FYI — 622-1260
202 637 9850
I gave this to Erskine — it memorializes what we've been discussing
/MW

THE WHITE HOUSE

WASHINGTON

September 11, 1995

MEMORANDUM FOR ERSKINE BOWLES
DON BAER
BUDGET WORKING GROUP

FROM: MICHAEL WALDMAN MW

SUBJECT: BUDGET -- NEXT PHASES

The "phony war" on the budget is now over. We have less need to fill a vacuum with pre-programmed events. The next phase of communications activities -- and Presidential scheduling -- must be developed with overall strategy concretely in mind.

1. **Setting the stage for "success."** We need to lay down a marker now for what will be a success. Otherwise, a deal risks looking like a compromise-for-its-own-sake, rather than a victory for the President or his principles. We recommend publicly laying out one (or more) markers. These markers must be attainable -- let's not write a test that we'll flunk. Tests for success could include (not all of these!):

- "No education cuts"; or
- "No Medicare beneficiary increases"; or
- "Health care must be part of the budget"; or
- "No tax hikes on working families" (EITC); or
- "Minimum wage"

2. **The veto phase.** The vetoing of the appropriations bills, if it comes to that, will be the major opportunity to display strength to the general public and fealty to the attentive Democratic Party constituencies. When the President vetoed the rescissions bill -- his first veto -- the public impact was muted by the extensive previewing of the action and the efforts to negotiate. Issues to decide include:

- Assuming we veto something, do we veto at once, or as they come to us, or one a day?
- What reasons do we emphasize for each? In other words, if the President vetoes VA-HUD, should he just focus on the environment (in terms of rhetoric, who he's standing with, etc.), or AmeriCorps as well?

3. **Reconciliation.** This phase presumably involves us watching the GOP try to get a reconciliation bill -- with its difficult Medicare, tax and other issues -- to the President's desk.

Perhaps this is the time to truly be hovering aloft . . . or perhaps for hammering wedges. We probably can't know now. Issues:

- If we want to fill time with something other than rhetoric-heavy budget speeches, we should have a <u>full holster of executive actions</u> and <u>newsworthy values hits</u>.
- Should the President get out of Washington as much as possible?
- Should he focus on Medicare or education or some other marker that has been laid down -- and if so, to do what?
- If we decide that the best course is to say and do very little, we need the scheduling discipline to keep things off the schedule.

THE WHITE HOUSE

WASHINGTON

September 11, 1995

EDUCATION CONFERENCE CALL WITH SUPERINTENDENTS

DATE:	**September 12, 1995**
TIME:	**1:45 - 2:15 PM**
LOCATION:	**Roosevelt Room**
FROM:	**Gene Sperling/Jason Goldberg** **Kris Balderston**

I. PURPOSE

To continue highlighting the impact of the drastic Republican budget cuts on education.

Following up on your speech in Carbondale, Illinois, this event will return the focus to how the Congressional budget cuts will hurt primary and secondary schools. This conference call will be an opportunity to talk to six large city school superintendents about the impact of the cuts on their communities.

II. BACKGROUND

The Senate Appropriations Subcommittee on Labor/HHS/Education will have their mark-up on Wednesday, September 13. The Full Senate Committee is expected to mark-up the appropriations on Thursday, September 14. The Senate is not likely to consider the appropriations on the floor until late next week.

On August 3, 1995, the House approved the Labor/HHS/Education Appropriations Bill, providing $12 billion dollars less in 1996 than your request. That is the largest gap between your appropriations requests and House action on any of the 13 appropriation bills. Of the $12 billion gap, $5 billion is in specific education funding.

We expect that the Senate will attempt to position itself as more moderate and "reasonable" than the house, <u>but their cuts will still be extreme</u>. The Senate appropriators have agreed to add $1.8 billion over the House level for the bill in total. The Chair of the Subcommittee, Senator Specter has stated that most of these additional funds will go to education. Even with increases, the bill will be woefully underfunded, including elimination of Summer Jobs and cuts in Head Start. Even in programs such as GOALS 2000, Safe and Drug Free Schools, Pell Grants, Perkins Loans, and Title I, where some funding is expected to be restored, the programs will still be reduced substantially below your budget.

The Congressional Budget Resolution cuts education and training by $36 billion -- $76 billion dollars less than your balanced budget.

INVESTING IN PRIMARY AND SECONDARY EDUCATION VS. CUTTING PRIMARY AND SECONDARY EDUCATION

INVESTMENTS	PRESIDENT CLINTON'S BALANCED BUDGET	REPUBLICAN CUTS
HEAD START	• Increases funding by $400 million, adding 32,000 new Head Start children next year. • Services for 50,000 more children by 2002.	• Funds Head Start $500 million less than the President's request. • Up to 230,000 children would be denied Head Start in 2002.
GOALS 2000 School Reform	• Increases funding to $750 million next year, enabling communities to help all children meet higher standards. • Helps states reform education for more than 8 million children in 17,000 schools next year.	• Eliminated.
SAFE AND DRUG-FREE SCHOOLS	• Funds at $500 million per year. • Safer, more drug-free learning environments for 39 million children in 14,575 out of 15,000 school districts.	• Cuts program by 60% to $200 million. • Deprives over 23 million students of services next year.
TITLE I Improving Basic and Advanced Skills	• Increases funding by $300 million, reducing class size, and helping as many as 300,000 more children master basic and advanced skills next year.	• Reduces funding by $1.1 billion, denying learning opportunities for 1.1 million children next year.
SUMMER JOBS	• Funds 615,000 jobs for young people next year.	• Eliminates job opportunities for almost 4 million youth over the next 7 years.
ALL EDUCATION AND TRAINING	• INCREASES EDUCATION, TRAINING, AND AID TO STUDENTS BY $40 BILLION WHILE BALANCING THE BUDGET IN 10 YEARS.	• CUTS EDUCATION AND TRAINING BY $36 BILLION INCLUDING $10 BILLION IN LOAN BENEFITS TO STUDENTS WHILE BALANCING THE BUDGET IN 7 YEARS.

OMB Analysis of the President's FY 1996 Request vs. Republican Cuts Included in the House Labor/HHS/Education Appropriations Bill Passed on August 3, 1995, and the Republican Budget Resolution

III. PARTICIPANTS

Secretary of Education Dick Riley

Superintendents (listed in speaking order)

1. Octavio "O.V." Visiedo, Superintendent, Dade County, FL
2. John "Jack" Bierwirth, Superintendent, Portland, OR
3. Dr. N. "Gerry" House, Superintendent, Memphis, TN
4. Robert C. Jasna, Superintendent, Milwaukee, WI
5. David Hornbeck, Superintendent, Philadelphia, PA
6. Albert Thompson, Superintendent, Buffalo, NY

Background information on each Superintendent attached.

IV. SEQUENCE OF EVENTS

- You will open the conference call with a brief statement
- You will ask Secretary Riley to make a brief statement.
- You will call on each of the participants to make brief comments. Each participant is prepared (in under 2 minutes) to highlight a specific area in which the impact of the Republican cuts to their communities is especially severe.

    1. Octavio "O.V." Visiedo, Superintendent, Dade County, FL
       Topic: *Forced reductions in staff due to Title I Cuts*

    2. John "Jack" Bierwirth, Superintendent, Portland, OR
       Topic: *Impact of cuts to Head Start*

    3. Dr. N. "Gerry" House, Superintendent, Memphis, TN
       Topic: *Safe and Drug Free School Programs and School Lunches*

    4. Robert C. Jasna, Superintendent, Milwaukee, WI
       Topic: *Class Size and Key Role of Voc-Ed Programs*

    5. David Hornbeck, Superintendent, Philadelphia, PA
       Topic: *Goals 2000 and Reforming the Schools*

    6. Albert Thompson, Superintendent, Buffalo, NY
       Topic: *Importance of Federal Funds to Local School systems*

- You will have the opportunity to ask follow-up questions and make additional comments.

PRESIDENT WILLIAM J. CLINTON
TALKING POINTS FOR CONFERENCE CALL WITH SUPERINTENDENTS
THE ROOSEVELT ROOM, THE WHITE HOUSE
SEPTEMBER 12, 1995

- **Welcome.** I'm glad you are joining me today on this conference call to discuss the importance of continuing our national commitment to education.

- [Option: comments on Senate Job-Training Bill].

- **Focus on Education Cuts.** We speak today as America goes back to school. Over the last week, I have met with CEOs from major corporations such as IBM and TRW, with mayors and county executives from cities big and small, with college students yesterday from 10 different universities and five states, and today with AmeriCorps National Service participants. Every where I go...everyone I talk with... I hear the same message: It is wrong for our economy to be growing while hard working people's incomes are not. And education is the answer. We must give our children the tools to learn and all Americans a chance to build stronger lives. My balanced budget shows that we can get rid of the deficit and still afford to invest in education and training. **We must put our children first -- we cannot afford to do less.**

- **Education is an on-going commitment to our future.** It starts before our children go to school with *Head Start* to prepare our children to learn. It continues throughout primary and secondary education by setting higher standards and reforming our schools with *GOALS 2000*. It means decreasing class sizes through programs like *Title I* so that our children are afforded more individual attention. It means keeping our children, classrooms, school-halls, and neighborhoods safe through *Safe and Drug Free School* programs.

- **But let me make one point clear: these aren't bureaucratic programs we are talking about, these are the futures of our children.**

  It is very easy to cut programs called GOALS 2000 and Title I here in Washington, but those who would slash education and training need to know what their cuts mean in real terms. For instance:

  > **Four schools in Portland, Oregon, helping 9th and 10th graders reach high standards in math and science will lose their funding.**
  >
  > **450 teaching assistants and other staff who help kids improve basic reading, writing, and math skills, will have to be laid off in Miami, Florida**

  And the examples go on and on, hurting children all across the country.

- **CEOs Voice Support For GOALS 2000:** Listen to what Joe Gorman, CEO of TRW said last week when he was here: "GOALS 2000 is critically important. Far more important than the dollars involved. It provides incentives to the states...to change themselves within their educational systems." Listen to what Lew Gerstner from IBM said: "GOALS 2000...is the fragile beginning of the establishment of a culture of measurement standards and accountability in our country. We must go way beyond Goals 2000. **But, if we lose GOALS 2000, it is an incredibly negative setback for this country.**"

- **I would now like to call on Secretary Riley to say a few words.**

- **I would now like to hear from you about your school systems and what the budget cuts mean to children, teachers, and schools in your communities.**

1 **Octavio "O.V." Visiedo, Superintendent, Dade County, FL**
Topic: Forced reductions in staff due to Title I Cuts

2 **John "Jack" Bierwirth, Superintendent, Portland, OR**
Topic: Impact of cuts to Head Start

3 **Dr. N "Gerry" House, Superintendent, Memphis, TN**
Topic: Safe and Drug Free School Programs and School Lunches

4 **Robert C. Jasna, Superintendent, Milwaukee, WI**
Topic: Class Size and Key Role of Voc-Ed Programs

5 **David Hornbeck, Superintendent, Philadelphia, PA**
Topic: Goals 2000 and Reforming the Schools

6 **Albert Thompson, Superintendent, Buffalo, NY**
Topic: Importance of Federal Funds to Local School Systems

V. MEDIA

Open press with regional satellites to each locality.

VI.REMARKS

Talking points are attached.

Background on Superintendents
(Listed in Speaking Order Along With Topic)

1. **Octavio ("O.V.") Visiedo, Superintendent, Dade County, FL**

   Topic: Forced Reductions in Staff Due to Title I Cuts

   Background. Visiedo was one of 10,000 unaccompanied children who escaped Castro for freedom in the U.S. in 1961. OV received his education degree from the University of Miami and started his career with the school system in 1971 as a bus aide and worked up to teacher, assistant principal, and Superintendent of the fourth largest school system.

   Impact of Cuts. During the last five years, O.V. has helped the Dade County School System through its worst financial crisis without laying off personnel. Under the Republican budget cuts, the school district would be forced to reduce the workforce by 465 staffers. Program cuts include: a 58 percent reduction in funding for the Safe and Drug Free School Grant to Dade County eliminating 18 positions; a $1.4 million cut in vocational education funds in the county; and a reduction in funding for their magnet school program.

2. **John "Jack" Bierwirth, Superintendent of Schools, Portland, OR**

   Topic: The Importance of Maintaining Head Start

   Background. Mr. Bierwirth is 48 years old and has a B.A. from Yale and a PhD from the University of Massachusetts. He came to Portland to head the progressive school system in 1992 after two stints in districts in New York State. Previously, Mr. Bierwirth was the chief of staff to the late Congressman Allard Lowenstein. Bierwirth is very supportive of the state's pre-K Head Start Program.

   Impact of Cuts. As the result of recent state education budget cuts, the Portland school system has had to cut one-third of its budget or $130 million from the general operating fund over five years. An additional loss of over $5 million in federal funds would have a devastating impact on the city school system. Among the cuts: (1) a cut of $1.4 million in the Title I program that will result in the loss of teachers and educational assistants and supplementary educational programs to 1500 low achieving children in 62 city schools; (2) a reduction of 43 percent in the Safe and Drug Free Schools Program which will essentially eliminate drug assessment program for one-third of the kids that need it and the elimination of one-third of the system's drug prevention programs; and (3) in a city where two-thirds of all meals are fed to poor children, the state will experience an 11 percent shortfall in school nutrition funds.

3. **Dr. N. "Gerry" House, Superintendent, Memphis, TN**

Topic: **Effect of Reductions in the Safe and Drug Free School Programs and School Lunches**

Background. Gerry House started running the nation's 15th largest school system in Memphis in 1992. Previously she was a principal and teacher in Chapel Hill, NC. She has been very active in a number of national education groups.

Impact of Cuts. The Memphis school system would be hard hit in three major areas by Congressional budget cuts. First, the city would lose $4.3 million in Title I funding that helps to improve the basic and advanced skills in math and reading. Approximately 6,500 children would be affected by these reductions. Reductions of $4.9 million in federal school lunch programs would greatly impact the 64 percent of the school population that currently are eligible to receive free of reduced price meals.

