# MID-SESSION REVIEW

BUDGET OF THE UNITED STATES GOVERNMENT

*Fiscal Year 1998*

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Balanced Budget Agreement (1997) F

BBA — General

# President Delivers First Balanced Budget Agreement in a

## Historic Agreement Promotes the Country's Values and P

**May 16, 1997**

***President Clinton has achieved a balanced budget agreement that promotes our valu funding for education, health care, and the environment while strengthening and modernizing Medicare and Medicaid. We have cut the deficit by 77%, from $290 billion in 1992 to roughly $67 billion this year. This historic achievement will finish the job, while meeting the President's goals.***

**GOAL:** **To achieve the first balanced budget in a generation.**

- ✔ Budget balances by 2002 -- for the first time since 1969.
- ✔ Saves over $200 billion over five years and roughly $800 billion over ten years.

**GOAL:** **To ensure that every 8 year-old can read, every 12 year-old can log on to the Internet, and every 18 year-old can go to college.**

- ✔ A child literacy initiative consistent with the President's America Reads challenge to help children learn to read well and independently by the end of the third grade.
- ✔ Expands Head Start -- leading to goal of one million kids in 2002.
- ✔ Fully funds Technology Literacy Challenge Fund with at least $425 million in FY 98.
- ✔ Largest single increase in higher education since the G.I. Bill in 1945.
- ✔ Provides largest Pell Grant increase in two decades -- four million students could receive a grant of up to $3,000, an increase of $300 in the maximum grant.
- ✔ $35 billion of tax cuts targeted to higher education to make college more affordable for America's families, consistent with the President's HOPE Scholarship and tuition tax deduction.
- ✔ Adopts President's full training and employment budget, including Job Corps.

**GOAL:** **Expand health coverage for as many as 5 million uninsured children.**

- ✔ Provides $16 billion for children's health care, including Medicaid improvements and investments, and/or a new capped mandatory grant program that supplements states' efforts to cover uninsured children in working families.

**GOAL:** **Secure and strengthen Medicare and Medicaid.**

- ✔ Extends the Medicare Trust Fund at least a decade through long overdue structural reforms.
- ✔ Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.
- ✔ Preserves the federal Medicaid guarantee of coverage to our nation's most vulnerable people.

**GOAL:** **Strengthen environmental protection and enforcement.**

- ✔ Provides $3.4 billion in 1998 -- a 9% increase over 1997 -- for EPA research and enforcement programs to protect public health from environmental threats.
- ✔ Provides funding to cover the expansion of the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Likely to double the pace of Superfund cleanups -- 500 additional sites cleaned up by the end of 2000.

**GOAL:** **Move people from welfare to work and treat legal immigrants fairly.**

- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients to get jobs.
- ✔ Provides funding to preserve food stamp benefits for people willing to work.
- ✔ Provides $3 billion to states and localities to move recipients in disadvantaged areas into jobs.
- ✔ Restores $10 billion in disability and health benefits for legal immigrants.

**GOAL:** **Cut taxes for America's hard working families.**

- ✔ A Child Tax Credit to make it easier for families to raise their kids.
- ✔ $35 billion of tax cuts targeted to higher education to make college more affordable
- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients get jobs.
- ✔ Establishes additional Empowerment Zones and Enterprise Communities.

# Summary of Budget Savings

President Clinton has achieved a balanced budget agreement that provides funding for critical investments in education, health care, and the environment while strengthening and modernizing Medicare and Medicaid -- just as he promised last year. We have cut the deficit 77% -- from $290 billion in 1992 to an expected $67 billion this year. This historic achievement will finish the job, giving the American people the first balanced budget in a generation, while meeting the President's goals:

