# A History of the U.S. Office of Management and Budget During the Clinton Administration 1993-2001

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# INTRODUCTION

The Office of Management and Budget (OMB) assists the President as a key agency for leading the coordination of policy development in the Executive Branch and for ensuring consistency, efficiency, and effectiveness in policy implementation. OMB's responsibilities include:

- Analysis to support the President's budget and other priorities;
- The development of recommendations to improve the management of Federal programs;
- The review of pending legislation for consistency with Presidential policy;
- Cost-benefit analysis of proposed regulations; and
- The development of policy concerning Federal financial management, Federal procurement, and Federal information systems.

OMB is part of the Executive Office of the President. The Director of OMB, who is a Cabinet-level official, the Deputy Director, and the Deputy Director for Management are Presidentially appointed, Senate-confirmed (PAS) officials.

The vast majority of OMB's more than 500 staff are career employees who provide "institutional memory" and objective analysis for the President. OMB is composed of five Resource Management Offices, headed by non-career SES appointees and organized by agency and program area; three statutory offices, with functional management responsibilities headed by PAS officials; and seven offices that provide OMB-wide support headed by career SES staff. These offices work together to help the President develop fiscal policies and manage Federal programs.

## CHRONOLOGY OF THE ADMINISTRATION

**1993**

Panetta Confirmed (January 1993 – July 1994)
First Budget
1993 Budget Agreement
Government Performance and Results Act
Reinventing Government
Regulatory Executive Order
Health Security Act Developed
Establishment of Health Associate Director Position

**1994**

Rivlin Confirmed (October 1994 – June 1996)
OMB 2000
Congressional Leadership Change

**1995**

Government Shutdown
OMB 25th Anniversary
Paperwork Reduction Act

**1996**

Raines Confirmed (September 1996 – May 1998)
First Balanced Budget proposed
Omnibus Appropriations Negotiations
Welfare Reform

**1997**

Balanced Budget Act
Line Item Veto
Priority Management Objectives Established

**1998**

Lew Confirmed (August 1998 – January 2000)
First Budget Surplus Reported
Omnibus Appropriations Negotiations

**1999**

Year 2000 Preparation
Balanced Budget Refinement Act
Omnibus Appropriations Negotiations

**2000**

Final Budget Request

## ENSURING FISCAL DISCIPLINE

## A TYPICAL BUDGET SEASON

The process of formulating the budget begins by establishing general budget and fiscal policy guidelines. This occurs generally in the spring of each year, nine months before the President transmits the budget to Congress and 18 months before the fiscal year begins. Based on these guidelines, OMB works with Federal agencies to establish specific policy directions and planning levels for the agencies for the budget year. Federal agencies use these guidelines for the preparation of their budget submissions to the President each fall.

### Agency budget submissions

Normally, agencies submit their budget requests to OMB in mid-September. From mid-September to mid-October, analysts in the Resource Management Offices (RMOs) review the requests and identify issues that OMB officials need to discuss with the agencies. Analysts in other OMB offices also assist in this review. Concurrently, the OMB Director and other members of the White House Economic Team are briefing the President on the "moving pieces" that will likely impact his macro-policy decisions. These pieces include economic growth, inflation, interest rates, and the size of the Federal surplus.

### Preparing for Director's Review

In late October, following RMO review of agency budget submissions, OMB begins an extensive oral briefing and decision-making process with the Director referred to as "Director's Review." During this period, the Director is in close communication with the President and his key advisers to ensure that decisions reflect the President's priorities. There are normally a series of meeting with the President at this time where the Director receives the President's guidance on agency funding levels and Administration initiatives.

Prior to each Review session, the Review books are provided to OMB's top leadership and other key OMB staff. The Director usually comes into a session having already reviewed the materials and decided on which items to focus. Shortly after the last Review session, but before Thanksgiving, RMOs prepare the passback for each agency.

For a normal fall budget season, the Director convenes 20 to 30 individual oral Review sessions. Separate sessions are held for each major agency, with related smaller agencies covered in the same session. Sessions are also held on general overview topics (e.g., economic overview, revenues) and priority crosscutting issues (e.g., anti-drug activities, counter-terrorism, homelessness, District of Columbia). (Additional crosscutting topics may be addressed through written papers.) The comprehensive agency Review books the staff compiles structure discussion.

Director's Review is the culmination of an evaluative process in which OMB staff analyze current programmatic performance and new budget proposals for their respective agencies; search for better ways to perform the Government's work; balance individual agency resource needs against constrained totals; and craft legislative and funding proposals to implement Administration priorities. Over the past several years the RMOs have been asked to prepare a recommendation to reduce agency requests to guidance levels. Preparation for Director's Review takes much of OMB's time and energy during the fall.

Final Decisions

The outcome of Director's Review is decisions on funding levels, agency priorities, and legislative proposals. This process typically concludes by mid-November in time to "pass back" policy decisions to the agencies immediately before Thanksgiving. Agencies appeal some of the passback decisions. These appeals begin at the RMO-level. If the agency and the RMO cannot reach resolution, the appeal is escalated to the OMB Director, the Chief of Staff, and eventually, the President. During this Administration, it has become practice that Presidential appeals are settled the morning of December 24th.

In some cases, agencies appeal the passback. OMB, in consultation with the President, works with the agencies to resolve as many of these as possible. Any that cannot be resolved are decided directly by the President. Agencies and OMB staff complete the database that supports the President's Budget in January and transmit the complete set of budget documents to Congress by the statutory submission date of the first Monday of February.

Agencies and OMB require six weeks after decisions are made in late December to complete the database and print materials associated with the annual budget transmittal to the Congress.

Preparation of the database and print materials for the traditional budget documents

The database and print material preparation process begins well before the final decisions are made. Agencies need about five weeks to compile an accurate and comprehensive "current services" baseline that updates technical assumptions and reflects the new economic assumptions released in mid-November. After an OMB staff scrub, the updated baseline is available in mid-December. The new baseline gives policy officials an approximate measure of how recent policy changes might affect discretionary spending and mandatory spending relative to pay-as-you-go limits, as well as forecasts of the on- and off-budget surplus, before final decisions are made on policy proposals.

After OMB receives and reviews the agency detailed budget estimates reflecting the final economic assumptions, eliminates all of the technical problems in all of the budget accounts, and resolves open policy issues, the final published database is "locked" around mid-January. OMB preparation and GPO production of the February documents takes an additional three weeks.

## THE FIRST BUDGET: A VISION OF CHANGE FOR AMERICA

Following the 1992 presidential election, the President-elect found that economic conditions had changed worsened over the year. The Congressional Budget Office (CBO) had reestimated the deficit upward in August 1992, and OMB had further increased the estimates in January 1993.

The President-elect discussed many economic issues with CEOs, economists, and others in the televised economic summit convened in Little Rock on December 14 and 15, 1992. Much of the discussion focused on deficit reduction and, in part, the need for a stimulus to create jobs in response to a sluggish recovery from the 1990-1991 recession. Unemployment rates had increased well into 1992 and at the end of the year remained higher than the beginning. In addition, there had been concern that the budget outlook remained dire, with budget projections involving gimmickry, excessively optimistic economic assumptions, and assumed, but unspecified, future savings.

It was in this atmosphere that the incoming Administration was preparing its budget, releasing its economic assumptions to the agencies, carrying out the internal debate about spending and taxes, and assessing which pledges might have to be revised, postponed, or dropped.

To avoid controversy over the economic forecast in the consideration of the budget, the President decided that the Administration should use the January CBO economic assumptions to prepare the budget estimates. Because the Administration believed that enacting its program would provide significant rewards for the economy and the budget, and, to continue to express its independent judgment about the state of the economy, the Administration also provided an alternate forecast conditional upon enactment of its program.

On January 29, 1993, OMB released the CBO economic assumptions for use in preparing its budget. OMB also began an abbreviated budget production schedule.

<u>Budget Timeline</u>

| | |
|---|---|
| Contact from transition team member | November 27, 1992 |
| Economic assumptions released | January 29, 1993 |
| Schedules distributed | |
| Initial | January 29, 1993 |
| Revised | February 26, 1993 |
| Final revision | March 16, 1993 |
| Passback | |
| Director phone calls to agencies | February 9, 1993 |
| Passback | February 18, 1993 |

| | |
|---|---|
| Resolution of policy issues | February 26, 1993 |
| Database lock | March 22, 1993 |
| Release of summary document | February 17, 1993 |
| Detailed backup materials for summary document<br>Text on proposals and crosscutting displays | February 16, 1993 |
| Release of detailed document | April 8, 1993 |
| Guidance on non-Appendix documents | March 17, 1993 |

<u>Selected Data Requests during Policy Development of 1994 Budget</u>

| | |
|---|---|
| **Materials for confirmation hearings** | |
| Request sent out | December 28, 1992 |
| Materials due | December 30, 1992 |
| **Revisions to Bush baseline for technical changes** | |
| Request sent out | December 29, 1992 |
| Data required to be in computer data base | January 8, 1993 |
| **Price-out of various entitlement and Non-Defense Discretionary savings options** | |
| Request sent out | December 30, 1992 |
| OMB pricing due | January 5, 1993 |
| **Pros and cons of entitlement options** | |
| Request sent out | January 14, 1993 |
| Response due | January 15, 1993 |
| **Pros and cons of investment and stimulus options** | |
| Request sent out | January 16, 1993 |
| Response due | January 21, 1993 |

The first Administration budget document was A Vision of Change for America, a summary released February 17, 1993, to accompany the President's address to the Joint Session of the Congress that evening. The detailed FY 1994 Budget of the United States Government was released on April 8, 1993. The budget had four key elements:

- Limited, targeted tax cuts for moderate-income families (especially through increases in the Earned-Income Tax Credit);
- economic stimulus to create jobs immediately while laying the foundation for long-term economic growth;
- long-term public investments to increase productivity; and
- a deficit-reduction plan to stop the government from draining the Nation's pool of savings, which finances the private investments that generate jobs and increase incomes

The President's budget supported the concept of "caps" to limit discretionary spending, and pay-as-you-go, or "paygo," rules to ensure that any mandatory increases are fully paid for. The Administration proposed to extend the caps through 1998. The pre-existing BEA had three categories of discretionary spending (defense, international, and domestic) for 1991-1993, with no separate categories for 1994 and 1995. The Administration proposed that the extension of the caps for 1996 through 1998 also apply to total discretionary budget authority and outlays.

The Administration inherited a baseline deficit estimate of $319 billion for 1993, or more than 5 percent of GDP (see following Table). If the Administration's plan were adopted, the Administration estimated that the resulting deficit would fall from $332 billion in 1993 (higher than the baseline because of the proposed economic stimulus package) to $241 billion in 1998, or 3.1 percent of GDP.

## HIGHLIGHTS OF THE INITIAL BUDGET PLAN
(In billions of dollars)

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 6 - Year Total |
|---|---|---|---|---|---|---|---|
| Baseline deficit (+) | 319 | 301 | 296 | 297 | 346 | 390 | 1,630 |
| Spending cuts (-) | 1 | -20 | -43 | -73 | -112 | -128 | -375 |
| Revenue increases (-) | -3 | -46 | -51 | -66 | -83 | -82 | -328 |
| Gross deficit reduction | -2 | -66 | -93 | -139 | -195 | -210 | -704 |
| Stimulus and investment: | | | | | | | |
| Stimulus outlays | 8 | 6 | 2 | 1 | ** | ** | 9 |
| Investment outlays | ..... | 9 | 20 | 32 | 39 | 45 | 144 |
| Tax incentives | 6 | 13 | 17 | 15 | 15 | 17 | 77 |
| Total, stimulus and investment | 15 | 27 | 39 | 47 | 55 | 62 | 231 |
| Total, deficit reduction (-) | 13 | -39 | -54 | -92 | -140 | -148 | -473 |
| Resulting deficit (+) | 332 | 262 | 242 | 205 | 206 | 241 | 1,157 |
| Resulting deficit as percent of GDP | 5.4% | 4.0% | 3.5% | 2.9% | 2.7% | 3.1% | 3.2% |
| Addendum: Actual deficit/surplus(-) | 255 | 203 | 164 | 108 | 22 | -69 | |

** indicates $500 million or less.

## THE 1993 BUDGET AGREEMENT

The President's budget proposal was transmitted to a Congress with Democratic majorities in both the House and Senate. After the formulation of the plan, OMB monitored congressional activity and supported the Administration's economic program with objective analysis on a variety of budget and legislative related issues. Cabinet officials left Washington for a two-day, 28-state tour in support of the budget as the Congress went to work on the Administration's proposals. There were three major steps involved in approving the Administration's plan: the budget resolution, reconciliation, and discretionary appropriations.

### Budget Resolution

A budget resolution sets congressional targets for receipts, outlays, and the deficit, and provides instructions to the relevant committees to report spending and revenue amounts within the targets. Congressional approval of a budget resolution that included the President's economic program was an Administration priority.

The Congress approved a budget resolution for FY 1994 that embodied the essential elements of the President's plan. The resolution included $496 billion of deficit reduction over five years. In total, the deficit reduction package was increased by about $75 billion, with reductions in discretionary spending accounting for about 80 percent of the change. On April 1, 1993, the final version of the budget resolution was approved in the House (240-184) and in the Senate (55-45). This was the earliest approval date in the history of the modern congressional budget process. No Republicans voted for the resolution.

### Reconciliation

Immediately after the resolution was passed, the Administration focused on the reconciliation process. Reconciliation is the vehicle for enacting changes to entitlement spending, revenues (including tax incentives) and, often, the discretionary spending limits. Reconciliation was the primary vehicle for putting the economic program into law. At the direction of the President, the Administration set up a "war room," which came to be called the Rec ("Reconciliation") Room, on the first floor of the Old Executive Office Building, to coordinate legislative and analytic efforts in support of the President's agenda.

Each body adopted its own version of the budget reconciliation -- the House on May 27 (219-213), and the Senate on June 25 (49-49), with the Vice President's vote needed to break the tie in a late-night session that did not conclude until 3:00 a.m. The measures were similar to the President's original proposal, including approximately $500 billion in deficit reduction over five years. The reductions were roughly evenly split between spending cuts and tax increases, key investments, and tax incentives for small businesses. Both raised the top marginal individual tax rates to 36 percent and, for some taxpayers, 39.7 percent; increased the top corporate rate from 34 percent to 35 percent; and raised taxes on the benefits of wealthier Social Security recipients.

The President addressed the Nation from the Oval Office on August 3, 1993, to encourage support of the economic program. After much deliberation, the final reconciliation bill was adopted by the House (218-216) on August 5 and the Senate (50-50) on August 6, 1993, with the Vice President again breaking the tie. As with the budget resolution, no Republicans voted for the final reconciliation bill in either house or for the conference agreement. On August 10, 1993, the President signed the Omnibus Budget Reconciliation Act of 1993 (OBRA93), which contained the essential elements of his economic plan.

The table below shows the deficit estimates in April and in September, including both the changes enacted in OBRA93 and economic and technical changes. As a result of these changes, the September deficit estimates were $636 billion lower than the pre-OBRA93 baseline deficit estimates over five years, and the September deficit estimate for 1998 declined to an estimated 2.2 percent of GDP, less than half of the pre-OBRA93 estimate for 1998 of 4.9 percent. The lower estimates were due in part to a more favorable economic forecast as a result of enactment of the President's program.

**DEFICIT CHANGES: APRIL TO SEPTEMBER**
(estimates, dollars in billions)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1994-1998 |
|---|---|---|---|---|---|---|
| Pre-OBRA baseline deficit (April) | 305 | 302 | 298 | 347 | 388 | |
| Changes due to: | | | | | | |
| Policy: | | | | | | |
| Deficit reduction package (OBRA93) | -47 | -83 | -101 | -129 | -146 | -505 |
| Other policy | 6 | 1 | 1 | 1 | 1 | 10 |
| Subtotal, policy | -41 | -82 | -100 | -128 | -145 | -495 |
| Economic and technical | -5 | -20 | -19 | -35 | -62 | -141 |
| Subtotal, changes | -46 | -101 | -119 | -163 | -207 | -636 |
| September deficit | 259 | 200 | 179 | 184 | 181 | |
| As a percent of GDP | 4.0% | 2.9% | 2.4% | 2.4% | 2.2% | |
| Memorandum: Actual deficit/surplus(-) | 203 | 164 | 108 | 22 | -69 | |

In addition to the changes in spending and revenues that were part of OBRA93, the legislation also contained significant budget enforcement measures that included:

- discretionary spending caps, requiring a five-year outlay freeze below the level of spending of 1993 -- a cut of about 15 percent below the level required to keep up with inflation;

- "pay-as-you-go" procedures, requiring that entitlement spending and receipts legislation be paid for so as not to increase the deficit, extended on a prospective five-year basis through 1998; and

- sequester mechanisms to enforce both the discretionary spending caps and the pay-as-you-go requirement.

## A TYPICAL APPROPRIATIONS SEASON

OMB tracks and reports on appropriations measures at each stage of Congressional action in support of efforts to gain acceptance for the Administration's priorities and to fulfill Budget Enforcement Act (BEA) responsibilities. The process begins with transmittal of the President's budget, and continues as long as appropriations measures of any kind are under consideration.

### Budget Submission and Testimony

Transmittal of the President's budget to the Congress is the first official interaction between the Executive and Legislative Branches during the appropriations process. OMB policy officials testify before the Appropriations or Budget Committees beginning the week the budget is transmitted, supported by a variety of briefing materials, including agency-specific and general tabular budget estimates, and an extensive collection of potential questions and answers that may be asked at the hearings. OMB officials also respond to questions submitted for the record. While the Director's testimony during this Administration tended to highlight macro-level budgetary issues and new programs and proposals, questions from the Congress have addressed a wide variety of topics.

### Appropriations "Tracking"

After the Congress has established its budget resolution, legislative activity on the 13 regular appropriations bills begins. Work proceeds along two parallel tracks: (1) developing letters and Statements of Administration Policy (SAPs) on pending bills that convey the Administration's views on key funding and language issues, in an effort to influence congressional action; and(2) fulfilling requirements of the BEA involving estimating and reporting on the budget impact of spending bills.

At each stage of congressional action on appropriations bills, OMB staff serving as bill trackers attend the relevant House, Senate, or conference sessions and provide "real-time" reports on the outcome. The bill trackers also analyze appropriations actions, comparing the funding levels provided by the Congress with the President's request, identifying objectionable funding and language provisions in the bills, assessing whether the bills comply with the BEA, and evaluating how well the bills meet sound budgeting and policy practices.

Once analysis of the bill is complete, a letter or SAP is sent from the Director of OMB, outlining the Administration's official views in reaction to the most current stage of action. Generally speaking, letters are sent during House/Senate Committee stages of action, while SAPs are sent in anticipation of Floor consideration of the bill. Substantively, there is no difference between a letter and a SAP. In executing its responsibilities for appropriations bill tracking, OMB works closely with the agencies represented in a given bill to obtain their views and, as appropriate, incorporate agency views into letters and SAPs.

Preparing Nightly, Weekly, and Periodic Reports - To keep OMB policy officials and staff up-to-date, a variety of reports are prepared that highlight the status and budgetary impact of congressional appropriations action. Using information developed by the bill trackers, information obtained from congressional resources, and other materials, OMB staff prepare a "Nightly Report on Appropriations Action," which details the current status of appropriations activity. At the end of every week during the bill tracking process, a summary report on congressional action is prepared that includes, among other items: status tables showing congressional action to date; summary data tables comparing congressional action to the request; and detail tables for each appropriations bill identifying key programs and other relevant data. Additionally, budget data is collected to meet the ad hoc requirements of OMB policy officials and the Director.

During this period, the Director and Deputy Director work very closely with the Chief of Staff and other White House officials to ensure that appropriations issues are appropriately coordinated and addressed. These conversations usually occur during the 8:30 a.m. White House meetings in the Chief of Staff's office. In addition, the Director also keeps the President informed of the progress in securing his priorities through a series of periodic memos.

Preparing Enrolled Bill Memoranda - As soon as each House of Congress has passed the conference report on an appropriations bill, an enrolled bill memorandum is prepared that contains an analysis of congressional action on the appropriations bill and presents OMB's and the related agencies' recommendations for consideration by the President. A draft Presidential signing statement is also usually prepared.

Preparing Seven-Day-After Reports - Once the President has signed an appropriations bill into law, a BEA-required seven-day-after report is prepared, which is the final document transmitted to the Congress for any appropriations bill. This report is primarily a technical document that highlights the bill's scoring in relation to the BEA spending limitations. By law, the seven-day-after report provides the official scoring of the bill.

## CONGRESSIONAL LEADERSHIP CHANGE

The 1994 elections resulted in Republican leadership in the House for the first time in 40 years and Republican leadership in the Senate for the first time since 1986. The combination of divided government between the President and the Congress and the tight margins in the House (230-204-1) and Senate (53-47) resulted in a significant change in the role of OMB in the budget and appropriations process.

In implementing the technical aspects of the Budget Act, OMB has had a strong, longstanding tradition of maintaining non-partisan relations with the staffs of the Budget and Appropriations Committees and CBO. This tradition was sustained after the election of 1994. However, the election did result in a significant change in the role of OMB in negotiating budget and appropriations legislation with the Congress.

After the election of 1994, the Republican leadership showed no desire to work with the Democratic congressional leadership on compromise budget and appropriations legislation. Instead, the Republican leadership chose to produce bills that could pass the House and Senate solely with Republican votes. Inevitably, this resulted in legislation that either was vetoed, or as a result of a veto threat, was never sent to the President. During this Administration, the President vetoed 36 bills, including 20 appropriations, budget, or tax bills. There have been 48 continuing resolutions, two government shutdowns, 15 vetoed appropriations bills, four vetoed tax bills (including one budget reconciliation bill) and one vetoed debt limit increase.

Prior to the 1994 elections, the typical appropriations bill would be negotiated between the House and Senate Subcommittee Chairmen, Ranking members, and the respective cabinet officers. The White House would be involved only in a narrow range of issues of particular interest to the White House. After the 1994 elections, because of the vetoes and veto threats, the Chairmen needed a White House assurance that their bill would be signed. Therefore, a pattern developed of having the OMB Director negotiate with whomever the Republican leadership designated.

These negotiations typically included dozens of funding and language issues for each bill, and engendered considerable unhappiness among the Members that the Executive Branch was too involved in the drafting of budget and appropriations bills. However, it was their strategy and thus their process that resulted in an FY 1997 Omnibus Appropriations Act that funded six appropriations bills, an FY 1999 Omnibus Appropriations Act that funded eight appropriations bills, and an FY 2000 Consolidated Appropriations Act that funded five bills. Similar negotiations produced the Balanced Budget Act of 1997.

Some of the President's most significant legislative victories were achieved in these measures, such as funding for: 100,000 more police on the street; 100,000 teachers class size reduction program and other education programs, including Head Start; promoting international development through the International Monetary Fund; the Wye River Accord; counter-terrorism and bio-terrorism initiatives; preventive health programs at NIH and programs for combating and treating HIV/AIDS; and for the Federal Government to play a leading role in successfully addressing the Year 2000 Computer Conversion.

Following vetoes and veto threats, these negotiations were also used to overcome prior Congressional funding decisions such as terminating the National Service and COPS programs, and dramatically under funding the Legal Services Corporation, the National Endowment for the Arts, Head Start, the Low Income Energy Assistance Program, Energy Conservation programs, education programs for the disadvantaged, programs to protect the environment, research and technology programs, numerous civil rights programs, and many others.