4. **Robert C. Jasna, Superintendent of the Milwaukee School System**

Topic: **The Effect of the Reductions on Class Size and the Key Role of Voc-Ed Programs**

Background. Mr. Jasna just came on board as the new superintendent on July 1st but he has worked in the system for 33 years as a teacher and administrator. Mr. Jasna has played a major role in creating district-wide School-to-Work programs that begin as early as elementary school.

Impact of Cuts. The Milwaukee School System would see their Title 1 programs reduced by 17 percent or $7 million - funds that were previously used to decrease student/teacher ratios and bring the public schools into the 20th century with technological changes. The school system would also see a 50 percent cut in the funding for the Safe and Drug Free Schools Program - a reduction of $513,000 (two of their elementary programs were nationally recognized at a White House ceremony in June.) Finally, $332,000 in cuts in vocational rehabilitation and School to Work would force the city to eliminate youth apprenticeship programs in five city high schools. New programs in financial services and graphics for students would certainly be eliminated.

5. **David Hornbeck, Superintendent, Philadelphia, PA**

Topic: Goals 2000 and Reforming the Schools

Background. Mr. Hornbeck is an ordained Presbyterian minister, a lawyer, and the primary architect of Kentucky's sweeping 1990 reform legislation. As the head of the fifth largest school system in the nation, Mr. Hornbook designed a four year comprehensive reform plan for Philadelphia called "Children Achieving". He is also a senior education advisor to the Business Roundtable.

Impact of Cuts. Philadelphia was one of the first localities to use its Goals 2000 funds to reform the schools. They are very concerned that their reform effort will be held back due to cuts. The House proposed cuts of 17 percent in Title I will translate into the loss of 100 teachers and 200 classroom assistants to 80 schools serving 48,000 children.

6. **Albert Thompson, Superintendent of the Buffalo School System.**

Topic: The Importance of Federal Funds to Local School systems

Background. You met Mr. Thompson on August 3rd during the "Condition of Education Roundtable" in the Cabinet Room. Mr Thompson, has work on education issues for the last 30 years and is very active in his community. He has carved out an invaluable relationship between the school district and the business community -- nearly 85 percent of all schools in the district currently have a partnership with business.

Impact of Cuts. Under the Republican Budget, the Buffalo School System is expecting cuts of $3.8 million in the first year of Title I reductions. This would cut 96 teachers and affect 2,410 students. In the area of vocational education, the city will get $231,000 less next year cutting 6 teachers and 144 students.

Statement by Laura Tyson
Republican Proposal for Medical Savings Account
September 12, 1995

Today, a press conference was held by Republicans to extol the benefits of Medical Savings Accounts (MSAs) for Medicare beneficiaries. Although they continue to withold detailed specifics of their MSA proposal, we have serious concerns about its applicability to the Medicare program. An MSA for the Medicare program is likely to increase premiums for millions of beneficiaries who opt to stay in the current Medicare program.

MSAs may be attractive initially to younger, healthier and wealthier beneficiaries -- but this type of self-selection would likely benefit the while raising costs for the majority of Medicare beneficiaries. This is because MSAs lead to what is known as adverse selection -- a process whereby insurance companies are able to attract the least expensive and healthy beneficiaries and avoid the more expensive, more vulnerable population. The population that remains in the traditional Medicare program would be a smaller and sicker group of beneficiaries. As a result, the cost per person and their accompanying premiums would rise. Another adverse selection problem would arise if beneficiairies who chose the limited, catastrophic-oriented MSA benefit opted to go back into the traditional program when they became sick.

Apparently some Republicans are considering addressing these serious adverse selection problems by prohibiting beneficiaries who chose MSAs to opt back into the more traditional program to seek better coverage. With such a "lock-in" provision, if a Medicare beneficiary gets sicker than he or she expects, they would be trapped in their MSA catastrophic health care plan. We do not believe that this is the type of choice that most Medicare beneficiaries would want.

September 17, 1995

MEMORANDUM FOR WHITE HOUSE STAFF

FROM: GENE SPERLING

SUBJECT: Speaker Gingrich's misleading statements about Medicare

Speaker Gingrich has said that it is important that the American people be told the truth about Medicare. But the fact is that many of his comments and arguments about Medicare have been *seriously misleading and often outright wrong. Furthermore, while anyone can misspeak, he has constantly repeated these misleading claims* and they are at the heart of much of his case for unprecedented Medicare savings.

Below are six examples of central arguments on Medicare that the Speaker has made that are fundamentally misleading.

EXAMPLE #1. SPEAKER GINGRICH HAS REPEATEDLY SAID OR STRONGLY IMPLIED THE REPUBLICAN MEDICARE CUTS WOULD BE USED TO STRENGTHEN THE MEDICARE PROGRAM AND THE PART A TRUST FUND, AND *NOT* TO REDUCE THE DEFICIT OR PAY FOR TAX CUTS.

> "[W]e have decided that we're taking Medicare into a separate box. *Every penny saved in Medicare should go to Medicare.* Every change should be made about Medicare. It should not be entangled in the budget debate."
>
> -- Newt Gingrich, April 28, 1995

> "*It's not tied into the budget. It's not tied into getting to balance by 2002. Now, it is tied into meeting the trust fund requirements,* making sure that the system is affordable, getting us to a point where the baby boomers someday will be able to retire without bankruptcy."
>
> -- Newt Gingrich, April 28, 1995

> Speaker Gingrich "promised to remove Medicare from deficit reduction demands -- and to use any savings achieved by restructuring Medicare solely to save the Medicare trust fund itself from looming bankruptcy."
>
> -- The New York *Times*, May 3, 1995

FACT: REPUBLICANS RAISE MEDICARE PART B PREMIUMS THAT DO NOT GO INTO THE TRUST FUND:

- Despite the constant comments by Republicans that the entire reason for Medicare savings is to shore up the Medicare trust fund, this is not true. **The truth is *not one penny* of the premium increases in the Republican budget plan just unveiled will go to the Medicare trust fund.** Instead, the premium increases go into general revenues. While a growing program can have a negative impact on general revenues and therefore deficit reduction, such growth can be countered by any reduction in spending or general revenues. For example, if people feel that Medicare Part B growth is having too large of an impact on the deficit, one can cure that by other steps affecting general revenues -- such as lowering the size of a large tax cut.

EXAMPLE #2: SPEAKER GINGRICH HAS REPEATEDLY STATED THAT REPUBLICAN MEDICARE CUTS ARE DRIVEN BY THE NEEDS OF THE MEDICARE TRUST FUND AND NOT THE NEED TO BALANCE THE BUDGET.

> "*Everything we're doing in Medicare is driven by the actuaries' estimate of what it takes to build a savable system; it's not driven by a budget need.* We are in fact prepared to reshape all the other spending in the budget to fit the Medicare situation... including defense. We're prepared to look at everything. I mean, I've always said everything's on the table."
>
> -- Newt Gingrich, May 5, 1995

> "So we want to focus on Medicare as Medicare. Forget the budget pressure. Let's find out what number saves Medicare. We'll plug that into the budget. *We're not going to find out what number the budget needs and try to reshape Medicare to that effect.*"
>
> -- Newt Gingrich, *Meet the Press*, May 7, 1995

FACT: MEDICARE SAVINGS ARE INTEGRAL TO THEIR PLAN TO BALANCE THE BUDGET AND ACHIEVE A LARGE TAX CUT:

- The clear fact is that the $270 billion in Medicare savings make up about 25% of the savings called for in their budget plan. CBO must certify that their proposals produce these savings levels before Congress can consider the tax cut that Speaker Gingrich has called the "crown jewel" of his program. The Republican budget plan does not come close to reaching balance without their deep Medicare cuts. Indeed, Speaker Gingrich's spokesperson, Tony Blankley candidly admitted, "At the end of the process, whatever solutions are reached on Medicare will be part of the budget's bottom line." [Washington *Post*, May 2, 1995]

EXAMPLE 3: SPEAKER GINGRICH HAS CONTINUALLY CREATED THE IMPRESSION THAT THE CRISIS WITH THE MEDICARE TRUST FUND AROSE WITH THE RELEASE OF THE 1995 TRUSTEES REPORT.

> "...House Speaker Gingrich Tuesday asked President Clinton in a letter to send to each beneficiary a copy of the 1995 Medicare trustees' report saying the program would go broke in seven years. 'It is because of this impending bankruptcy that Republicans in Congress are committed to bold and decisive action to preserve, strengthen and protect Medicare...'"
>
> -- *Congress Daily*, July 26, 1995

> "[w]e would need to reform Medicare because it goes broke. Medicare Part A, which is the hospital part, is a trust fund. That trust fund, according to the Clinton Administration trustees, goes broke starting next year and is bankrupt in 2002."
>
> -- Interview with Charlie Rose, July 6, 1995

FACT: THE ONLY THING NEW ABOUT THE 1995 TRUSTEES REPORT WAS THAT THE TRUST FUND HAD IMPROVED BY A YEAR:

- The truth is that Medicare trust fund solvency issues are not new. If the Speaker had looked at the 1993 and 1994 trustees reports, he would have known that when the President took office in 1993 the trust fund was suppose to be insolvent in 1999.

- The President laid down a plan in 1993 to strengthen the trust fund, and Secretary Bentsen and other top Administration officials repeatedly told the Congress of the need to pass the President's plan in order to strengthen the trust fund. Gingrich not only ignored the issue of the trust fund, he led the Republicans in all voting against these savings. In 1994, when the Administration stressed that health care reform was needed to strengthen the trust fund, Gingrich and others again ignored the issue.

- Indeed, the only provision in the *Contract with America* relating to the Medicare trust fund made it worse. The Contract called for repeal of the increase in the Social Security benefits tax for high-income seniors -- a provision that helped improve the financial status of the trust fund. If the provision in the Contract is enacted, the trust fund will go insolvent 8 months sooner.

- **The truth is that the sudden concern with the Medicare trust fund has been driven by the targets in the Republicans' budget plan.** Speaker Gingrich *never* expressed concern about the trust fund until 1995 when he was developing his plan to balance the budget -- even when the trust fund was in *greater* danger than it is now. Indeed, the only thing new in the 1995 Medicare trustees report was that the trust fund's solvency *improved* by one year.

  Speaker Gingrich has refused to explain his inconsistency on this issue:

  "Dole and Gingrich insisted yesterday that Medicare was in crisis, holding aloft a recent report by the Medicare trustees that the portion of Medicare that pays for hospital expenses will run out of money in 2002. *But they abruptly walked out of the news conference after increasingly skeptical reporters pointed out that the trustees' report this year was more positive than last year.* The House Republican tax-cut bill also worsens the solvency of the Medicare trust fund by repealing a tax Clinton passed in 1993 to shore it up."

  -- *Newsday*, May 3, 1995

EXAMPLE #4. SPEAKER GINGRICH HAS SAID THAT MEDICARE COSTS SHOULD GROW AT THE SAME RATE AS COSTS IN THE PRIVATE SECTOR.

> "Well, if you have a government program which is going up at 10-1/2 percent a year and you have *private sector health care that is going up at one percent*... it does seem to mean you start asking some questions about why is it that this centralized government bureaucracy has a 10-1/2 percent a year increase when in the private sector you're getting one, two, three, four percent increases?"
>
> -- *Meet the Press*, Sunday, May 7, 1995

FACT: CBO RECOGNIZES THAT THE CURRENT PRIVATE SECTOR GROWTH RATE PER PERSON IS ABOUT 7% -- NOT 1% AS SPEAKER GINGRICH HAS SUGGESTED:

- According to CBO, "[t]he growth of private health insurance premiums will average about 7 percent a year between 1995 and 2005." [CBO, *The Economic and Budget Outlook: An Update*, August 1995, p. 84.] And the Medicare beneficiary population tends to have greater health care needs than people with private insurance.

- The truth is the Republican budget plan would lower the growth of Medicare spending per person significantly below the private sector growth rate. The Republican $270 billion Medicare cut would constrain Medicare to an unrealistic 4.9% per beneficiary growth rate -- well below the 7.1% private sector growth rate.

EXAMPLE #5. SPEAKER GINGRICH CLAIMS THAT MEDICARE CURRENTLY GIVES PEOPLE NO CHOICE AND IS PLAGUED WITH PROBLEMS.

> "We are going to rethink Medicare from the ground up. ..... *The current highly centralized bureaucratic structure offering one menu for everybody in a monopolistic manner is the opposite of how America works.* And so we need to start from the senior citizens, with their help, thinking through how we get to a better Medicare system that actually works more effectively, that gives them greater choices, but that is also financially more honest."
>
> -- Newt Gingrich, January 30, 1995

FACT: THE TRUTH IS MEDICARE CURRENTLY PROVIDES THE VAST MAJORITY OF SENIORS WITH MULTIPLE OPTIONS.

- Most Medicare beneficiaries choose to receive their health care services through the traditional fee-for-services delivery system, which allows them to choose their own health care provider and hospital. *But millions of other beneficiaries currently choose to enroll in managed care plans* such as HMOs or competitive medical plans that have contracts with the Medicare program. A beneficiary enrolling in a managed care plan often has coverage for services not offered under Medicare, such as prescription drugs. [Source: Congressional Research Service, *Medicare SELECT*, April 19, 1995.]

- The truth is that Medicare is one of the most popular and successful programs ever created. Medicare is extremely popular among the American people because it has so successfully reduced the crushing financial burdens faced by seniors and their families.

October 6, 1995

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: ERSKINE BOWLES

SUBJECT: Impact of the Republican Budget Cuts on Rural America

The Budget Working Group, working closely with Democratic Members of Congress and their staffs, is planning three days of "rural impact" budget events for October 10, 11, and 12.

The events were planned because the Budget Working Group believes that we have a real opening here: the Republican cuts to rural America are drastic and severe. Focusing on rural cuts also gives us the opportunity to unite Members of Congress and Administration officials around one theme. Be it Medicare, agriculture, education, the environment, taxes, transportation, or housing, the Republican targets rural America and hits it hard.

Your participation in rural events this week has shown our deep commitment to rural America, and it has enabled us to plan three days worth of Administration, Congressional, state and local elected officials, and outside groups events.