- ✔ ***The First Balanced Budget in a Generation.***
- ✔ ***Saves over $200 Billion over 5 Years & about $800 Billion over 10 Years***
- ✔ ***Largest Increase in Education Funding in 30 Years - including $35 billion in tax cuts to make college more affordable.***
- ✔ ***Entitlement Savings of Nearly a Half Trillion Dollars over 10 Years.***
- ✔ ***Strengthens and Modernizes Medicare -- extending the life of the Trust Fund more than a decade through long overdue structural reforms.***
- ✔ ***Expanded Health Coverage for as many as 5 Million Children.***

| ***BUDGET AGREEMENT SAVINGS*** | |
|---|---|
| **AREA** | **5 Year Savings 1998-2002 ($ billion)** |
| ***Discretionary Spending*** | |
| ***Defense*** | -77 |
| ***Nondefense*** | -61 |
| ***Subtotal*** | -138 |
| ***Mandatory Spending*** | |
| ***Medicare*** | -115 |
| ***Medicaid*** | -13.6 |
| ***Other*** | -40 |
| ***Subtotal*** | |
| ***Net Interest*** | -14 |
| ***Gross Savings*** | -317 |
| ***Initiatives*** | |
| ***Children's Health*** | 16 |
| ***Welfare Reform*** | 14 |
| ***Tax Cut*** | 85 |
| ***Net Savings*** | -204 |

**FACT SHEET ON THE BUDGET AGREEMENT**
*May 16, 1997*

## *DEFICIT REDUCTION*

- **First balanced budget in a generation.** Budget balances by 2002 -- for the first time since 1969.

- **Finishes the job.** The 1993 Economic Plan has already reduced the deficit 77%, from $290 billion in 1992 to an expected $67 billion this year. This budget agreement finishes the job, balancing the budget by 2002 -- with $204 billion in net budget savings over the next 5 years.

- **Keeps budget balanced through 2007.** The agreement will maintain budget balance until 2007, and save about $800 billion over the next 10 years.

## *CONSERVATIVE ASSUMPTIONS*

- **Proven record on forecasts.** For four years in a row, growth has been higher and the deficit has been lower than predicted. For example, CBO predicted growth for 1996 of 2.0 percent and the Administration predicted 2.2 percent. Actual growth was 2.4 percent. CBO forecast a deficit of $197 billion, and the Administration forecast a deficit of $211 billion. The actual deficit was $107 billion.

- **Conservative assumptions.** The assumptions used in this agreement are similarly conservative. The real growth assumption over the next 5 years (2.2 percent per year), for example, is <u>lower</u> than the Blue Chip private sector consensus (2.3 percent). It is intended to reflect <u>average</u> growth over different stages of the business cycle. Since 1973, over several business cycles, growth has averaged 2.6 percent per year.

- **80% of the $225 billion in additional CBO revenue either already assumed or used for deficit reduction.** The majority of the $225 billion adjustment had already been assumed in the budget negotiations.

## *DISCRETIONARY SPENDING*

- **Budget agreement achieves 99% of the President's budget for non-defense discretionary spending over the next 5 years.** $61 billion of savings in non-defense discretionary outlays over the next 5 years -- a 10% real cut by 2002. $77 billion of savings in defense spending over the next 5 years -- an 11% real cut by 2002.

*TAX CUTS*

- **$85 billion in net tax cuts.** $85 billion in net tax cuts over the next 5 years and $250 billion in net tax cuts over the next 10 years.

- **$35 billion for the President's education tax proposals.** The agreement includes a commitment to provide roughly $35 billion over 5 years for post-secondary education, including a deduction and tax credit.

- **Other commitments.** The agreement commits the House and Senate Leadership to seek approval of various proposals, including:

  -- $500 per child tax credit
  -- The welfare-to-work tax credit
  -- Capital gains tax relief for home sales
  -- The Administration's EZ/EC proposals
  -- Tax relief for brownfields legislation
  -- Tax relief for FSC software
  -- Tax incentives to spur DC growth

*ENTITLEMENT SAVINGS*

- **Extends life of Medicare Trust Fund for more than a decade.** Medicare savings of $115 billion over 5 years and long overdue structural reforms, extending the life of the Trust Fund for at least a decade. Helps protect the Medicare Trust Fund by reallocating a portion of home health care costs to Part B and phasing in these costs over 7 years into the Part B premium.