The negotiations also resulted in the elimination or satisfactory modification of numerous objectionable language issues such as: international family planning restrictions; parental notification requirements related to family planning; private school vouchers mandated in the District of Columbia; mandated increases in logging in the Tongass National Forest; efforts to block implementation of the Columbia River Basin Ecosystem Plan; provisions mandating continued commercial fishing in the Glacier Bay National Park; limits on the hard rock mining rule; and restrictions on national forest plan revisions.

## GOVERNMENT SHUTDOWN

Throughout 1995, the Congress drafted appropriations bills that would have cut domestic discretionary spending dramatically. As the President opposed these cuts, none of the 13 appropriations bills were passed before the beginning of the fiscal year. The first, the Military Construction bill, was not enacted until October 3, 1995. The Congress responded by passing a six-week continuing resolution (CR) set to expire on November 13, 1995, to provide temporary funding to allow more time to complete the bills.

By November 13, 1995, only the Agriculture and Energy and Water bills had joined Military Construction in becoming law, with the Transportation conference report also completed (it would be signed into law on the 15th). By that time, the Congress was also completing action on its budget reconciliation bill, which included significant cuts in mandatory programs as well as tax cuts. When a new CR was needed, the Congress added a key provision of the pending reconciliation bill's Medicare provisions a provision to keep Medicare Part B premiums at 31.5 percent, repealing a scheduled reduction to 25 percent on January 1, 1996. The Congress sought to use the need to pass a CR as leverage to win passage of a portion of its broader budget agenda. However, the President refused to be pressured. With both the Administration and the Congress standing firm, the first partial government shutdown began.

One of the agencies affected by the shutdown was OMB. On Tuesday, November 14, 1995, the determination was made that OMB employees would be furloughed due to a lapse of appropriation. Employees needed to perform work associated with the orderly shutdown of OMB and employees identified as performing excepted activities were instructed to remain at work. All other employees were provided with a written furlough notice and sent home. The furlough notice that employees received provided the following information and instruction:

- the furlough was for a period not to exceed 30 days;
- the reason for the furlough was the absence of either an FY 1996 appropriation or a continuing resolution for OMB; and,
- employees were notified that they could not remain at work or volunteer their services during the shutdown period.

Each day during the furlough period, OMB managers identified specific employees required to work the next day based on their knowledge of specific activities to be performed at OMB that day. Of the approximately 535 OMB employees on-board during the shutdown period, between 220 and 232 were identified as performing excepted activities on any given day.

OMB's Associate Director for Administration and the Human Resources Manager held daily meetings with division chiefs to identify excepted activities for the next day and review the list of employees required to carry out these activities. OMB managers determined specific procedures for staying in touch with their employees to keep them informed of OMB's budget status, and whether or not they needed to report for work the next day. Additionally, a shutdown hotline was established, so that employees could call and get recorded information about the status of the shutdown.

The shutdown ended on November 19, with passage of a new CR lasting four weeks, through December 15. By that date, the Defense, Legislative Branch, and Treasury/Postal/General Government bills had also become law. Included within these bills was funding for OMB. However, agencies funded in the remaining six bills faced a second shutdown. That shutdown lasted until January 5, when the Congress passed a series of CRs to reopen the Federal Government. Nevertheless, the impasse continued, with the final FY1996 spending bills not becoming law until April 25, 1996 -- significantly complicating work on the FY 1997 budget.

Throughout the period during which government shutdowns were threatened, OMB coordinated decision making across the Executive Branch. OMB collected the relevant statutes and legal opinions regarding activities by the affected agencies and assembled the historical record of past instances of hiatuses in funding. The OMB Deputy Director for Management chaired meetings for contact persons representing all of the major departments and agencies. In these meetings and in written communications, OMB established a common understanding of the requirements of the law and answered questions about agency choices. OMB set standards for agency shutdown plans and reviewed the plans prepared by all of the agencies, to ensure that there was consistency across agencies. These plans determined well ahead of time the crucial decisions for each agency, including which activities continue during an interruption of appropriations and which employees would be exempted from a furlough in the event of a shutdown. At the same time, OMB provided information about likely congressional action so that agencies could be prepared.

As it does at the end of every fiscal year, even when a shutdown is not threatened, OMB prepared analyses of the issues that would need to be addressed by any necessary CRs, so that the Congress could forestall temporary ill effects of what might otherwise be simple extensions of prior-year funding. For example, if a straight extension of prior-year funding would force an agency to separate permanently any of its existing employees, OMB would inform the Congress to anticipate this problem its CR.

## BALANCED BUDGET PROPOSED FOR FY 1997

Budget and other events during much of 1996 were influenced by the presidential primaries in the spring, campaigning that preceded the nominating conventions in August, and further campaigning leading up to the November elections.

Because of the late appropriations in 1995 and other delays, the information needed for a detailed budget could not be ready by the first Monday of February 1996, the legal deadline for transmittal of the budget to the Congress. In place of a detailed budget, the Administration published a 20-page document entitled Budget of the United States Government. This document included summaries of the Administration's priorities, and projected a surplus of $44 billion in 2002.

The President's FY 1997 budget requested $503 billion in discretionary spending to fund the agencies and activities of the Federal Government. Of this amount, $247.6 billion was requested for non-defense discretionary spending, and $255.4 billion was requested for defense discretionary spending. In his budget message to the Congress, the President stated that the FY 1997 Budget achieved two basic objectives -- it reached balance in seven years and maintained the his commitments to economic growth and protecting the most vulnerable Americans. Among the goals the President set forth in the budget were providing funds to strengthen Medicare and Medicaid; investing in education, the environment, science and technology; reforming the welfare system; ensuring a strong defense; and providing tax relief to help families raise their children, send their children to college, and save for the future.

The FY 1997 Budget Supplement, which was released on March 19, 1996, projected a surplus of $8 billion in 2001, one year earlier than in the February document, with surpluses generally increasing through 2005. The March volume noted that if the use of CBO economic assumptions, which were to be released in March or April, did not result in a surplus in 2002, then the President's budget anticipated and would propose an immediate adjustment to the discretionary spending caps that would lower them enough to reach balance in 2002.

This budget built on the Administration's strong economic record by balancing the budget in seven years while continuing to invest in the American people. This budget proposed an estimated $461 billion in total seven-year savings (1996-2002), including $292 billion in mandatory program savings, to achieve the proposed surpluses in 2001 and 2002.

Although there was much disagreement over budget issues between the President and the Congress and among Republicans, towards the end of the session the Republicans were reluctant to challenge the President on appropriations. According to many press reports, the public had blamed the Republicans for the budget shutdowns in the prior years. As a result, the budget negotiations at the end of 1996, just prior to the elections, were relatively tame compared to the events of a year earlier.

A major legislative accomplishment of 1996 was welfare reform (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996), which included an estimated $55 billion in deficit reduction over the six year period, 1997-2002. Although there was much in the welfare reform legislation with which the Administration disagreed, the law authorized block grants for temporary assistance for needy families along with many other welfare-related changes. The President presented this as a bipartisan effort and was able to describe it as "ending welfare as we know it."

## THE BALANCED BUDGET ACT AND TAXPAYER RELIEF ACT OF 1997

The Balanced Budget Act and the Taxpayer Relief Act of 1997 were companion reconciliation bills signed by the President on August 5, 1997, which wrote into law the first balanced budget in a generation. The bills enacted net budget savings of an estimated $247 billion for the five-year period 1998-2002, and $989 billion for the ten-year period 1998-2007. The net savings included total mandatory and discretionary savings of $369 billion over the five-year period, partially offset by domestic initiatives of $43 billion and net tax cuts of $78 billion. These two bills were the first significant deficit reduction bills since the Republicans took over the Congress in 1995 and the largest deficit reduction bills since the Omnibus Budget Reconciliation Act of 1993. These savings, with economic, technical, and relatively minor further policy proposals, reduced the baseline deficit estimate for FY 2002 from $101 billion in February 1997 to an estimated surplus of $63 billion in September.

The enacted legislation involved bipartisan votes that were in sharp contrast to the budget wars that occurred at the end of 1995. The Speaker of the House Newt Gingrich gave credit to the President for taking the steps necessary to make the deal work. However, although the final votes had substantial bipartisan support, there had been major disagreements since the beginning of the year about how to move toward budget balance.

### Defeat of the Balanced Budget Amendment to the Constitution in March

One of the top priorities of the Republicans in the 105th Congress was to pass a balanced budget amendment to the Constitution, so that the proposed amendment could go to the States for ratification. The previous Congress, with Republican majorities in both houses, had made little progress in meeting this goal. The Republicans were disappointed when the amendment failed, by one vote, to get two thirds of the Senate 66-34, on March 4, 1997.

### Balanced Budget Agreement in May

The first major step toward approval of the balanced budget legislation came with the announcement by the President on May 2, 1997, of a bipartisan budget agreement that resulted in the first balanced budget in three decades. The approved plan was incorporated into the Congressional Budget Resolution on June 5, 1997, which projected a $2 billion surplus in 2002, but almost immediately there were strong disagreements about how to write the details into law.

### The Final Agreement

Disagreements between the President and the Congress, and between House and Senate Republicans about both the tax and spending policies continued through the summer, until both the House and Senate approved the conference report of the two Reconciliation bills in late July. The agreement was the culmination of 2½ years of often bitter fighting, and intense bargaining that led up to the agreement in late July.

### Key Provisions of the Balanced Budget Act of 1997

The Balanced Budget Act of 1997 was a balanced package of spending provisions that targeted program cuts with investments in America's future. It included the several noteworthy features.

First, it strengthened families by extending health insurance coverage to up to 5 million children in the State Children's Health Insurance Program. By investing $24 billion, the Nation would be able to provide quality medical care for these children -- everything from regular check-ups to major surgery. This investment took a major step toward the goal of having every child in America grow up healthy and strong. The Congress agreed to pay for this investment in the Nation's children in part with a 15-cents-a-pack tax increase on cigarettes. Not only would this new revenue help to pay for health care, but also would help deter children from taking up smoking in the first place.

Second, the bill also continued the job of welfare reform by providing $3 billion to move welfare recipients to private sector jobs, and $1.5 billion in Food Stamp assistance for people who wanted to work but could not find a job. In addition, the bill kept the President's promise to provide $12 billion to restore disability and health benefits for 350,000 legal immigrants.

Finally, the bill honored the country's commitment to parents by extending the life of the Medicare Trust Fund for a decade. The bill also provided structural reforms that would give Medicare beneficiaries more informed choices among competing health plans; authorized a number of new anti-fraud provisions; and established a wide array of new preventative benefits.

In addition to the above changes, Title X of the Balanced Budget Act extended the Budget Enforcement Act requirements through 2002 (2006 in part) and altered some of the requirements.

Key provisions of the Taxpayer Relief Act

As the Administration worked with the Congress to develop the details of the balanced budget agreement, the President insisted that the tax-cut package meet four basic tests. First, the tax cuts had to be fiscally responsible, in that they must have avoided an explosion in revenue costs in years outside the budget windows. Second, the tax cuts had to provide a fair balance of benefits for working Americans. Third, the tax cuts had to encourage economic growth. Fourth, the tax package had to reflect the terms of the Bipartisan Budget Agreement, including a significant expansion of opportunities for higher education for Americans of all ages.

This Act met those tests. The Act provided an estimated $95 billion in net tax cuts over the next 5 years. It placed a priority on tax cuts targeted to education and provided a child tax credit to families who worked hard and paid taxes. It also incorporated Republican priorities in a good-faith effort to honor the budget accord and to reach final agreement on a tax cut. The legislation not only provided needed tax relief for middle-class Americans, but also encouraged economic growth. It was also fiscally responsible: the costs of these tax cuts were fully offset in accordance with the balanced budget agreement.

The President was especially pleased that the legislation included, with certain modifications, the key features of his Middle Class Bill of Rights, which were designed to give middle-income families the tax relief they needed to help them raise their children, save for the future, and pay for postsecondary education.

## FY 1997 OMNIBUS APPROPRIATIONS

Following transmittal of the President's budget, the Congress passed its budget resolution in early June 1996. The resolution called for $497.4 billion in discretionary spending, with $231 billion for non-defense discretionary spending and $266.4 billion for defense discretionary spending. In total, the resolution was $5.6 billion below the President's request -- $16.6 billion below the request for non-defense discretionary spending and $11 billion above for defense discretionary spending.

### Appropriations Action

The House reported the first of the 13 annual spending bills out of Subcommittee on May 21, 1996, and reported the last bill out of Subcommittee on July 12, 1996. The Senate reported its first bill out of Subcommittee on June 18, 1996, and the last on September 10, 1996. As the bills moved through the Congress, seven of the 13 regular appropriations bills had veto recommendations attached to either the House or Senate version (or both) due to the inclusion of unacceptable provisions or levels of funding. The following is a brief synopsis of each of the veto threats:

- Commerce/Justice/State. Senior advisers veto recommendation (House and Senate versions) due to inadequate overall funding levels and specific reductions to critical law enforcement, research and technology, and international affairs. The House bill also included unacceptable language prohibiting use of any funds included within the Act for Anti-Ballistic Missile treaty negotiations.

- Defense. Senior advisers veto recommendation (House and Senate versions) due to funding levels that were too high. The House Committee bill included $11.2 billion more, and the Senate Committee $10 billion more, than the President's request.

- Energy/Water Development. Secretary of Energy veto recommendation (House version) for several reasons, including: lack of support for the nuclear waste program; elimination of funding for international nuclear safety programs; and drastic reductions in funding for solar and renewable energy research. The Administration also opposed language in the House version that would have made the availability of a significant portion of the funds for the nuclear waste management program contingent upon the enactment of a subsequent authorization bill.

- Interior. Secretaries of Agriculture and Interior veto recommendation. The recommendation stemmed in part from inadequate funding provided in the House Committee bill. The House bill also included two highly objectionable language provisions that concerned tribal sovereignty and Federal Indian law and Tribal-State relations over trust lands. The Senate version also contained several provisions that were objectionable to the Administration, including language regarding: the Tongass National Forest; formula funding for certain Bureau of

Indian Affairs programs; and the Cook Inlet Regional Corporation.

- Labor/HHS/Education. Senior advisers veto recommendation (House and Senate versions) over the inadequate level of funding (more than $5 billion below the request) provided in both versions of the bill. For example, the House bill funding level for Head Start would have reduced available slots by up to 15,000 as compared to FY 1996.

- VA/HUD. Presidential veto threat on the Senate bill over inadequate funding for the National Service Program. The House version of the bill elicited this threat as well because of inadequate funding levels provided for other programs. For example, the Committee bill included a $479 million reduction to the President's request for the Environmental Protection Agency.

- Foreign Operations. The House version of the bill contained items that the Administration considered seriously objectionable. These included an overall inadequate funding level for the bill; and the restrictions on, and cuts in funding for, international family planning ("Mexico City" language). A letter to the Senate Appropriations Committee evaluating the House-passed version of the bill contained a senior advisers veto threat based on this "Mexico City" language.

Unlike FY 1996, when the Administration vetoed five appropriations bills, no vetoes were required in FY 1997. Seven of the 13 appropriations bills were signed as freestanding bills: Agriculture/Rural Development, District of Columbia, Military Construction, Legislative Branch, VA/HUD/Independent Agencies, Energy and Water, and Transportation. The remaining six bills were bundled into an omnibus package.

## End-game Negotiations

With six of the 13 regular appropriations bills incomplete as the end of the fiscal year loomed, the Administration and the Congress engaged in end-game negotiations to resolve deficiencies in the remaining bills. No continuing resolutions were needed to keep the Government operating while the Congress and the President resolved differences. The President signed the omnibus appropriations bill into law on the evening of September 30, 1996.

## Conclusion

At the beginning of the FY 1997 appropriations process, there was a gap of nearly $6 billion between the Administration's total request for discretionary spending and the Congressional Budget Resolution. The enacted bills provided $505.1 billion discretionary spending, $2.1 billion above the President's request and $10.7 billion above FY 1996. Non-defense discretionary spending totaled $239.3 billion, $8.3 billion below the request and $13 billion over FY 1996. Defense discretionary funding totaled nearly $266 billion, $10 billion over the request and $24.3 billion over FY 1996.

The vast majority of the objectionable language provisions contained in the earlier versions of the six appropriations bills included in this omnibus bill were eliminated or acceptably modified. Some of the language provisions that were eliminated include international family planning restrictions, tribal sovereignty restrictions, and a provision regarding the Tongass National Forest land management plan.

The enacted omnibus bill provided $1.4 billion for the Community Oriented Policing Services program, the same level of funding provided in FY 1996. The bill provided $243 billion in discretionary spending for the Department of Defense, $9 billion more than was requested by the Administration. Total funding for the Department of Education was $26.3 billion, $0.8 billion over the request level. The bill provided $1.3 billion in discretionary budget authority for the Department of Energy, $149 million above the request. The Forest Service was funded at $2.4 billion, $100 million above the request level.

The bill fully funded both the Goals 2000 education reform program and the Pell grant program -- funding levels originally opposed by the Congress. The enacted bill also included funding for a number of other Administration high-priority programs. These include: resources to implement the recommendations for the Vice President's Commission on Aviation Safety and Security, and the Federal Aviation Administration's 90-day safety review; additional funds for water treatment in Boston Harbor; and continued funding for the Ounce of Prevention Council. The overall funding level also provided $1.9 billion for emergency requirements such as damage caused by Hurricanes Fran and Hortense; fires in the West; and anti-terrorism needs.

## THE LINE ITEM VETO

As the President stated in February 1993, he intended to work with the Congress to obtain a line item veto "that will enable a President to reject wasteful items from an appropriations bill and will require the Congress to cast a separate vote on those items. Items that have broad support will survive; but over time millions, perhaps billions, of dollars will be saved by the defeat of items without broad support."

The Congress responded to the President's request for a line item veto, and the President signed the Line Item Veto Act into law on April 9, 1996. The Act went into effect on January 1, 1997, and was to continue in effect through 2004. It granted the President the authority to cancel new spending items (discretionary spending or new direct spending) or limited tax benefits (as defined in the Line Item Veto Act). The President had five days after signing a bill in which to cancel items in it. The Act authorized the President to cancel the whole amount of individual spending items that were identified in the statute or in congressional reports. As a result, the President could cancel spending "earmarks" contained in reports. However, the President could not cancel a part of a spending or tax item; he could cancel only the "whole" item. Under the Act's "lockbox" provision, the budget savings from a cancellation could not be used as a budgetary offset for other spending or tax legislation. Instead, the savings would be applied to reducing the Federal budget deficit. When the President canceled discretionary spending items, OMB was to reduce the discretionary spending caps by the same amount. When the President canceled direct spending or limited tax benefits, those savings were not reflected in the Budget Enforcement Act "Paygo" scorecard.

When the President canceled a spending or tax item, the Act required him to submit a special message to the Congress. The Act provided the Congress with a fast-track process to consider disapproval legislation (subject to the President's veto) that would overturn the President's cancellation. A cancellation was effective upon receipt by the Congress, and would remain in effect, except if overturned by a disapproval law.

The President's line item veto authority went into effect on January 1, 1997. OMB worked to provide recommendations to the President, reviewing thousands of pages of bill text and investigating little-known projects. During 1997, the President canceled 82 spending and tax items that were contained in 11 bills. The cancellations totaled in excess of $2 billion over a 10-year period.

The President's first cancellations occurred in August 1997, when he canceled three items totaling $672 million over 10 years. One was a direct spending provision in the Balanced Budget Act of 1997, and the other two were limited tax benefits in the Taxpayer Relief Act of 1997.

During the fall of 1997, the President canceled another 79 items totaling nearly $1.34 billion. The President's first set of cancellations were 38 spending items (totaling $287 million) in the Military Construction Appropriations Act, most of which were spending "earmarks" in congressional reports. During the fall, the President canceled another 41 items in appropriations bills, totaling $1.05 billion.

Under the Line Item Veto Act, the Congress could overturn a cancellation by using fast-track procedures to enact a disapproval bill. The Congress exercised this disapproval authority only once -- in the case of the President's cancellations of 38 spending items in the Military Construction Appropriations Act. In response to the President's action, the Congress passed a disapproval bill to restore the 38 items. The President vetoed the disapproval bill, but the Congress overrode his veto, thereby restoring the 38 spending items.

The Congress left untouched the President's cancellations in the other 10 spending and tax bills. In many cases, no Senator or Representative even took the first step of introducing a disapproval bill. This response by the Congress confirmed the premise of the supporters of the Line Item Veto Act, including the President, who believed that many items in the lengthy spending and tax bills do not command broad support in the Congress.

The Line Item Veto Act was subject to almost continuous litigation, culminating in the ruling of the United States Supreme Court in June 1998 that the Act was unconstitutional.

The litigation began on the very day that the President signed the Act in April 1996, when a Federal employee union filed a lawsuit challenging the constitutionality of the Act (NTEU v. United States). In July 1996, however, the U.S. District Court dismissed the suit. Because the Act would not go into effect until January 1, 1997, the District Court concluded that the Act had not harmed the plaintiffs, and therefore they lacked the required "standing" to sue. In December 1996, the Court of Appeals for the District of Columbia upheld the dismissal.

On January 2, 1997, the day after the Act went into effect, several Members of Congress filed a lawsuit challenging the Act's constitutionality (Byrd v. Raines). In April 1997, the District Court concluded that the Act was unconstitutional. The case then went to the Supreme Court. In June 1997, the Supreme Court issued its ruling (Raines v. Byrd). The Supreme Court did not decide whether the Act was constitutional. Instead, the Court dismissed the challenge based on its conclusion that Members of Congress lacked standing to challenge the Act's constitutionality.

In the fall of 1997, two lawsuit were filed raising a constitutional challenge to two of the President's first three cancellations -- of spending and tax items in the Balanced Budget and Taxpayer Relief Acts of 1997. In addition, later in the fall of 1997, a lawsuit was filed challenging the President's subsequent cancellation of a provision in an appropriations bill that changed the Federal retirement system. This challenge raised constitutional issues as well, but it also made the statutory argument that the provision that the President canceled was outside the scope of his cancellation authority.

In January 1998, the Justice Department settled the lawsuit challenging the cancellation of the retirement system provision, by agreeing to a ruling by the District Court that the cancellation was invalid as a statutory matter. As a result, the canceled retirement provision was restored.

In February 1998, in the lawsuits challenging the President's first set of cancellations, the District Court concluded that the Act was unconstitutional.

On June 25, 1998, the Supreme Court decided the constitutional challenge to the Line Item Veto Act. By a 6-3 vote, the Supreme Court (in Clinton v. City of New York) held that the Act was unconstitutional, and therefore that the President lacked the authority to cancel the direct spending and limited tax benefit provisions in the Balanced Budget and Taxpayer Relief Acts. The Court concluded that the Act violated the "Presentment Clause" of the Constitution, because – in the Court's view – the Act authorized the President to "veto" parts of a bill rather than restricting the President to vetoing the whole bill.

In response to the Supreme Court's decision, the Executive Branch restored the 43 spending and tax items that remained canceled at the time of the Court's decision (the other 39 canceled items had previously been restored).

## FIRST BUDGET SURPLUS IN A GENERATION

On October 28, 1998, the Administration announced a surplus of $70 billion for fiscal year 1998 -- the first surplus since 1969, and the largest as a percent of GDP (0.8 percent) since 1956. In dollar terms, it was the largest ever.

When the President took office in January 1993, CBO projected a deficit of $357 billion for fiscal year 1998. The $70 billion surplus announced in October 1998 marked the sixth consecutive year of improvement in the Federal budget balance since the deficit peaked at $290 billion, or 4.7 percent of GDP, in 1992. Since 1992, thanks to strong and continuing economic growth, Federal Government downsizing, and spending control, outlays grew at an average rate of only 3.0 percent per year, from that year through 1998, less than half the average of 7.3 percent per year over the preceding 12 years; while receipts advanced at a rate of 7.9 percent per year, faster than the 6.4 percent average of 1980 through 1992 -- resulting in steady reductions in the deficit, and eventually, the realization of a surplus.

