,598**	**-1,967**	**-1,946**	**-10,931**
	OL	**-1,560**	**-2,094**	**-1,865**	**-1,935**	**-2,001**	**-9,456**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

Agriculture

		1998	1999	2000	2001	2002	1998 to 2002
TEFAP at Passback	BA	-23	-23	-23	-23	-23	-115
	OL	-16	-23	-23	-23	-23	-108

Welfare reform added $100 million in mandatory funding for TEFAP commodity purchases. Funding TEFAP at the reduced level would cut in half traditional discretionary administrative funding for soup kitchens and food banks. Would be possible to redirect some mandatory commodity funds to administrative funds.

		1998	1999	2000	2001	2002	1998 to 2002
Forest and Rangeland Research	BA	-20	-20	-20	-20	-20	-100
	OL	-15	-20	-20	-20	-20	-95

Cut would eliminate Forest Service research in the areas of forest products utilization and processing, forest product safety. Current request for program is the 1997 enacted level ($180 million); reduction would represent an 11 percent cut from this level and could result in closure of 1 research facility.

		1998	1999	2000	2001	2002	1998 to 2002
Farm Loan Subsidies & S&E	BA	-11	-11	-11	-11	-11	-55
	OL	-9	-11	-11	-11	-11	-53

Cut would terminate farm ownership direct loans ($31 million proposed loan level vs. $28 million enacted), and reduce farm ownership guaranteed loans from $400 million to $233 million, vs. $598 million enacted (leaving a 61 percent reduction). Could be adversely tied to recent USDA civil rights report.

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Conservation Programs	BA	-36	-36	-36	-36	-36	-180
	OL	-27	-32	-35	-35	-36	-165

Reduction to lower-priority Natural Resource and Conservation Service (NRCS) programs. Cuts would be to the Small Watershed program, Forestry Incentives Program, and Watershed Surveys.

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, Agriculture	**BA**	**-90**	**-90**	**-90**	**-90**	**-90**	**-450**
	OL	**-67**	**-86**	**-89**	**-89**	**-90**	**-421**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

Commerce		1998	1999	2000	2001	2002	1998 to 2002
Economic Development Assistance	BA	-115	-115	-115	-115	-115	-575
	OL	-17	-35	-62	-81	-111	-306

Cuts in half funding for all EDA programs except Presidential priority investment programs, including defense conversion and the Northwest timber initiative. The EDA regular grant assistance programs have yet to provide performance information demonstrating their effectiveness.

International Trade Administration	BA	-16	-16	-16	-16	-16	-80
	OL	-11	-16	-16	-16	-16	-75

Programs have not proven effective. Total ITA spending would be reduced slightly below 1997 enacted.

Subtotal, Commerce	**BA**	**-131**	**-131**	**-131**	**-131**	**-131**	**-655**
	OL	**-28**	**-51**	**-78**	**-97**	**-127**	**-381**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Education							
Presidential Honors Scholarships	BA	-132	-141	-145	-148	-150	-716
	OL	-16	-107	-137	-144	-148	-552

This proposal is a repeat of an FY 1997 proposal which was rejected by Congress and not aggressively sought during appropriations negotiations.

Subtotal, Education	**BA**	**-132**	**-141**	**-145**	**-148**	**-150**	**-716**
	OL	**-16**	**-107**	**-137**	**-144**	**-148**	**-552**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Energy							
Energy Supply, R&D (Nuclear Tech R&D Termination Costs)........	BA	-25	-25	-25	-25	-25	-125
	OL	-13	-25	-25	-25	-25	-113

Support for shutdown of unneeded research facilities in Idaho includes $25 million in ESR&D for demonstration of an electrometallurgical treatment technology and $25 million in Other Defense Activities (ODA) for research at Argonne-East (IL) on other application of technology. If ESR&D funding were withdrawn, funds might be reprogrammed later to support the demo from the low-priority research funded in ODA.

		1998	1999	2000	2001	2002	1998 to 2002
Fossil Energy Research & Development........	BA	-25					-25
	OL	-10	-10	-5			-25

This option would increase participant cost sharing and reduce FY 1998 funding to the level contained in the out-years. The proposal has no impact on FY 2002.