- **Modernizes Medicare.** Modernizes Medicare by:

  -- Increasing the number of health plan options such as preferred provider organizations and provider sponsored organizations;
  -- Implementing a new prospective payment system for skilled nursing home facilities, home health, and hospital outpatient departments; and
  -- Increasing financial incentives for managed care plans in rural communities.

- **New Medicare improvements.** Establishing new benefits including: helping prevent breast cancer, colon cancer, and helping manage diabetes; setting aside $1.5 billion for low-income protections to help ease the impact of Medicare premiums; and reducing excessively high outpatient hospital coinsurance.

- **Reforms Medicaid while maintaining Federal guarantee.** Medicaid savings of $13.6 billion through reductions in DSH payments and increased state flexibility, while maintaining the Federal guarantee.

*CHILDREN'S HEALTH CARE*

- Invests $16 billion to expand health care coverage to as many as 5 million children through one or both of the following: expanding Medicaid coverage by improving outreach initiatives and adding new options for coverage and/or a capped mandatory grant program.

*EDUCATION*

- **Largest increase in education investment in 30 years.**

- **Fully Funds Education and Training.** Adopts the President's FY 1998 request for discretionary education and training programs.

- **Higher Education Tax Cuts.** Provides roughly $35 billion over five years for postsecondary education tax cuts consistent with the President's HOPE Scholarship and tax deduction proposals.

- **Largest Pell Grant Expansion in Two Decades.** Increases the maximum Pell Grant for low-income college students to $3,000 -- the largest increase in two decades. Provides a $1.7 billion increase in funding -- a 25% increase in FY 1998.

- **America Reads Challenge.** Adopts the President's budget request to launch a child literacy initiative consistent with his America Reads program.

*WELFARE TO WORK*

- **Fully funds the President's welfare-to-work jobs initiative.** Adds $3 billion, the full amount requested by the President for the Welfare-to-Work Jobs Challenge, to the TANF block grant to fund welfare-to-work efforts in high-poverty, high-unemployment areas. A share of the funding will go to cities and counties with large numbers of people in poverty.

- **Preserves food stamps for people willing to work.** Provides $750 million to create additional work slots for able-bodied unemployed childless adults subject to the time limit on food stamps. Also allows States to exempt a limited number of persons falling into this category who are willing to work but would otherwise be ineligible for food stamps.

- **Welfare-to-work tax credit.** The President and the Congressional leadership have agreed to seek a welfare to work tax credit to encourage employers to give welfare recipients the chance to work.

*RESTORING BENEFITS TO LEGAL IMMIGRANTS*

- **Benefits for legal immigrants.** Restores full SSI and Medicaid benefits for disabled legal immigrants currently receiving assistance; and for legal immigrants in the country prior to August 23, 1996 who are not now receiving benefits but subsequently become disabled.

*ENVIRONMENT*

- **EPA enforcement and research.** Provides a 9 percent increase, to $3.4 billion, for EPA's operating program -- which finances most of EPA's research, enforcement, and regulatory programs.

- **Doubles the pace of Superfund cleanups.** Pending agreement on detailed policies, adopts the President's proposals for Superfund cleanups of an additional 500 sites by the end of the year 2000.

- **Brownfields initiative.** Boosts funding by $75 million in 1998 to provide grants to communities for site assessment and development planning and to leverage state, local, and private funds to foster redevelopment.

- **National Parks.** Provides a 6 percent increase for operation of the National Parks, and an 89 percent increase ($234 million) for Everglades Restoration.