Because of this progress in eliminating the budget deficit, the debt held by the public fell to $3.7 trillion at the end of 1998 -- reduced over a full fiscal year for the first time in 29 years. As a share of the economy, the debt held by the public had declined for five consecutive fiscal years, and at the end of 1998 was 43.1 percent of GDP -- below its 1991 level.

### From Deficit Estimate to the First Surplus in a Generation

The move from deficit to surplus since 1993 was the result of both decreases in spending and increases in receipts, relative to the size of the economy. In 1998, outlays were 19.1 percent of GDP, the lowest since 1974; and receipts were 19.9 percent of GDP, the highest since World War II.

The following table shows that in April 1993, before enactment of the Administration's Economic Plan, the deficit was estimated to be $388 billion for 1998, and the sum of deficits for the five-year period 1994-1998 was estimated to be $1,640 billion. The table also measures the total change from the 1998 deficit estimate as of 1993 to the actual 1998 surplus of $69 billion at $457 billion, and parses that improvement among rough estimates of three reasons for the change: policy; economic conditions; and technical reestimates.

Policy changes are the result of actions by the Congress, primarily through substantive legislation affecting tax policy or mandatory programs, or appropriations that differ from those assumed in the baseline estimate. The major policy change for the 1998 deficit was enactment of the President's Economic Plan in the Omnibus Budget Reconciliation Act of 1993 (OBRA93), which decreased the 1998 deficit by an estimated $146 billion. Subsequent policy changes, largely those in the Balanced Budget Act of 1997 and the Taxpayer Relief Act of 1997, partially offset this decrease, so that total policy changes decreased the 1998 deficit an estimated $124 billion.

Actual economic outcomes that differed from the initial economic assumptions were estimated to increase 1998 receipts by $61 billion, and decrease outlays $30 billion, for a total deficit reduction due to economic factors of an estimated $91 billion. These changes were largely the result of stronger economic growth, which increased receipts and decreased certain outlays, such as those for unemployment compensation, and also of lower than expected inflation and interest rates.

Technical estimating differences, a residual, increased 1998 receipts by an estimated $163 billion, and decreased outlays by an estimated $79 billion, for a total decrease in the deficit of an estimated $242 billion. Much of the increase in receipts was due to difficult-to-project indirect economic factors, such as the growth in the stock market. These had the effect of increasing effective tax rates (the amount of tax collected per dollar of GDP), as discussed below.

**FY 1998 – FROM DEFICIT ESTIMATE TO THE FIRST SURPLUS IN A GENERATION**
(in billions of dollars)

| | FY 1998 | FY 1994-FY 1998 |
|---|---|---|
| Pre-OBRA93 baseline deficit estimate (-) | -388 | -1,640 |
| Changes due to: | | |
| Policy | 124 | 475 |
| Economics | 91 | 189 |
| Technical reestimates | 242 | 548 |
| Total changes | 457 | 1,213 |
| Actual | 69 | -427 |

The Role of the President's Economic Program

The President's 1993 Economic Plan included $255 billion in spending cuts over five years -- more than half of the total deficit reduction in the 1993 package. As spending was cut in lower priority areas, the President dramatically increased funding in critical areas such as education and training, children, the environment, health care, and research and development.

In addition, because of the tax cuts for working families signed into law by the President, the typical American family of four was projected to face the lowest Federal tax burden in over two decades. The President proposed in 1998 to build upon this record to provide additional targeted, paid-for tax relief for childcare, education, pensions, affordable housing, and the environment.

Experts agreed that the President's 1993 Economic Plan helped cut the deficit, reduce interest rates, spur business investment, and strengthen the economy – the "virtuous cycle." According to reports at the time, the economy and the budget were working in a virtuous circle -- lower deficits led to lower interest rates, which led to faster business investment, which led to faster growth, which in turn led to even lower deficits.

## FY 1999 OMNIBUS APPROPRIATIONS

The President's FY 1999 budget, released on February 1, 1998, requested over $554.2 billion to fund the discretionary activities of the Federal Government. Of this amount, $279.8 billion was requested for non-defense discretionary spending (including emergencies, Education's Title I advance, unallocated reserve, and excluding offsets); and $274.4 billion was requested for defense discretionary spending. In his budget message to the Congress, the President stated that this would be the first balanced Federal budget of the last 30 years, bringing the era of exploding deficits to an end. Among the goals the President set forth in the budget were investments in education and training; a child care initiative; expanded health care coverage for seniors and children; increased support for key environmental programs; a Research Fund for America to support continued leadership in science and technology; an expanded community policing program to increase police on the streets; community development through more Empowerment Zones and Enterprise Communities; continued support for the International Monetary Fund and peacekeeping efforts; and a review of our military forces to support military readiness fully.

### Congressional Budget Resolution

Following transmittal of the President's budget, the Congress for the first time since the enactment of the Budget Act failed to pass a budget resolution. The Appropriations Committees developed bills based on allocations that called for $531.9 billion in discretionary spending based on the average of the Senate and House resolutions, with $260.3 billion for non-defense discretionary spending and $271.6 billion for defense discretionary spending. In total, the resolution was $22.3 billion below the President's request, $19.5 billion below the non-defense discretionary request, and $2.8 billion below the defense discretionary request.

### Appropriations Action

The House reported the first of the 13 annual spending bills out of Subcommittee on June 3rd, and reported the last bill out of Subcommittee on July 24th. The Senate reported its first bill out of Subcommittee on June 2nd and the last on September 1st. By the end of the process, the House had passed 12 bills (all but Labor/HHS/Education), and the Senate had passed 10 (all but District of Columbia, Interior, and Labor/HHS/Education). Only five bills made it completely through the process as freestanding bills: Military Construction, Energy/Water Development, Defense, VA/HUD/Independent Agencies, and Legislative Branch. Eight bills had veto threats attached to either the House or Senate version (or both), and one, Agriculture/Rural Development, was vetoed by the President. In the eventual omnibus bill, virtually all of the items that were the basis of veto threats on the House- or Senate-passed versions were dropped or resolved in a manner acceptable to the Administration. A recap of veto threats on the FY 1999 appropriations bills follows.

- Agriculture/Rural Development. Senior advisers veto recommendation in conferees letter based on two issues: the House provision that would have prohibited FDA from using funds for the testing, development, or approval of any drug for the chemical inducement of abortion; and agricultural disaster assistance that was either inadequate or improperly structured. The bill was vetoed on October 7, 1999.

- Commerce/Justice/State. Senior advisers veto recommendation on House-passed bill due to inadequate funding of priority programs (e.g., Legal Services Corporation), and objectionable language provisions including a restriction on decennial census funding. The omnibus bill included $300 million for the Legal Services Corporation, $40 million below the request, but a six-percent increase over the FY 1998 level. The Community Oriented Policing Services Program was funded at the request – $1.4 billion. The final bill provided $189 million more than the original request for the decennial census to proceed with a "dual track" approach -- a census with and without sampling. In addition, the omnibus bill limited the time availability of FY 1999 funding to June 15, 1999 (the date by which the Supreme Court was expected to render a verdict on the legality of the use of sampling) for all the agencies funding in the C/J/S bill.

- Defense. Senior national security advisers veto recommendation on House-passed bill due to section 8106 requirement for prior congressional approval before the President can initiate offensive military operations. Senior advisers veto recommendation based on Senate Floor amendments that would have: prescribed a force draw-down in Bosnia (tabled); require prior congressional authorization before taking offensive military actions (tabled); and altered the current commercial satellite export licensing jurisdictions of Executive Branch agencies (withdrawn).

- District of Columbia. Senior advisers veto recommendation on House-passed bill due to funding for school vouchers, a prohibition on adoption in the District by couples who are unmarried or not related by blood, and a prohibition on needle exchange programs. The prohibition on the needle exchange program was retained in the omnibus bill. Senior advisers veto on Senate Committee bill if an amendment had been adopted to provide for the use of private school vouchers in D.C. (not added in Senate Committee).

- Foreign Operations. Presidential veto (based on bill as a whole) on House-Committee bill and senior advisers veto recommendation on Senate-passed bill due to inadequate funding for key Administration priorities such as the International Monetary Fund (IMF) (House); assistance to New Independent States (House and Senate); the Korean Peninsular Development Organization (House); the Global Environmental Facility (House and Senate); and a number of objectionable language provisions (House and Senate), including "Mexico City" restrictions (House) on international population programs. Funding for foreign operations in the omnibus bill, excluding IMF, increased by one percent over FY 1998. The bill included the requested $3.4 billion for the New Arrangements to Borrow and the $14.5 billion for the IMF quota increase. The omnibus retained the FY 1998 appropriations language which caps funding for international population programs (the "Mexico City" language), and imposes monthly obligation limits, but does not include the Mexico City restrictions.

- Transportation. Secretary of Transportation veto recommendation on Senate Committee bill over Project Labor Agreements (PLAs). Compromise language added on Senate Floor prohibited use of funds for requiring or directing the use of PLAs by DOT.

- Treasury/General Government. Secretary of the Treasury veto recommendation on two potential amendments. An amendment that would have severely restricted the use of the Exchange Stabilization Fund was defeated on the House Floor and not offered in the Senate. An amendment to sunset the tax code fell on a Budget Act point of order in the Senate.

End-game Negotiations

With eight of the 13 regular appropriations bills incomplete before the end of FY 1998, the Administration and the Congress engaged in a series of end-game negotiations to resolve deficiencies in the remaining bills. A total of six Continuing Resolutions were needed to keep the Government operating as the Congress and the President worked to resolve differences. The eight remaining bills were included in a 40-pound, 3,825-page omnibus/supplemental bill and report that totaled $486 billion in budget authority (mandatory, discretionary, IMF, and emergencies). The bill provided approximately $224 billion (net of offsets) in discretionary budget authority. This included $20.8 billion in emergency supplemental funding composed of: $5.9 billion for agricultural disasters; $3.0 billion for military readiness and peacekeeping; $3.35 billion for Year 2000 conversion activities ($2.25 billion for non-defense agencies); $2.4 billion for anti- and counter-terrorism activities; $1.9 billion for natural disasters; $0.7 billion for counter-drug and narcotics interdiction efforts; and$3.5 billion for other emergency needs.

The White House/OMB negotiated principally with the congressional leadership, primarily Speaker Gingrich.

Conclusion

With the completion of negotiations between the Congress and the Administration, the President signed into law the FY 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Bill on October 21, 1998. At the beginning of the year's appropriations process, there was a $22.3 billion gap between the Administration's total program level request for discretionary spending and the Congressional Budget Resolution. The enacted bills provided $281.7 billion for non-defense discretionary spending (including emergencies), $1.9 billion above the President's request, and $22.6 billion (nine percent) above FY 1998. Defense discretionary spending totaled $279.9 billion, $5.5 billion over the request and $8.0 billion (three percent) over FY 1998.

Through the end-game negotiations, the Administration was able to add significant funding to the omnibus bill for many Presidential priorities. The bill provided $35.8 billion for the Department of Education, nearly $2.6 billion above the House level. The Climate Change

Technology Initiative received $1.0 billion, a 16.5-percent increase over the House level. The Department of Labor's School-to-Work program was funded at the requested level of $125 million, 66.7 percent above the House level. Foreign Operations funding totaled $13.4 billion, $578 million above the House level. Environmental programs received $31.5 billion, $1.1 billion above the House levels.

The vast majority of the objectionable language provisions contained in earlier versions of the eight appropriations bills included in the omnibus were eliminated or acceptably modified. While the bill prohibited charging fees for the cost of the FBI's Insta-Check System, it provides funding for these costs. The bill included provisions that reform the H-1B visa program, reflecting over six months of negotiations between the Congress and the White House. An Administration-supported provision to provide legislative relief to certain Haitians was included in the bill. Funding was provided for a contribution to KEDO, tied to certification requirements that were drafted by the Administration. The Administration succeeded in having language removed that would have required family planning grantees to acquire parental consent or notification.

Many objectionable riders in House or Senate versions of the Interior bill were eliminated in the omnibus bill, including provisions that would have allowed the following: the establishment of the construction of a road through the King Cove/Izembek National Wildlife Refuge; the operation of helicopters in Alaskan wilderness areas; the establishment of a right-of-way through the Chugach National Forest; a 55-percent increase in timber production in the Tongass National Forest; and the amendment of the 1920 Federal Power Act for hydro-electric facilities on the Columbia-Snake River System.

In addition to the prohibition of the District of Columbia from using funds for needle exchange, the bill prohibited the use of Federal funds, rather than allowing the Secretary of Health and Human Services to certify the use of such funds. The omnibus also included an amendment prohibiting pilot national testing and a delay in the implementation of an organ donation regulation that would allow organs to be allocated according to medical urgency.

## THE BALANCED BUDGET REFINEMENT ACT

On November 29, 1999, the Balanced Budget Refinement Act of 1999 (BBRA) was enacted into law. The BBRA restored $15 billion over five-years in Medicare payments to health-care providers and health plans in response to criticisms that the Balanced Budget Act of 1997 (BBA) Medicare payment reductions were excessive. Health-care providers successfully argued that some of the BBA payment reductions were no longer needed given faster-than-expected slowdowns in overall Medicare spending and larger-than-expected budget surpluses.

The BBA represented one of the most dramatic changes to the Medicare program since its inception. Medicare payments were reduced by about $150 billion over five years. Most of these payment reductions took the form of reductions to scheduled annual Medicare payment updates and the replacement of traditional cost-based reimbursement systems with prospective payment systems. The BBA also revamped the Medicare managed care program, adding new plan choices such as medical savings accounts and preferred provider organizations.

Preliminary Medicare spending data confirmed that Medicare outlays were falling faster than prior projections. Both OMB and CBO reduced their Medicare baseline spending projections in 1999. For the FY 2000 Mid-Session Review, OMB reported that Medicare spending would be $17 billion lower over five years relative to its most recent projection. CBO reported a similar decline in projected Medicare spending. In March, the Medicare Trustees reported that the HI Medicare Trust Fund would remain solvent until 2015, a seven-year improvement relative to its post-BBA projection. In October 1999, the Treasury Department released actual Medicare spending for FY 1999, reporting that Medicare spending fell 0.7 percent relative to FY 1998 spending. Never in the history of the Medicare program had the Medicare program experienced negative spending growth.

However, many analysts were skeptical that the slowdowns in Medicare spending were due solely to the payment reductions enacted under the BBA, reasoning that the spending declines were due to other factors. These other factors included declines in the general rate of inflation which depresses Medicare payments, reductions in the incidences of "up-coding" due to increased vigilance against Medicare fraud and abuse, and claims processing slow-downs due to the extensive system changes required by the BBA.

OMB attributed the slowdown to HHS and the Health Care Financing Administration's (HCFA's) efforts to eliminate fraud, waste, and abuse in the Medicare program. CBO supported OMB's explanation. Other analysts cautioned the Congress that it was too soon to tell what the true impact of the BBA payment reductions were and what was causing the Medicare spending slowdowns. At the June 10 Senate Finance Committee hearing, the Medicare Payment Advisory Commission stated:

> The greater than expected slowdown in Medicare spending that occurred in fiscal year 1998 and that has continued this year was greater than expected. Unfortunately, we cannot draw definitive conclusions about what is happening...to generate this slowdown. Data for the BBA period are extremely limited, and we cannot easily isolate the effects of the BBA from other changes.

While the reasons for the Medicare spending slowdowns were not exactly clear, declining hospitals margins, home health agency closures, skilled nursing facility bankruptcies, and plan pull-outs from the Medicare managed-care program nevertheless fueled pressure for the Congress to enact legislation that would restore some Medicare funding to providers.

The BBRA restored $15 billion of Medicare funding over five years to health care providers. The legislation was widespread in scope, addressing Medicare payment systems for almost all health-care providers that participate in the Medicare program. The major provisions included:

- Inpatient Hospitals. The BBRA modified the payment reductions to Medicare Disproportionate Share Hospital payments and the Indirect Medical Education payments. The BBRA also modified several Medicare rural hospital programs to allow more hospitals to participate and to receive higher Medicare payment rates.

- Outpatient Hospital Departments. The BBRA eased the transition to the new prospective payment system for outpatient hospital services by providing additional Medicare funding.

- Skilled Nursing Facilities. The BBRA increased Medicare payments by 20 percent for 15 of the more than 40 payment categories of the BBA-mandated prospective payment system. .

- Home Health Care. The BBRA delayed by one year a scheduled 15 percent overall payment reduction.

- Managed Care Payments. The BBRA increased managed-care payment rates by modifying scheduled payment reductions and delaying HCFA's schedule for phasing in risk-adjustment, a method of adjusting payments to reflect the relative health of the managed-care enrollee. Managed-care payment rates were also increased indirectly since they are automatically increased by payment increases to Medicare fee-for-service providers.

The BBRA also made a number of smaller changes to Medicaid and the State Children's Health Insurance Program (SCHIP). In Medicaid, the bill extended the TANF/Medicaid welfare reform transition fund, increased Medicaid disproportionate share hospital allotments for three States and the District of Columbia, and modified the phase-down of payments to Federally Qualified Health Centers. In SCHIP, the bill stabilized the state allotment formula, increased allotments to the Territories, and provided funds to the Census Bureau and HHS to improve data collection and program evaluation.

The BBRA provided additional funding to almost all health-care providers. However, the overall payment increase was relatively small when total Medicare spending is considered. The $15 billion payment increase constituted about 10 percent of the total savings enacted under the BBA, and about one percent of total Medicare baseline spending. If the improved stability of health-care providers was the goal of Congress when enacting the BBRA, the verdict on its success is still to be determined a year later. Measures of hospital, home-health provider and nursing home financial performance is mixed, and many providers continue to report negative earnings and bankruptcy. Further, the Medicare managed care program experienced its largest to date plan withdrawal in 2000. Attesting to provider success in lobbying for further Medicare payment restorations (and additional budget surpluses), in the fall of 2000 the Congress began drafting a second Medicare payment restoration bill that would likely double the spending increases of the BBRA.

## FY 2000 OMNIBUS APPROPRIATIONS

The President's FY 2000 budget, released on February 7, 1999, requested $576.1 billion, as later amended, to fund the discretionary activities of the Federal Government. Of this amount, $290.7 billion, including emergencies, was requested for non-defense discretionary spending, and $285.3 billion was requested for defense discretionary spending. In his budget message to the Congress, the President stated that this "balanced" budget would uphold the fiscal discipline of the Federal Government while fulfilling promises of new opportunity for our Nation. Among the goals the President set forth in the budget were providing funds to reduce class size, put in place a 21st Century Community Oriented Policing Services (COPS) program, and institute an interagency Lands Legacy initiative to protect America's historic open spaces and Great Places.

### Congressional Budget Resolution

Following transmittal of the President's budget, the Congress passed its budget resolution in early May -- which called for $536.8 billion in discretionary spending with $246.8 billion for non-defense discretionary spending, and $290.0 billion for defense discretionary spending. In total, the resolution was slightly above the Administration request for defense discretionary spending, but $41 billion below the President's request for non-defense discretionary spending. Initially, the House provided no funding for the Veterans Affairs and Housing and Urban Development Departments, and for the Independent Agencies bill portion of the Corporation for National and Community Service. In addition, the House and Senate zeroed funding for reducing class size and provided insufficient funding levels for the COPS program and the Lands Legacy initiative.

### Appropriations Action

The House reported the first of the 13 annual spending bills out of Subcommittee on May 13, 1999, and reported the last bill out of Subcommittee on September 23, 1999. The Senate reported its first bill out of Subcommittee on May 24, 1999, and the last on September 27, 1999. As they moved through the Congress, 10 of the 13 regular appropriations bills would have veto recommendations attached to the House, Senate, and/or Conference versions due to the inclusion of unacceptable provisions or levels of funding. As discussed below, objectionable provisions and insufficient funding levels would be either dropped or resolved in five of the bills with veto recommendations attached before October 1st, allowing them to be sent to the White House and signed into law before the beginning of the new fiscal year:

- Energy/Water Development. Senior advisers veto recommendation (House version) over anti-environmental riders concerning wetlands. The final version was modified to be acceptable.

- Transportation. Senior advisers veto recommendation (Senate version) on the "Shelby mass transit formula" provision that cut assistance to New York and California. The provision was removed from the final version of the bill.

- Treasury/General Government. Secretary of State and Attorney General veto recommendation on House and Senate versions of the bill based on section 118 provision concerning certain anti-terrorist judgments (i.e., the Flatow amendment).

The objectionable provision was removed from the final version of the bill.

- Agriculture/Rural Development. Senior advisers veto threat on House-passed version of the bill based on inclusion of a provision prohibiting FDA approval of drug RU-486. The final bill did not include the prohibition.

- VA/HUD/Independent Agencies. Senior advisers veto threat on both House and Senate versions of the bill due to funding and language problems. The final bill restored funding for National Service, National Aeronautics and Space Administration, National Science Foundation, Housing and Urban Development vouchers, urban and rural empowerment zones/communities, Federal Emergency Management Agency (FEMA) Disaster Relief, Montreal Protocol, New Markets, Selective Service, and other programs.

Four of the remaining bills were vetoed, and one (Interior) was not be sent to the White House:

- Commerce/Justice/State. H.R. 2670: Senior advisers veto recommendation on House and Senate versions of the bill due to the lack of necessary funding to support high-priority domestic and international programs at acceptable levels (e.g., 21st Century Policing, anti-drug activities; terrorism/cybercrime, Brady handgun initiative, Lands Legacy Initiative and Pacific Salmon Treaty, and embassy security). The President vetoed the bill on October 26, 1999.

- District of Columbia. H.R. 2587: Umbrella senior advisers veto recommendation based on a number of objectionable provisions in the House and/or Senate versions of the bill that would undermine local control (e.g., abortion, domestic partners, limit on attorneys' fees in special-education cases, needle-exchange programs, voting representation). The President vetoed the bill on September 28, 1999.

- District of Columbia (revised). H.R. 3064: The conference version of H.R. 3064 combined an improved D.C. bill with an unacceptable Labor/HHS/Education bill and an unacceptable offsets package (0.97 percent across-the-board cut in discretionary spending). The President vetoed the bill on November 3, 1999.

- Foreign Operations. H.R. 2606: Senior advisers veto recommendation over significant funding shortfalls for key programs, including the multilateral development banks, NIS, limitations on Korean Energy Development Organization contributions, and funding to honor Wye commitments (House/Senate versions). Presidential veto threat over "Mexico City" international population planning amendment (House version). The President vetoed the bill on October 18, 1999.

- Foreign Operations (revised). H.R. 3196: Presidential veto threat due to problems associated with the original Foreign Operations bill. The Administration did express support for an amended version of H.R. 3196 that corrected deficiencies identified in the Director's letter.

- Interior. H.R. 2466: Senior advisers veto recommendation (House and Senate versions) over environmental and other objectionable riders in the bill and inadequate funding for major portions of Lands Legacy Initiative and other key programs. The unacceptable bill was never sent to the White House.

- Labor/Health and Human Services (HHS)/Education. H.R. 3037: Presidential veto threats on House Committee bill and Senate-passed bill due to inadequate funding for the class size initiative, Education Technology, and After School. Bill vetoed as part of DC/Labor/HHS/Ed bill on November 3, 1999.

End-game Negotiations

With five of the 13 regular appropriations bills incomplete before the end of FY 1999, the Administration and the Congress engaged in end-game negotiations to resolve deficiencies in the remaining five bills. A total of seven Continuing Resolutions were needed to keep the Government operating as the Congress and the Administration worked to resolve differences. White House and OMB officials engaged in negotiations with the House and Senate Full Committee Chairs and Ranking Members and with the Subcommittee Chairs and Ranking Members. Several issues were negotiated with the Congressional Leadership.