PRINCIPAL EVENTS

The week will center on three events:

- Chief of Staff Panetta, Secretary Glickman, Senator Daschle, Congressman Gephardt, Congressman Stenholm, and numerous other Members of Congress will release our analysis of the state-by-state impact of the Republican Budget cuts on rural America (Wednesday, October 11).
- Presidential conference call with rural hospital administrators in key districts (Thursday, October 12).
- Vice President/Secretary Glickman rural radio into key districts (Thursday, October 12).

AMPLIFICATION EVENTS

More than 100 Administrations officials will participate in rural impact events in more than 110 rural communities -- an unprecedented level of amplification activity (October 10,11,and 12).

- 9 Cabinet events
- 63 Sub-Cabinet events
- 24 Regional Administrator events
- 40 USDA State Directors events
- Congressional Members will join Administration officials at more than 20 events
- Congressional Members will join Administration officials at more than 100 satellite and radio interviews.
- Administration events in 110 rural communities
- Administration events in more than 40 states
- Administration events in 80 percent of our targeted media markets.

More than 118 Democratic elected officials have also committed to either joining Administration officials at events, or hosting their own events.

- 14 Governors events
- 29 Mayors events
- Elected Officials events in more than 140 cities

October 7, 1995

To: Chris Jennings, Barry Toiv, Alan Cohen

From: Gene Sperling

Subject: Medicare Lock Box Answers

Q: HOUSE REPUBLICANS SAY THAT THE MEDICARE CUTS ARE NOT TO PAY FOR A TAX CUT AND TO PROVE IT THEY ARE GOING TO VOTE ON MEDICARE CUTS SEPARATELY TO SHOW THAT IT IS FOR MEDICARE ALONE?R

A: Here are the facts no one can dispute: they could lower their Medicare cut by $150 billion -- take away every penny of extra premium increase, extra deductible -- by simply lowering their tax cut by $150 billion. No accounting gimmick; no separate account can hide that fact.

The Republicans a are like a person who cuts $5000 in health care for their family for a $5000 Las Vegas vacation, and when he is caught, denies he is cutting health care to pay for a vacation, because he promises to put *that* $5000 in a special trust account to pay for food and rent. Anyway you slice it, if that guy didn't have to pay for a $5,000 Las Vegas vacation, he wouldn't have to cut $5,000 in health care for his family. And anyway you slice it, if the Republicans didn't have to pay for a $245 billion tax cut going largely to the wealthy, they would not have to cut an extra $270 billion of Medicare. [$150 billion more than is needed to secure the Trust Fund].

Q: BUT REPUBLICANS IN THE SENATE SAY THAT THEY ARE CUTTING MEDICARE PART B AND PUTTING ALL OF THAT INTO THE MEDICARE TRUST FUND. DOESN'T THAT ANSWER YOUR CHARGE?

A: [Repeat] Here are the facts no one can dispute: they could lower their Medicare cut by $150 billion -- take away every penny of extra premium increase, extra deductible -- by simply lowering their tax cut by $150 billion. No accounting gimmick; no separate account can hide that fact.

Indeed, they are admitting that about $150 billion of their Medicare go to the general fund that is used for paying for a tax cut -- not paying for the Medicare Trust Fund. Then they say that they will transfer that $150 billion from general fund to the Medicare Trust Fund. Well they could do the same good for the Trust Fund by lowering taxes by $150 billion so that they could lower their extreme Medicare cut by $150 billion.

October 9, 1995

MEMORANDUM FOR GENE

FROM: PAULINE

SUBJECT: The Medicare eligibility age and African American men

Peter Orszag and I came up with the following two accurate descriptions of the impact of raising the Medicare eligibility age for African American men:

1) Based on the most recent data, for the 20 year-old African American man with the average life span, raising the Medicare eligibility age to 67 means he will never receive Medicare. (Based on estimates from the U.S. National Center for Health Statistics, 1994.)

   [Note that the median life span -- when half the 20 year-old African American men are expected to die -- was about 68 in 1991, above the average age of 67.]

2) Based on the most recent data, the typical 20 year-old African American male will lose 66% of his time on Medicare if the Medicare eligibility age is increased. By contrast, the typical white 20 year-old person will lose 14% of their time on Medicare. (Calculations based on estimates from the U.S. National Center for Health Statistics, 1994.)

   [This is because the median or typical African American has a life span of 68 years and will therefore lose two of his three years on Medicare, while white people have a life span of 79 years and will therefore only.lose 2 of their 14 years on Medicare.]

Both are technically accurate statements but Peter feels much more comfortable with the second one because:

- African American men almost live long enough now to receive Medicare at 67 (their average life expectancy is 66.9 years) and they're living longer each year so the average age will probably be above 67 in 2022.

- He is concerned that people may get the wrong impression and will restate it as "raising the Medicare eligibility age wipes out Medicare for African American men." This was a concern that other government analysts voiced, but they could not suggest a better way to discuss this legitimate issue.

RAISING THE MEDICARE ELIGIBILITY AGE

October 9, 1995

The Senate Republican Medicare plan would gradually raise the Medicare eligibility age from 65 to 67, beginning in 2003. Millions of Americans would have to work longer and pay more taxes to get fewer years of Medicare, while others who could not continue to work or could not get private health insurance would have to go without health insurance.

Background on the proposal. The Senate Republican Medicare plan would gradually raise the Medicare eligibility age from 65 to 67, beginning in 2003. The increase would match the scheduled gradual increase in the Social Security normal retirement age. For 35 year-olds working today, raising the eligibility age will mean paying taxes for two additional years and receiving two fewer years of benefits. For 45 year-olds, it means one more year of paying taxes for one fewer years of benefits. [Gene - these are the ages that HHS gave me and which I get based on the Green Book, but Glen at Treasury sent me conflict information so I will recheck them again.]

Raising the Medicare eligibility age differs fundamentally from raising the Social Security normal retirement age. Social Security provides early retirees with partial benefits beginning at age 62. The Republican Medicare plan would *not* allow people into Medicare at age 65, even if they purchased the coverage themselves.

Raising the Medicare eligibility age will increase the number of uninsured. Most people retire and begin receiving Social Security at age 62, and often must wait until he or she qualifies for Medicare at age 65 to receive health insurance:

- Almost 18 percent of non-working 60-64 year-olds lack health insurance (AARP based on CPS data). Many people who are laid off in their 50s and 60s cannot buy health insurance at any price.

- *Over half* of all 65 and 66 year-old retirees report that they have no employer-provided health benefits. And this number is increasing rapidly. *About 20%* of all 65 and 66 year-olds rely entirely on Medicare for their health insurance. Thus, without Medicare, many will have to buy expensive individual coverage or go without health insurance. [U.S. Dept. of Labor based on the CPS, March and September 1994, April 1993.]

While Americans are living longer, many cannot work longer. Over 33 million workers are employed in physically demanding occupations (BLS, unpublished tabulations), and therefore may not be able to continue to work after age 65. At least 25% of people retiring before age 65 stop working primarily for health reasons. (*Social Security Bulletin* 52, p. 66.) The age at which people stop working has been declining for decades, and most people now begin receiving Social Security at age 62. (*Social Security Bulletin*, Annual Statistical Supplement, 1994.)

DRAFT - NOT FOR CITATION

Raising the Medicare eligibility age would especially hurt women and minorities.

- Women and minorities are less likely than white men to have employer-provided health care coverage. Only 17 percent of female retirees and only 17 percent of non-white retirees ages 55 and over are currently covered under a previous employer's health plan. (U.S. Dept. of Labor, "Retirement Benefits of American Workers," September 1995.)

- African American men especially will lose much of their Medicare benefits because they have a shorter life expectancy. Based on the most recent data, the typical 20 year-old African American male will lose 66% of his time on Medicare if the Medicare eligibility age is increased. By contrast, the typical white 20 year-old person will lose 14% of their time on Medicare. (Calculations based on the U.S. National Center for Health Statistics, 1994.)

OR

Based on the most recent data, for the 20 year-old African American man with the average life span, raising the Medicare eligibility age to 67 means he will never receive Medicare. (Based on estimates from the U.S. National Center for Health Statistics, 1994.)

Raising the Medicare eligibility age will raise out-of-pocket costs for health insurance. Private individual health insurance comparable to Medicare is likely to exceed $5,000 a year. (CPS March 1994.) The Labor Department estimates that couples age 65 and 66 combined would pay about $7,000 a year more either directly from buying private health insurance or higher premiums from former employers, or indirectly from continuing to work or reentering the labor force at lower wages due to the higher health care costs to employers. Such costs would be prohibitive for many Medicare beneficiaries. About 75% of all Medicare beneficiaries have incomes below $25,000. About 20% of the people aged 65 and 66 who rely entirely on Medicare are living below the poverty line -- less than $7,500. (CPS, March and September 1994, April 1993.)

Raising the Medicare eligibility age will increase costs to employers. It would place an additional burden on employers who have to pay for additional years of insurance for older and retired workers. About 1.6 million retirees receive health benefits through an employer sponsored plan, either directly or through a spouse. (CPS, April 1993, September 1994.) Virtually all of these plans are integrated with Medicare and will likely have to be restructured or terminated, causing huge disruptions and contentious legal issues. According to the chair of the Corporate Health Care Coalition, employers would immediately have to disclose their additional liabilities in financial reports. [*NYT*, "Retirees' Group Attacks G.O.P. Health Plan," 10/6/95.]

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

October 19, 1995

TO: Leon Panetta
Laura Tyson
Bob Rubin
Joe Stiglitz
Carol Rasco
Bruce Reed
Chris Jennings
Pat Griffin
Barbara Chow
John Angell
Martha Foley
George Stephanopoulos
Gene Sperling

FROM: Larry Haas

Attached is a draft of the Senate Reconciliation letter, addressed to the Senate Leadership and to the Chairman and Ranking Member of the Senate Budget Committee.

I know that some of you didn't have the time you wanted to review the House letter from Alice, which went to the Hill early yesterday, but we remain on a very tight time frame. The Senate Budget Committee plans to act on reconciliation as early as 1 p.m., tomorrow. That means, unfortunately, that I need everyone's comments on the Senate letter by the end of today, say 7 p.m. We need time to incorporate your comments and suggestions into the final letter.

On the other hand, this letter closely mirrors the House letter, which you have already seen. Consequently, I wouldn't expect that your review of the Senate letter would take long.

If the Senate Budget Committee's schedule slips, we will let you know immediately and ease up on the schedule. That's about the best we can do.

Please fax your marked up copy to me at 5-7298 or hand-deliver it to OEOB, Room 253 -- or call me (5-7254) or Chuck Konigsberg (5-4790) with general comments.

Thanks for all your help.

Honorable Pete V. Domenici
Chairman
Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to transmit the Administration's views on the actions that Senate committees have taken to comply with their budget reconciliation instructions.

You should have no doubt about the President's position: If reconciliation legislation were sent to him with the extreme spending cuts and huge tax cuts called for in the budget resolution, he would veto the bill. The President has stressed the importance of finding common ground with Congress on a budget plan that will best serve the interests of the American people.

As you know, the President shares the goal with congressional leaders of balancing the budget. But, as the President and his senior advisors have repeatedly noted, the Administration has profound differences with the overall approach that Congress has adopted to reach that goal:

- **The President's plan:** The plan, which the President announced in June, would protect Medicare until 2006 and retain Medicaid as an entitlement; invest in education and training and other priorities; and provide for a targeted tax cut to help middle-income Americans raise their children, save for the future, and pay for postsecondary education.

  To reach balance within 10 years, the President would eliminate wasteful spending, streamline programs, and end unneeded subsidies; take the first, serious steps toward health care reform; reform welfare to reward work; cut non-defense discretionary spending (other than the President's investments) 22 percent in real terms in 2002; and target tax relief to those who really need it.

- **The Republican plan:** The Republican plan -- as reflected in the committee's reconciliation provisions and earlier congressional budget actions -- would reach balance in seven years, and, at the same time, provide a huge tax cut whose benefits would flow disproportionately to those who do not need them.

To reach balance under those circumstances, the Republican plan would cut deeply into such mandatory programs as Medicare, Medicaid, student loans, food stamps, and foster care, and would raise taxes on millions of working families by slashing the Earned Income Tax Credit (EITC). By extending the discretionary caps at GOP-proposed levels, the Republican plan would force deep cuts in virtually all discretionary programs, including education and training, science and technology, and other investments that would help raise average living standards.

The President believes strongly that, while his approach reflects the common ground that Americans share, the Republican plan reflects an extreme and unwise approach that will hurt average Americans and help special interests. He has repeatedly urged Congress to work with him on a more reasonable path that will help raise average living standards in the future.

The Republican majority, however, has shown little inclination to move to a more responsible path. The Finance Committee, for instance, has passed deep, unwarranted cuts in Medicare that would raise costs for beneficiaries and sharply cut payments to providers, jeopardizing access to, and the quality of, care. In addition, Finance would convert Medicaid into a block grant and limit its annual growth. Given such a low rate of growth, states would face untenable choices: cutting provider payment rates, cutting benefits, or dropping coverage for beneficiaries. Furthermore, Finance would end standards needed to protect residents of nursing homes and not ensure coverage for some of the most vulnerable Americans -- poor adolescent children.

The Republican tax plan hurts working Americans. The Finance Committee would raise taxes on 17 million working families by cutting the EITC. And it would make unwise changes to pension fund asset reversions -- making it easy for companies to withdraw "excess" pension assets -- threatening the retirement benefits of workers and increasing the exposure of the Pension Benefit Guaranty Corporation, which guarantees these benefits. Coincidentally, the Governmental Affairs Committee would raise Federal employee retirement contributions -- which is tantamount to raising employees' taxes.

We also understand that the majority will place the Senate-passed welfare reform bill in the reconciliation bill. When added to food program and EITC cuts elsewhere in reconciliation, the total low-income program cuts are excessive. While welfare clearly needs reform, its primary purpose should be to move people from welfare to work, not reduce the deficit. The cost of excessive program cuts in human terms -- to working families, families with small children, low-income immigrants, disabled children, and the elderly receiving Supplemental Security Income -- would be grave. The Administration proposes a more acceptable level of cuts, coupled with strong programmatic reforms.