File Mental Health



## Requirements under BBA Medicaid amendments

States "shall"

* offer beneficiaries required to enroll in managed care a **choice** of not less than 2 plans, or when only one plan is available (rural area, for instance) a choice of providers (sec 4701)

* see that the **MMCO and the contract meet applicable Medicaid requirements** of section 1903(m) or 1905(t) and this new amendment, section 1932 (sec 4701)

* permit beneficiaries to **disenroll** for cause, and without cause within the first 90 days and annually thereafter (sec 4701)

* provide only informational materials that are **easily understood** (sec 4701)

* provide **annually a chart-like list** of available MMCOs, describing for each benefits & cost-sharing, service area, and quality & performance (sec 4701)

* inform beneficiaries in writing of benefits to which the beneficiary is entitled under Medicaid which are **not available through the MMCO**, and of where & how enrollees may access these (sec 4701)

* prohibit **discrimination** based on health status or requirements for services in PCCM contracts (sec 4702)

* specify in contracts with MMCOs the **benefits** for which the MMCO is responsible, to provide directly or to arrange (sec 4704)

* include in contracts with MMCOs **emergency services** (prudent layperson standard) coverage without prior authorization and irrespective of network status (sec 4704)

* develop and implement, by Jan 1, 1999, a **quality assessment & improvement strategy** consistent with standards to be developed by the Secretary (sec 4705)

* provide in each contract beginning Oct 1, 1997 for **external independent review** of the services for which the MMCO is responsible under the contract with respect to access, timeliness, and quality of outcomes (sec 4705)

* make **available independent review results** to providers, enrollees, and potential enrollees (sec 4705)

* **approve**, utilizing a medical care advisory committee, all **marketing materials** prior to their distribution (sec 4707)

* have **conflict-of-interest safeguards** in place at least equal to federal, before contracting (sec 4707)

* have **intermediate sanctions** in place before contracting (sec 4707)

* appoint **temporary management** of MMCO (without a pre-termination hearing) and permit **enrollees to terminate without cause**, when continued egregious behavior or substantial risk to enrollees' health has occurred (sec 4707)

* have authority to **terminate an MMCO contract** after a hearing (sec 4707)

* allow **beneficiaries to remain eligible for six months**, once enrolled (sec 4709)

* provide a public process around **rate-setting for facilities** (sec 4711)

* allow a reasonable timeframe for **review and comment by beneficiaries** and their representatives on the rate-setting process (sec 4711)

* permit **all qualifying persons to apply** for assistance to cover Medicare premiums, deductibles, and co-payments for additional **dual eligibles** on a first come-first served basis until the allotment is reached (sec 4732)

<u>MMCOs</u> "shall"

* provide only **informational materials** that are easily understood (sec 4701)

* make available **on request information** on providers, enrollee rights & responsibilities, grievance & appeal procedures, covered items and services (sec 4701)

* not prohibit a provider acting within lawful scope of practice from **advising patient about status or treatment** regardless of coverage under the contract (sec 4704)

* establish an **internal grievance procedure** for enrollees and providers to challenge denials of coverage or payment (sec 4704)

* provide adequate assurances to the state and the Secretary re **capacity to serve the expected enrollment**, including appropriate range of services for population to be enrolled (sec 4704)

* provide that **enrollees** may **not** be held **financially liable** (sec 4704)

* **not discriminate against providers** solely on license or certification (sec 4704)

* meet **solvency standards** (sec 4706)

* **not market enrollment** through tie-ins to other insurance, door-to-door canvassing, or cold calls (sec 4707)

* be subject beginning Aug 5, 1997 to any lawful **sanction** under Medicare or Medicaid for imposition of excess charges **when imposing charges** on an dually eligible individual in a case where the state's payment to Medicare has been reduced or eliminated by the amendment (sec 4714)

PCCMs "shall"

* have 24-hour availability of information, referral, and treatment for **medical emergencies** (sec 4702)

The Secretary "shall"

* establish, in consultation with the states, **quality standards** by Aug 5, 1998 with which state quality strategies will be consistent (sec 4705)

* monitor the states' development and implementation of **quality strategies** (sec 4705)

* establish, in consultation with states, a **method for identifying entities qualified** to conduct external independent reviews of services under contracts (sec 4705)

* contract with an independent quality review organization, coordinating with NGA, to develop **protocols** to be used in external independent reviews after Jan 1, 1999 (sec 4705)