Conclusion

With the completion of negotiations between the Congress and the Administration, the President signed the FY 2000 Consolidated Appropriations Bill into law on November 29, 1999. At the beginning of the FY 2000 appropriations process, there was a $41 billion gap between the Administration's total program level request for non-defense discretionary spending and the Congressional Budget Resolution. However, the enacted bills provided nearly $583.9 billion in program level discretionary budget authority, with $294.9 billion for non-defense discretionary spending (excluding emergency funding for Agriculture), $4.2 billion above the President's request and $21.4 billion above the FY 1999 enacted level. The enacted bills also provided $288.9 billion for defense discretionary programs, $3.6 billion above the request and nearly $17.0 billion above the FY 1999 enacted level.

The enacted bills included $1.3 billion for a class size initiative, $100 million over FY 1999; $439 million for National Service, the same as FY 1999; a program level of $913 million for the new 21st Century Policing program; and$652 million for Lands Legacy, $194 million over FY 1999.

While several objectionable legislative riders of minor concern were enacted, the most harmful riders were either dropped or substantially modified, such as those involving Pacific Coast Salmon sufficiency language; limits on private funding of needle exchange programs in the District of Columbia; a moratorium on changing hard rock mining regulations; unacceptable restrictions on rules for mill site use; unacceptable delays in oil valuation rules designed to provide a fair return to the taxpayer; a change to the mass transit formula that would have punished California and New York; and a prohibition on FDA approval of RU-486.

The Administration proposed over $27 billion of outlay offsets for the increased level of spending through tobacco taxes and/or penalties; spectrum sales; Superfund tax extension; use of the paygo balances; a Federal Reserve assets balance transfer; a student loan reform; various new or increased user fees; such as meat inspection fees; and other proposals. Only about $7.2 billion of these offsets were approved -- Spectrum sale, Federal Reserve transfer, and student loan reform. Most of the offset proposals were not approved or even voted on.

The Congress bridged the difference through a combination of designating $31.1 billion in spending as "emergency" requirements (Agriculture disaster funding, the 2000 Census, Low Income Home Energy Assistance Program, Head Start, Defense Operations and Maintenance and the Department of Defense (DoD) 2000 pay raise, FEMA Disaster Relief, the Wye River accord, and other activities ($16.7 billion of which is for base programs in the Departments of Commerce, Defense, and HHS)); $23 billion of advance appropriations, $4.2 billion more than the level proposed and $14.4 billion more than the prior year; delaying the obligation of new budget authority ($6.2 billion) for National Institutes of Health and other HHS programs, DoD contractor payments, and Foreign Military Financing payments to Israel; delaying the last FY 2000 pay date for military employees and certain civilian employees for a few days, from FY 2000 into FY 2001 (outlay savings $3.6 billion); and by adding a 0.38 percent cut to discretionary funding (savings of $2.4 billion in budget authority and $1.2 billion in outlays).

# IMPROVING HOW GOVERNMENT WORKS

## GOVERNMENT PERFORMANCE AND RESULTS ACT

The Government Performance and Results Act of 1993 (GPRA) was enacted on August 3, 1993, and was the first major legislation affecting the operations of government signed by the President.

OMB played an early and important role in the initial development and design of GPRA. GPRA gave us a statutory framework for expanding the use of performance information in the decision-making process.

The underlying purpose of GPRA is to make government more accountable to the American taxpayers. A fundamental step toward this end is measuring the performance of government programs -- how well are they doing, and what effect are they having. Government officials and employees are expected to manage and work for results. Budgets will increasingly be based on how well programs are doing.

The legislation was first introduced by Senator Roth, then the ranking member of the Senate Committee on Governmental Affairs, in October 1990, and reintroduced in 1991 and 1993. In May 1992, Committee staff asked OMB to draft a revised bill that would address several major concerns OMB had with the legislation as introduced. Senator Glenn, the chairman of this Committee, joined Senator Roth in sponsoring the revised bill. The Senate passed the bill unanimously on October 1, 1992, but the House took no action at that time. In 1993, the reintroduced bill was quickly endorsed by the President, spurring the House into timely action.

The Director of OMB and the heads of the Federal agencies are statutorily responsible for GPRA implementation. Within OMB, the implementation effort was overseen and guided by the Deputy Director for Management, with day-to-day responsibility assigned to OMB's five Resource Management Offices. OMB also organized a GPRA Implementation Group (GIG), comprised of representatives from every division within OMB. The GIG, chaired by the Deputy Director for Management, met periodically to coordinate OMB and agency implementation efforts, and review draft policies and procedures.

### Initial Implementation: the Pilot Projects

GPRA provided for three sets of pilot projects:

- Performance measurement pilot projects to test and demonstrate whether the specifications and structure for the annual performance plan and program performance report would work as intended.

- Managerial accountability and flexibility pilot projects to assess the effect of giving managers and staff greater latitude in administering and managing programs.

- Performance budgeting pilot projects to examine the practicability of determining and presenting the changes in performance levels that result from different funding levels.

GPRA requires OMB to report to the Congress on the performance budgeting pilots, and whether additional legislation would be needed before performance budgeting concepts tested by these pilots projects could be put in place government-wide.

Government-wide Implementation

OMB initiated GPRA implementation by choosing the performance measurement pilot projects. OMB intentionally used a limited number of criteria for this program to ensure that a range of functions and agency capabilities was covered, believing that agencies could use these pilot projects to gain experience in meeting GPRA requirements. In addition, OMB wanted the pilot projects to encompass the range of activities undertaken by agencies across the government. This scope would be critical to drawing any conclusions on the feasibility of developing and using performance measures. When the performance measurement pilot project designations ended, 14 Cabinet departments and 14 independent agencies had been designated as pilots.

In October 1994, OMB solicited nominations for managerial accountability and flexibility projects. GPRA required that the flexibility pilot projects be selected from the previously designated pilot projects for performance plans and reports. This prerequisite underscored the importance of having the flexibility pilot projects assess the effects of waivers on achieving their performance goals. Nominations for managerial flexibility and accountability pilots were received from seven Cabinet departments and one independent agency. Following inter-agency review of the requested waivers, OMB concluded none of the proposals served as a credible test of the managerial accountability and flexibility provisions of GPRA.

The final set of pilot projects – the performance budgeting pilots – are currently underway. OMB is using five case studies to look at the experience of using performance data to inform and aid making budget decisions. OMB is required to report to the Congress on these pilot projects by March 31, 2001.

Government-wide implementation of GPRA began in 1997, with agencies preparing strategic and performance plans. The final element in GPRA implementation was completed in March 2000, with agencies transmitting the FY 1999 performance reports to the President and the Congress.

The principal elements of GPRA are the agency strategic plan, the annual performance plan, the annual program performance report, and a government-wide performance plan. OMB is responsible for developing guidance and instructions for carrying out GPRA, and overseeing how agencies carry out those instructions. The principal means for communicating this guidance is OMB Circular A-11, issued annually each summer. OMB reviews agency strategic plans and annual performance plans before their transmittal to the Congress, and uses the performance information contained in the strategic plans, performance plans, and performance reports in reviewing agency budget requests and preparing the President's budget. OMB also must prepare its own strategic plan, annual performance plan, and annual program performance report.

The government-wide performance plan is prepared by OMB and is a part of the President's budget. It contains a set of key performance goals for the Federal Government. The goals are excerpted from the agency performance plans and grouped by budget functions, rather than by agency. To date, three plans have been prepared (for FY 1999, 2000, and 2001). The fourth government-wide performance plan (for FY 2002) will be a part of the budget transmitted by the new President.

All Cabinet departments and virtually every Executive Branch independent agency are subject to GPRA. The total number of agencies submitting plans and reports is approximately 100. GPRA allows OMB to exempt agencies with $20 million or less in annual spending from GPRA requirements. In 1997, about 35 agencies sought an exemption. OMB reviewed these requests and decided to exempt only very small agencies (those with annual spending of no more than several million dollars). About half the requesting agencies received an exemption.

The FY 2001 budget process illustrates how OMB has increased its use of performance information in its review of agency budget requests. In June 1999, Director Jack Lew directed agencies to focus FY 2001 budget submissions on the extent to which current programs are achieving the results intended, and new program initiatives are structured to provide for clear definition of results and mechanisms for accountability for achieving them. Subsequently, in developing the President's FY 2001 Budget, OMB included relevant performance information for every major budget issue presented during Director's Review sessions.

## REINVENTING GOVERNMENT

OMB played a key role in the Administration's "reinventing government" (REGO) initiative. REGO initially began in 1993 as a six-month review and evolved into the longest running Federal reform effort.

<u>REGO I -- 1993</u>

In March 1993, the President asked the Vice President "to redesign, to reinvent, to reinvigorate the entire National Government." The Vice President organized a team of Federal employees, the National Performance Review (NPR), led by the OMB Deputy Director of Management and the Vice President's Senior Policy Advisor. It took about six weeks to organize and staff the 250-member interagency NPR task force. While this occurred, OMB pulled together 76 notebooks of background information to serve as the context for the task force.

NPR divided itself into two sets of teams, each with an OMB liaison. One set of teams reviewed individual agencies. The other reviewed major governmental systems (procurement, financial management, information technology, regulatory systems, etc.), and in a number of cases, OMB staff served on those teams as full-time members. Each major agency, in addition to having an external NPR review team, created its own internal team. OMB coordinated the comments and fiscal implications of the draft recommendations, and advised on the implementation of over 1,200 recommendations.

In September 1993, the Vice President presented the final report to the President in a ceremony on the South Lawn of the White House, with a set of fork lifts filled with rules and regulations proposed to be abolished as the backdrop. The President highlighted OMB's role with the task force in a ceremony that included the entire Cabinet, congressional leadership, and the media. The President accepted the recommendations in the report, which totaled $108 billion in savings over five years, and reduced the size of the workforce by 252,000.

The following week, OMB staff crafted an omnibus legislative package containing more than 50 NPR recommendations. It passed the House in less than a month, but stalled in the Senate. However, in the following year, most of the items in the package were separately adopted. In addition, OMB's Office of Federal Procurement Policy (OFPP) led the development and passage of NPR's recommendations related to reforming the procurement system, a landmark piece of legislation changing more than 700 existing laws.

<u>Reinventing Government – 1994-95</u>

In late 1994, the President asked the Vice President to launch a second round of reinvention. Again, OMB worked closely with the NPR on an agency-by-agency approach, crafting recommendations totaling $70 billion in savings. In addition, each of OMB's statutory offices worked with NPR staff on key initiatives:

- The Office of Information and Regulatory Affairs worked with a separate NPR team to host a series of discussions with the Vice President on how to approach the government's regulatory responsibilities differently. Out of those conversations came a series of innovative regulatory commitments on the part of those agencies, primarily to use partnership rather than adversarial approaches to regulating. In addition, this led to the review and elimination of 16,000 pages of obsolete rules from the Federal Code of Regulations, and the rewriting of another 31,000 pages into plain language.

- The Office of Federal Financial Management led efforts to reform the laws related to collecting delinquent debt, as well as improving financial management systems and extending the CFO Act to the entire government.

- OFPP staff led the implementation of the recently passed procurement reform initiatives relating to small-item purchases, and crafted additional reform legislation related to large-item purchases that was subsequently passed.

While many of these recommendations were publicly announced during the course of the year, the Vice President presented the full package of recommendations to the President in September 1995.

Transforming Government – 1996

In 1996, OMB continued to lead the implementation of the recommendations from REGO I and II; but as part of the effort to balance the budget, it worked with NPR to develop new, more effective and less costly ways of governing. These included:

- Performance-based grants, where states were given a great deal of flexibility to use Federal funds to address identified local challenges, but the states also had to agree to meet specific mutually agreed upon performance goals. The President's FY 1997 budget included pilots in the areas of health, environment, and education.

- Performance-based organizations (PBO), where discrete units within departments that have strong incentives to manage for results. A PBO commits to specific measurable goals with targets for improved performance. In exchange, it is granted managerial flexibilities to achieve these targets. The President's FY 1997 budget included nearly a dozen potential candidates. By 1999, the Patent and Trademark Office and the Office of Student Financial Assistance received the necessary statutory authorization.

- Collaborative pilots with individual states to reduce red tape in existing programs and focus more energy on results -- for example, streamlining Federal grants so the state could put more resources into programs and less into administrative costs. Likewise, several states, including West Virginia, created a single state plan – instead of separate plans -- for more than 200 grants affecting children and families.

Reinventing Government – 1997-2000

In the second term, the Administration's reinvention efforts concentrated on longer-term transformation of the culture of agencies to be more results-oriented, performance-based, and customer-focused. NPR re-named itself as the "National Partnership for Reinventing Government" to symbolize its shift in approach.

OMB worked closely with NPR to identify specific goals that "High Impact" agencies should commit to achieve by the end of the Administration, to signal that government was indeed changing. These goals were published as part of the President's FY 1998 budget. They included, for example, 24-hour phone answering service by the IRS during tax season.

With the maturation of GPRA, specific measures of agency performance were developed that served as key indicators of agency culture change. In addition to information about progress toward program performance goals, NPR collected information about employee satisfaction as well as customer satisfaction. OMB examiners used this information as they reviewed agency budget requests.

OMB and NPR also worked together on specific reinvention initiatives, including the President's challenge to agencies to serve as a model employer for welfare-to-work recipients, the implementation of the President's Plain Language initiative, and the President's Food Safety Council. OMB also served as the Administration's advocate for reinvention on the Hill, testifying numerous times on the Administration's progress in reinventing agencies.

Conclusion

After eight years, the government has changed dramatically, taking thousands of small steps that together have resulted in enormous changes. In addition, a key measure of the success of reinvention – public trust in the Federal Government to do the right thing – rose for the first time in years from 21 percent in 1994 to 40 percent in 1998. In addition:

- Between 1993 and 1999, the Administration reduced the size of the Federal civilian workforce by 17 percent, or 377,000 full-time equivalent employees. This resulted in the smallest Federal Government since Dwight Eisenhower was President.

- The President's executive order to establish customer service standards led to the creation of more than 3,500 standards across the government. As a result, an increasing number of Federal managers saw customer service as an important part of their jobs. In a 1991 survey, 36 percent of Federal managers thought customer service was an important part of their jobs. By 1999, 79 percent thought so. In 1999, the Administration sponsored the first-ever government-wide survey of customers of key Federal services using a survey considered to be the benchmark by the private sector. The government-wide score was 68.6 on a 100-point scale – not too far from the 71.9 average for private sector services. In fact in certain areas, agencies did better than their private sector counterparts.

- OMB helped lead the reform of outdated administrative systems and reduced useless red tape. The President signed over 50 executive directives and more than 90 laws, including procurement reform, financial-management reform, travel reform, delinquent-debt reform, grants-management reform, reform of the pension regulatory system, the elimination of hundreds of obsolete congressional reporting requirements, reform of how the government buys and management information technology, and many others.

- Agencies like the IRS, HUD, the Health Care Financing Administration, the U.S. Mint, the Federal Emergency Management Agency, and the Federal Energy Regulatory Commission completely reorganized their internal operations away from administrative processes to an organization centered on their external customers.

# REGULATORY OVERSIGHT AND EXECUTIVE ORDER 12866

Regulations, like other instruments of government policy, have enormous potential for both good and harm. Well-chosen and carefully crafted regulations can minimize fraud, limit pollution, increase worker safety, discourage unfair business practices, and contribute in many other ways to a safer, healthier, more productive, and more equitable society. Excessive or poorly designed regulations, by contrast, can cause confusion and delay, give rise to unreasonable compliance costs in the form of capital investments and/or ongoing paperwork, retard innovation, reduce productivity, distort private incentives, and adversely affect living standards.

## The Process by which Regulations are Developed

The importance of regulations and the challenges that regulators face make it imperative that integrity and accountability characterize the process by which regulations are developed. To accomplish this, the President issued Executive Order (E.O.) 12866, "Regulatory Planning and Review," on September 30, 1993. E.O. 12866 clearly articulated the President's regulatory philosophy and his view of how the nation's regulatory system should work. As E.O. 12866 states:

> The American people deserve a regulatory system that works for them, not against them; a regulatory system that protects and improves their health, safety, environment, and well-being and improves the performance of the economy without imposing unacceptable or unreasonable costs on society; regulatory policies that recognize that the private sector and private markets are the best engine for economic growth; regulatory approaches that respect the role of State, local, and tribal governments; and regulations that are effective, consistent, sensible, and understandable.

First, E.O. 12866 balanced the roles of the agencies and the White House. It affirmed the primacy of Federal agencies in the regulatory decision-making process. At the same time, it affirmed the importance of centralized regulatory review to ensure that, to the extent permitted by law, regulations were consistent with the President's priorities, and did not interfere with a policy or action taken or planned by another agency.

Second, to assist the agencies in carrying out their responsibilities, E.O. 12866 set forth the President's regulatory philosophy and principles. The purpose of this guidance was to make it clear to the agencies their responsibilities to the President. Among the many significant principles were the following:

- In choosing among regulatory approaches, agencies were to select those approaches that maximize net benefits.
- Each agency was to base its decisions on the best reasonably obtainable scientific, technical, economic, and other information concerning the need for, and consequences of, the intended regulation.

- Agencies were to analyze the benefits and costs of any intended regulations and to choose the most cost-effective manner to achieve the regulatory objective.

- Consideration of costs and benefits is to include such factors as incentives for innovation, consistency, predictability, the costs of enforcement and compliance (to the government, regulated entities, and the public), flexibility, distributive impacts, and equity.

Third, E.O. 12866 made the review process more focused and effective. To help streamline the review process, E.O. 12866 provided for greater selectivity in reviewing regulations. Under the E.O. 12866, agencies were to decide which rules they were considering were "significant" (based on their economic, social, or legal importance). The Office of Information and Regulatory Affairs (OIRA) in OMB would review only those rules that the agency, or OIRA, believed warranted review. Thus, rather than review all proposed and final rules, OIRA would free up its resources to focus on those regulations where the most value could be added. This would also permit agencies to issue more expeditiously those regulations not subject to review.

Another theme of the E.O. 12866 was openness and accountability. It called for the public to become more involved, and set forth with specificity who is responsible for what and when, so that those who are interested will know the status and results of the review by the Executive Office of the President. OIRA made available a daily list of agency regulations under review. OIRA also disclosed the contacts that it had with those from outside the Executive Branch, their correspondence, and, after publication, the text of the regulations submitted for review.

Under the order, an agency submitted its proposed rule to OIRA prior to the publication of the Notice of Proposed Rulemaking in the Federal Register. If the rule were considered to be economically significant, the agency also provided an assessment, including the underlying analysis, of the costs and benefits of the proposed rule, as well as of the costs and benefits of potentially effective and reasonably feasible alternatives to the proposed rule. As a general matter, OIRA was to complete its review within 90 days. This process was repeated in the final rulemaking stage.

OIRA desk officers, organized by Federal department or agency, reviewed each of these rules as specified in E.O. 12866. For a rule that included an information collection, OIRA desk officers reviewed the regulation under the procedures for both E.O. 12866 and for the Paperwork Reduction Act. As occasion warranted, OIRA desk officers would share, as appropriate, the draft proposed or final rule with officials in the White House, the Executive Office, and regulatory departments and agencies, for their comment and review. Given the broad scope of regulatory authority provided to the various agencies, occasions arose where it appeared desirable or necessary to coordinate the regulatory approaches, standards, or methodologies involved in new and existing regulations. An agency refrained from publishing a proposed or final rule until OIRA had concluded its review under E.O. 12866.

## PAPERWORK REDUCTION ACT

The Federal Government provides the American people with an enormous array of protections and services. To carry out all of these responsibilities carefully and effectively, the Federal Government collects information. Much of this information is collected directly from the public. Some of these Federal information collections are voluntary, such as when visitors provide feedback on their experiences at a National Park. Other collections are mandatory, with noncompliance possibly subject to serious penalties.

Under the Paperwork Reduction Act (PRA), OMB must approve all proposed collections of information conducted or sponsored by Executive Branch agencies, including independent regulatory commissions. To update and improve this statutory oversight mechanism, the President worked to recodify totally the then-existing PRA. The President's proposal passed the House by a vote of 418-0, and the Senate by a vote of 99-0. The President signed the 1995 PRA into law on May 22, 1995, stating:

> The Paperwork Reduction Act helps us to conquer a mountain of paperwork that is crushing our people and wasting a lot of time and resources and which actually accumulated not because anybody wanted to harm the private sector but because we tend to think of good ideas in serial form without thinking of how the overall impact of them impacts a system that is very dynamic and very sensitive to emerging technologies but which Government does not always respond to in the same way.
>
> As we reform, we need not compromise the quality of life or the needed oversight from the Government. But the truth is, we can actually improve the system by making it less hidebound and by innovating as Americans are innovating.
>
> Today I want to add another dimension to this effort: From this point forward, I want all of our agencies to provide for the electronic submission of every new Government form or demonstrate to OMB why it cannot be done that way. The old way will still be available, but I think once people see how fast and efficient electronic filing can be, we'll see less paperwork and more of these. So, we're trying to do our part to act in good faith the way these members of the Congress intended the executive branch to act.

In addition, this recodification of the PRA had a number of other purposes, including:

- To clarify that the Act "applies to all Government-sponsored collections of information (including disclosure requirements), eliminating any confusion over the coverage of third-party paperwork burdens."
- To "[r]eaffirm the fundamental purpose of [the previous 1980 PRA] — to minimize the Federal paperwork burdens imposed on the public by Government."
- To "[e]mphasize the fundamental responsibilities of each Federal agency to minimize paperwork burdens and foster paperwork reduction, by requiring a thorough review of

each proposed collection of information for need and practical utility, the Act's fundamental standards, agency planning to maximize the use of information already available within Government or already collected by the public, and improved opportunity for public comment on a proposed paperwork requirement."

- To "[s]eek to reduce the paperwork burdens imposed on the public through better implementation of the annual Government-wide paperwork reduction goal of 5 percent."

The 1995 PRA requires that OMB approve each collection of information by a Federal agency before it can be implemented. Collections of information include: (1) requests for information for transmission to the Government, such as application forms and written report forms; (2) record keeping requirements; and(3) third-party or public disclosure requirements. Many information collections, record keeping requirements, and third-party disclosure requirements are contained in or authorized by regulations as monitoring or enforcement tools, while others appear in written questionnaires and their accompanying instructions. An underlying goal of the 1995 PRA is to minimize the Federal paperwork burden on the public. At the same time, the 1995 PRA recognizes the importance of information to the successful completion of agency missions, and charges OMB with the responsibility of weighing the burdens of the collection on the public against the practical utility it will have for the agency.

In general terms, the Chief Information Officer (CIO) in each agency is required to plan for the development of new collections of information and the extension of ongoing collections of information well in advance of sending the proposal to OMB. Advance planning is necessary because agencies need to estimate potential burdens on respondents, seek public comment through 60-day notice in the Federal Register, and thereafter submit their clearance requests to OMB for review and approval. In a paperwork clearance request, the agency needs to demonstrate to OMB that the collection of information is the least burdensome way of obtaining information necessary for the proper performance of its functions, that the collection is not duplicative of others, and that the collection has practical utility. Additionally, the agency is required to certify that a proposed collection of information "reduces to the extent practicable and appropriate the burden" on respondents, including, for small business, local government, and other small entities, the use of the techniques outlined in the Regulatory Flexibility Act.

To alert the public that OMB review has begun, agencies publish a notice in the Federal Register of the agency's submission to OMB of a request for approval and tell the public how to comment to OMB regarding the request. The public — during OMB's review and at any other time — is to have full opportunity to make its views known concerning any Federal data collection, both as to its perceived practical utility and the reporting burdens involved.