Potential Reductions to the FY 1998 Budget

(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Environment Safety & Health (DOE)................................	BA	-20	-20	-20	-20	-20	-100
	OL	-9	-17	-20	-20	-20	-86

Funding for ESH can be reduced by $20 million or 18% below the FY 1998 request level because DOE is proposing to move toward external regulation of its nuclear facilities which should require fewer DOE resources. The resulting level would still be 3% above the FY 1997 enacted level.

Subtotal, Energy	**BA**	**-70**	**-45**	**-45**	**-45**	**-45**	**-250**
	OL	**-32**	**-52**	**-50**	**-45**	**-45**	**-224**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
HHS							
HCFA Program Management...	BA	-30	-30	-30	-30	-30	-150
	OL	-30	-30	-30	-30	-30	-150
	This is small reduction to the HCFA program management account.						
Subtotal, HHS	**BA**	**-30**	**-30**	**-30**	**-30**	**-30**	**-150**
	OL	**-30**	**-30**	**-30**	**-30**	**-30**	**-150**

Potential Reductions to the FY 1998 Budget

(dollars in millions)

HUD		1998	1999	2000	2001	2002	1998 to 2002
Housing Certificate Fund -- Replacement Vouchers........	BA	-92					-92
	OL	-46	-46				-92

Postpone funding for 12,000 replacement vouchers for Portfolio Reengineering and various other housing programs from 1998 into 1999, and make corresponding adjustments in the outyears due to slower implementation assumptions for HUD's subsidy replacement programs.

		1998	1999	2000	2001	2002	1998 to 2002
GI/SRI Account/ Insurance Fund -- Credit subsidy for FHA Multifamily................................	BA	-81	-81	-81			-243
	OL		-15	-20	-58	-71	-164

Eliminate new appropriations for credit subsidy in 1998-2000. Instead use carryover balances to maintain the same loan level activity in these years. After 2000, significant reductions in loan level activity will be necessary.

		1998	1999	2000	2001	2002	1998 to 2002
Management and Administration -- Information Technology Investments..	BA	-27					-27
	OL	-21	-6				-27

Reduce HUD's 1998 investments in information technology by $27 million from $66 million to $39 million. This level is 10% below HUD's 1997 level of $43 million.

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, HUD	BA	-200	-81	-81			-362
	OL	-67	-67	-20	-58	-71	-283

Potential Reductions to the FY 1998 Budget
(dollars in millions)

Interior		1998	1999	2000	2001	2002	1998 to 2002
BLM operating accounts	BA		-17	-24	-34	-41	-116
	OL		-14	-22	-32	-39	-107
FWS operating account	BA		-14	-20	-28	-34	-96
	OL		-4	-10	-15	-20	-49
	Change increase to DOI land management agencies operating accounts to 2% over FY 1998 instead of 3%. Similar proposal made for USDA's Forest Service.						
Wildland Firefighting	BA	-40	-40	-40	-40	-40	-200
	OL	-38	-40	-40	-40	-40	-198
	This change would shift the requirement to an emergency appropriation						
Subtotal, Interior	**BA**	**-40**	**-71**	**-84**	**-102**	**-115**	**-412**
	OL	**-38**	**-58**	**-72**	**-87**	**-99**	**-354**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
International							
International Broadcasting Operations	BA	-11	-11	-11	-11	-11	-55
	OL	-9	-11	-11	-11	-11	-53
Radio Construction	BA	-3	-3	-3	-3	-3	-15
	OL	-1	-2	-3	-3	-3	-12
	Provides funding for international broadcasting overall at the FY 1997 enacted level.						
State Salaries and Expenses	BA	-11	-11	-11	-11	-11	-55
	OL	-10	-11	-11	-11	-11	-54
	Provides funding at the FY 1997 enacted level for domestic administration and support activities of the Department of State.						
P.L. 480 Title I Direct Credit Program	BA	-25	-25	-25	-25	-25	-125
	OL	-14	-24	-25	-25	-25	-113
	Need for program questionable in light of record farm income and agricultural export levels.						