* study by Aug 5, 1999, in consultation with representatives of beneficiaries with special needs and others, **safeguards needed** for special needs and chronic enrollees (sec 4705)

* **review contracts > $1,000,000** beginning Jan 1, 1998 and grant prior approval as warranted (sec 4708)

* study and report by Aug 1, 2001 on the **effect of rate-setting methods used on access and quality** (sec 4711)

* allocate to states an **additional limited federal share**, without any requirement to match with state funds, to cover Medicare premiums, deductibles, and co-payments for additional **dual eligibles** on a first come-first served basis (sec 4732)

* study and report by Aug 5, 1998, in consultation with governors and representatives of appropriate beneficiary organizations, the Early and Periodic Screening, Diagnosis and Treatment (**EPSDT**) program (sec 4744)

<u>GAO</u> "shall"

* conduct a study and analysis (no date specified) of quality assurance programs and accreditation standards in private sector and Medicare, and **determine if they are applicable to MMCOs in Medicaid** (sec 4705)

**RIGHTS OF BENEFICIARIES UNDER BBA MEDICAID AMENDMENTS**

<u>Beneficiaries</u> "shall"

* be offered a **choice** of not less than 2 plans when required to enroll in an MMCO as a condition of receiving Medicaid, or when only one plan is available (rural area, for instance) a choice of providers (sec 4701)

* be permitted to **disenroll** at any time for cause, and without cause within the first 90 days and annually thereafter (sec 4701)

* be informed in writing of benefits to which the beneficiary is entitled under Medicaid which are **not available through the MMCO**, and of where & how enrollees may access these (sec 4701)

* receive on request from an **MMCO information** on providers, enrollee rights & responsibilities, grievance & appeal procedures, covered items and services (sec 4701)

* receive from the state and the MMCOs only informational materials that are **easily understood** (sec 4701)

* have made **available independent review results** of services for which an MMCO is responsible under contract (sec 4705)

* **not incur liability** from Aug 5, 1997 when a state's payment to Medicare on behalf of a dually eligible person is reduced or eliminated by the amendment (sec 4714)

* be able to receive **home and community-based waiver services** without the requirement for a prior discharge from a nursing home or an ICF/MR (sec 4743)

## OPTIONS UNDER BBA MEDICAID AMENDMENTS

<u>States</u> "may"

* **require** individuals eligible for Medicaid to **enroll with an MMCO** as a condition of receiving Medicaid (section 4701)

* ignore the **previous restriction to 75%** of plan enrollees paid for by Medicare or Medicaid (sec 4703)

* extend **coverage for a full year** for eligible children through age 18 (sec 4731)

* permit disabled workers up to 250% of the poverty level, and eligible for SSI except for their earnings level, to **buy into Medicaid on a sliding scale** to be set by the state (sec 4733)

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August 20, 1997

Robert Bohlman

Gene's suggested new plan. add $50 billion children's trust fund

PLAN A: Increase Medicare Early

this is whole Medicare funds are?