Under the 1995 PRA, OMB approval for an agency to use each data collection instrument can last a maximum of three years. Approval is evidenced by granting an OMB control number for the information collection instrument.

## PRIORITY MANAGEMENT OBJECTIVES

Beginning in 1997 with the FY 1999 Budget, the Administration tackled the Government's biggest management challenges by designating them as Priority Management Objectives (PMOs) and working with the agencies to institute real change.

The most recent list of PMOs in the FY 2001 Budget includes 24 agency specific and government-wide management issues.

Strengthening Government-wide Management

1. Use performance information to improve program management and make better budget decisions.
2. Improve financial management information.
3. Use capital planning and investment control to manage information technology.
4. Provide for computer security and protect critical information infrastructure.
5. Strengthen statistical programs.
6. Implement acquisition reforms.
7. Implement electronic Government initiatives.
8. Better manage Federal financial portfolios.
9. Align Federal human resources management to support agency goals.
10. Verify that the right person is getting the right benefit.
11. Streamline and simplify Federal grants management.
12. Capitalize on Federal energy efficiency.

Improving Program Implementation

1. Modernize student aid delivery.
2. Improve DOE program and contract management.
3. Strengthen the HCFA's management capacity.
4. Implement HUD reform.
5. Reform management of Indian trust funds.
6. Implement FAA management reforms.
7. Implement IRS reforms.
8. Streamline SSA's disability claims process.
9. Revolutionize DOD business affairs.
10. Manage risks in building the International Space Station.
11. Improve security and management at overseas presence.
12. Re-engineer the naturalization process and reduce the citizenship application backlog.

The issues were identified each year during Director's Reviews for the fall budget process. Once it designated a PMO, the responsible OMB offices developed an action plan (with detailed milestones, completion dates, etc.) and worked with the agencies and/or interagency councils with responsibility for the effort.

OMB and agency attention to the PMOs has paid off. Three examples illustrate the progress that has been made:

Improve financial management information. Before 1993, the Federal Government had not even attempted to provide an audited financial statement. When this Administration first tried in 1993, most agencies could not produce consolidated financial statements. Moreover, there was not a set of accepted Government-wide financial accounting standards until 1996. Beginning in FY 1996, agencies began issuing audited financial statements. In FY 1996, six agencies received clean audited opinions. By FY 1999 that number had jumped to 15. In March 2000, through the combined efforts of OMB, the Department of the Treasury, and other Federal agencies, the Government issued its Consolidated Financial Statements of the United States Government for the third year a row.

Modernize student aid delivery. The Department of Education's performance-based organization (PBO) has made significant progress in modernizing the delivery of student aid benefits. To achieve its goals to improve customer satisfaction, reduce costs and increase employee satisfaction, the PBO reorganized its structure into three customer-oriented channels (students, schools, and financial partners). These channels have implemented new processes and technologies, including web-based tools to reduce user burdens and costs.

Reengineer the naturalization process and reduce the citizenship backlog. The Department of Justice's Immigration and Naturalization Service (INS) is redesigning its naturalization process to streamline and automate operations, while simultaneously reducing a backlog of more than 1.8 million applications for citizenship. In 1999, INS completed over 1.2 million applications, and reduced the backlog by more than 500,000 applications. INS reduced the average processing time between application and naturalization of qualified candidates from 27 months in 1998 to 12 months in 1999. By the end of FY 2000, INS had reduced processing times further and achieved its fiscal year goal of a six to nine month processing time for qualified applicants. INS intends to maintain this processing standard for citizenship applications in the future.

## YEAR 2000 PREPARATION

The Federal Government moved smoothly through the year 2000 rollover. The year 2000 computer problem impacted only a few Federal agency systems, none of which was significantly affected. This was the result of the substantial preparations that agencies had undertaken over several years leading up to January 1, 2000.

The year 2000 computer problem posed probably the single largest technology management challenge in history. While some agencies had been working on the problem independently for a number of years, the Federal Government as a whole began in 1996. With the enactment of the Clinger-Cohen Act, Federal agencies were creating Chief Information Officers (CIOs). The CIO Council was established to facilitate communications among the CIOs. By early 1997, the Council had adopted best practices for addressing the problem, and work was underway. In May 1997, when the Federal Government first counted its mission-critical systems that were year 2000 compliant, only 21 percent of the more than 6,000 systems were ready for the date change. Over the next three years, under supervision of OMB, the major cabinet departments and other agencies:

- Made all 6,175 of their mission-critical systems compliant.
- Made all of their more than 20,000 non-mission critical systems compliant.
- Worked with their partners in State and local government and the private sector to assure the delivery of 43 programs that directly affect people (such as student aid, disaster relief, and Medicare).
- Fixed all 284 data exchanges with the States to enable them to administer Federal programs, such as unemployment insurance and child support enforcement.
- Fixed all other data exchanges with the private sector, other governmental entities, and between Federal agencies.
- Made sure that all biomedical devices and laboratory equipment used by Federal agencies were compliant.
- Verified and fixed as necessary all 8,000 Federally owned or managed buildings and all privately owned, government leased buildings.
- Verified and fixed as necessary all telecommunications and networks across the Federal Government.
- Prepared and used day one plans for the rollover weekend.
- Developed business continuity and contingency plans for all critical functions and, in a few instances, used those plans to maintain operations.

- Established internal systems to monitor any problems that may have occurred during the rollover weekend.

- Communicated agency status to the national Information Coordination Center established to monitor year 2000 problems worldwide.

In addition, under the leadership of OMB and the President's Council on Year 2000 Conversion, Federal agencies undertook a massive outreach effort to State and local governments and the private sector both domestically and internationally. These efforts succeeded in raising awareness of the problem and helping organizations throughout the world effectively address it. This outreach effort culminated in the creation and staffing of the National Information Coordination Center (ICC), which collected information about year 2000 activities and problems worldwide during the rollover weekend. The creation of the ICC required the establishment of vast reporting mechanisms in all key sectors and the collection of status information about year 2000 impacts in those sectors, domestically and internationally. It also required achieving the ability rapidly to summarize and report that information to senior government officials and to the public. To accomplish this preparation, monitor activities during the rollover and leap year, and react to those problems that did occur, agencies spent an estimated $8.2 billion in preparing for and addressing the year 2000 problem.

Y2K Compliance at OMB

OMB's internal information systems include major application systems, desktop hardware and software, and network components such as switches and routers. Each of these components was evaluated for Y2K compliance and was remediated or replaced where necessary.

In some cases, notably the major applications, assessment and remediation began as early as 1994. Activity intensified in 1998. OMB prepared an internal management plan and schedule to become fully compliant on a timeline that matched the Y2K guidance to the agencies. Noncompliant desktops and software were replaced or upgraded to become compliant; some network components were also removed or replaced. Finally, the completed work of preparation was assessed by an outside agency contractor.

OMB worked closely with the Executive Office of the President during this period (for example, to retire noncompliant mainframe software that was being used by OMB applications). At the same time, OMB prepared Business Continuity and Contingency Plans and work plans for the days immediately proceeding January 1, 2000. As a result of our work, there were no adverse incidents experienced at OMB during the time leading up to the date change or the time immediately following the rollover.

## INTERAGENCY COUNCILS

OMB provides leadership and serves as a catalyst for several interagency groups. These groups draw together operational, financial, procurement, integrity, labor-relations, and systems technology experts from across the Government. The groups establish Government-wide goals in their areas of expertise, and they marshal the resources within individual agencies to meet these goals. Though much of our work is done through these Councils, the actual work is done by and in the agencies. For example:

### President's Management Council (PMC)

The PMC consists of the "chief operating officers" of the departments and major agencies. The PMC was created by Presidential memorandum on October 1, 1993, and is chaired by OMB's Deputy Director for Management. All PMC members are Presidentially appointed, Senate confirmed officials. The PMC is a forum and catalyst for management reforms. For example, it contributed to the Administration's efforts to reform procurement systems, improve customer service, rationalize field office structures, and streamline the workforce. PMC members worked closely with Members of Congress to craft buyout legislation to make necessary downsizing more humane. The PMC also has taken a major role in moving toward electronic government. A recent study funded by The PricewaterhouseCoopers Endowment for the Business of Government concluded that "The Council, and the way it operates, is a significant management innovation" and that it has been "an important and effective vehicle for the President to implement his management agenda."

### Chief Financial Officers (CFO) Council

Authorized and established by the Chief Financial Officers Act of 1990, the CFO Council is a government-wide body that collaborates to address critical Federal financial management issues. It is comprised of the CFOs and Deputy CFOs of the 24 largest Federal agencies, as well as senior officials from the OMB and the Department of the Treasury. Sixteen of the 24 CFO agencies are Presidentially appointed, Senate-confirmed officials, with the others serving in career positions appointed by the head of the agency. By law, OMB's Deputy Director for Management serves as the chair of the Council, while one of the PAS CFOs, as elected by the Council, serves as the Vice Chair.

### Chief Information Officers (CIO) Council

The CIO Council was established by Executive Order 13011. The Council consists of CIOs and deputy CIOs from 28 executive agencies. Additional members to the Council are the Administrators of OMB's Office of Information and Regulatory Affairs and Office of Federal Procurement Policy, the Controller of OMB's Office of Federal Financial Management, a senior representative from the White House Office of Science and Technology Policy, the chair of the Information Technology Resources Board, and two representatives from the Small Agency Council. The Chair of the CIO Council is the Deputy Director for Management of OMB. The Vice Chair is an agency CIO, elected by the Council on a rotating basis. The Council is the principal interagency forum to improve agency practices on such matters as the design, modernization, use, sharing, and performance of agency information resources. The CIO Council is one element of an interagency support structure established to achieve the information resource management objectives delineated in the Government Performance and Results Act, the Paperwork Reduction Act of 1995, and the Information Technology Management Reform Act of 1996.

President's Council on Integrity and Efficiency (PCIE) and Executive Council on Integrity and Efficiency (ECIE)

Executive Order 12805, signed May 11, 1992, established the PCIE and ECIE to coordinate and enhance governmental efforts to promote integrity and efficiency and to detect and prevent fraud, waste, and abuse in Federal programs. (The PCIE originally was established in 1981 by Executive Order, which was updated in May 1992 to reflect changes to the Inspector General (IG) community and to create ECIE.) Both Councils are chaired by OMB's Deputy Director for Management; a Vice Chair for each is selected by the Chair among the member Inspectors General. The PCIE includes the 28 PAS IGS and the Vice Chair of the ECIE; the ECIE includes the 29 agency-head appointed IGS and the Vice Chair of the ECIE. In addition, the Controller, OFFM; Associate Deputy Director for Investigation, Federal Bureau of Investigation; Director, Office of Government Ethics; Special Counsel, Office of Special Counsel; and Deputy Director, Office of Personnel Management, are members of both Councils.

Procurement Executives Council (PEC)

The PEC, established in 1998, is an interagency council consisting of the major agencies' procurement executives and aimed at providing a senior level forum for advancing the Federal acquisition system. OMB's Deputy Director for Management is the named Chair, and the Office of Federal Procurement Policy (OFPP) Administrator also is a member. OFPP is significantly involved in the administration and activities of the PEC. The PEC establishes priorities in acquisition workforce improvement, electronic commerce, socio-economic issues, and performance measurement.

Budget Officers Advisory Council (BOAC)

BOAC was established in April 1996 at the suggestion of OMB. Its members are the senior career budget officials in OMB and senior career budget officials in the departments and major independent agencies. The purpose of BOAC is to provide a forum for exchanging ideas and discussing issues of concern to its members on an informal basis. BOAC discusses technical, conceptual, and operational concerns of budget accounting, formulation, and execution, but not matters of program policy or substance.

## ADDITIONAL STATUTORY REQUIREMENTS ASSUMED BY OMB

In assisting the President in managing the Executive Branch, OMB carried out more than 200 statutory provisions. Despite staffing levels that decreased by almost 10 percent since 1993, OMB continued to carry out its traditional responsibilities and the new responsibilities the Congress placed on it. For example, the Government Performance and Results Act (GPRA) became law in 1993, with full government-wide implementation beginning in 1997. About 100 Federal agencies annually provide OMB with plans and reports that are reviewed and used by OMB over the course of a year. Every three years, these agencies provide OMB with a strategic plan. GPRA has greatly expanded the amount of performance and program information being provided to OMB.

Several pieces of landmark legislation increased significantly OMB's role in Federal financial management. The Government Management Reform Act of 1994 requires the 24 CFO Act agencies annually to prepare and audit organization-wide financial statements, and requires Treasury to prepare government-wide financial statements, which are audited by the GAO. OMB played the key role in establishing guidance for these statements, and served as the catalyst for the rapid improvements in the quality and timeliness of these statements. The Act also established a pilot initiative to consolidate reporting requirements and deadlines across the Federal Government; the Reports Consolidation Act of 2000 just provided statutory authority for these reports. The Federal Financial Management Improvement Act of 1996 required Federal financial management systems to support full disclosure of Federal financial data, including full costs of Federal programs and activities, to citizens, the Congress, and agency management, so that programs and activities can be considered on their full costs and merits. Once again, OMB was in the forefront of establishing criteria and working with agencies to achieve compliance with the Act's requirements. Finally, the Single Audit Act Amendments of 1996 established uniform requirements for audits of Federal awards administered by non-Federal entities, to promote the efficient and effective use of audit resources and reduce burden. To implement the Single Audit Act, OMB issued a revised Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations;" annually issued a revised A-133 Compliance Supplement to provide guidance to auditors, and oversaw the Federal Audit Clearinghouse which maintains a government-wide database of the results of single audits.

The Federal Acquisition Streamlining Act of 1994 and Federal Acquisition Reform Act of 1996 transformed how the Government contracts for supplies and services. Together they streamlined the acquisition process and made it more commercial-like, and empowered agency contracting officials to exercise discretion and sound business judgment, as opposed to rules-based process management. These statutes assigned many new responsibilities to OMB -- principally the Office of Federal Procurement Policy -- including annual assessments to the Congress; oversight of the use of electronic commerce and training of the acquisition workforce; and participation in the development of small business policies and agency small business goals.

In 1996 the Clinger-Cohen Act gave agencies the authority, flexibility, and accountability to manage information technology (IT) as a capital investment and encourages the Administration to use interagency groups to share expertise and technology. OMB chairs the Chief Information Officers (CIO) Council that serves as the principal interagency forum for improving practices in the design, modernization, use, sharing, and performance of Federal Government agency information resources. The Council's role includes developing recommendations for information technology management policies, procedures, and standards; identifying opportunities to share information resources; and assessing and addressing the needs of the Federal Government's IT workforce. In addition, many of the CIO Council committees are active participants in a number of important areas including computer security, electronic government, and capital planning.

The Government Paperwork Elimination Act (GPEA), which was enacted in 1998, is intended to increase the ability of citizens to interact with the Federal Government electronically. The Act specifically provides that electronic records and their related electronic signatures are not to be denied legal effect, validity, or enforceability merely because they are in electronic form, and specifically sanctions the Federal Government to use a range of electronic signature alternatives. OMB published guidance directing agencies to plan for electronic filing by October 2003, and to use electronic signatures for the full range of government activities and services, if risks, costs, and benefits can be properly balanced. Agency plans on implementing GPEA arrived at the end of October 2000.

The Federal Activities Inventory Reform Act of 1998 requires Federal agencies to submit to OMB, annually, a "list" (inventory) of their "commercial activities" performed by Federal employees. OMB is required to review each inventory each year and to consult with the agency regarding its content. This new and expansive review and consultation process is administratively burdensome. It requires OMB to compare total end strength with the resources committed to commercial support and mission activities. Agencies have refrained from including commercial activities on the list or otherwise seek to define activities -- including some that are already performed by a mix of in-house and contract resources -- as inherently governmental.

More recent requirements -- ranging from the "Stevens Report" on the costs and benefits of regulations to the report on climate change -- also imposed new workloads. The Congress also imposed a number of new grant-management responsibilities on OMB, including revising Circular A-110 to open access to research data, preparing an inventory of all Federal grants, and fulfilling the provisions of the Grants Management Simplification Act.

Laws that have imposed statutory responsibilities on OMB since 1993 include:

- Government Performance and Results Act (PL 103-62)
- Federal Acquisition Streamlining Act (PL 103-355)
- Government Management and Reform Act (PL 103-356)
- Evaluation of DC report (PL 103-373)
- Unfunded Mandates Reform Act (PL 104-4)
- Paperwork Reduction Act (PL 104-13)
- Federal Acquisition Reform Act (PL 104-106, Division D)
- Information Technology Management Reform Act (Div. E, PL 104-106)
- Regulatory Flexibility Act Amendments (Title II D, PL 104-121)
- Congressional Review of Agency Rulemaking (Title II E, PL 104-121)

- National Technology Transfer and Advancement Act (PL 104-113)
- Debt Collection Improvement Act, PL 104-134
- Single Audit Amendment Act (PL 104-156)
- Federal Financial Management Improvement Act (Title VIII, PL 104-208
- Fiscal Year FY 1998 Defense Authorization Act (PL 105-85)
- Government Paperwork Elimination Act (Title XVII, PL 105-277)
- Federal Activities Inventory Reform Act (PL 105-270)
- Submission of an Accounting Statement and Report to the Congress on the Costs and Benefits of Federal Rules and Paperwork Treasury/General Government (PL 106-58)
- Counterterrorism & Antiterrorism (PL 105-85, Sec. 1051)
- A report on total Federal expenditure of all official international travel during the previous fiscal year (Omnibus Consolidated & Emergency Supplemental Appropriations Act)
- A report providing a final accounting of the finances and operations of international agencies abolished under Division G of the Act (Omnibus Consolidated & Emergency Supplemental Appropriations Act)
- Federal Financial Assistance Management Improvement Act (PL 106-107)
- Submission to the Congress of an inventory of Federal grant programs (Treasury/General Government Appropriations, PL 106-58)
- An accounting of climate change programs in the FY 2001 Budget (Consolidated Appropriation Act, PL 106-113)
- Designation of OMB to Chair the National Commission on Use of Offsets in Defense Trade, and submit a report to the Congress (Section 1247(d) of FY 2000-01 Foreign Relations Authorization Act; PL 106-113)

# FURTHERING THE ADMINISTRATION'S POLICY AGENDA

## HEALTH SECURITY ACT

On January 25, 1993, the President established the President's Task Force on National Health Care Reform. The President charged the Task Force with consulting with a wide range of interested parties and preparing health-care reform legislation to be submitted within 100 days. The 12 member Task Force, chaired by the First Lady, consisted of the Director of OMB; Secretaries of the Departments of Commerce, Defense, Health and Human Services (HHS), Labor, Treasury, and Veterans Affairs; the Chairman of the Council of Economic Advisers; and three White House Advisers. Each of the Departments and Offices dedicated staff who worked full time putting together options and background analyses for health-reform packages. Throughout 1993 and 1994, OMB staff actively supported analyses for the President's health care reform proposals. OMB examiners and analysts from all parts of the organization participated in multiple analytic review groups responsible for developing the President's Health Care Plan, preparing cost estimates, and crafting legislation to implement the Plan.

The White House Office of Policy Development (OPD) managed the overall effort. OMB's examiners, economists and analysts participated in the Working Group's deliberations between January and June 1993. The Working Group's staff included Federal civil servants, legislative branch staff, consultants and volunteers. Support for the President's Health Reform Plan development was concurrent with OMB's preparation of the FY 1994 Budget between January and April 8, 1993.

The President's Task Force met with more than 1,100 different groups, held over 200 meetings with Members of Congress, and involved more than 120 Congressional staffers on the Working Group. Outside experts were consulted, and regularly presented their views to the Working Group. The First Lady also held public hearings and town meetings across the county. In addition, the Working Group sought outside experts to challenge the assumptions and the workability of its proposed options. These critics included:

- Fourteen panels of consumers.
- A health professional review group of doctors, nurses, public health officials, hospital administrators, and pharmacists.
- Audit teams.

Cabinet Secretaries and senior White House officials met 21 times during April and May to narrow the health reform decisions for the President. The Administration was ready to move forward at the end of May 1993 with its health care reform proposal, consistent with the President's 100 days pledge. But given the importance of enacting the President's landmark economic package, the introduction of the health reform proposal was delayed for several months. As debate on the economic package continued, the introduction of health care reform was delayed from early June to late September. Because the budget situation was so delicate, the view was that leaked accounts of health care meetings could only disrupt the delicate balance being sought to pass the budget. As a result, the Congressional leadership and the Administration came to the joint view that health care deliberations should be suspended and documents not distributed until after the economic package was passed. The President signed the Omnibus Budget Reconciliation Act of 1993 on August 10, 1993.

The Task Force, Interdepartmental Working Group, Cluster Groups, as well as the smaller working groups, disbanded on May 31, 1993, after which the Administration's health-care reform effort focused on preparing legislation. Once the economic package had been enacted, the cabinet-level group resumed meetings in late summer and early fall with the President, to resolve final issues.

In a speech to a Joint Session of Congress on September 22, 1993, the President proposed his plan to provide health care coverage to all Americans and control escalating health care costs. The President's Health Security Act was based on six principles:

- Security for the family.
- A comprehensive package of benefits.
- Health-care costs that are under control.
- Improved quality of care.
- Increased choices for consumers.
- Less paperwork and a simpler system.

As envisioned in the Plan, the basic numbers for the fiscal years 1996 - 2000 were as follows:

New Spending:

- $80 billion to provide a new long-term care benefit for all disabled Americans as well as expanding existing benefits.
- $72 billion to provide a new Medicare prescription drug benefit.
- $29 billion in public health and administrative costs.
- $9 billion for the cost of increasing the health insurance tax deduction for self-employed people from 25 percent to 100 percent and making it permanent -- a major step for self-employed Americans.
- $160 billion to provide discounts to businesses and workers for their health insurance premium costs under the plan.

The sources of new funds were as follows:

- $124 billion in Medicare savings.

- $114 billion in Medicaid savings.

- $47 billion in cost savings in other Federal programs that provide health care to beneficiaries who would shift to the new program, including veterans, defense, and Federal employees.

- $51 billion in additional taxes on business income that would no longer go to tax-free benefits.

- $105 billion in "sin" taxes, and possibly from an assessment on large corporations that would have opted out of the plan.

The estimated new costs over five years totaled $350 billion; the estimated sources totaled $441 billion, thus allocating $91 billion for deficit reduction.

The actual drafting of the legislation during October 1993 was an interdepartmental effort. The Department of Treasury drafted the revenue sections; HHS drafted the sections relating to Medicare and Medicaid, public health, workforce and research. OMB led the effort to ensure that the cost and savings estimates were vetted within OMB and other relevant departments. OMB led a series of meetings three times a week beginning in September 1993 to work through the outstanding policy issues.

The legislation to implement the plan went to the Congress in early November 1993, and the Administration worked with the Congress throughout 1994 to achieve consensus and enactment of the President's ambitious plan. The far-reaching proposal was both comprehensive and complicated. But as CBO observed, "The Health Security Act is unique among proposals to restructure the health-care system both because of its scope and its attention to detail. Some critics of the proposal maintain that it is too complex. A major reason for its complexity, however, is that the proposal outlines in legislation the steps that would actually have to be taken to accomplish its goals. No other proposal has come close to attempting this. Other health care proposals might appear equally complex if they provided the same level of detail as the Administration on the implementation requirements."