Other committees are making cuts in programs that would adversely affect millions of students and their families; children; the poor of all ages; farmers; and the environment.

The Senate Labor and Human Resources Committee would raise college loan costs to middle- and low-income students and parents, and tax colleges and universities. In particular, the Committee would cap the Direct Student Loan Program, reversing the program's significant progress and ending the participation of over 600 schools and hundreds of thousands of students. These actions hurt middle- and low-income families, make student loan programs less efficient, perpetuate unnecessary red tape and burden on schools, and deny to students and schools the free-market choice of guaranteed or direct loans.

The Agriculture Committee would cut farm spending over three times more than the President, reducing farm income and jeopardizing recent record gains in U.S. farm exports. Also, it would cut food stamps too much -- even more than the Senate welfare bill -- threatening the nutritional safety net for children, the elderly, and working families.

The Energy and Natural Resources Committee would open the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling, threatening a rare, pristine ecosystem, in hopes of generating $1.3 billion in federal revenues -- a revenue estimate based on wishful thinking and outdated analysis. Moreover, the potential for long-term damage to this biologically-rich wilderness is simply too great. The Administration, instead, supports efforts to protect the refuge's coastal plain permanently.

Already, the President has made it clear that he will veto any reconciliation bill that includes Medicare and Medicaid cuts of the size that the budget resolution calls for. Also, as I wrote to the Energy and Natural Resources Committee on September 21, the President will veto any reconciliation bill that opens ANWR to oil and gas drilling. But our serious concerns do not end with the specific veto threats that we have issued. For the wide array of reasons discussed in this letter, this bill remains unacceptable to the Administration and to the American people.

This nation was founded on the dream that all families should be given the opportunity to improve their lives and the future of their children. The Republican plan undermines that dream and promotes the wrong set of priorities for the nation.

Attached is a more detailed review of our concerns.

Although we have major differences with Congress at this point, we hope to work with you to find a common path to balance the budget in a way that will improve the standard of living of all Americans.

Sincerely,

Alice M. Rivlin
Director

Attachments

Identical letters sent to Honorable J. James Exon
Honorable Robert Dole, and Honorable Thomas Daschle

CONCERNS WITH SENATE RECONCILIATION PROVISIONS

SENATE AGRICULTURE

Farm policy

The Administration objects to the $13.4 billion cut in farm program spending over seven years -- well over the $4.2 billion in seven-year savings in the President's balanced budget plan. Cuts of the Senate's magnitude would unacceptably reduce U.S. farm income and damage U.S. agricultural export opportunities in the world economy.

The bill does not direct funding to those who most need it, and would punch holes in the safety net for family farmers; while it would significantly protect large-scale farming, it would not significantly protect small-scale farming.

Moreover, farmers would no longer have to participate in the Federal Crop Insurance Program as a condition of receiving farm program benefits, potentially undoing the major reforms only recently achieved in that program.

The bill would cut international trade promotion and market development assistance. It would cut the Export Enhancement Program by 20 percent a year, and the Market Promotion Program by 32 percent a year, diminishing our ability to compete in international markets -- in stark contrast to our competitors who continue to subsidize their farmers substantially.

In addition, the bill would cut incentives for voluntarily accomplishing conservation goals. It would cut the Conservation Reserve Program in half (costing about 15 million acres of resource protection), compared to the Administration's baseline. It would prohibit the Wetland Reserve Program from offering permanent easements, thus requiring USDA to pay multiple times for the same piece of land in order to protect wildlife and water quality. Especially at a time when regulatory controls for wetlands protection are under attack, Congress should not cut incentive-based programs so drastically.

Food Stamps and Child Nutrition

The committee's proposal includes the Senate welfare bill's food stamp provisions and other provisions. All told, the committee would cut food stamps by $31 billion -- $4 billion more than the Senate welfare bill. The President's balanced budget plan includes a preferable funding level, saving $19 billion over seven years but preserving uniform, national eligibility for most of those now entitled to the program. We must preserve the national nutrition safety net, which assists about 27 million low-income children, elderly and working families.

The Administration strongly opposes the food stamps block grant option, which the Senate welfare bill includes. By not requiring that all assistance go for food, the Senate would endanger the national program and move toward abdicating the federal role in combating hunger. Especially if Congress creates an AFDC block grant, we must preserve a national food stamp entitlement program; a national nutrition program helps put food on the table for low-income families who may lose their cash assistance. Nevertheless, most of the Senate's proposed changes to nutrition programs improved upon those in the House welfare bill. The Senate, for instance, rejected block grants for child nutrition programs and WIC.

The Administration strongly believes that all food stamp spending should go for food assistance, not just 80 percent, as the Senate block grant option would permit. Federal nutrition programs have produced measurably better health among the many people who get food assistance. National nutrition standards and a funding mechanism that lets the programs expand to meet greater needs in times of national or regional economic hardship are essential to feasible welfare reform.

SENATE ARMED SERVICES

The Administration is pleased that the Senate chose not to break faith with our service men and women by changing the method for computing military retirement pay, but instead chose to allow increased sales from the National Defense Stockpile to offset defense mandatory program increases.

The committee also proposes to sell the Naval Petroleum Reserves, as the President proposed. The Administration urges Congress not to rush the sale, enabling the federal government to receive full market value for the assets.

SENATE BANKING, HOUSING, AND URBAN AFFAIRS

Banking Insurance Fund (BIF)/Savings Association Insurance Fund (SAIF)

The Administration strongly supports the Committee's action to deal with the financial problems facing the Savings Association Insurance Fund (SAIF). The legislation, however, should unambiguously accomplish SAIF's merger with the Bank Insurance Fund (BIF), and not depend on future congressional action to change or abolish the thrift charter. While issues surrounding the thrift charter are very important, they should not interfere with enactment of a comprehensive financial solution that includes merging the deposit insurance funds. The Administration also is concerned that CBO may estimate that future congressional action to trigger the fund merger carries a cost, creating a budgetary obstacle to the merger.

HUD Rental Subsidy Annual Adjustment Factor

The Administration is concerned about the equity of limiting the 1 percentage point cut in HUD's annual adjustment factor for subsidized rents to only one form of Section 8 rental assistance -- tenant-based certificates. The Administration prefers the House approach -- consistent with the Administration's 1995 and 1996 budget proposals -- of extending this reduced adjustment to all forms of Section 8 subsidies, including tenant-based certificates and subsidies attached to projects. Congress enacted this approach for one year only as part of the 1995 VA/HUD Appropriation Act, and will likely enact it again in the 1996 Appropriation.

SENATE COMMERCE, SCIENCE, AND TRANSPORTATION

Spectrum Auction

The Administration applauds the Committee for including legislation to raise funds from spectrum auction, and believes the Committee's spectrum language is preferable to the House Committee's. Unlike the House Committee's, the Senate provision provides for paying (from auction proceeds) the costs that federal agencies bear in migrating from one portion of the telecommunications spectrum to another. This provision could be particularly important for the Departments of Defense and Justice and the Federal Aviation Administration. We should not require agencies to absorb these costs in their discretionary appropriations.

Rail Infrastructure

The Administration objects to the Committee's decision to spend $70 million over seven years to make available up to $100 million a year in guaranteed loans under the Federal Railroad Administration's Section 511 program. Railroads are financially healthy and have access to substantial financing through the private capital markets. In this era of declining discretionary budgets, subsidized loans to private, profitable corporations are objectionable.

The Administration also objects to spending $75 million to revive the Local Rail Freight Assistance program. The Administration proposed to terminate this program in the 1996 Budget, and both House and Senate appropriators chose to eliminate it as well. The federal government should not be in the business of handing out grants to private corporations.

SENATE ENERGY AND NATURAL RESOURCES

Arctic National Wildlife Refuge

As noted above, the President will veto any reconciliation bill that opens the Arctic National Wildlife Refuge (ANWR) to oil and gas drilling. Exploration and development activities would bring physical disturbances to the area, unacceptable risks of oil spills and pollution, and long-term effects that would harm wildlife for decades. Moreover, the estimate that ANWR will generate $1.3 billion in federal revenues from oil and gas leasing is wishful thinking, based on projected oil prices in the year 2000 of about $30 per barrel -- even though the Energy Information Agency now predicts prices will only be about $19 per barrel. The estimate also fails to consider new geological information showing lower recoverable oil estimates and Alaska's claims that its Statehood Act entitles it to 90 percent of all revenues -- not 50 percent, as the estimate assumes.

Hardrock Mining Reform

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal essentially retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at relatively little charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has excessive deductions, and would raise only a small amount of money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment.

The Administration is concerned that the Committee's proposal to reform the antiquated 1872 hardrock mining law would, in fact, leave it largely intact. Most notably, the proposal retains the notorious patenting provision whereby the government transfers billions of dollars of publicly-owned minerals at little or no charge to private interests. The proposed "net" royalty on proceeds from minerals production on federal lands has numerous deductions and escape mechanisms, and would raise little if any money to compensate taxpayers or fund the cleanup of abandoned mines that are degrading water supplies and otherwise harming the environment. Moreover, the proposal actually weakens the existing claim holding fee by enlarging the "small miner" exemption to cover the vast majority of existing claimants.

Strategic Petroleum Reserve (SPR)

The Administration opposes selling an additional 32 million barrels of SPR oil, beyond the seven million proposed in the President's 1996 Budget and included in the 1996 Interior Appropriations Conference Report. This proposal ignores the crucial energy security policy underlying the SPR. Because the U.S. likely will grow even more reliant on Persian Gulf oil in the near future, we must not use our first line of defense against oil import disruption to balance the budget. The Administration has proposed modest sales of SPR oil and the reinvestment of all proceeds into SPR facilities.

USEC Privatization

The Administration is pleased that both the House and Senate bills advance prospects for selling the United States Enrichment Corporation (USEC). Generally, the Administration prefers the Senate version, although we oppose Senate provisions that would transfer exclusive rights to gaseous diffusion technology from the Energy Department to USEC. In addition, the Senate treatment of Russian uranium provides a framework to balance antidumping concerns with the national security goal of purchasing Russian high enriched uranium (HEU). But, to effectively implement the HEU deal, the initial limit on using Russian uranium in the U.S. should be raised to 4 million pounds in 1998 (vs. 2 million pounds) and raised by 2 million pounds per year.

Additional Concerns

The Committee also has chosen to use the reconciliation bill as a catch-all for various objectionable policies, many of them having nothing to do with balancing the budget. They include:

- **Oil and Gas Royalties** -- The proposal includes a number of provisions that would make royalty collection far more difficult and costly for the federal government.

- **Ward Valley (CA) Land Transfer** -- The proposal to transfer this low-level radioactive waste storage site to the State of California (which the Administration supports in concept) includes no environmental conditions -- ignoring the important, common sense recommendations of some of the nation's leading scientists who have analyzed Ward Valley environmental and safety issues.

- **Communication Site Fees** -- The proposal would implement a revised fee structure for radio and television communications site users on National Forest and Bureau of Land Management (BLM) lands, preventing both agencies from implementing a fair market value fee schedule that they (?) developed over the past three years to ensure taxpayers a fair return on the use of public resources. It would shrink and delay revenues to the Treasury, and to states and counties where the sites are located.

- **Aircraft Services** -- The proposal would raise federal procurement costs by requiring the Interior Secretary to sell many of the aviation assets that Interior uses (except for large firefighting aircraft). Interior now contracts 85-90 percent of its aviation needs with private firms. The aircraft that Interior owns and flies meet special needs, such as wildlife fire-fighting and scientific research, or are simply cheaper for the Department to own because they are used so often.

- **1982 Reclamation Reform Act (RRA)** -- The proposal would allow large landowners to prepay, at a discounted rate, the highly subsidized debt they owe the U.S. for their share of capital costs of Bureau of Reclamation irrigation projects. These landowners would no longer have to pay the full water delivery costs for any acreage above 960 acres that they irrigate with water from Reclamation projects. Congress should not provide an expensive, unjustified new break to large landowners who have already benefited substantially by their subsidized borrowing from the federal government.

- **Collbran Project Transfer (CO)** -- The proposal would transfer this Bureau of Reclamation irrigation and hydropower project to the non-federal Collbran Water Conservancy District in the last quarter of fiscal 2000. By delaying the transfer, but not adjusting the price tag or covering the power debt, taxpayers would provide an unwarranted triple subsidy to the project's water district conservancy.

SENATE FINANCE

Medicare

The Administration strongly opposes the magnitude of the proposed Medicare cuts -- $270 billion over seven years. While Republicans say the cuts are needed to "save" the Medicare Part A Trust Fund, only a fraction of the savings actually would go to the Part A trust fund. Most of the cuts -- about $150 billion over seven years -- are in Part B, none of which would strengthen the Part A trust fund. These Medicare cuts are designed to finance the GOP tax cut.

Further, the Republican plan imposes almost $70 billion in new financial burdens on beneficiaries. Most of it comes from setting the Part B premium to cover 31.5 percent of program costs. This increase is excessive and does nothing to strengthen the Part A trust fund. The GOP plan also more than triples the Part B premiums for some higher-income beneficiaries. For all beneficiaries, the Part B deductible would more than double by 2002. The GOP plan then compounds these direct new burdens on beneficiaries by imposing many hidden cuts that will force them, over time, to pay much more for their health care services.

For example, the Senate's new "Medicare Choice" option actually gives beneficiaries less choice. Though it promises to give beneficiaries free choice between traditional Medicare and all the options under Medicare Choice, the legislation applies distinctly uneven rules to Medicare and Medicare Choice, making the former much less attractive to providers than the latter. These incentives, along with a provision that applies the "failsafe" mechanism of more cuts only to the traditional program, would reduce providers' willingness to serve beneficiaries in traditional Medicare. This will restrict beneficiary choice, not enhance it. Medicare Choice, as structured in the GOP plan, also would promote adverse risk selection that could increase costs for the traditional program. The Administration does not support efforts to use Medicare beneficiaries to experiment with untested concepts that could weaken the program.