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Foreign Military Financing Loans..................................	BA	-46	-46	-46	-46	-46	-230
	OL	-3	-17	-38	-43	-46	-147

Eliminates military loans to Turkey (and Greece) because US commitment to finance procurement of F-16s has been fulfilled. This reduction ends military financing to both countries.

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, International	**BA**	**-96**	**-96**	**-96**	**-96**	**-96**	**-480**
	OL	**-37**	**-64**	**-88**	**-93**	**-96**	**-379**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Labor							
Youth Opportunity Areas	BA	-250	-257	-263	-270	-277	-1,317
(eliminate out-of-school youth initiative)	OL	-13	-138	-229	-260	-267	-907
		Eliminates entire FY 1998 request of $250 M. Congress denied funding for identical request in the FY 1997 Budget.					
Other Labor program increases over FY 1997 (freeze selected programs)	BA	-21	-21	-21	-21	-21	-105
	OL	-19	-21	-21	-21	-21	-103
		Eliminates increases over FY 197 for certain overhead accounts and low-priority targeted job training accounts for Indians and migrants.					
Subtotal, Labor	**BA**	**-271**	**-278**	**-284**	**-291**	**-298**	**-1,422**
	OL	**-32**	**-159**	**-250**	**-281**	**-288**	**-1,010**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Treasury							
IRS: Reduce Overall IRS funding in FY 2001 and FY 2002 (Trade-off for Technology Investments in FY98/99)................	BA				-500	-500	-1,000
	OL				-450	-500	-950
Subtotal, Treasury	**BA**				**-500**	**-500**	**-1,000**
	OL				**-450**	**-500**	**-950**

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Independent Agencies							
NASA projects	BA	-14	-14	-14	-14	-14	-70
	OL	-9	-14	-14	-14	-14	-65

Reduces funding for a variety of aeronautics and space flight projects.

		1998	1999	2000	2001	2002	1998 to 2002
No new Army Corps project starts in FY 1998	BA		-42	-168	-88	-47	-345
	OL		-25	-118	-118	-63	-324

The 12 new construction projects could be delayed, starting in 1999, until future years.

		1998	1999	2000	2001	2002	1998 to 2002
Reduce Judiciary allowance	BA	-273	-272	-275	-277	-275	-1,372
	OL	-193	-275	-277	-280	-278	-1,303

The Judiciary would oppose this reduction.

		1998	1999	2000	2001	2002	1998 to 2002
Disaster Relief Fund (pre-disaster mitigation)	BA	-50	-50	-50	-50	-50	-250
	OL	-5	-25	-45	-50	-50	-175

Pre-disaster mitigation is a priority of FEMA Director Witt. These funds helped convince FEMA to support the contingency fund proposal.

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Disaster Relief Fund	BA	-2,388					-2,388
	OL	-955	-955	-478			-2,388
	These funds are proposed to cover requirements for pre-1998 disasters. From 1998 on, requirements that cannot be met through regular ("base") appropriations will be met through emergency releases from the proposed Emergency Requirements for Natural Disasters Contingency Fund.						
Federal Buildings Fund	BA	-84					-84
	OL	-17	-42	-25			-84
	These resources are for the completion of the modernization of the ICC/Customs building in Washington, D.C.						
National Science Foundation cut to Director's Review level	BA	-101	-101	-101	-101	-101	-505
	OL	-31	-79	-91	-95	-98	-394
	[Would reduce increase in NSF funding to half the rate of inflation]						
SBA Non-credit initiatives, S&E	BA	-4	-4	-4	-4	-4	-20
	OL	-3	-4	-4	-4	-4	-19
	This reduction would eliminate an increase for the PASS small business contractor database and funding for regulatory fairness boards and other Administrator's initiatives						

Potential Reductions to the FY 1998 Budget
(dollars in millions)

		1998	1999	2000	2001	2002	1998 to 2002
Subtotal, Independent Agencies	BA	-2,914	-483	-612	-534	-491	-5,034
	OL	-1,213	-1,419	-1,052	-561	-507	-4,752