OMB's staff role in support of the Health Security Act continued in 1994 through the presentation of the President's FY 1995 Budget and in working with HHS, other White House staff, Treasury, and Congressional staff to support further analyses and options. Although the Health Security Act was not enacted at the end of 1994, the legislation served as a basis for other health care advances and coverage expansions achieved in the coming six years for children's health, the Health Insurance Portability and Accountability Act of 1996, the Ticket to Work and Work Incentives Improvement Act, and extending the solvency of the Medicare Hospital Trust Fund.

During the development of the President's health care reform proposal, OMB's role reflected new institutional directions as policy officials and career staff actively participated in the four-month work of the Task Force on National Health Care Reform; and reflected traditional roles and responsibilities in (1) bringing the Task Force's plan into a final consistent form that could be scored by September /October 1993 and presented in legislative language by November 1993; (2) formulating the President's Budgets for FY 1994 (between January and April 1993) and FY 1995 (between September 1993 and January 1994); (3) completing the appropriations for these two fiscal years; and , (4) leading the efforts to enact the President's economic package in August 1993. Similar to the demands that OMB faced during President Reagan's first term in 1981 and 1982, OMB's staff worked at an intense and consistently demanding pace throughout 1993 and 1994 in support of the President's policies and programs.

Almost immediately in January 1993, OMB's examiners were simultaneously involved with many of the Task Force's Working Groups analytic teams (or clusters), often working on weekends and evenings. At the same time, many of these same OMB's examiners, analysts and policy officials confronted the daunting –and at that time unique – challenge of constructing from the beginning the FY 1994 President's Budget.

In previous transitions, the incoming President's first budget preparation actions typically reflected amendments to the outgoing President's proposed budget, usually sent to the Congress just before the January 20th inauguration. This had occurred for example in 1977 as President Carter amended President Ford's FY 1978 Budget, in 1981 as President Reagan amended President Carter's FY 1982 Budget and then most recently in 1989 as President Bush amended President Reagan's FY 1989 Budget. But in January 1993, the full demands of a regular Executive Branch budget season (which normally occurred between September and January) proceeded from January through early April 1993 at the same time the Administration dealt with the normal transitional stresses confronting a new Administration and launched its major health reform agenda.

As active participants and often leaders in the health reform clusters, many OMB staff supported analytic work, options considerations and prepared cost estimates for issues such as long term care, access, workforce reform, premiums, malpractice, administrative costs, and organization structure for health reform administration. Following the completion of the four-month conceptual period that comprised the Task Force's existence, many of the OMB examiners engaged in daily health reform work had turned by the beginning of June 1993 to the more immediate work of preparing analyses needed for the Vice President's National Performance Review reinventing government initiative and supporting on a daily basis Administration policy officials as they worked successfully to enact by early August 1993 the President's economic reform package. Much of the broader OMB staff work for health care reform paused during this period.

By late August and early September, OMB's full attention again turned to the need to bring the health care reform conceptual plan – reflecting the spring and summer work of the Task Force and others – first into a final narrative form reflecting credible and complete actuarial estimates and then into legislative language. This work reflected OMB's traditional role in leading Executive Branch efforts to bring often incomplete but promising conceptual work to a practical and unified conclusion, while ensuring that budget estimates and legislation clearly reflect and support the President's decisions and policy objectives.

Many disparate parties had advanced important and valuable options for the consideration throughout the health reform conceptual process. OMB recognized the clear need to ensure score keeping and budget concepts consistency with the policy assumptions made in the preliminary process, with a view towards anticipating scoring of the health plan's implementing legislation by the CBO. OMB moved quickly in early September to bring the process to closure in an organized, fair, understandable, defensible and timely manner to support the President's September 22, 1993, address to the Congress and subsequent submission of supporting legislation.

## WELFARE REFORM

During the first year of the Administration, OMB worked with the Domestic Policy Council, the Departments of Health and Human Services (HHS), Treasury, Agriculture, the Social Security Administration and others to develop detailed plans for how to achieve the President's goal to "End welfare as we know it." OMB's efforts proceeded along two major tracks: development of a legislative proposal and review of State welfare waiver requests.

Welfare Reform Proposals in the FY 1993 Budget.

Although legislative proposals to restructure the Aid to Families with Dependent Children (AFDC) program later became the main vehicle for welfare reform, the Administration's FY 1993 budget proposal addressed other key elements of welfare reform. The Administration proposed substantial expansions in the Earned Income Tax Credit (EITC), which became law in the Omnibus Budget Reconciliation Act of 1993. This legislation expanded the maximum EITC by $213 for families with one child and $1,447 for families with two or more children. It also made a major conceptual change by adding a modest credit for childless workers, primarily for those who work part-time or part-year. As a result of these expansions, credits paid through the EITC program more than doubled from $7.5 billion in 1990 to $15.7 billion in 1994, and the number of families receiving assistance from the program increased from 12.5 million to 18 million. At the end of the Administration, the Council of Economic Advisers and outside experts analyzed the factors that contributed to the dramatic declines in families receiving cash assistance and found that the 1993 EITC expansions played a major role.

Expediting and Encouraging State Waivers.

To speed the redesign of welfare at the local level, the Administration encouraged states to propose waivers from Federal rules. Ultimately, 80 waivers (out of 120 applications) were granted in 43 states. State proposals generally proposed changes across AFDC, Medicaid, Food Stamps and other programs. Together with the affected agencies, OMB reviewed these waiver requests to ensure that they had no adverse financial impact on the Federal Government (a principle known as "cost neutrality") and were consistent with the Administration's policy priorities.

The Administration's 1994 Welfare Reform Proposal.

After extensive interagency efforts, the President's welfare reform proposal, The Work and Responsibility Act of 1994 (WRA), was released on June 14, 1994. It proposed major changes to the AFDC Program, intended to strengthen work effort and promote parental responsibility. The bill had provisions to encourage the transition to work, introduce time limits on cash assistance, strengthen child support collections, expand access to childcare and discourage teenage pregnancy. OMB played a central role in developing these proposals. Concurrent with the program design effort, OMB took the lead on developing savings proposals to offset the cost of the policies in the WRA. The difficulty of identifying offsets the President could support greatly expanded the time required to develop the bill. Eventually, WRA's costs were fully offset by proposals to save $9.3 billion over five years, with the majority of savings coming from proposals to strengthen rules for deeming sponsor income to sponsored immigrants, establishing caps on state spending on the AFDC Emergency Assistance program, and limiting SSI eligibility for drug- and alcohol-addicted recipients.

Negotiating with Congress During 1995 and 1996.

Congress did not act on the Administration's welfare proposal in 1994. After the control of the Congress shifted in 1994, the majority in the Congress pursued an alternative approach to welfare reform. During 1995 and early 1996, the President vetoed two Congressional welfare reform proposals that were included as part of broader legislation to balance the Federal budget. During this period OMB sent the Congress numerous letters and Statements of Administration Policy (SAPs) that detailed Administration concerns with the Congressional bills. In addition, OMB, through the Legislative Reference Division, reviewed, circulated and cleared numerous agency letters.

During 1993, OMB analysis had focused primarily on programmatic changes aimed at improving outcomes for low-income individuals. While the cost implications of the proposals were important, welfare reform was not generally viewed by senior policy officials as intended to produce substantial savings. The Administration's 1994 proposal was deliberately designed to be cost neutral. During 1995 and 1996, in response to the change in the Congress, OMB's analysis shifted much more heavily towards prioritizing policies that could reduce Federal spending on welfare programs. Little agreement had been reached with the Congress on the extent to which welfare programs should contribute to deficit reduction goals. OMB analysts prepared a wide range of funding options for OMB and White House policy officials. Areas receiving the greatest attention included Food Stamps, Supplemental Security Income children's benefits, and benefits to legal immigrants.

In a radio address on September 16, 1995, the President indicated general support for a Senate welfare reform bill that replaced the AFDC program with a Federal block grant to states, established time-limited benefits and provided the child support system with a variety of new tools to increase collections. While many programmatic issues remained unresolved, which led the President to veto two versions of welfare reform in the coming year, the President's statement narrowed the areas of disagreement.

In the fall of 1995, OMB reviewed analysis prepared primarily by HHS, with assistance from Treasury and other agencies, of the poverty and distributional effects of welfare reform bills. The report, "Potential Poverty and Distributional Effects of Welfare Reform Bills and Balanced Budget Plans," was released on November 9, 1995. It concluded that under various versions of welfare reform being considered by the Congress, anywhere from several hundred thousand to 2.1 million children could move into poverty. The Senate welfare reform bill, the Work Opportunity Act of 1995, was estimated to move 1.2 million children below the poverty line. The report noted, however, that these estimates did not take into account changes in individual behavior or the consequences of other Administration efforts to alleviate poverty.

The Congress sent the President a welfare reform bill in December 1995 as part of a broader budget reconciliation bill. Because of concerns over cuts in Medicare and Medicaid, as well as objections to changes to low-income assistance programs, the President vetoed this bill. Following this veto, the Congress sent the President a freestanding welfare reform bill, the Personal Responsibility and Work Opportunity Act of 1995. On January 9, 1996, the President vetoed this bill. The President criticized the bill for weakening important work provisions, providing insufficient child care assistance, failing to guarantee health coverage for poor families, and for other problems.

In 1996, after the President vetoed two Congressional versions of welfare reform, OMB and the DPC worked with the affected agencies to develop a second Administration welfare reform bill. The Work First and Personal Responsibility Act of 1996 replaced the AFDC program with a time-limited, work-based Temporary Employment Assistance program and a strengthened child support enforcement. It achieved savings by reducing nutrition assistance; increasing deeming of sponsor income to sponsored immigrants, and tightening SSI benefits for disabled children. Overall, the bill saved the Federal Government $38 billion over five years. The majority in the Congress opposed the Administration's bill and proceeded with variations of the earlier Congressional proposals.

In August 1996, the Congress sent to the President the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA). OMB prepared a series of briefing materials for White House meetings regarding the decision whether to sign PRWORA. The President announced he would sign PRWORA, though the President stated that he regretted that the bill included cuts in Food Stamps and benefits for legal immigrants that had nothing to do with welfare reform.

Implementing PRWORA.

From the fall of 1996 until the end of the Administration, OMB focused on implementing PRWORA. On the administrative front, OMB reviewed and cleared regulations to implement the Temporary Assistance for Needy Families program. Especially complex issues included defining the term "assistance" for purposes of calculating which benefits count towards the five-year time limit; creating an adequate data collection system; and establishing methodologies to assess requisite levels of state expenditures and compliance with work requirements. Together with DPC, OMB was also closely involved in the development of guidance and regulations regarding the criteria for awarding high performance bonuses to states that could show measurable results in achieving the goals of TANF. Criteria ultimately included work-related measures (job placement, job retention and earnings gain) as well as family formation and work support measures (Food Stamp participation among low-income families, Medicaid participation among TANF leavers, and child-care access, affordability and quality). Inclusion of the work support measures were part of broader OMB efforts to ensure that families leaving TANF cash assistance retained access to other supports -- such as Food Stamps, Medicaid, child care, and job training -- that prior analysis showed were critical to their keeping their jobs.

In addition to implementing TANF, OMB reviewed and cleared regulations to implement a wide variety of other provisions in PRWORA, including those affecting SSI benefits for children, Child Support Enforcement enhancements, Child Care, and Food Stamps. OMB worked with the Department of Justice Office of Legal Counsel, the White House General

Counsel's office and others to interpret a number of ambiguous phrases in PRWORA, especially regarding provisions to restrict benefits for immigrants.

Legislation to Correct Flaws in PRWORA.

At the same time that OMB was engaged in implementing PRWORA, OMB worked with DPC and affected agencies to develop legislation to reverse those policies in the law that the President criticized as having nothing to do with welfare reform. PRWORA limited eligibility for Food Stamps for able-bodied childless adults to three months in every three years -- except in certain circumstances, such as participation in a Food Stamps Education and Training program. OMB developed a proposal, enacted in the Balanced Budget Act (BBA) of 1997, to increase funding for Food Stamps Education and Training opportunities for these individuals, which in turn would extend their access to Food Stamps.

PRWORA denied eligibility to hundreds of thousands of legal immigrants currently receiving SSI and Food Stamps, and greatly restricted access to benefits for immigrants who entered the United States after PRWORA was enacted on August 22, 1996. OMB worked with SSA, HHS and USDA to develop proposals to restore benefits to many of these immigrants. In the 1997 BBA and the Noncitizen Technical Amendments Act of 1998, the Administration succeeded in restoring SSI benefits for all immigrants currently in the program and all immigrants in the country before PRWORA was enacted who become disabled. In the Agriculture Research, Extension, and Education Reform Act of 1998, OMB successfully negotiated an agreement for the Administration to restore Food Stamp eligibility for certain immigrants -- children, the elderly and people with disabilities -- who entered the country before PRWORA was enacted.

Child Care.

PRWORA replaced four separate Federal child-care programs with the Child Care and Development Fund (CCDF), which operates under the Child Care and Development Block Grant Act rules and regulations. The CCDF consists of entitlement funding (mandatory and matching) and discretionary funds provided annually through appropriations for the Child Care and Development Block Grant. The consolidation both increased funding for childcare and enhanced state flexibility regarding how the funds are spent. Welfare reform and broader economic trends contributed to an increase in employment among women with young children, which in turn expanded the need for child-care. In 1997, OMB worked closely with DPC, the Office of the First Lady, HHS, the Department of Education and the Department of Treasury to develop a child-care initiative that included increased child-care subsidy funding, increased Head Start funding, expansions of the child-care tax credit, and several quality initiatives. Child-care subsidy and Head Start increases were partially achieved in the FY 2001 appropriations process, and components of the Administration's quality proposals were adopted between FY 1997 and FY 2001, but the tax credit expansions were not enacted.

Welfare-to-Work.

Since families receiving TANF have a five-year lifetime limit for Federal assistance, there was a great deal of concern about their future employment prospects. To address this concern, the Administration proposed a $3 billion welfare-to-work program for families leaving welfare. The Balanced Budget Act of 1997 authorized the Department of Labor to create a $3 billion Welfare-to-Work grants program for states and local communities -- $1.5 billion in mandatory funding in both FY 1998 and FY 1999. The Act also authorized $100 million for grants based on performance (with funding taken from the FY 1999 authorization). The basic grants were to assist long-term welfare recipients and certain low-income non-custodial parents in high-poverty areas to get jobs and succeed in the workforce. OMB worked with DOL to develop proposed changes to the program's eligibility and reporting requirements that would allow the effort, within existing resources, better to serve the eligible population. The Congress passed these changes in 1999.

Declines in Food Stamp Participation.

OMB also worked to address situations in which welfare reform was not being implemented as planned. After seeing evidence that families leaving cash welfare for employment were losing Food Stamp benefits despite their continued eligibility, OMB worked with the DPC and USDA to issue a series of initiatives to encourage states to improve access to Food Stamps. In the summer of 1999, the Administration took action that allowed states to make it easier for working families to own a car and still be eligible for food stamps, simplified food stamp reporting rules to reduce bureaucracy and encourage work, and launched a nationwide public education campaign and toll-free hotline to help working families know whether they are eligible for food stamps. Regulatory action in the fall of 2000 will allow States to provide a transitional food stamp benefit to families leaving TANF, further ease reporting rules for working families, and continue efforts to make it easier for a household to own a vehicle and be eligible for food stamps. In addition, OMB, DPC and USDA developed a proposal for the FY 2001 budget to permit States to use more generous TANF rules for vehicles that were enacted into law in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2001.

## OMB AND FOREIGN POLICY

OMB played a key role in developing and implementing the Administration's foreign policy. Staff at all levels of the agency worked with their counterparts at the National Security Council (NSC), the National Economic Council, and the agencies to:

- develop or coordinate Administration initiatives, either in the budget or through supplementals and budget amendments;
- negotiate appropriations for international affairs agencies, particularly from 1995 on; and
- help agencies implement and manage their programs.

The following list the major accomplishments of OMB's role on the Administration's foreign policy.

Expanded Assistance Program for Russia and the former Soviet Union. In the spring of 1993, the President directed NSC, OMB and the State Department to develop an immediate and significant emergency assistance program to help Russia and the other New Independent States (NIS) maintain their fragile transitions to democratic market economies. OMB and NSC coordinated the development of a $2.2 billion assistance program for the NIS, of which $1.7 billion (plus an additional $700 million in food assistance) was for Russia. OMB then worked with NSC and State to secure appropriation of the entire amount requested, including FY 1993 supplemental funds in the Departments of State and Defense and the full FY 1994 request.

Stabilizing the Mexican and Asian Financial Crises. OMB played a crucial role in formulating the Administration's response to the 1994 Mexican and 1997 Asian financial crises. During the first crisis, OMB worked with the Department of Treasury on a $20 billion credit to ensure there was no cost to the US taxpayer, either by way of interest subsidy or possible default. The credit proved instrumental in restoring investor confidence and allowing the Mexican economy to resume growth. During the second crisis, OMB worked intensively with the Department of Treasury to achieve congressional authorization and appropriation for the International Monetary Fund (IMF) quota increase and the establishment of the New Arrangement to Borrow. The availability of U.S. resources and the increase in IMF resources allowed the international community to effectively contain the crisis and assist the affected countries in recovery.

Negotiation of a Plan for United Nations Reforms and Payment of Arrearages. Starting in 1996 and continuing until enactment of legislation sponsored by Senators Helms and Biden in November, 1999, OMB worked closely with the State Department and the NSC to develop a plan to pay off US arrears to the UN and other international organizations, which by US calculation in 1997, surpassed $1 billion. In 1997, the Administration and the Congress initiated negotiations on a package to authorize payment of arrears conditioned upon achievement of certain UN reform. The final package provided an authorization for three tranches of payments totaling $926 million conditioned upon specific reforms at the UN and other international organization. The appropriations were finally provided over three years, between FY 1998 and FY 2000.

Improving Security of U.S. Personnel Overseas. The simultaneous terrorist bombings of the U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, on August 7, 1998, made tragically apparent the immediate need to reduce the vulnerability of U.S. personnel and facilities overseas. Working with the State Department, the NSC and other agencies, OMB played a central role in developing an emergency supplemental to implement security enhancements at US facilities abroad. OMB took the lead role in briefing the package to the Hill, and in negotiating with the Appropriations Committee prior to the package's formal introduction. The Administration's initial request of $1.4 billion was approved by the Congress presaged in subsequent years a highly ambitious program of new embassy construction to provide the greatest possible security to Americans officials working abroad. OMB has also worked to support the Administration's commitment to enhancing the security of our military forces overseas, seeking increased funding for vulnerability assessments, awareness and training programs, and counterterrorism initiatives. Finally, OMB led the development of an emergency supplemental request to ensure the effectiveness of the interagency team that assists ambassadors and host government officials in managing terrorist incidents in a foreign country.

Developing the Wye River Supplemental. In the fall of 1999, to promote peace between Israel and the Palestinians, the Administration proposed a $1.9 billion supplemental, colloquially named after the venue of the successful negotiations between Israel, Jordan and the Palestinians at Wye River Plantation in Maryland. OMB was instrumental in developing the package and in negotiating its subsequent acceptance by the Congress. The funding in the package allowed Israel to withdraw from portions of the West Bank without threat to its national security, while promoting economic progress for the Palestinians and Jordan.

Responses to Hurricanes Mitch and Georges. Hurricanes Mitch and Georges, the most devastating storms in the history of the Western hemisphere, hit Central America and the Caribbean in late 1998 causing a staggering human and economic toll. The White House asked OMB to take the lead in coordinating the U.S. response to the disaster by pulling together all relevant agencies to create a comprehensive supplemental request for disaster relief. The President sent a 1999 supplemental appropriation request for $956 million to the Congress in February, and the Congress appropriated $962 million in May. OMB staff subsequently worked with other agencies, primarily the Agency for International Development, to monitor effective implementation of the package.

Response to the Crisis in Kosovo. In 1998, OMB staff and leadership participated fully in NSC chaired meetings about the growing crisis in Kosovo, in which the Milosvic regime forced nearly 1 million Kosovars to flee their homes. The humanitarian disaster that loomed as a result of this displacement required massive humanitarian intervention by the U.S. and other Western nations. These funding needs were compounded by the NATO air campaign against Serbia, which began in March 1999 and ultimately succeeded in driving the Serbian Army out of Kosovo. The combination of humanitarian and military resources necessary for the U.S. participation in the peacekeeping force, required OMB to lead the development of a comprehensive funding package. Eventually, the Congress provided over $1 billion for humanitarian and other needs and almost $5.6 billion for military requirements.

Reviewing America's Overseas Presence. As part of the response to the 1998 embassy bombings in Kenya and Tanzania, the Administration established an Overseas Presence Advisory Panel in early 1999 to re-examine the role of US official missions abroad. Funding for this review was included as part of the Administration's initial supplemental request to the Congress in the wake of the bombings and was supported by OMB as a way to assess independently the size, composition and location of US official overseas posts. The Panel found a need for the U.S. Government to have an on-the-ground presence in every country, but challenged existing staffing levels, and proposed sweeping reforms for the management of overseas personnel and facilities. OMB, working with the Department of State and other agencies with significant presence overseas, was actively involved and supported interagency efforts to implement some of the Panel's findings. More work remains for full implementation of the Panel's recommendations.

Increased Response to Global HIV/AIDS. In 1999, the President and Vice President directed the Office of National AIDS Policy and OMB to develop an emergency package to address the increasing spread of HIV/AIDS in sub-Saharan Africa and other regions of the developing world. OMB staff coordinated the development of a $100 million emergency package, providing increased funding for global HIV/AIDS programs at AID, and the Departments of Health and Human Services and Defense. This package was proposed as a budget amendment in September of 1999, and the entire amount was provided (although in slightly different allocations) by the Congress in FY 2000 appropriations. OMB subsequently coordinated development of another $100 million increase in the FY 2000 President's Budget, which was more than fully funded in FY 2001 appropriations.

US Assistance to Plan Colombia. During late 1999, OMB and NSC worked closely with numerous government agencies including USAID and the Departments of State, Defense, Justice, and the Treasury in developing an integrated, comprehensive, regional plan to reduce the volume of illegal drugs coming into the US from Andean countries and to bring greater stability to Colombia. The Administration sent the resulting program to the Congress in February 2001 as an emergency supplemental request. OMB took the lead in shepherding the plan through the Congress over the course of the spring. Since the President signed the appropriation into law on July 13, 2000, OMB has continued to play a key role in overseeing the implementation of the plan's integrated programs

Southern Africa Floods Supplemental. After severe flooding in southern Africa in February and March 2000, the State Department proposed several options for an emergency supplemental assistance program. OMB coordinated the development of options to determine the most appropriate US response, and worked with State and AID to develop a supplemental appropriations request, which was sent to the Congress in April 2000. The Administration received $160 million in FY 2000 supplemental and FY 2001 appropriations. After the supplemental appropriation, OMB assisted USAID and the State Department in the development of an implementation plan to ensure that our rehabilitation efforts are provided effectively and on schedule.

Promoting Peace in the Middle East Peace. During 1999 and 2000, OMB worked closely and continuously with the NSC and the State and Defense Departments to support the President's efforts to achieve a peaceful resolution of the Middle East conflict. OMB's efforts focused on reviewing Israeli requests for military and economic assistance and examining financial and budget options that could facilitate peace agreements between Israel and Syria and the Palestinians. Some of these efforts resulted in budget initiatives, namely, the interest bearing account for the Government of Egypt, equivalent to what is provided to the Government of Israel. In addition, OMB worked with NSC, State and Defense to develop an FY 2001 supplemental to assist Israel with the costs of withdrawing from Lebanon and to provide resources to Israel to deal with strategic threats and to Egypt and Jordan to address border security needs

## SAVING SOCIAL SECURITY FIRST

An improving fiscal picture and increased public attention to Social Security solvency combined to give the Administration an opportunity to put Social Security reform at the top of the policy agenda.