Medicaid

The Administration strongly opposes both the magnitude of proposed Medicaid cuts -- which would cut federal payments to states by $182 billion, or 20 percent, below current law -- and the conversion of Medicaid into a block grant. By 2002, the cuts would amount to a 30 percent reduction below CBO's estimate of the cost to maintain current services. To reach these savings, per capita health care spending growth under Medicaid would have to fall to an average of 1.4 percent a year over the next seven years; by contrast, per capita spending in the private sector is projected to grow by 7.1 percent a year over this period. Given such a low rate of growth, states would face untenable choices: cutting provider payment rates, cutting benefits, or dropping coverage for beneficiaries. Furthermore, in converting Medicaid into a drastically smaller block grant program, the Committee bill reduces the guarantee of coverage on which millions of low-income families have depended.

The bill also repeals protection for low-income Medicare beneficiaries under Medicaid. Currently, an estimated 5 million individuals are eligible for Medicaid assistance with their Medicare premiums, deductibles, and other cost sharing. The need was so great that congressional Democrats and Republicans supported creating the Qualified Medicare Beneficiary (QMB) program. President Reagan signed legislation to create the program; President Bush signed a bill to expand it.

The bill repeals federal nursing home quality standards and directs states to adopt whatever standards they choose. With an enormous cut in federal financial assistance, states may not be able to afford to develop and enforce standards to ensure a high quality of care and quality of life.

The Administration is concerned that the Committee bill repeals the Vaccines for Children Program (VFC), a 100 percent federally-funded entitlement for Medicaid-eligible, uninsured, under-insured, and Indian children. Although the bill requires states to cover immunizations for Medicaid-eligible children, thousands of uninsured, under-insured, and Indian children would lose coverage. Further, in converting Medicaid into a drastically reduced block grant, federal funding dedicated to immunizing children would fall, threatening our efforts to insure that 90 percent of all children under age 2 are properly immunized for the initial, and most crucial, doses of vaccine.

Earned Income Tax Credit (EITC)

The Administration strongly objects to the Committee's proposal to cut the EITC by $43.5 billion over seven years, raising taxes on 17 million households. These changes represent the antithesis of welfare "reform": They would make work pay less, penalizing those who play by the rules. About half of the savings would come from rolling back OBRA '93 expansions -- ending the credit for childless workers, and repealing the scheduled 1996 increase for families with two children. The other half would come from reducing the income level at which the EITC is phased out, counting child support and non-taxed social security toward the phaseout, and modifying the limitation on asset income.

The Administration believes strongly that Congress should not raise taxes on working families to finance tax breaks for the well-off. It should limit its changes to the compliance improvements that the Administration has proposed.

Tax Cuts

The Administration strongly opposes the Committee tax cut; it is fiscally irresponsible and would make the tax law more complex, encourage tax shelters, and provide a disproportionate share of benefits to high-income families. At a time when Congress seeks to save almost $1 trillion to balance the budget, adding another $245 billion to the deficit through lower taxes forces more drastic cuts in public services and benefits for lower- and middle-income families. Without this big a tax cut, Congress would not need the drastic cuts in Medicare in the budget resolution, including the increase in premiums for the elderly at all income levels.

The tax cuts provide large benefits to those who need them the least. The virtual elimination of the corporate alternative minimum tax (AMT) will enable many profitable corporations to avoid paying any income tax at all. The capital gains cut is overly generous, disproportionately benefits upper-income families, will make the tax law more complex through the indexing provision, and will encourage tax shelters. Overall, xx percent of benefits from the Finance tax bill will accrue to families with incomes over $100,000 (the top 12 percent of families).

Pension Reversion

The Administration strongly opposes the "pension reversion" provision that would permit companies to withdraw "excess" pension assets. As the Pension Benefit Guaranty Corporation's board members stated in an October 17 letter to Chairman Roth, the Senate provision would "result in the removal of billions of dollars from the pension system, endangering workers' retirement income for the purpose of paying current expenses. This would increase the risk of loss for workers, retirees and the pension insurance system. Despite the nominal restrictions imposed on the withdrawals, the proposal would effectively allow companies to remove assets from retirement plans and use these funds for any purpose...."

Such reversions also risk a repeat of the pension raids of the 1980s, when reversions helped fuel corporate takeovers and buyouts. This short-sighted provision risks undermining our private retirement system.

Child Support Enforcement

The Administration has significant concerns about a Committee proposal to mandate that, to recoup administrative expenses, States collect an amount equal to a $25 application fee and a 10 percent fee on all non-AFDC child support collections. Such a fee, amounting to a cut in income, would unduly burden low- and moderate-income families, possibly forcing some back on AFDC.

Welfare Reform

AFDC, Job Training and Child Care. The Committee included the Senate-passed welfare reform bill in its reconciliation package. The Senate bill is vastly preferable to the House welfare bill, but the inclusion of welfare reform legislation in reconciliation raises important issues:

- Without sufficient child care funding, welfare reform will prove an enormous unfunded mandate on states. The Administration recommends that Congress improve the final bill by adding more child care money, not less.

- Congress should require states to provide a permanent maintenance of financial effort.

- Congress should expand the mechanisms, such as contingency and loan funds, that help states cope with economic downturns, making them more consistent with estimated need. From 1989-93, AFDC caseloads grew by 32 percent and AFDC spending by $8 billion. But the Senate welfare bill's contingency fund provides only $1 billion over seven years.

Supplemental Security Income. Both the House and Senate bills go too far in the changes they would make to the SSI children's disability program. In general, the Administration favors the Senate provisions over the House bill's deep cuts, which go far beyond what's needed to correct the program's recent growth. The House bill would eventually prevent nearly a million disabled applicants who could be eligible under current rules from receiving cash assistance. We support the bipartisan Senate decision to continue to provide SSI cash benefits for all eligible children. But we strongly urge Congress to reduce hardship to disabled children now on SSI by exempting them from these, stricter eligibility rules. If Congress applies these rules to current SSI recipients, however, the Administration recommends only applying them to children eligible as a result of maladaptive behavior.

The Administration also recommends the deletion of a Senate provision that would gradually raise the age requirements to elderly poor applying for SSI from 65 to 67, parallelling the rising age requirements for Social Security. The apparent consistency of this change masks an important difference between these two programs: Social Security recipients can retire early and get benefits, and most do so, but no early eligibility age exists for SSI. The Senate added this provision at the last minute without adequate public scrutiny and debate; Congress should drop it.

Benefits to Immigrants. Both the House and Senate bills go too far in cutting benefits to legal immigrants, and shifting costs to states with high numbers of immigrants. The Administration supports holding sponsors who bring immigrants into this country more responsible for their well-being, but Congress should make these changes equitably. The House bill bans benefits for over a million immigrants who are now enrolled in SSI, Medicaid, or food stamps. The Senate bill's benefit restrictions distinguish between immigrants with and without sponsors. This is a more sensible approach than the House bill. The Senate bill, however, should include the immigrant exemptions of the House bill.

The Administration strongly opposes the Senate provision that would discriminate against U.S. citizens by denying benefits to legal immigrants even after they became naturalized citizens. We cannot have two categories of citizens. Equally objectionable is the Senate provision that would establish a class system for American citizenship by requiring sponsors' income to exceed 200 percent of poverty. Working families who are U.S. citizens should not have to pass a wealth test to be reunited with a family member. In addition, fairness dictates that Congress adopt the House provisions that exempt from benefit cut-offs those over age 75 and those too disabled to complete the naturalization process.

Several further changes could make the legislation more acceptable to the Administration. Immigrants who become disabled after entering the country should be able to get SSI. Benefit restrictions should not apply to discretionary programs and such mandatory programs as student loans and the social services block grant; the administrative burdens on these programs of verifying everyone's citizenship is significant, and the budget savings are negligible. In addition, refugees and others who came to the U.S. to avoid persecution should get adequate time to naturalize before being subject to benefit restrictions. Finally, the Administration has serious reservations about the bill's application of these provisions to Medicaid.

SENATE GOVERNMENTAL AFFAIRS

Civil Service Retirement

The Administration is concerned about the Committee's proposal to raise employee retirement contributions, which is tantamount to raising employees' taxes. We should not raise taxes on federal employees at a time when we are reducing the number of them and asking those that remain to provide the American people with a government that works better and costs less.

Also, the Administration is concerned about a Committee proposal to delay the cost of living adjustment (COLA) from January to April for federal civilian retirees. Unlike private and military retirees, most current federal civilian retirees are not covered by Social Security, making them entirely dependent on their retirement benefits to maintain an adequate standard of living.

SENATE JUDICIARY

Patent and Trademark Office (PTO) fees

The Administration is concerned about the Committee's proposal to extend the patent surcharge fund, and to deny PTO full access to its fees without discretionary appropriations.

Congress has not appropriated the full amount of fee revenues that PTO collects for its own use. This withholding of fees increases patent pendency and delays the deployment of new technology to the marketplace. The President's budget supports the elimination of the patent surcharge fund beginning in fiscal 1999 and the PTO's full access, without appropriation, to all fees.

SENATE LABOR AND HUMAN RESOURCES

Student Loans

The Committee would get over 60 percent of its $10.8 billion in savings by cutting educational assistance to students and parents, and taxing colleges and universities. The Administration strongly opposes all of these provisions.

The President's direct lending program has been a great success, saving money and increasing access to education. Thus, the Administration strongly opposes the Committee's proposal to cap it. The program is easier for institutions to administer than the guaranteed loan program and gives students more flexible repayment options, including income-contingent repayment. By capping the program at 20 percent of total federal student loan volume, the Committee would eliminate up to half the institutions **that are participating (?)** in this streamlined loan program. It also would prohibit other institutions from participating, including those that have already applied.

The Administration strongly opposes the Committee's proposed end to the federal subsidy of interest payments that Stafford loan recipients receive during the 6-month "grace period"; these students' costs could rise as much as $700. In addition, the Administration strongly opposes the Committee's increase in the PLUS loan interest rate as well as its tax of 0.85 percent of total federal loan volume on institutions of higher education, which would penalize institutions in which a high proportion of students take out loans.

The Committee proposes large cuts in the funding needed to administer financial management and to avoid fraud and abuse in the guaranteed loan program. These cuts would seriously weaken the Education Department's ability to insure that taxpayer funds are properly used and accounted for.

SENATE VETERANS' AFFAIRS

GI bill

The Administration is concerned about the Committee's proposed increase in the GI bill contribution rate, which would effectively cut the base pay of most first-year enlistees by 3.5 percent. The GI bill is a valuable recruiting tool of the Services; an increase in the required contribution could have an adverse effect on military recruitment.

THE WHITE HOUSE

WASHINGTON

November 2, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ERSKINE BOWLES
LAURA TYSON
GENE SPERLING
THE BUDGET WORKING GROUP

SUBJECT: Budget Working Group Report For November 2, 1995

- **Rapid Response to House Vote on Environmental Riders.** At this morning's Working Group meeting, it was decided that a rapid-response statement from you should be released in the event that the House voted to eliminate the special interest environmental riders. Ten minutes after the vote, Mike McCurry released your statement on environmental riders.

  The *AP wires* ran a quote from your statement, saying, the riders are "a step in the right direction" but the Republican budget "still dismantles vital protections to keep our nation healthy, safe and secure.''

- **Direct Lending.** Secretary Riley's press conference today with Senators Biden, Harkin, Kennedy, Levin, Murray, Robb, and Simon was well attended by the media, including *AP*, *Gannett*, *McNeil-Lehrer*, and the *Chronicle of Higher Education*. The Secretary stated that "Partisan politics and special interests are winning out over common sense and the best interests of students, schools and taxpayers."

  The Secretary concluded by reading from a letter from you to him where you explicitly directed Congress not to "send me a bill that limits the ability of schools to choose whether to be in Direct Lending."

  The AP wires quoted from your letter: "Those who propose to end direct lending are putting the interests of middlemen and special interests above the interests of students."

- **Medicaid Reporters Briefing.** Chris Jennings and Admin. Bruce Vladeck of HCFA held a press roundtable today attended by wire services, trades, and national press (see attached list). Points emphasized include the changes in the GOP state-by-state medicaid formula (attached), nursing home reforms, and spousal impoverishment.

- **Health Care Radio.** Chris Jennings was interviewed today during the morning drive-time on 7 radio stations, including the number one talk stations in Manchester, New Hampshire, Cedar Rapids, Iowa, and Dayton, Ohio.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release **November 2, 1995**

STATEMENT BY THE PRESIDENT ON ENVIRONMENTAL RIDERS

Today's vote on the 17 special interest environmental riders is a step in the right direction, but we still have a long way to go if we are to stop Congress' assault on public health and the environment.

Even with the elimination of the riders, the Republican budget still dismantles vital protections that keep our nation healthy, safe, and secure. It still cuts funding for enforcement of environmental laws in half. America cannot protect the environment if we gut enforcement of anti-pollution laws.

As important as today's vote was, Congress' responsibility does not end here. Now, Congressional Republicans must take the next steps and change their bill to fully protect public health and the environment. As we balance the budget in the interest of our children, we must not leave them a world that is more polluted and less livable.

30-30-30

THE WHITE HOUSE

WASHINGTON

November 2, 1995

The Honorable Richard W. Riley
Secretary of Education
Washington, D.C. 20202

Dear Secretary Riley:

As the Congress moves to Conference on reconciliation, I wanted to reaffirm to you my position on Direct Lending.

I strongly oppose the Congressional majority's efforts to eliminate or cap the Direct Lending program.

Our goal should be to do everything in our power to promote opportunity for all Americans by making it more feasible for more families and students to realize the dream of a college education.

Direct Lending works to promote the goal of opportunity. This program is already saving taxpayers billions of dollars, while getting college students their funds faster, with less government red tape, better services, and less administrative costs for colleges and universities. By allowing students to pay back their loans as a small percentage of income over time, the Direct Lending program also allows students to choose the occupation of their choice and improves their ability to repay the money they borrow and cut the default rate.

Those who propose to end Direct Lending are putting the interests of middlemen and special interests above the interests of students. The best solution to the current dispute is for us in Washington to give schools across the nation the freedom to choose the student lending program that works best for them. We should let the market work by letting the consumer decide.