add $50 billion children's trust fund

| year | baseline on-bud surp | discret | USAs | Medicare | Soc Sec transfers | extra debt svce | reported on-bud surp | improved finan pos | earned transfer |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 1.13 | | | | | |
| 2000-04: | 233 | 138 | 26 | 55 | 0 | 16 | -2 | | |
| 2000-09: | 1086 | 318 | 236 | 408 | 0 | 127 | -2 | | |
| 2000-14: | 2887 | 481 | 462 | 796 | 414 | 413 | 320 | | |
| 2000 | 5 | 0 | 0 | 5 | 0 | 0 | 0 | 0 | 0 |
| 2001 | 25 | 26 | 0 | 0 | 0 | 1 | -2 | 117 | 6 |
| 2002 | 66 | 41+4 | ~~1~~ 3 | ~~22~~ 16 | 0 | 3 | 0 | 241 | 12 |
| 2003 | 58 | 36+4 | ~~1~~ 2 | ~~13~~ 11 | 0 | 5 | 0 | 379 | 19 |
| 2004 | 79 | 34+4 | ~~22~~ 20 | ~~15~~ 13 | 0 | 8 | 0 | 527 | 27 |
| 2005 | 94 | 37+4 | ~~33~~ 29 | 12 | 0 | 12 | 0 | 688 | 35 |
| 2006 | 142 | 41+6 | 44 | ~~40~~ 34 | 0 | 17 | 0 | 868 | 44 |
| 2007 | 174 | 39+8 | 44 | ~~65~~ 61 | 0 | 22 | 0 | 1060 | 54 |
| 2008 | 203 | 33+10 | 44 | ~~99~~ 89 | 0 | 27 | 0 | 1267 | 65 |
| 2009 | 240 | 30+10 | 45 | ~~133~~ 123 | 0 | 33 | 0 | 1487 | 76 |
| 2010 | 281 | 31 | 44 | 168 | 0 | 38 | 0 | 1720 | 88 |
| 2011 | 327 | 32 | 45 | 191 | 0 | 44 | 15 | 1957 | 100 |
| 2012 | 363 | 33 | 45 | 8 | 113 | 53 | 110 | 2215 | 113 |
| 2013 | 397 | 34 | 46 | 9 | 138 | 67 | 104 | 2689 | 138 |
| 2014 | 432 | 35 | 46 | 11 | 163 | 83 | 93 | 3190 | 163 |
| 2015 | 465 | 36 | 47 | 11 | 190 | 102 | 79 | 3716 | 190 |
| 2016 | 501 | 37 | 47 | 13 | 190 | 123 | 91 | | |
| 2017 | 537 | 38 | 48 | 14 | 190 | 146 | 102 | | |
| 2018 | 574 | 39 | 48 | 14 | 190 | 169 | 113 | 3577 | off-bud |
| 2019 | 610 | 40 | 49 | 15 | 190 | 194 | 122 | 0 | Medicare |
| 2020 | 652 | 41 | 49 | 15 | 190 | 221 | 135 | 320 | on-bud |
| 2021 | 695 | 43 | 50 | 17 | 190 | 249 | 147 | -180 | credit prog |
| 2022 | 735 | 44 | 50 | 18 | 190 | 278 | 155 | 3716 | TOTAL |
| 2023 | 775 | 45 | 51 | 19 | 190 | 310 | 159 | | |
| 2024 | 813 | 46 | 51 | 19 | 190 | 344 | 163 | | |
| 2025 | 852 | 48 | 52 | 20 | 190 | 379 | 164 | | |
| 2026 | 896 | 49 | 52 | 20 | 190 | 417 | 167 | | |
| 2027 | 941 | 51 | 53 | 21 | 190 | 457 | 170 | | |
| 2028 | 987 | 52 | 53 | 21 | 190 | 499 | 171 | | |
| 2029 | 1035 | 54 | 54 | 22 | 190 | 544 | 172 | | |
| 2030 | 1083 | 55 | 54 | 21 | 190 | 591 | 171 | | |
| 2031 | 1150 | 57 | 55 | 22 | 190 | 641 | 185 | | |
| 2032 | 1215 | 59 | 55 | 22 | 190 | 694 | 194 | | |
| 2033 | 1282 | 61 | 56 | 23 | 190 | 750 | 202 | | |
| 2034 | 1352 | 62 | 56 | 24 | 190 | 810 | 210 | | |
| 2035 | 1425 | 64 | 57 | 25 | 190 | 872 | 217 | | |
| 2036 | 1509 | 66 | 57 | 25 | 190 | 939 | 231 | | |
| 2037 | 1598 | 68 | 58 | 26 | 190 | 1009 | 247 | | |
| 2038 | 1691 | 70 | 58 | 27 | 190 | 1084 | 262 | | |
| 2039 | 1776 | 72 | 59 | 28 | 190 | 1162 | 265 | | |
| 2040 | 1862 | 75 | 59 | 28 | 190 | 1246 | 264 | | |
| 2041 | 1967 | 77 | 60 | 29 | 190 | 1334 | 277 | | |
| 2042 | 2077 | 79 | 60 | 30 | 190 | 1427 | 291 | | |
| 2043 | 2190 | 81 | 61 | 31 | 190 | 1526 | 301 | | |
| 2044 | 2304 | 84 | 61 | 32 | 190 | 1630 | 307 | | |
| 2045 | 2422 | 86 | 62 | 33 | 190 | 1740 | 310 | | |
| 2046 | 2545 | 89 | 62 | 34 | 190 | 1857 | 313 | | |
| 2047 | 2671 | 92 | 63 | 35 | 190 | 1980 | 311 | | |
| 2048 | 2815 | 94 | 63 | 36 | 190 | 2110 | 321 | | |
| 2049 | 2962 | 97 | 64 | 37 | 190 | 2248 | 326 | | |
| 2050 | 3097 | 100 | 64 | 38 | 190 | 2394 | 311 | | |