In February 1998, the President proposed the first balanced budget in almost 30 years. With continued fiscal discipline, the President projected that budget surpluses could continue for some time – but that deficits would recur in just a few decades. The Administration's interpretation of this development was that it had conquered the structural deficit, but that there remained the problem of the generational deficit – the budgetary pressure that was projected to result from the aging of the population, and especially the impending retirement of the baby-boom generation. This increased public attention on demographically driven spending programs, especially Social Security and Medicare. Although there was a fairly widespread understanding that these programs needed restructuring to withstand the coming demographic forces, there was no consensus regarding how they could be reformed. Emblematic of this division, the Advisory Council on Social Security in 1997 was unable to reach consensus, and in its report of findings and recommendations for restoring the Social Security program to long-range financial health offered three sets of recommendations.

The President's response linked his concern about the long-term solvency of Social Security with the immediate imperative to maintain fiscal discipline in the face of the stunning improvement in the budget. The President's 1998 State of the Union Address called for a commitment to "Save Social Security First." This motto combined a policy of short-term budget discipline with a greatly enhanced focus on the longer-term needs of Social Security itself.

OMB contributed to the Social Security discussion by providing the Executive Office of the President with neutral analysis of a wide range of options for dealing with the program's long-range financing shortfall. OMB began analyzing Social Security reform issues in earnest in 1997. OMB staff prepared a series of briefings and papers analyzing the reasons for Social Security's long-term (75-year) actuarial imbalance and options for bringing the program's receipts and expenditures back into balance. These briefings and papers explored and expanded on ideas circulated by Social Security policy experts. OMB staff provided objective analysis on possibilities for increasing the system's rate of return by diversifying the investment of its assets, either collectively or through an individually managed retirement account system. The impending budget surpluses opened up new options that had previously been unimaginable, such as using general funds to improve the financial status of the Social Security trust funds, or making contributions on behalf of individuals to new, mandatory private retirement accounts.

OMB's analyses informed the work of the interagency Social Security Technical Working Group, which the White House established in 1998 to sort through the various reform options. During 1998 and 1999, OMB worked closely with the rest of the Technical Working Group, which included the National Economic Council, Department of the Treasury, the Social Security Administration and the Council of Economic Advisers. The Technical Working Group developed reform options and evaluated their policy tradeoffs for individuals, their implementation and administrative issues, and their macroeconomic implications. In particular, OMB provided significant support in modeling the long-range budget effects of reform options, analyzing options to protect vulnerable populations – particularly elderly women and persons with disabilities – from poverty, and analyzing issues related to administering a system of private accounts. The long-range budget analysis became even more complex because of the Administration's other enduring priorities, including extending the solvency and broadening the coverage of Medicare. The efforts of the Technical Working Group helped frame the discussions at the December 1998 White House Conference on Social Security, and through the entire initiative to take the Social Security issue to the people in town meetings across the country.

The President's FY 2000 and FY 2001 budgets presented proposals to extend the solvency of the Social Security trust funds through a commitment to sustained fiscal responsibility. Rather than dissipating all of the currently projected surpluses on new spending or tax cuts, the President proposed to prepare the Nation for the challenges ahead by paying down the entire debt held by the public and encouraging economic growth. The mechanism for accomplishing this involved transferring a portion of expected on-budget surpluses to the Social Security trust funds over a period of several decades and reinforcing statutes that promote budget discipline. The 2001 budget set the transfer amounts equivalent to the annual interest savings expected to result from dedicating the Social Security surpluses to debt reduction. The President also suggested extending the solvency of the Social Security trust funds by investing half of the transferred amounts in corporate equities to get a higher rate of return, with the portion of the trust funds' balances to be invested in equities strictly limited to 14 percent. Finally, the President proposed to create new savings accounts, independent of Social Security, to help individuals save for retirement.

Once the broad Social Security policy framework had been outlined, OMB staff worked closely with the NEC and others to work out the details and draft legislation, which the President transmitted to the Congress in October 1999. Among the details were issues of how the transfers to Social Security would be scored in the budget to ensure that the surpluses used for the transfers would be "locked away" and not used for other purposes. The OMB long-range budget model also was critical in developing the Social Security policy, because it made projections of the available surpluses to support the desired general fund transfers beyond the normal 10-year budget horizon. OMB also led or assisted in the development of various written materials to frame the President's Social Security proposal in a way that was easy for the American public to understand.

Public reaction to the President's dictum, and to his budget proposals for Social Security, was positive. However, there followed soon thereafter a political development that was to complicate the budgetary process, but also to have enormous consequences for fiscal policy that are likely to endure for years. The President's 2000 budget raised the issue of whether, after its proposed budgetary transfers to Social Security, the non-Social Security budget could be kept at least in balance each and every year. In the resulting debate, there arose a broad political consensus that fiscal responsibility would require that the non-Social Security budget, not just the total budget, be kept in annual balance. This consensus quickly achieved a level of political strength that exceeded any of the budget rules set down by the two Houses of Congress, or even by the law. By calling attention to this issue, the President helped to raise the bar of fiscal behavior in a fashion that will have enduring favorable consequences for the economy.

Thus, although the President's proposed general fund transfers were not enacted, the Administration's framing of the Social Security issue generated bipartisan agreement for substantial debt reduction over the next decade, to prepare the Nation for the needs of the future. This development, plus the expanded public consciousness and understanding of the Social Security issue that arose from the Administration's efforts, will contribute to budget and retirement policy in the coming years.

## STRENGTHENING THE INSTIUTION

## THE DIRECTORS

OMB is led by its Director. The Director's position is a Presidentially appointed, Senate-confirmed position. Given OMB's unique nature, the Director of OMB serves as both a Cabinet-level official and as an Assistant to the President. OMB's roles and responsibilities make the Director of OMB one of the President's closest advisers and one of the Federal Government's most influential officials. Four individuals served as Director of OMB during this Administration:

### Leon Panetta

Leon Panetta served as Director of OMB from January 1993, until he was appointed by the President to be his Chief of Staff on July 17, 1994.

From 1977 to 1993, Mr. Panetta served as United States Representative from California's 16th congressional district. From 1989 to 1993, Mr. Panetta was Chairman of the House Committee on the Budget. He also chaired the Agriculture Committee's Subcommittee on Domestic Marketing, Consumer Relations, and Nutrition; the House Administration Committee's Subcommittee on Personnel and Police; and the Select Committee on Hunger's Task Force on Domestic Hunger.

In 1960 Mr. Panetta received his B.A. magna cum laude from Santa Clara University. In 1963, he received his J.D from Santa Clara University Law School, where he was an editor of the Law Review. He served as a First Lieutenant in the U.S. Army from 1964 to 1966, and received the Army Commendation Medal.

Beginning in 1966, Mr. Panetta served as legislative assistant to Senate Majority Whip Thomas Kuchel. In 1969, he became the special assistant to the Secretary of Health, Education and Welfare, and then Director of the U.S. Office of Civil Rights. In 1971 he returned to California, where he practiced law with the Monterrey firm of Panetta, Thompson, and Panetta.

### Alice Rivlin

After serving as the Deputy Director of OMB since 1993, Alice Rivlin was nominated to become the Director of OMB in 1994 when Leon Panetta became the White House Chief of Staff.

Dr. Rivlin was born in Philadelphia, Pennsylvania. She graduated from Bryn Mawr College and received her doctorate in economics from Radcliffe College. Dr. Rivlin was the founding Director of CBO, serving from 1975 to 1983. She also was a senior fellow at the Brookings Institution, and served as Assistant Secretary for Planning and Evaluation at the U.S. Department of Health, Education and Welfare. She was a professor of Public Policy at George Mason University during 1992.

The experience Dr. Rivlin gained during her time as Deputy Director reinforced her belief that the central job of OMB is helping the President manage the government's resources more effectively. Dr. Rivlin put enormous emphasis on management and performance and worked extensively with the National Performance Review. The National Performance Review created the president's Management Council, which Dr. Rivlin was selected to Chair. That group, comprised of the Chief Operating Officers from each major agency, worked to streamline and restructure the government.

Franklin Raines

On May 24, 1996, Franklin D. Raines was nominated to be the Director of OMB, following Alice Rivlin's move to the Federal Reserve Board. From 1991 to 1996, Mr. Raines was Vice Chairman of Fannie Mae, in charge of the company's legal, credit policy, finance, and other corporate functions.

Prior to joining Fannie Mae, Mr. Raines was with Lazard Freres & Company for 11 years, where he was a general partner. Before joining Lazard Freres, he served from 1977 to 1979 as Associate Director for Economics and Government at OMB, and Assistant Director of the White House Domestic Policy Staff.

Mr. Raines graduate magna cum laude with a B.A. degree from Harvard College. He received his J.D. degree cum laude from Harvard Law School. He also attended Magdalen College, Oxford University as a Rhodes Scholar.

At the time of Mr. Raines' nomination, the United States was enjoying one of the longest economic expansions in 50 years, with a unemployment rate of 5.6 percent, inflation under 3 percent, and interest rates low enough to drive the home ownership rate up to the highest level in 15 years. The outstanding economic performance was the result of complementary fiscal and monetary policies that facilitated steady growth, the creation of jobs, and increased tax revenue. Mr. Raines wanted to extend this record by continuing fiscal and monetary policies that provided support for the resurgence of American business competitiveness in world markets, improved productivity, and improved real wages for American workers.

Jacob J. Lew

Jacob J. Lew served as Deputy Director of OMB from August 1995, Acting Director of OMB from May 1998, and was confirmed as the Director of OMB on July 31, 1998. Prior to becoming Deputy Director, Mr. Lew was OMB's Executive Associate Director and Associate Director for Legislative Affairs. Mr. Lew also served in the White House as Special Assistant to the President from February 1993 through October 1994, responsible for policy development and the drafting of the national service initiative and health-care reform legislation.

Mr. Lew began his career in Washington in 1973 as a legislative aide, and became principal domestic policy adviser to the late House Speaker Thomas P. "Tip" O'Neill, Jr., in 1979. He spent nearly eight years at the House Democratic Steering and Policy Committee as Assistant Director and then Executive Director.

Mr. Lew also served as an attorney in private practice for five years, Executive Director of the Center for Middle East Research, Issues Director for the Democratic National

Committee's Campaign 88, and Deputy Director of the Office of Program Analysis in the city of Boston's Office of Management and Budget.

Mr. Lew was born in New York, New York. A member of the bar in the District of Columbia and the Commonwealth of Massachusetts, he graduated from Harvard College in 1978 and earned his law degree from Georgetown University Law School in 1983.

As the Director of OMB during a move from a generation of budget deficits into a world of budget surpluses, Mr. Lew was committed to the dual goals of maintaining a prudent fiscal policy and investing in the future. The Director's responsibilities spanned the Federal Government, from domestic to defense, from discretionary to mandatory. The Director must focus not just on helping to set spending levels, but must help ensure that the government perform well within spending levels.

## CREATION OF HEALTH PROGRAM ASSOCIATE DIRECTOR (PAD)

Between 1969 and 1993, the OMB PAD for Human Resources, Veterans and Labor (HRVL) had responsibility for Health and Human Services health activities. As part of OMB's efforts to support the President's health reform proposal, OMB management staff led a review of organizational options to support this priority. As a result, OMB moved toward creating a new organizational unit led by a senior health expert who reports directly to the Director.

OMB's new Health PAD began on February 18, 1993, with the reassignment of about 35 OMB career staff. As adopted, the new Health PAD had organizational responsibility for HHS health activities. The new organization reflected the priority that the new Administration placed on health reform and welfare reform goals. The pre-existing HRVL program area was reorganized into two new program areas: (1) Health and (2) Human Resources. The Health PAD organization included a new Health Division, with examining branches for Medicare and Medicaid analyses and for public health. The Income Maintenance Branch, which shared responsibility for certain HHS health activities and other Federal health-related analyses and program interactions, moved from the Health and Income Maintenance Division (HIMD), to a new Human Resources Division. The HIMD staff with divisional and HHS-wide responsibilities were transferred to a new HHS Unit that reported simultaneously to the new PADs for Health and Human Resources, reflecting a new split of responsibility for HHS activities under two policy officials.

As it evolved during the analytic work in support of health reform during 1993 and 1994, the new Health PAD played a lead role in OMB's interaction with the Health Reform Task Force.

**OMB 2000**

OMB 2000 represented the most comprehensive self-examination and reform undertaken by OMB in decades. In response to two decades of expanding responsibilities, a Steering Committee was tasked to provide recommendations to improve OMB's efficiency and effectiveness. The overall goal was to improve OMB's oversight, management review, and policy development roles.

A project team spent more than two months analyzing the organization. The team conducted 125 internal interviews across the organization and 35 with OMB "alumni," agency personnel, congressional staff, and others. The team met a number of times with groups of OMB employees to capture the widest range of opinions on OMB's strengths, weaknesses, and opportunities for improvement. An "electronic suggestion box" was set up through e-mail to encourage all staff to contribute ideas, and received more than 200 specific recommendations.

In addition, all OMB branches completed "work profiles" that documented each area's missions, activities and end products. These profiles, when combined with estimated time allocations provided by the branches, enabled the project team to produce estimates of the OMB resources devoted to various activities across the institution. This work profile analysis provided a snapshot of how the organization worked, and where its resources were expended.

The OMB 2000 group identified several significant problems with OMB's then-current operation and organization as it related to management issues that were hurting its ability to operate effectively:

- OMB's influence on the quality of agency management was highly uneven. Despite the efforts of staff from OMB's traditional management offices, in many cases they lacked the leverage and agency relationships necessary both to gain an understanding and provide continuing oversight of the many management issues facing Federal agencies, on issues ranging from IT and financial management to procurement.

- In many cases understanding of programs and budget issues was essential to improving management. By and large, this programmatic expertise resided in the old budget divisions.

- The budget-side's exploding workload under contemporary budget practices and the BEA left few resources available for issues of program operation and management. Nonetheless, Congress was adding significantly to OMB's management oversight responsibilities. Without a more effective way to provide oversight, OMB would lack the resources necessary to perform these many mandates.

Historically, OMB had tried to improve oversight of agency management by adding special units and functions outside of the budget and policy analysis process. This maintained the separation of management expertise from ongoing program and agency knowledge and relationships.

The OMB 2000 Steering Committee focused instead on ways to integrate OMB's "M" and "B" so both could be performed more effectively. This led to the creation of Resource

Management Offices (RMOs), expanding on the traditional agency-based budget offices to be responsible and held accountable for: budget formulation, analysis, and execution; program effectiveness and efficiency; annual mid-and long-range policy and program analysis; agency implementation of government-wide management policies; and program evaluation. The traditional management offices were restructured to provide their expertise on a consultative basis to the RMOs, who retained the primary agency relationships. On general management policy issues and circulars (grants, procurement, IT reviews etc.), management office staffs continue to work directly with agencies, either directly or through interagency councils. Personnel from the management offices were in some cases transferred directly into the RMOs. Some management offices were abolished entirely (e.g., the General Management Division). Others were sharply reduced (e.g., OFFM, OFPP).

Specific changes included:

- The Office of Federal Procurement Policy (OFPP) and the Office of Federal Financial Management (OFFM) would retain their statutory policy roles, but some of their staff would be re-assigned to RMOs to provide additional analytical capacity.

- Some staff from the Office of Information and Regulatory Affairs (OIRA) would be moved to the RMOs, but most of the OIRA desk officers would remain in OIRA. Most of OIRA's staff would be left in place to implement the Executive Order on regulatory management issued on September 30, 1993. It was more important for OIRA to implement successfully the timeframes and coordination requirements in the new Executive Order on regulatory review.

- Some staff from Economic Policy, Budget Review Divisions, and from the General Management's Evaluation and Planning Branch were moved into the RMOs to enhance OMB's mid-range analytical functions.

- The Special Studies Divisions were absorbed by the RMOs to have as many staff as possible involved in analysis grounded in an integrated view of agency oversight. OMB did not want to confine such work to special units – even though those units had been successful in doing some analysis that the rest of OMB did not have sufficient time to do.

Since implementation of OMB 2000, we have worked to ensure that the overall design is implemented in practice. The remaining former management offices (now referred to as "statutory offices" to reinforce the notion that management is a responsibility of all of OMB) participate in budget reviews, but the RMO for each agency is responsible for knowing and reporting on agency compliance with the many management directives contained in OMB circulars.

The OMB 2000 interviews showed a remarkable consensus on the need to strengthen OMB's focus on program oversight issues by integrating management skills with those areas of OMB that have program specific knowledge. Moreover, the OMB 2000 process itself, by soliciting staff views on how OMB could work more effectively, provided OMB's political leadership a unique opportunity to change OMB with career staff support and advice. It also provided a more solid institutional basis for Directors and President's for years to come.

## OMB 25th ANNIVERSARY

On June 30, 1995, OMB celebrated its 25th Anniversary. Invitations went out to about 75 former Bureau of the Budget (BOB) staff as well as an unprecedented number of former Directors. Activities that day included:

- An informal luncheon seminar in the White House Conference Center described the history and institutional role of BOB/OMB.
- A panel of distinguished former BOB staff provided their perspective on the institution and gave anecdotes and examples from their experience.
- A number of artifacts and memorabilia reflect BOB/OMB history ("The OMB Museum"). The Museum included displays of historical and more current budget preparation and printing processes, including the FY 1996 Budget on CD-ROM.
- OMB's annual award ceremony was held in the afternoon at the Decatur House, followed by a reception. Special recognition was provided to all former BOB and OMB employees who were present, including 6 former directors.

The following is a brief history of OMB, written specifically for the 25th Anniversary celebration:

Article I, Section 9 of the Constitution provides that Federal funds are to be expended only "in consequence of appropriations made by law." Article II designates the President as Chief Executive and otherwise describes the Executive powers, but does not refer directly to the spending power.

The Organic Act for the Department of Treasury (1 Stat. 65) of 1789 was the first step towards a Federal Budget. The Treasury collected and included, without review, the appropriation requests of executive departments and agencies in the "Book of Estimates" which was transmitted to the Congress. There was no effort at a central control for coordination of budget matters and Presidents did not play an active role in the budget process.

Between 1887 and 1889 the Cockrell Committee recommended new administrative practices and accounting procedures that were subsequently adopted by the Treasury. In 1905, President Theodore Roosevelt appointed members of the Keep Commission on Department Methods to investigate charges of waste, inefficiency and corruption in the Federal budget process. The Keep Commission laid the groundwork for President William Howard Taft's Commission on Economy and Efficiency. In 1912, the Taft Commission submitted its report to the Congress, "The Need for a National Budget." The report described existing problems and practices, considered various options, and set forth a model budget. President Taft endorsed the recommendations for a National Budget, but lost the election; and the issue was dropped by Congress.

In 1912, President Woodrow Wilson endorsed the Democratic Party Platform for budget reform that consolidated appropriations into a single House committee rather than an executive budget approach. President Wilson adopted the congressional focus of the Democrats instead of the national budget approach as proposed by President Taft.

The Select Committee on the Budget was created by the House in 1919 and produced a report calling for a Bureau of the Budget (BOB) directly responsible to the President. In 1920, the Congress passed a bill that housed BOB in the Treasury. President Wilson vetoed the 1920 bill on the grounds that it contained a provision which would prohibit the President from removing officials if necessary.

The Budgeting and Accounting Act was signed by President Warren G. Harding on June 10, 1921. BOB was a unit "in but not of" the Treasury, headed by a Director appointed by the President. BOB remained in Treasury until it was transferred to the newly established Executive Office of the President, July 1, 1939. Under the Executive Reorganization Act of 1939, BOB became a central institutional component of the newly created Executive Office of the President.

The Office of Management and Budget (OMB) was created by Reorganization Plan No. 2 of 1970 which was submitted by President Richard Nixon to the Congress on March 13, 1970. The plan redesignated the BOB as the OMB and transferred all functions vested by law in the BOB and its Director, to the President, who in turn, delegated his authority to the Director of OMB by Executive Order 11541, effective July 1, 1970.

## THE FEDERAL INTERAGENCY TASK FORCE ON THE DISTRICT OF COLUMBIA

In the late 1980s, the financial condition of the District of Columbia began to deteriorate dramatically. With a cumulative general fund deficit of $324 million by the end of FY 1994, the bond market downgraded the District government's credit rating in early 1995, leaving the city unable to borrow to meet its financial obligations. In addition, the District government did not possess sound financial and accounting procedures and systems.

In 1995, the Administration worked with the Congress to enact the Financial Responsibility and Management Assistance (FRMA) Act. The legislation established the District of Columbia Financial Responsibility and Management Assistance Authority, a financial entity similar to that which other municipalities have utilized to assist in regaining financial stability.

In addition, the President asked OMB Director Alice M. Rivlin to convene a group of officials from Executive Branch agencies to work with their D.C. counterparts, to help the District cope with its financial problems and to improve the quality of services that D.C. delivers to its residents. The D.C. Interagency Task Force became the focal point for Administration efforts to revitalize the District, and remains a top priority of OMB.

In 1996, OMB and the D.C. Task Force developed a plan to restructure the relationship between the Federal and District Governments to promote long-term financial stability and improve self-government within the city. The plan proposed that the Federal Government directly assume certain District functions in which it has a clear interest, such as pensions, criminal justice, and Medicaid. In addition, the Federal Government established the National Capital Infrastructure Fund, to fund transportation capital projects in the District, and an economic development plan, to provide grants and tax incentives for economic development. The comprehensive plan developed by the Task Force was enacted as the National Capital Revitalization and Self-Government Improvement Act of 1997 ("the Revitalization Act"). The Revitalization Act significantly restructured the Federal-District of Columbia government relationship. Specifically, the Act:

- Increased the Federal match rate for Medicaid from 50 to 70 percent.
- Provided for the Federal Government to assume certain State justice functions, including incarceration of adult felons, supervision of parolees, and financing of the District Courts. The Act created a Corrections Trustee to oversee the transition of the adult felon population to the Federal prison system and the closing of Lorton prison, and an Offender Supervision Trustee to create a new Federal agency, the Court Services and Offender Supervision Agency. The Act provides for new responsibilities for the US Parole Commission.
- Relieved the city of $5 billion of unfunded pension liabilities that the District of Columbia had inherited from the Federal Government in the late 1970s; and
- Provided $1.2 billion in tax relief District of Columbia residents and businesses.

The Revitalization Act implementation also provided hundreds of millions of dollars in benefits to the District government every year, totaling $5.5 billion over the next 5 years:

- $1.8 billion in funding pension liabilities;
- $1.2 billion in increased Federal matching rate for Medicaid payments;
- $1.1 billion for housing District of Columbia felons;
- $0.6 billion for court services and offender supervision; and,
- $0.7 billion for the District of Columbia Courts and Defender Services

Even with the elimination of the $660 million annual Federal payment, the District will still save $2.2 billion over the next 5 years. The President also signed into law $1.2 billion in Federal tax incentives over 5 years, including a wage credit for hiring District of Columbia residents, additional small business deductions, tax exempt bond financing, a first time home buyer credit, and a targeted zero capital gains rate. In 1999, the Administration persuaded the Congress to enact further changes to the Medicaid formula, saving the District an additional $9 million per year.

Since 1997, in addition to funding for the Revitalization Act, the Administration has obtained additional appropriations funding for the District of Columbia: $239 million in FY 1999; $34 million in FY 2000; and over $57 million in FY 2001. These appropriations have been used for critical economic development initiatives, including $25 million to capitalize the National Capital Revitalization Corporation, $25 million for the New York Avenue Metro station, and funding for key infrastructure projects, management reforms, education, and public safety. In 1999, the President proposed and enacted the College Access Act, providing $17 million per year for District of Columbia high-school students to attend out-of-state schools at in-state tuition rates.