Every school should have the option to join Direct Lending. Let's not take that choice away by Congressional mandate. So let me be clear to Congress: do not send me a bill that limits the ability of schools to choose whether to be in Direct Lending.

Sincerely,

Bill Clinton

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

FOR IMMEDIATE RELEASE
November 2, 1995

Contact: Jane Glickman (202) 401-1307
Stephanie Babyak (202) 401-2311

STUDENTS, SCHOOLS TO BE DROPPED FROM DIRECT LENDING UNDER CONGRESSIONAL BUDGET PLAN

Congress is preparing to kick out thousands of college students and hundreds of schools from the new direct loan program. Approximately 2 million college students at more than 1,350 schools have direct loans.

Under direct lending, students bypass the maze of lenders and other middlemen that comprise the old guaranteed loan system and borrow directly from the federal government through their campus financial aid office. Eliminating these middlemen saves taxpayers billions of dollars. And students are given the option of paying back their loans as a percentage of their income, so that they can repay the loans more easily.

"Congress is pitting students against special interests," said U.S. Secretary of Education Richard W. Riley. "Partisan politics and special interests are winning out over common sense and the best interests of students, schools and taxpayers. Returning to the old loan program means wasted time and hassle for students when they take out their loans, but it also means preserving billions of dollars in profits for all the middlemen that make up the old system."

Recently, Congress changed the accounting rules to show that direct lending costs more. However, respected economists disagree. For example, Lawrence Lindsey, a Bush appointee to the Federal Reserve Board, said, "As long as it is necessary to provide a profit to induce lenders to guarantee student loans, direct lending will be cheaper."

-MORE-

Riley said students and parents like the program because it's faster and easier. They work directly with the school's student aid office instead of shopping around for a lender and waiting for the bank to process the paperwork and forward it to the school. As a result, loan money is available within days rather than weeks. And direct lending offers flexible repayment options, including one based on income, which gives borrowers greater control over their finances and career choices, and decreases the likelihood of defaulting.

Independent surveys of aid administrators have found that schools like direct lending's streamlined and simple processing system. It involves less paperwork, and less time and money tracking loans with lenders. Direct lending improves cash flow and allows schools to structure the loan program to fit their particular needs and capabilities. Most of all, it frees schools to offer better service to students.

Here's what schools have to say about direct lending:

"It is rare that the federal government creates a program that both saves money and improves service to its constituents. Direct lending is such a program," said Jerome Supple, president, Southwest Texas State University.

And Karen Fooks, financial aid director, University of Florida, said, "I don't even want to think about going back to the guaranteed-loan system. The whole idea of going back is a nightmare."

The House and Senate are expected to conference this week to hammer out the differences between their versions of the budget reconciliation bill. The House voted to kill direct lending altogether, which would force all schools and students now in the program to revert to the less efficient and more cumbersome bank-run loan program. The Senate imposed a 20 percent cap on direct lending, which means that about half the students with direct loans would have to return to the old system.

Direct loans currently account for nearly 40 percent of total student loan volume.

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NOTE TO EDITORS: State-specific news releases, detailing schools and students participating in direct lending, are available on request.

Chris Connell-AP
Joanne Kenen-Reuters
Amy Goldstein-WP
Robert Pear-NYT
Judi Hasson-USA Today
Edwin Chen-LAT
Dana Millbank-WSJ
Beth Schwinn-Hearst News Service
Lee Bowland-Scripps Howard News Service
Steve Green-Copley News Service
Gannett News Service
Larry Littman-Cox Newspapers
Ana Radelat-Thomson Newspapers
Miles Benson-Newhouse Newspapers
Herb Sample-McClatchy Newspapers
Doug Turner-Buffalo News
Paula Cruickshank-Commerce Clearing House
CiCi Connelly-St. Petersburg Times

Released At Jennings / Vladeck Briefing

REPUBLICAN MEDICAID BLOCK GRANTS

- The House and Senate-passed bills eliminate the Medicaid program and replace it with a new block grant. They cut Federal spending on the program by $170 billion, <u>an amount at least 10 times more than any Medicaid cut ever enacted</u>.

- The $170 billion cut would reduce Federal support for the Medicaid program and the 36 million Americans it serves, by nearly 20 percent between 1996 and 2002. **By 2002, the cut will amount to a 29 percent reduction below the baseline in Federal support to States.**

- The Republicans claim they would like the public sector health programs to grow at rates similar to the private sector. However, the unprecedented $170 billion cut advocated by the Congressional Majority translates into a per recipient growth rate of less than 2 percent over the 1996–2002 budget window. **The 2 percent per capita growth rate their plan provides is 70 percent below the per person private health insurance growth rate assumed by the Congressional Budget Office (CBO).**

- **One fact is clear. Every state is a loser when the Medicaid program is block granted and cut by $170 billion, but many states lose much more than others.** This fact is clearly illustrated by the attached state-by-state break-out of the $170 billion Medicaid cut.

- For example, the first chart shows that under the new Senate block grant proposals, **state cuts range from 4 percent to 52 percent in the year 2002.**

- The second chart shows how California, which was already projected to lose a staggering $13 billion between 1996 and 2002 under the old Senate formula, would now lose an additional $4.1 billion dollars under the new Senate Republican plan. Conversely, the new Senate formula still slashes the State of Texas by over $7 billion, but the cut is less than the $12 billion cut they would have received under the old Senate formula.

- This information helps explain why there is such a dispute within the Congress and in the states over the Medicaid formula.

Estimates of the Effects of the Senate Republican Medicaid Plan on States, 2002 and 1996 - 2002
Formula as of October 27, 1995
(Dollars in Millions, Federal Spending, Fiscal Years)

States	2002				1996-2002			
	Baseline Spending (1)	Proposed Spending (2)	Federal Savings	Percent Reduction	Baseline Spending (1)	Proposed Spending (2)	Federal Savings	Percent Reduction
Total	$176,931	$124,838	($52,093)	-29%	$954,338	$777,840	($176,498)	-18%
Alabama	$2,485	$2,169	($316)	-13%	$13,823	$12,864	($959)	-7%
Alaska	$373	$280	($94)	-25%	$2,001	$1,660	($341)	-17%
Arizona	$2,436	$1,849	($587)	-24%	$12,903	$11,511	($1,391)	-11%
Arkansas	$2,084	$1,446	($638)	-31%	$11,081	$8,574	($2,507)	-23%
California	$17,955	$13,102	($4,853)	-27%	$95,663	$77,693	($17,970)	-19%
Colorado	$1,521	$1,039	($482)	-32%	$8,163	$6,343	($1,820)	-22%
Connecticut	$2,345	$1,613	($732)	-31%	$12,990	$10,650	($2,340)	-18%
Delaware	$323	$290	($33)	-10%	$1,728	$1,720	($8)	-0%
District of Columbia	$846	$576	($270)	-32%	$4,511	$3,802	($709)	-16%
Florida	$7,691	$5,272	($2,419)	-31%	$40,720	$31,262	($9,458)	-23%
Georgia	$4,900	$3,320	($1,580)	-32%	$26,050	$20,240	($5,810)	-22%
Hawaii	$508	$373	($135)	-27%	$2,732	$2,450	($281)	-10%
Idaho	$545	$412	($132)	-24%	$2,933	$2,445	($488)	-17%
Illinois	$6,207	$4,637	($1,570)	-25%	$33,242	$28,851	($4,392)	-13%
Indiana	$4,317	$2,545	($1,772)	-41%	$23,100	$15,841	($7,259)	-31%
Iowa	$1,440	$1,104	($336)	-23%	$7,807	$6,874	($933)	-12%
Kansas	$1,079	$943	($136)	-13%	$5,962	$5,874	($88)	-1%
Kentucky	$3,455	$2,243	($1,213)	-35%	$18,353	$13,298	($5,055)	-28%
Louisiana	$6,147	$2,935	($3,212)	-52%	$33,991	$18,818	($15,173)	-45%
Maine	$1,092	$782	($310)	-28%	$5,999	$5,155	($844)	-14%
Maryland	$2,532	$1,706	($826)	-33%	$13,478	$11,193	($2,285)	-17%
Massachusetts	$4,717	$3,005	($1,712)	-36%	$25,516	$19,835	($5,681)	-22%
Michigan	$5,992	$4,581	($1,411)	-24%	$32,153	$28,518	($3,635)	-11%
Minnesota	$2,701	$2,000	($701)	-26%	$14,665	$13,121	($1,544)	-11%
Mississippi	$2,342	$1,825	($517)	-22%	$12,640	$10,820	($1,820)	-14%
Missouri	$2,625	$2,512	($113)	-4%	$14,871	$15,338	$467	3%
Montana	$636	$434	($202)	-32%	$3,409	$2,590	($820)	-24%
Nebraska	$822	$558	($264)	-32%	$4,448	$3,662	($785)	-18%
Nevada	$540	$341	($199)	-37%	$2,899	$2,022	($877)	-30%
New Hampshire	$631	$375	($256)	-41%	$3,728	$2,542	($1,186)	-32%
New Jersey	$5,100	$3,279	($1,821)	-36%	$28,038	$21,646	($6,392)	-23%
New Mexico	$1,147	$940	($207)	-18%	$6,066	$5,577	($489)	-8%
New York	$22,034	$14,820	($7,214)	-33%	$119,527	$97,831	($21,696)	-18%
North Carolina	$5,406	$3,421	($1,985)	-37%	$29,014	$21,298	($7,716)	-27%
North Dakota	$457	$319	($138)	-30%	$2,491	$1,985	($506)	-20%
Ohio	$7,508	$5,275	($2,233)	-30%	$40,586	$32,948	($7,638)	-19%
Oklahoma	$2,060	$1,332	($729)	-35%	$11,074	$7,896	($3,179)	-29%
Oregon	$1,649	$1,439	($209)	-13%	$8,884	$8,960	$76	1%
Pennsylvania	$7,102	$5,474	($1,628)	-23%	$38,448	$35,910	($2,537)	-7%
Rhode Island	$1,004	$627	($377)	-38%	$5,465	$4,138	($1,327)	-24%
South Carolina	$2,756	$2,286	($471)	-17%	$15,252	$13,555	($1,697)	-11%
South Dakota	$442	$347	($94)	-21%	$2,380	$2,163	($217)	-9%
Tennessee	$4,587	$3,331	($1,256)	-27%	$24,576	$20,739	($3,838)	-16%
Texas	$11,358	$9,130	($2,228)	-20%	$61,167	$54,157	($7,010)	-11%
Utah	$960	$659	($302)	-31%	$5,128	$4,096	($1,031)	-20%
Vermont	$366	$300	($67)	-18%	$1,982	$1,868	($115)	-6%
Virginia	$2,434	$1,635	($798)	-33%	$13,022	$9,730	($3,293)	-25%
Washington	$3,381	$1,988	($1,393)	-41%	$18,203	$13,122	($5,081)	-28%
West Virginia	$2,591	$1,529	($1,061)	-41%	$13,723	$9,521	($4,203)	-31%
Wisconsin	$3,066	$2,260	($806)	-26%	$16,484	$14,069	($2,415)	-15%
Wyoming	$236	$180	($56)	-24%	$1,269	$1,067	($202)	-16%

Note: The savings do not total the savings from the CBO baseline because of the differences in the Urban Institute & CBO baselines.

(1) From The Urban Institute's Medicaid Expenditure Growth Model as reported in "The Impact of the Budget Resolution Conference Agreement on Medicaid Expenditures", July 1995

(2) From the Senate Finance majority staff estimates as of October 27, 1995

Note: These estimates do not include supplemental amounts and may not be consistent with the bill language.

Source: U.S. DHHS

04-Nov-95

Comparison of the Senate Republican Medicaid Block Grant: 1996-2002
September 27 versus October 27, 1995 Formula
(Dollars in Millions, Federal Spending, Fiscal Years)

States	Baseline (1)	Older Formula Medicaid Block Grant		Newer Formula Reduction in Medicaid		Difference
		Reduction (2)	Percent Reduction	Reduction (2)	Percent Reduction	+: Smaller Loss Under Senate -: Larger Loss Under Senate
United States	954,338	$186,733	20%	$176,498	18%	
Alabama	13,823	2,607	19%	959	7%	1,649
Alaska	2,001	394	20%	341	17%	53
Arizona	12,903	2,517	20%	1,391	11%	1,125
Arkansas	11,081	2,860	26%	2,507	23%	353
California	95,663	13,801	14%	17,970	19%	(4,169)
Colorado	8,163	1,297	16%	1,820	22%	(523)
Connecticut	12,990	3,544	27%	2,340	18%	1,205
Delaware	1,728	115	7%	8	0%	107
District of Columbia	4,511	734	16%	709	16%	25
Florida	40,720	8,944	22%	9,458	23%	(514)
Georgia	26,050	5,904	23%	5,810	22%	94
Hawaii	2,732	267	10%	281	10%	(14)
Idaho	2,933	581	20%	488	17%	93
Illinois	33,242	2,902	9%	4,392	13%	(1,490)
Indiana	23,100	8,624	37%	7,259	31%	1,365
Iowa	7,807	1,082	14%	933	12%	149
Kansas	5,962	704	12%	88	1%	616
Kentucky	18,353	4,928	27%	5,055	28%	(127)
Louisiana	33,991	15,352	45%	15,173	45%	179
Maine	5,999	946	16%	844	14%	102
Maryland	13,478	1,536	11%	2,285	17%	(749)
Massachusetts	25,516	5,652	22%	5,681	22%	(29)
Michigan	32,153	4,692	15%	3,635	11%	1,057
Minnesota	14,665	1,019	7%	1,544	11%	(524)
Mississippi	12,640	1,251	10%	1,820	14%	(570)
Missouri	14,871	2,043	14%	(467)	-3%	2,509
Montana	3,409	948	28%	820	24%	128
Nebraska	4,448	692	16%	785	18%	(93)
Nevada	2,899	850	29%	877	30%	(27)
New Hampshire	3,728	1,164	31%	1,186	32%	(22)
New Jersey	28,038	7,172	26%	6,392	23%	781
New Mexico	6,066	615	10%	489	8%	126
New York	119,527	21,450	18%	21,696	18%	(246)
North Carolina	29,014	8,319	29%	7,716	27%	603
North Dakota	2,491	540	22%	506	20%	34
Ohio	40,566	6,683	16%	7,638	19%	(955)
Oklahoma	11,074	3,423	31%	3,179	29%	245
Oregon	8,684	35	0%	(76)	-1%	111
Pennsylvania	38,448	2,422	6%	2,537	7%	(115)
Rhode Island	5,465	1,141	21%	1,327	24%	(186)
South Carolina	15,252	2,954	19%	1,697	11%	1,257
South Dakota	2,380	240	10%	217	9%	23
Tennessee	24,576	4,165	17%	3,838	16%	327
Texas	61,167	12,187	20%	7,010	11%	5,176
Utah	5,128	1,052	21%	1,031	20%	21
Vermont	1,982	205	10%	115	6%	90
Virginia	13,022	3,079	24%	3,293	25%	(213)
Washington	18,203	5,579	31%	5,081	28%	499
West Virginia	13,723	4,615	34%	4,203	31%	412
Wisconsin	16,484	2,639	16%	2,415	15%	224
Wyoming	1,269	264	21%	202	16%	62

Note: The savings do not total the savings from the CBO baseline because of the differences in the Urban Institute & CBO baselines.