## CBO MEDICARE BASELINE & BALANCED BUDGET ACT

*(By fiscal year, in billions of dollars)*

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 1998-2002 Total | 1998-2007 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **JANUARY 1997 BASELINE** | | | | | | | | | | | | |
| Hospital | 89 | 93 | 96 | 100 | 105 | 109 | 113 | 117 | 121 | 125 | 483 | 1068 |
| Physicians | 32 | 34 | 34 | 35 | 35 | 35 | 36 | 37 | 38 | 39 | 170 | 355 |
| Managed Care | 34 | 43 | 57 | 58 | 73 | 86 | 101 | 128 | 141 | 153 | 264 | 873 |
| Skilled Nursing Facility | 14 | 15 | 17 | 18 | 19 | 21 | 22 | 23 | 25 | 27 | 83 | 200 |
| Home Health | 21 | 23 | 25 | 28 | 30 | 32 | 35 | 38 | 40 | 43 | 127 | 316 |
| Other Providers | 34 | 37 | 40 | 44 | 48 | 52 | 57 | 62 | 67 | 72 | 202 | 513 |
| Premium Revenue | -21 | -22 | -23 | -25 | -26 | -27 | -28 | -29 | -31 | -32 | -117 | -264 |
| **Federal Spending /1** | **202** | **222** | **246** | **257** | **284** | **308** | **336** | **376** | **402** | **427** | **1212** | **3060** |
| **JANUARY 1997 BASELINE: POST BBA** | | | | | | | | | | | | |
| Hospital | 86 | 87 | 89 | 92 | 96 | 100 | 104 | 107 | 111 | 114 | 450 | 984 |
| Physicians | 32 | 33 | 33 | 33 | 34 | 34 | 35 | 36 | 37 | 37 | 164 | 344 |
| Managed Care | 33 | 41 | 48 | 61 | 60 | 76 | 89 | 112 | 113 | 144 | 243 | 777 |
| Skilled Nursing Facility | 14 | 14 | 15 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 74 | 168 |
| Home Health | 20 | 21 | 21 | 23 | 25 | 27 | 29 | 31 | 33 | 35 | 111 | 266 |
| Other Providers | 32 | 34 | 37 | 41 | 45 | 50 | 55 | 60 | 66 | 71 | 189 | 490 |
| Unallocated savings /2 | 0 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -3 | -7 |
| Premium Revenue | -21 | -24 | -26 | -29 | -32 | -36 | -40 | -45 | -49 | -54 | -132 | -357 |
| **Federal Spending /1** | **195** | **206** | **216** | **236** | **242** | **266** | **288** | **320** | **329** | **367** | **1095** | **2665** |
| **MARCH 1999 BASELINE** | | | | | | | | | | | | |
| Hospital | 87 | 86 | 91 | 95 | 99 | 104 | 108 | 112 | 117 | 123 | 457 | 1021 |
| Physicians | 32 | 32 | 33 | 34 | 35 | 36 | 37 | 38 | 39 | 40 | 165 | 355 |
| Managed Care | 33 | 37 | 41 | 49 | 48 | 60 | 70 | 88 | 88 | 108 | 208 | 623 |
| Skilled Nursing Facility | 13 | 13 | 13 | 14 | 14 | 15 | 16 | 17 | 18 | 20 | 67 | 153 |
| Home Health | 15 | 15 | 17 | 16 | 17 | 18 | 20 | 21 | 23 | 24 | 79 | 185 |
| Other Providers | 29 | 28 | 31 | 34 | 37 | 41 | 45 | 49 | 54 | 59 | 158 | 406 |
| Premium Revenue | -21 | -22 | -23 | -25 | -28 | -31 | -34 | -38 | -40 | -44 | -119 | -306 |
| **Federal Spending /1** | **187** | **188** | **202** | **215** | **223** | **244** | **262** | **287** | **299** | **330** | **1016** | **2437** |
| **DIFFERENCE: POST-BBA 97 AND 99** | | | | | | | | | | | | |
| Hospital | 1 | -2 | 1 | 3 | 4 | 4 | 4 | 5 | 7 | 9 | 8 | 37 |
| Physicians | 0 | -1 | 0 | 1 | 1 | 2 | 2 | 2 | 2 | 3 | 1 | 11 |
| Managed Care | 0 | -4 | -7 | -13 | -11 | -15 | -18 | -25 | -25 | -36 | -35 | -154 |
| Skilled Nursing Facility | -1 | -1 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -2 | -7 | -15 |
| Home Health | -5 | -6 | -5 | -8 | -8 | -9 | -9 | -10 | -10 | -11 | -32 | -81 |
| Other Providers | -3 | -6 | -6 | -7 | -8 | -9 | -10 | -11 | -12 | -12 | -31 | -84 |
| Unallocated savings /2 | 0 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -3 | -7 |
| Premium Revenue | 1 | 2 | 3 | 4 | 5 | 5 | 6 | 7 | 9 | 10 | 14 | 51 |
| **Federal Spending /1** | -8 | -19 | -15 | -22 | -21 | -24 | -28 | -34 | -31 | -39 | -85 | -242 |