The Federal Interagency Task Force has been, and continues to be, involved in a range of activities designed to draw on the Federal Government's technical expertise to improve the city's tax collection, education and training, housing, transportation, health-care delivery, economic development, and other governmental functions. These activities are ongoing, and touch upon virtually every aspect of District government.

## PRIVACY

The OMB traditionally has taken a lead role in the Federal Government's efforts to protect personal privacy. In doing so, OMB has focused on the Privacy Act of 1974 and its implications concerning agency collection of individuals' information and the maintenance of that information in Federal systems of records. The Privacy Act provides individuals with the right to exercise control over many disclosures of personal information, in addition to the right to access and correct information held by the government, among other rights.

OMB's mission in ensuring privacy safeguards expanded significantly during the Administration. The leadership role on guiding agencies in implementing the Privacy Act continued, but new responsibilities were added. OMB began working on a broad range of privacy issues in both the public and private sectors – from helping to write the nation's first medical privacy rules, to working on proposals to boost consumers' financial privacy safeguards, to prohibiting the use of genetic information in hiring decisions. In addition, with the 1999 appointment of the Administration's first Chief Counselor for Privacy, OMB gained the institutional responsibility for coordinating Executive Branch policies for privacy.

The Electronic Age Arrives.

This Administration's tenure coincided with the dramatic growth in the use of computer resources by the private and public sectors, and significant boosts in the volume of electronic information flows through society. Electronic government became a reality, with Americans turning to the Internet to access agency resources. Massive quantities of information could, for the first time, be exchanged among or within companies with the mere click of a computer mouse. Previously unrelated data could also be compiled and compared with increasing ease by both industry and the government. However, concerns arose about personal privacy and the possibility of damage resulting from flows of data within the government or within the private sector. Surveys demonstrated that the loss of privacy resulting from the growth in technology was becoming a serious worry for many Americans.

Developing privacy policies for the Electronic Age emerged as a priority for the Administration and for OMB, in particular. The core Administration philosophy on privacy for the Information Age emphasized support for industry-led, self-regulatory approaches to consumer privacy. These efforts focused on ensuring that consumers have notice about what happens to their data and choice over limiting the use of personal data. At the same time, there was recognition by the Administration that some personal information is so sensitive that it demands new legal protections. These areas include personal financial data, genetic information, Social Security numbers, medical records and protection of children on-line.

Early Administration Efforts.

OMB played a central role from the start of the Administration in both framing this philosophy and applying it to specific policy areas. OMB took the lead in framing information policy on the Information Infrastructure Task Force (IITF) that grappled with policy on electronic commerce and electronic government for the new Administration. In June of 1995, the IITF's Privacy Working Group issued a set of privacy principles that stressed notice and choice for consumers' personal data in the information age. The report recognized the growing ability of both the government and private sector to amass large quantities of personal information and to harness new technologies to use that data in unprecedented ways.

With these principles in mind, OMB led in drafting the Benefit System Review Team's January, 1997 report, which called for agencies to weigh the privacy risks of instituting newly possible data matching along with the efficiency gains. "Efficiency in information systems does not necessarily come at the cost of privacy," they wrote in the report, "but traditional approaches about how to protect individual privacy will need to be updated in light of new approaches to data sharing." This call for balance by OMB continued through the end of the Administration, with repeated efforts to ensure that the right benefits get to the right individuals – but without significant individual privacy sacrifices. One key area where this has had an impact is in the use of the National Directory of New Hires. This database has been successful in helping to recover child support debts of delinquent parents, but its use also raised privacy issues that were addressed.

OMB also worked on broader privacy issues from early in the Administration. This included, for example, helping to develop Health and Human Services recommendations to the Congress in 1997 on legislation to protect the privacy of personal medical records, mandated under the Health Insurance Portability and Accountability Act of 1996. These recommendations then formed the basis for landmark medical privacy rules written under HIPAA after the Congress failed to pass protective legislation.

In 1998, OMB's role as the lead coordinating organization on privacy policy fully emerged in the context of the Vice President's call for an "Electronic Bill of Rights." The Vice President announced that OMB would gain new responsibilities to coordinate privacy policy for the Administration. The move signaled a heightened recognition of the need for consistent policy on privacy across the Federal Government and across jurisdictional areas.

Since this appointment, OMB has participated in a host of interagency efforts on privacy policy, including work with the CIO Council (and its privacy subcommittee) and individual departments. OMB officials have testified before Congressional panels on privacy issues and spoken before numerous government and industry conferences to raise awareness of privacy issues and of Administration policy in this area.

Website Privacy Efforts.

OMB worked particularly hard to frame new policies governing privacy on Federal web-sites – a rapidly expanding medium for public communication. Americans have legal privacy protections stemming from the Privacy Act no matter how information is collected, be it on paper or electronically. However, OMB recognized that the government had to take steps to augment those legal safeguards with Federal policy on web-site privacy. In 1999, OMB Director Jack Lew issued a memorandum to agency heads, directing them to place privacy policies on the main agency sites, major points of entry, and sites where substantial personal information is collected. Each site was required to clearly inform visitors what information is collected at the site, why the information is collected, and what the agency will do with it. "We cannot realize the full potential of the web," he told the agencies, "until people are confident we protect their privacy when they visit our sites."

A year later, in another memorandum, Director Lew expanded the protections that agencies must provide for visitors to their sites. First, he announced the presumption that the tracking technology "cookies" would not be used on Federal web sites except under limited circumstances. Second, the memorandum stated that web sites must comply with the strict, protective standards of the Children's Online Privacy Protection Act of 1998, even though the law applies only to the private sector. Finally, the memorandum tied privacy protection to the budget process by requiring that agencies include a description of their privacy practices with their agency budget submissions.

Coordinating Broad Range of Privacy Initiatives.

OMB also has worked on behalf of the Administration to expand privacy safeguards in other areas of government and the private sector, consistent with other important policy goals. Among the most significant efforts have been coordinating or otherwise taking an important role in developing privacy proposals in areas ranging from cyber-security to genetic privacy. Some of the most important have been:

- Coordinating the writing of the first-ever Federal medical privacy rules, under HIPPA, to ensure that the most personal medical information of individuals is not released without authorization. The rules were announced in draft in the fall of 1999 and went final a year later. They give consumers more control over their records and set limits on the use of their health information by others.

- Issuing Executive Order 13145 to ban the use of genetic information in hiring decisions in the Federal Government, and calling to extend those privacy protections to the private sector through Federal legislation.

- Helping to write a legislative proposal to boost privacy protections for consumer financial information. This proposal was announced by the President on April 30, 2000, and introduced as H.R. 4380. It built on protections included in the landmark financial modernization bill signed by the President in November 1999.

- Working with the Justice Department and Treasury Department on a study to examine privacy issues in bankruptcy, as a case study in how new issues have emerged regarding the treatment of public records in the Electronic Age. The study was completed in the fall of 2000.

- Coordinating the drafting of an Administration legislative proposal to promote public safety in cyberspace, alongside individual privacy, and to update laws for the Internet Age. This culminated in the introduction of the proposal as S. 3083. The legislation also sought to harmonize the rules that apply to different technologies, such as telephones and e-mail, so as to preserve fundamental privacy values in a time of technological change.

- Developing a new strategy to balance privacy, electronic commerce, and national security in encryption policy. The updated guidelines were announced on September 16, 1999.

- Encouraging effective self-regulatory initiatives to promote on-line privacy and working to frame the on-line network advertisers privacy principles. The network advertising companies announced their principles, with Administration support, in July of 2000. In addition, there were strong signs that the self-regulatory approach was succeeding. While only 14 percent of commercial websites had privacy policies posted in 1998, that figure grew to 65 percent in 1999 and 88 percent a year later.

- Working closely with the Department of Commerce on negotiations to develop the Safe Harbor privacy pact with the European Union (EU), to bridge the different approaches to privacy protection taken by the EU and the United States. The Safe Harbor was finalized during the summer of 2000, and went into effect in November 2000.

- Leading the Administration's legislative efforts to enact meaningful protections for Social Security numbers, including a ban on their inappropriate sale or purchase. The Administration proposal was introduced as the "Social Security Number Protection Act of 2000."

Throughout these many initiatives, OMB worked hard to apply the core philosophy of supporting self-regulatory efforts to achieve meaningful privacy safeguards, but also pushing for legal protections where most necessary and where the data involved were most sensitive. The scope of OMB's role in developing, and coordinating, privacy policy for the Administration certainly increased dramatically over the eight years of the Administration. However, these central-guiding principles remained consistent.

# APPENDIX: SELECTED SUPPORTING MATERIAL

## Introduction

- FY 2001 Annual Performance Plan and FY 1999 Performance Report for the Office of Management and Budget

## Ensuring Fiscal Discipline

A typical budget season

- FY 2001 Budget Decision Schedule
- Memorandum for the President -- Preliminary FY 2000 Agency Funding Levels
- Memorandum for the President – FY 2001 Budget Passback to Agencies
- FY 2001 Budget – Agency Appeal Meeting
- Memorandum for the President – FY 2001 Agency Appeals Meeting
- Representative Budget Presentations to the President

The First Clinton Budget

- Memorandum for Heads of Agencies 93-05 - Testimony Before Congress on Fiscal Year 1994 Budget Matters
- OMB Bulletin No. 93-07 - Guidance on Preparation of the FY 1994 Budget
- Testimony of Leon E. Panetta Before the Committee on the Budget, U.S. House of Representatives
- Office Memorandum 93-19 - Thank You (President's Budget FY 1994)
- Memorandum for Heads of Agencies 93-06 - Additional Guidance on Preparation of the FY 1994 Budget
- Memorandum for Heads of Agencies 93-08 - Testimony Before Congress on the FY 1994 Budget
- Memorandum for Heads of Agencies 93-10 - Testimony Before Congress on the FY 1994 Budget

The 1993 Budget deal

- Bullets Highlighting Conference Action by Reconciliation Bill Title
- Reconciliation Action By Title Table
- Enrolled Bill HR 2264 - Omnibus Budget Reconciliation Act of 1993
- Reducing the Deficit

A typical appropriations season

- Appropriations Bill Tracking: Development of Letters and Statements of Administration Policy
- Sample Bills (Front Page Covers)

Government shutdown

- Memorandum for Heads of Agencies 95-16 - Planning in Light of Appropriations Actions
- Memorandum for Heads of Agencies 95-17 - Contingency Planning for Agency Operations in Fiscal Year 1996
- Memorandum for Heads of Agencies 95-18 - Agency Plans for Operations During Funding Hiatus
- Memorandum for the Director -- OMB Plan for Operations During Funding Hiatus
- Memorandum for Heads of Agencies 95-21 - Agency Plans for Operations During Funding Hiatus
- Memorandum for Heads of Agencies 96-01 - Planning for Agency Operations
- Memorandum for Heads of Agencies 96-02 - Planning for Agency Operations in the Absence of Appropriations
- Memorandum for Heads of Agencies 96-03 -Agency Operations in the Absence of Appropriations
- Memorandum for selected OMB staff -- Furlough Due to Lapse of Appropriations
- Examples of Reduced Government Services
- Memorandum for John Koskinen -- Pay Information
- Memorandum for the Director -- Increasing Problems of a Continuing Shutdown

Balanced Budget Proposed for FY 1997

- Testimony of Alice M. Rivlin Before the Committee on the Budget - United States Senate (President's Budget for FY 1997)

The Balanced Budget Act and Taxpayer Relief Act of 1997

- Bipartisan Budget Agreement
- Memorandum for the President - Enrolled bill HR 2014 - Taxpayer Relief Act of 1997
- Memorandum for the President - Enrolled bill HR 2015 - Balanced Budget Act of 1997

FY 1997 Omnibus Appropriations

- Statement of Administration Policy - Department of Defense Appropriations Bill, FY 1997
- Statement of Administration Policy - Department of the Interior and Related Agencies Appropriations Bill, FY 1997
- Letter to the Honorable Mark O. Hatfield from Jacob J. Lew on the Administration's views on HR 3755, the Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Bill, FY 1997

- Letter to the Honorable Tom Harkin from Franklin D. Raines on the Administration's views on the Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Bill, FY 1997
- Letter to the Honorable Ernest F. Hollings from Franklin D. Raines on the Administration's views on the Department of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, FY 1997
- Letter to the Honorable Mark O. Hatfield from Franklin D. Raines on the Administration's views on the Treasury, Postal Service, and General Government Appropriations Bill, FY 1997
- Letter to the Honorable Albert Gore from Franklin D. Raines on the Balanced Budget and Emergency Deficit Control Act

Line Item Veto

- Testimony of Alice M. Rivlin, Director Before the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight
- Memorandum for the President – Follow-up on Line Item Veto

First Budget Surplus Reported in a Generation

- Oral Testimony of Franklin D. Raines Before the committee on the Budget, United States Senate - The President's proposed $1.7 trillion budget for fiscal 1999
- Change in Baseline Deficits Since Pre-OBRA
- Treasury News - Joint Statement of Robert E. Rubin and Jacob J. Lew on Budget Results for FY 1998

FY 1999 Omnibus Appropriations

- Memorandum for the President – The FY 1999 Appropriations Process
  Memorandum for the President – Appropriations Update
- Memorandum for the President – Appropriations Update
- Memorandum for the President – FY 1999 Appropriations Negotiations
- Letter to the Honorable Bob Livingston, from Jacob J. Lew on the Administration's views on HR 4104, the Treasury and General Government Appropriations Bill, FY 1999
- Letter to the Honorable Bob Livingston, from Jacob J. Lew on the Administration's views on HR 4101, the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Bill, FY 1999
- Letter to the Honorable Bob Livingston, from Jacob J. Lew on the Administration's views on the Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations bill, FY 1999
- Letter to the Honorable Bob Livingston, from Jacob J. Lew on the Administration's views on HR 4380 and S 2333, the District of Columbia Appropriations Bill, FY 1999

- Letter to the Honorable Ted Stevens, from Jacob J. Lew on the Administration's views on HR 4193 and S 2237, the Department of the Interior and Related Agencies Appropriations Bill, FY 1999
- Statement of Administration Policy - HR 4274, Departments of Labor, Health and Human Services, Education, and Related Agencies Appropriations Bill, FY 1999
- Letter to the Honorable Bob Livingston, from Jacob J. Lew on the Administration's views on HR 4328, the Department of Transportation and Related Agencies Appropriations Bill, FY 1999
- Memorandum for the President – Final 1999 Appropriations Negotiations
- Letter to the Honorable Albert Gore from Jacob J. Lew on the Balanced Budget and Emergency Deficit Control Act of 1985

The Balanced Budget Refinement Act

- Letter to the Honorable Richard A. Gephardt - Balanced Budget Act Adjustment
- Summary of the Balance Budget Refinement Act of 1999
- Balanced Budget Refinement Act of 1999: Highlights (November 18, 1999)

FY 2000 Omnibus Appropriations

- Memorandum for the President – FY 2000 Appropriations Update
- Letter to the Honorable C.W. Bill Young from Jacob J. Lew, on the Administration's views on the Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, FY 2000
- Memorandum for the President – FY 2000 Appropriations Update
- Meeting with the Democratic Congressional Leadership
- Letter to the Honorable C.W. Bill Young from Jacob J. Lew, on the Administration's views on HR 2466, the Department of the Interior and Related Agencies Appropriations bill, FY 2000
- Memorandum for the President – FY 2000 Appropriations Update
- Memorandum for the President – FY 2000 Appropriations Negotiations
- Letter to the Honorable C.W. Bill Young from Jacob J. Lew, on the Administration's views on HR 3037, the Labor, Health and Human Services, and Education, and Related Agencies Appropriation Bill, FY 2000
- Letter to the Honorable Kay Bailey Hutchison from Jacob J. Lew, on the District of Columbia Appropriations Bill
- Letter to the Honorable Richard A. Gephardt from Jacob J. Lew, on HR 3196, the revised Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2000
- Memorandum for the President – Final FY 2000 Appropriations Update
- Letter to the Honorable Al Gore from Jacob J. Lew on separate appropriations and pay-as-you-go reports

**Improving How the Government Works**

Government Performance and Results Act

- Memorandum for Heads of Agencies 94-2 - Government performance and Results Act of 1993 (GPRA)
- Memorandum for Heads of Agencies 94-11 - Pilot Projects under the Government Performance and Results Act of 1993 (GPRA)
- Memorandum for Heads of Agencies 94-15 - Submission of Performance Plans for Pilot Projects under PL. 103-62, The Government Performance and Results Act of 1993 (GPRA)
- Memorandum for Deputy Associate Directors -- GPRA Pilot Project Performance Plans
- Memorandum for Heads of Agencies 94-32 - Submission of FY 1995 Performance Plans for Pilot Projects under PL. 103-62, The Government Performance and Results Act of 1993 (GPRA)
- Memorandum for Heads of Agencies 95-05 - Submission of FY 1996 Performance Plans for Pilot Projects under PL. 103-62, the Government Performance and Results Act of 1993 (GPRA)
- Memorandum for Heads of Agencies 95-01 - Submission of Nominations for Managerial Accountability and Flexibility Pilot Projects under the Government Performance and Results Act
- Memorandum for Heads of Agencies -- Spring Review on Program Performance
- Memorandum for Heads of Agencies 95-08 - Performance Partnerships
- Memorandum for OMB Staff -- Selected Examples of Performance Measurement
- Memorandum for Program Associate Directors -- Implementation of the Government Performance and Results Act (GPRA)
- Memorandum for Heads of Agencies 96-26 - Exemptions for Selected Agencies from Government Performance and Results Act Requirements
- Memorandum for Heads of Agencies 97-03 Supplement No.1 - Additional Information on Congressional Consultation
- Statement of Franklin D. Raines Before The Senate Appropriations and Governmental Affairs Committees
- Statement of Franklin D. Raines Before House Committee on Government Reform and Oversight

Reinventing Government

- Testimony of OMB Director Leon E. Panetta - House Budget Committee to discuss the National Performance Review
- Testimony of OMB Director Leon E. Panetta - Subcommittee on Oversight, House Ways and Means Committee to discuss the National Performance Review
- Testimony of OMB Director Leon E. Panetta - Government Operations Committee to discuss the National Performance Review
- Testimony of Alice M. Rivlin, Director Before the Subcommittee on Government Management, Information and Technology Committee on Government Reform and Oversight

Regulatory Oversight and Executive Order 12866

- Executive Order 12866 - Regulatory Planning and Review
- The First Year of Executive Order No. 12866
- Economic Analysis of Federal Regulations Under Executive Order 12866
- Memorandum for the Regulatory Working Group – Principles for Risk Analysis
- Memorandum for the Heads of Agencies -- Guidance for Implementing Executive Order No. 12866

Priority Management Objectives

- Memorandum for the President - Priority Management Objectives – INFORMATION

Year 2000 Preparations

- Getting Federal Computers Ready for 2000
- Memorandum for the President – The Year 2000 Problem
- Statement of Jacob J. Lew, Director Before the Committee on Appropriations and The Senate Special Committee on the Year 2000 Technology Problem

**Ensuring the Administration's Policy Agenda**

Health Security Act

- Memorandum for the First Lady -- Comments on the 8/6/93 Draft of the Health Care Reform Plan
- Memorandum for the First Lady -- Comments on the 9/7/93 Draft of the Health Care Reform Plan
- Memorandum for Ira Magaziner -- Timetable for Budget Estimates
- Testimony of Leon E. Panetta and Alice M. Rivlin - Committee on Finance - United States Senate
- Leon E. Panetta - Speech to the Center for National Policy

Welfare Reform

- Statement of Administration Policy - S-1120 - Work Opportunity Act of 1995
- Letter to the Honorable Bob Dole from Alice Rivlin on Welfare Reform
- Letter to the Honorable Gerald BH Solomon from Alice Rivlin to transmit the Administration's views on the actions that the House will take to comply with budget reconciliation instructions.
- Letter to the Honorable Pete V. Dominici from Alice Rivlin to transmit the Administration's views on the actions that the Senate committees have taken to comply with budget reconciliation instructions

- Letter to the Honorable Daniel Patrick Moynihan from Alice Rivlin on the impact of the House and Senate welfare bills on children
- Letter to the Honorable Sam Gibbons from Alice Rivlin on a preliminary assessment of the potential poverty effects of the conference version of the reconciliation bill and welfare reform bill
- Letter to Newt Gingirch from Alice Rivlin on the Administration's "Work first and personal Responsibility Act of 1996"
- Potential Poverty and distributional Effects of Welfare Reform bills and Balanced Budget Plans

OMB and Foreign Policy

- Memorandum for the President – Status of FY 2000 Colombia/Kosovo Supplemental
- Letter to the Honorable Thomas A. Daschle from Jacob J. Lew on the Byrd-Warner Amendment
- Memorandum for the President – Update on Africa Bombing Supplemental
- McCaffrey note on additional Colombia funding
- Memorandum for the President – Meeting with Secretary Cohen and Military Chiefs to Discuss Defense Budget
- Memorandum for the President – Meeting with Congressional Leadership
- Memorandum for the President – Emergency Funding Supplemental
- Testimony of Jacob J. Lew, Director Before the U.S. Senate Appropriations Committee

Saving Social Security First

- Testimony of Franklin D. Raines, Director Before the Task Force on Social Security, Committee on the Budget, U.S. Senate
- Testimony of Jacob J. Lew, Director Before the Committee on the Budget of the U.S. Senate

**Strengthening OMB**

The Directors

- Nomination of Leon E. Panetta before the Committee on Governmental Affairs - United States Senate
- Nomination of Franklin D. Raines before the Committee on Governmental Affairs - United States Senate
- Nomination of Alice M. Rivlin before the Committee on Governmental Affairs - United States Senate
- Nomination of Jacob J. Lew before the Committee on Governmental Affairs - United States Senate

Creation of Health PAD

- Health Care Package (Table of Contents)
- Organizational Change
- PAD Health and PAD Human Resources – Next Steps

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- Office Memorandum 94-16 - Making OMB More Effective in Serving the Presidency
- Testimony of Alice M. Rivlin Before the House Committee on Government Management, Information and Technology - Committee on Government Reform and Oversight
- GAO Report to Congressional Requesters - Changes Resulting From the OMB 2000 Reorganization

The Federal Interagency Task Force on the District of Columbia

- Memorandum for the President
- Memorandum for the President – Restructuring Federal Assistance to the District of Columbia
- Memorandum for the President – Status of the National Capital Revitalization and Self Government Improvement Act
- Testimony of Franklin D. Raines, Director Before the Committee on Government Reform and Oversight, Subcommittee on the District of Columbia, U.S. House of Representatives on the President's National Capital Revitalization and Self Government Improvement Plan
- Memorandum for Attorney General Reno, Honorable Richard Riley, and the Honorable David J. Barram – Proposals for Phase II of the President's Plan

Privacy

- Selected Recent Privacy Initiatives By The U.S. Federal Government
- Memorandum for Heads of Agencies 99-18 - Privacy Policies on Federal Web Sites
- Memorandum for Heads of Agencies 00-13 - Privacy Policies and Data Collection on Federal Web Sites
- Statement of John T. Spotila - Administrator, Office of Information and Regulatory Affairs submitted to the Subcommittee on Government Management, Information, and Technology - Committee on Government Reform - United States House of Representatives (5/15/00)
- Statement for the Record - John T. Spotila - Administrator, Office of Information and Regulatory Affairs submitted to the Subcommittee on Government Management, Information, and Technology - Committee on Government Reform - United States House of Representatives (5/18/00)
- Statement of Sally Katzen - Deputy Director for Management submitted to the Subcommittee on Telecommunications, Trade, and Consumer Protection - Committee on Commerce - United States House of Representatives (10/11/00)