(1) From The Urban Institute's Medicaid Expenditure Growth Model as reported in "The Impact of the Budget Resolution Conference Agreement on Medicaid Expenditures", July 1995.

(2) From the Senate Finance Committee's estimates of the spending by state under the proposal released on September 27 & October 27.

Note: These estimates do not include supplemental amounts and may not be consistent with the bill language.

Source: U.S. DHHS

01-Nov-95

THE WHITE HOUSE

WASHINGTON

November 11, 1995

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling, Chris Jennings, Nancy-Ann Min

Subject: Medicare 31.5% Part B Premium Proposal

CURRENT STATUS: In the Republican reconciliation plan, around $50 billion is raised over seven years through setting the Medicare premium at 31.5% of Part B program costs. The Republican leadership correctly understands that if this reconciliation proposal does not become law by mid-November, they will not be able to program the computers in time to implement this increase for January 1, 1996. The Republican leadership therefore fears that if they cannot pass this aspect of their reconciliation bill soon, a lower premium will be put in place for the beginning of 1996 and Republicans will face the politically difficult task of raising premiums by $11 a month in the middle of the year. The Clinton balanced budget plan calls for a 25% Part B premium contribution and we have opposed any attempt to allow the Republicans to pass their increase in reconciliation -- and certainly by throwing it in a continuing resolution.

SUMMARY: REPUBLICAN 31.5% PROPOSAL: The Republicans argue that their proposal to impose a 31.5% Part B premium contribution simply extends current policy, since the $46.10 that is in place for 1995 amounts to 31.5% of Part B program costs. Yet, the 31.5% would be a clear increase above current law -- and indeed far higher than any percentage since at least 1981. As discussed below, the fact that the *current Part B Premium amounts to 31.5% is a historical accident, and does not reflect the policy choice of any Congress to have Medicare Part B premiums at a 31.5% level.*

Indeed, the 1990 Congress set the $46.10 amount for 1995 because they *feared that soaring medical costs and manipulation of the health care baseline by a Republican OMB would lead the 25% contribution level to be too high.* As it turned out, this attempt to protect Medicare beneficiaries backfired. When health care cost grew less than projected in 1990, the $46.10 amount that was set into law caused recipients to pay more than 25% --- as the $46.10 monthly premium ended up amounting to 31.5% of program costs.

Yet, starting in January 1, 1996, the Part B premium under both current law and the Clinton balanced budget proposal reverts to 25%. Because the $46.10 monthly premium for 1995 accidentally amounted to a level higher than 25%, the reversion to 25% leads premiums for 1996 to actually drop for this one year from $46.10 to $42.50. As the Republican level would **change current law** by raising it to 31.5%, it would make premiums $53.50 -- $11 above current law per month, or $132 a year and $264 per couple.

BACKGROUND AND HISTORY ON PART B PREMIUM CONTRIBUTIONS: Over the last two decades, one of the primary policy goals for Democratic lawmakers has been to prevent Medicare premiums from increasing so much that they reduced the real, inflation-adjusted purchasing power of Social Security benefits. As you know, Social Security benefits have a cost-of-living- adjustment (COLA) to protect against inflation.
As Medicare premiums are deducted right out of the Social Security checks, if Medicare premiums rise more than the CPI, Medicare premium increases can have the effect of reducing the real value of Social Security benefits.

When Medicare first began, premiums were set as high as 50% of program costs. Yet, with high rates of medical inflation, premium increases grew too high and in 1972, Congress abandoned the 50% level, and instead linked premiums to the CPI. In 1981, President Reagan and Congress temporarily adjusted the underlying law to return to a specific percentage of Part B program costs -- only this time it was to a 25% level. Changing to a 25% contribution level did allow for increased revenues for reducing the deficit. Because of that, Administrations and Congresses have been able to contribute to deficit reduction simply by extending the 25% level -- since without such extenders it would revert back to being linked to the CPI, which raises less revenues for the general fund than a 25% contribution level. During the 1980s, Reagan or Congressional Republicans did try to raise the premium percentage to over 30% on several occasions, but each time it was defeated.

In 1990, however, when Democrats were constructing the 5-year budget deal with President Bush, they feared that Republican OMB officials might seek to raise premiums by manipulating the health care baseline. Therefore, Democratic lawmakers temporarily abandoned the 25% percentage level and decided it was safer to lock in specific dollar amounts for each of the five years in the 1990 agreement. For 1995, the amount selected was $46.10 and as mentioned above, this turned out to be higher than projected -- 31.5%. *Yet, it is crucial to note that "31.5%" was never legislated by any Congress, and that intent of the legislation was in reaction to fears that a 25% level would be too hard on beneficiaries.*

In 1993, when we were putting together OBRA 1993, the Democrats did not fear that the Clinton OMB would manipulate the baseline to raise Medicare premiums -- and as they had seen that using set amounts had not worked -- they returned to a 25% level for the years in our plan that went beyond the 1990 agreement. Therefore, there were set dollar amount from 1991-1995, and a return to the 25% ratio for the remaining three years of OBRA 1993 -- 1996, 1997 and 1998. After that -- unless there are extenders -- the law returns to linking Part B premiums to increases in the CPI.

What the Clinton balanced budget plan does is extend this 25% for the entire period of the balanced budget plan. Even though we are extending the traditional 25% premium policy, this "extender" actually gives us some Part B savings after 1998 because without our 25% provision, the law would revert back to only increasing premiums by the CPI in 1999.

In sum, despite the Republicans efforts to suggest that having a 31.5% premium contribution is not raising premiums — it just isn't so. The fact that the premium for 1995 amounted to 31.5% was an accident. Indeed, while there may have been times in the 1970s where set premium amounts were higher than 25%, the Republican proposal would be legislating the ***highest set percentage for Medicare premiums since 1972*** and would affect all seniors regardless of incomes.

cc: Leon Panetta
Erskine Bowles
Alice Rivlin
Laura Tyson
Carol Rasco
George Stephanopoulos
Pat Griffin
Jen Klein

PRESIDENT WILLIAM J. CLINTON
TALKING POINTS FOR HEALTH CARE CONFERENCE CALL
NOVEMBER 13, 1995

OPENING REMARKS:

- I'd like to thank you for joining me on this conference call to talk about the impact of the Republican Medicare and Medicaid cuts. I am so sorry that I was not able to come to Lawrence Memorial Hospital today, but I know that you understand.

- This is a critical moment of decision for our country. The issue is not *whether* we will balance the budget, but how. I do want to balance the budget. My balanced budget proposal would eliminate the deficit and reinforce our most important values: by meeting our obligations to our parents and children, and by giving all Americans the opportunity to make the most of their own lives. My proposal would secure the Medicare Trust Fund, while strengthening -- not gutting -- our Medicare program.

- The Republicans have made their intentions clear since last spring. They said then that they would force us to accept their extreme budget or risk shutting down the government and pushing America into default. Now they are implementing that strategy by attaching their budget conditions to legislation needed to keep the government running and able to pay its bills.

  -- The bill I vetoed today would, in effect, obligate us to pass the Republican congressional budget plan with its huge cuts in Medicare and Medicaid, education and technology, the environment, and with its tax increases on working families.

  -- In the bill to keep the government running, they would raise Medicare premiums by 25% for every single older American who uses Medicare -- $264 a year for the typical couple, beginning January 1. I have made it clear: I want to work with the Republicans, but not if they continue to insist on raising Medicare premiums as the cost of keeping the government running.

- This is a back-door effort on the part of the congressional Republicans to impose their priorities on the American people. It's not the right thing to do. I cannot, and I will not, accept it.

- As you know, I believe that the Republican budget -- by taking $440 billion out of Medicare and Medicaid -- would have particularly harmful consequences for our health care system. These cuts will mean that over 8 million Americans could lose Medicaid coverage, and that people on Medicare will be forced to pay more. They will threaten hospitals and nursing homes in both rural and urban areas. And they will have devastating effects on the communities that depend on these institutions.

- I'd now like to hear from you about how these budget cuts will affect you and your communities. (See attached list of participants.)

CONFERENCE CALL PARTICIPANTS

1. **Charles Johnson**, President, Lawrence Memorial Hospital
   Medford, MA

   TOPIC: Overall impact of cuts on his hospital and community.

2. **Philo ("Fi-lo") Hall**, President, Central Vermont Medical Center
   Berlin, VT

   TOPIC: Impact of cuts on vulnerable rural hospitals and the communities that depend on them.

3. **Barbara Corey**, Coordinator, North Quabbin Community Coalition (Senior Activist)
   Petersham, MA

   TOPIC: Impact of cuts on low-income elderly and on future generations who will need Medicare and Medicaid.

4. **Alan Solomont**, President, The ADS Group (Nursing Homes)
   Andover, MA

   TOPIC: Impact of Medicaid cuts on nursing home employees.

5. **Donald ("Don") McDowell**, President, Maine Medical Center
   Portland, ME

   TOPIC: Impact of cuts on hospitals that are already struggling to adapt to managed care.

6. **Leslie MacLeod**, President, Huggins Hospital
   Wolfeboro, NH

   TOPIC: The importance of Medicare for our nation's older Americans.

7. **Dr. Mitchell Rabkin**, President, Beth Israel Hospital
   Boston, MA

   TOPIC: Impact of Medicare cuts on medical education and impact of disproportionate share payment cuts on hospitals.

CLOSING REMARKS:

- Thank you all very much. What we've heard shows how important it is that we save Medicare and Medicaid. What is at stake here is nothing less than the quality of our health care system, and the well-being and security of American families and communities.

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

THE DEPUTY
DIRECTOR

November 17, 1995

NOTE FOR: Gene Sperling

From: Jack Lew

Attached are the numbers we were talking about. Differences are comparison to CBO and inflated baseline.

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 1996 - FY 2002
Coalition Plan:									
Function 050	272.0	261.5	257.1	254.8	260.1	268.3	275.7	281.1	1,858.7
NDD	279.3	277.3	277.0	276.2	269.7	261.2	253.7	248.4	1,863.4
Total	551.3	538.8	534.1	531.0	529.8	529.5	529.4	529.5	3,722.1
Resolution:									
Function 050	272.0	264.0	265.7	264.5	267.9	271.6	270.8	270.8	1,875.3
NDD	279.3	270.0	258.4	253.0	248.2	248.9	245.6	244.3	1,768.4
Total	551.3	534.0	524.1	517.5	516.1	520.5	516.4	515.1	3,643.7
Difference (Resolution less Baseline):									
Function 050	---	-16.1	-22.9	-32.7	-38.3	-43.8	-54.0	-63.8	-271.6
NDD	---	-17.7	-37.9	-52.2	-66.1	-74.9	-87.9	-99.2	-436.0
Total	---	-33.9	-60.8	-84.9	-104.4	-118.7	-141.9	-163.0	-707.6
% Change -- NDD	---	-6.2%	-12.8%	-17.1%	-21.0%	-23.1%	-26.4%	-28.9%	-19.8%
Difference (Coalition less Baseline):									
Function 050	---	-18.6	-31.5	-42.4	-48.0	-47.1	-49.1	-53.5	-288.2
NDD	---	-10.4	-19.4	-29.1	-44.7	-62.6	-79.8	-95.1	-341.0
Total	---	-29.1	-50.8	-71.6	-90.7	-109.6	-128.9	-148.6	-629.2
% Change -- NDD	---	-3.6%	-6.5%	-9.5%	-14.2%	-19.3%	-23.9%	-27.7%	-15.5%

THE WHITE HOUSE

WASHINGTON

November 21, 1995

TO: Leon Panetta
Pat Griffin

FROM: Todd Stern

I assume no reply at this point.

THE PRESIDENT HAS SEEN
11-20-95

Congress of the United States

Washington, DC 20515

Leon

I think we should write them a very strong reply on our record — their bad budget — CBO/OMB difference — as you discussed

November 17, 1995

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Some are holding us Freshmen Members of the Republican House Caucus responsible for the actions of the last several days. Permit us to share our perspective on this important issue.

It is unfortunate that 800,000 non-essential federal employees were furloughed. But we believe very strongly that it would be a tragedy of historic proportions if we were to back down now on our commitment to balance the federal budget in seven years. Twelve months ago, the voters of this nation sent a powerful message that we needed to change the way Washington does business. They wanted to put the federal government on a diet, and they wanted us to balance THEIR budget.

There is a misguided belief that the current debate surrounding the balanced budget issue is about politics. Balancing the federal budget, Mr. President, is about principle. This is not about the re-election of the Freshmen Class, it's about preserving the future of our country. In fact, we believe it goes deeper than that. What is at stake here is preserving the basic concept of self-government. If we cannot balance our budget when we are the sole surviving super-power, when we're at peace in the world, when we have a relatively strong economy with low unemployment, then when will we?

We want to resolve this. The American people want us to work together. We have been granted an historic opportunity. Our children would not hold us harmless if we squandered it. This is a moment of truth. This is when "We The People" show whether we have the courage and moral character to stop stealing from our children and grandchildren. Future generations are counting on us to show some leadership and courage. Let us agree on the destination. We can then have a healthy debate about the road map.

Respectfully,

Roger Wicker — Sue Myrick
Gil Gutknecht — Randy Tate
Mark Foley — Andrea Seastrand

Charles F. Bass

Steve Chabot

Joe Scarborough

[illegible]

Zach Wamp

[illegible]

[illegible]

[illegible]

J C Watts, Jr.

Steve Largent

Wes Cooley

[illegible]

Barbara Cubin

[illegible]

Tom [illegible]

[illegible]

Helen Chenoweth

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

Daniel McIntosh

Jack Metcalf

[illegible]

Jim Bunn

[illegible]

Charlie Norwood

Tom Davis

Mike Forbes

George P. Radanovich

[illegible]

[illegible]

[illegible]

[illegible]

Sonny Bono

Walter B. Jones, Jr.

Saxby Chambliss

[illegible] Ney

[illegible] Hilleary

[illegible]

[illegible]

Jon [illegible]

[illegible]

Jim Longley

Tom A. Coburn

Dave Weldon

Phil English

Linda A. Smith

Brian P. Bilbray

Mark Souder

[illegible]

Bill Martini

THE WHITE HOUSE

WASHINGTON

November 24, 1995

The Honorable Bob Dole
Majority Leader
U.S. Senate
Washington, D.C. 20510

Dear Mr. Majority Leader:

In the coming days, we have a vital opportunity to work together to balance the budget in a way that reflects the values and priorities of the American people. Our first responsibility should be to implement policies that are good for America. We believe that the right policy for the American people is one that balances the budget while protecting Medicare, Medicaid, education, and the environment, and targeting tax relief to the middle class -- without any new tax increase on working families. The President's balanced budget plan shows how we can eliminate the deficit and protect these values.

As you know, the President believes that your seven-year balanced budget plan fails to protect Medicare, Medicaid, education, the environment and tax fairness, and therefore, he will veto it. However, he is committed to working with you in good faith to reach common ground. We are willing to work hard to see if we can reach balance in seven years, but as our agreement makes clear, we cannot agree to any plan unless it protects our commitment to health care, education, the environment and tax fairness. It is disappointing that your letter of November 22 does not contain a single word about these priorities, which are enshrined in the continuing resolution agreement.

The agreement calls for doing two things together: balancing the budget in seven years *and* protecting the key priorities the President has laid out. Right now, neither of our balanced budget plans satisfies both objectives. Now we must work together in a good faith effort to see if it is possible to meet all of the commitments contained in the continuing resolution.

Since neither of our budgets satisfies both conditions, each of us could take the position that we cannot begin talks until the other side shows in detail how it can meet all of the demands of the other. But such a position is unreasonable and unproductive. Likewise, we can spend the next several days exchanging letters and posturing in public, or we can engage in the serious work of negotiating a balanced budget that is fair to all Americans. Now is the time for all of us to work through the budget, issue by issue, in the careful and thorough way demanded by matters of great national importance.

Listed below are some of the principles that will have to be addressed to the President's satisfaction before he can sign a balanced budget plan. We could request that you show us your legislative plan for meeting each one of these principles before we even sit down to talk. We both know, however, that this would only lead to gridlock.

Instead, we list these principles so that there is clarity as to what some of our primary concerns are. We hope that we will be able to have serious working sessions to see if we can meet these principles and reach balance in seven years.

1. **Continue Medicare's guarantee of high quality medical care for senior citizens and people with disabilities by ensuring trust fund solvency and protecting beneficiaries.**

   - Ensure the viability of the Medicare Trust Fund for at least 10 years.
   - Protect Medicare beneficiaries from premium increases beyond current law and from programmatic changes that would drive up their overall health costs.
   - Keep Medicare first-class medical care by ensuring that resources available for each Medicare beneficiary keep pace with growth in private health care costs.
   - Ensure the viability of hospitals and other critical health care providers in underserved rural and urban areas.

2. **Ensure adequate funding for Medicaid by:**

   - Maintaining Medicaid as a national guarantee of specified and adequate benefits for low-income families with children, Americans with disabilities and elderly Americans.

   - Maintaining the quality of health care received by nursing home residents.

3. **Maintain tax fairness.**

   - No tax increases on families or individuals with an income less than $30,000 a year.
   - Concentrate any tax relief on the middle class.
   - No special tax breaks for special interests.
   - No changes in tax policy that undermine protection of employee pension funds.

4. **Maintain real funding levels over the life of the budget plan in education and other investments critical to protecting future generations.**

   - Ensure that both children and workers have the resources for training and technology they need to succeed in the 21st century workforce.
   - Allow all colleges to choose the student loan program that best fits their students' needs and maintain real resources for student loans and scholarships.

5. **Ensure funding levels required to sustain progress achieved in environmental protection, enforcement, and public health.**

   - Eliminate all extraneous provisions in the budget that reduce environmental protection.

6. **Reform welfare to provide adequate incentives and resources to move people from welfare to work.**

   - Maintain basic national commitment to protect child nutrition by continuing adequate funding for school lunches.

   - Preserve a national nutritional safety net of specified and adequate benefits for food stamps.

7. **Preserve an Agriculture program that continues to ensure the strength of America's farm sector and family farms.**

8. **Continue Defense funding levels that support the armed forces and defense programs necessary in the post-Cold War environment.**

9. **Maintain our commitment to providing our veterans with benefits to which they are entitled.**

We look forward to serious negotiations to reach a balanced budget that reflects the values and priorities of the American people.

Sincerely,

Leon E. Panetta
Chief of Staff

Identical letter sent to:

House Speaker Newt Gingrich
House Budget Committee Chairman John Kasich
Senate Budget Committee Chairman Pete Domenici

November 27, 1995

MEMORANDUM FOR LAURA TYSON
GENE SPERLING

FROM: PAUL DIMOND

SUBJECT: BUDGET NEGOTIATION STRATEGY

CC: BO CUTTER
MARK MAZUR

I offer three additional suggestions for thinking about (a) narrowing the gap; (b) a scaled-down tax package; and (c) not worrying so much about non-discretionary defense spending that is not part of POTUS priorities. I close with a brief discussion of alternative ways to think about how these negotiations that might set the President up for 1996.

A. Narrowing the Gap

- Changes in Assumptions called for by current experience
  1. Growth Rates $50 B
  2. Corporate Profits $50 B
  3. Medicare/Medicaid Inflation $100 B
  4. .05% CPI Adjustment $100 B
- Non-tax Mandatory $100 B
- Tax Package (see B below) $100 B
- Changes in Revenues/Expenditures resulting from "Reinvention" initiatives
  1. FCC Auction of Spectrum (including Digital Broadcast -- (Net of $5 B for Ed Tech Revolving Fund) $25 B
  2. Federal employee downsizing due to empowering states, communities and individuals -- e.g. 1/2 of HUD, ETA, ACF, statistics, R&D, infrastructure $25 B
  3. Reorganize government corporations, Sales to Federal Employees, or other "Privatization" and credit reform -- e.g., Air Traffic Control, N.O.A.H, FHA, NASA, Labs (DoE and N.I.H), Student Loans $50 B
- Non-Defense Discretionary Spending (see C below) $200 B

Total **$800 B**

B. Tax Package

Mark Mazur will be working up alternative options here. As an example consider the following components, based on income targeting and non-refundability (except for EITC)

- KidsCare (with a KidsSave component) @ $500/child ages 0-5
- KidsSave @ 250/child ages 6-17, with $500 bonus for graduation
- Skill grants for Dislocated Workers who can't find new job with current skills
- EITC only for taxpayers with dependent children
- Capital Gains and Targeted Urban Package (including phase-in and holding periods for capital gains; special provision for qualified investments and investment funds over five-year period in CDFI eligible communities; and more targeted, efficient, flexible and effective and less costly successors to LIHTC and TJTC to persons in and communities in genuine need)

This could be structured to cost around $150 B (or virtually whatever amount you want) over seven years in net revenue losses. I think it would enable the President and the Republicans to claim a mutual victory on the major components of the Middle Class Bill of Rights, a targeted tax cut to assist working families, and a targeted tax cut to encourage investment in economic growth generally and in communities in genuine need in particular.

C. Non-Defense Discretionary Defense Spending

This seems to me the place where you have to make a basic policy decision: stick to the President's highest investment priorities for this year and next (i.e., education) and use the lowered discretionary caps as a lever to totally transform the federal government in the outyears as the price we all must bear for balancing the budget. Let me give you one specific example: HUD takes the largest percentage hit of any agency in the FY96 Appropriation bills but is willing to have the President sign the HUD-VA bill at the level of funding proposed by the Republican Congress. This is because HUD is already willing to examine how it could redefine its mission and transform its entire mode of operations to fit the new budget realities. I use HUD as an example because I think it fairly represents how we -- and all of the agencies -- must be willing to rethink mission, priorities and operations in the new environment for the budget and the role of the federal government.

D. 1996

As you know, I believe that we should be prepared to use such a focussed negotiating strategy now as a platform to launch the President's campaign to equip individuals, families, communities and states with the tools they need to take greater responsibility for prospering in the years ahead. This "balanced budget" strategy would free the President to get well ahead of the curve on the entire issue of the role and size of the federal government. By focussing now on defending only the specific priorities set by the President, he will be freed in 1996 to lead the transformation of our mid-20th century industrial era federal government into a more limited, focussed and responsive federal enterprise for the 21st century. Such reorganization could be done agency-by-agency as with HUD as a part the FY96 Budget process, as part of a major proposal for reorganizing all of the federal agencies and functions, as part of a combined proposal for sweeping tax and regulatory reform, and/or as part of a very focussed empowerment agenda. If you are interested in seeing what the options might look like for the environment, R&D, infrastructure and taxes, for example, let me know.

THE WHITE HOUSE

WASHINGTON

Office of Legislative Affairs

Senate Liaison

Fax Cover Sheet

Date 12/20

To: Gene Sperling

Fax number: 62878

From: Barbara Chow at (202) 456-6493

Comments:

Final Medicaid letter.

Note: The information contained in this facsimile message is **CONFIDENTIAL** and intended for the recipient **ONLY**. If there is a problem with the transmission, please contact the sender as soon as possible.

Number of pages including cover: ~~4~~ 5

United States Senate

WASHINGTON, DC 20510

December 13, 1995

President William J. Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

We are writing to express our strong support for the Medicaid per-capita cap structure in your seven-year budget. We have fought against Medicaid block grants and cuts in the Senate, and we are glad you acknowledge the importance of our position.

We support a balanced budget. We are glad you agree with us that we can balance the budget without undermining the health of children, pregnant women, the disabled, and the elderly.

The savings level of $54 billion over seven years included in your budget will require rigorous efficiencies and economies in the program. However, after consulting with many Medicaid Directors and service providers across the country, we believe a reduction of this level is possible to achieve without dramatic limits on eligibility or cuts to essential services. States will need flexibility to achieve these savings, and you have taken steps toward granting it in your bill.

We were encouraged that your Medicaid proposal does not pit Medicaid populations against one another in a fight over a limited pot of federal resources.

We were further encouraged to hear Chief of Staff Panetta relay your commitment to veto any budget not containing a fundamental guarantee to Medicaid for eligible Americans.

We commend you on the courage you have exercised in making these commitments to Americans eligible for Medicaid. There is a bottom line when it comes to people's health; do not allow the current Congressional leadership to further reduce our commitment to Medicaid beneficiaries.

Your current proposal is fair and reasonable, and is consistent with what we have advocated on the Senate floor. We urge you in the strongest possible terms to hold fast to these commitments in further negotiations. We are prepared to offer any assistance you may need in this regard.

Sincerely,

Bob Graham

Patty Murray

John Breaux

Jay Rockefeller

David Pryor

Herb Kohl

Barbara A. Mikulski

Patrick Leahy

Max Baucus

Frank R. Lautenberg

Paul Simon

Wendell Ford

Harry Reid

Paul Wellstone

Richard H. Bryan

Fritz Hollings

Dianne Feinstein

Tom Harkin

Byron L. Dorgan

Chris Dodd

[illegible]

[illegible]

Paul Sarbanes

Carol Moseley Braun

John Glenn

Jeff Bingaman

Carl Levin

Bill Bradley

John F. Kerry

Bob Kerrey

Joe Biden

Daniel K. Akaka

Dale Bumpers

[illegible]

Chuck Robb

Russ Feingold

J J Exon

D Moynihan

Howell Heflin

Sam Nunn

Claiborne Pell

Robert Byrd

NEWS from U.S. Senator PATTY MURRAY

Washington • Democrat

Contact: Rex Carney/Rachel Drake
(202) 224-0229

For Immediate Release:
December 20, 1995

MURRAY, DEMOCRATS URGE CLINTON TO HOLD FIRM ON MEDICAID

(Washington, D.C.) -- U.S. Sen. Patty Murray (D-Wash.) today sent a letter to President Clinton signed by all 46 Democratic Senators, urging him to resist Republican calls for deep cuts in the Medicaid program. Murray worked with U.S. Sen. Bob Graham (D-Fla.) on the letter.

"We cannot allow this nation's children to slip through the cracks of this budget negotiation," Murray said. "The proposals we have made so far prove we can balance the budget without hurting children. This letter shows the President that as long as he stands firm in his protection of children and others who rely on Medicaid, he will have the backing of the Senate Democrats."

Murray said getting all 46 Democrats is significant because it is more than enough to sustain a veto by the President. If the Republicans insist on deep cuts in Medicaid, Clinton can veto the proposal with the knowledge that it won't be overridden in the Senate.

In the budget put forward by Clinton last week, $54 billion was the amount of savings from the Medicaid program over seven years. Republicans had previously advocated as much as $183 billion in cuts over the same period of time. Murray's letter mentions the $54 billion amount, and urges Clinton to "hold fast" to his commitments.

"We commend you on the courage you have exercised in making these commitments to Americans eligible for Medicaid," the Senators wrote. "There is a bottom line when it comes to people's health; do not allow the current Congressional leadership to further reduce our commitment" to children.

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