/1 Excluding administrative costs and discretionary outlays

/2 Includes savings that apply across service categories (e.g., Medicare as secondary payer; new preventive benefits)

Midsession (CEA) Review *

# EXPLANATION OF OMB AND CBO SCORING DIFFERENCES FOR BBA: MEDICARE

## Medicare: Summary of OMB and CBO Scoring
**FY 1998 - FY 2002**
(OACT standalone estimates, OMB calculations of managed care interactions)

| | CBO Scoring | OMB Scoring | OMB over CBO |
|---|---|---|---|
| **Managed Care** | $21.7 billion | $45.5 billion | $23.8 billion |
| **Hospitals** | $39.9 billion | $56.3 billion | $16.4 billion |
| **Medicaid Cost Sharing** | ($4.4 billion) | ($2.3 billion) | $2.1 billion |
| **Part B Premiums** | $14.8 billion | $16.3 billion | $1.5 billion |
| **SNF/Hospice** | $9.7 billion | $10.4 billion | $0.7 billion |
| **Home Health** | $16.2 billion | $16.7 billion | $0.5 billion |
| **Physicians** | $4.9 billion | $5.3 billion | $0.4 billion |
| **Fraud and Abuse** | $0.1 billion | $0.3 billion | $0.2 billion |
| **Other Policies** | ($1.7 billion) | ($1.8 billion) | ($0.1 billion) |
| **MSP** | $7.9 billion | $6.8 billion | ($1.1 billion) |
| **New Benefits** | ($3.9 billion) | ($6.5 billion) | ($2.6 billion) |
| **Other Part B** | $6.9 billion | $3.0 billion | ($3.9 billion) |
| **Total** | $112.1 billion | $149.8 billion | $37.7 billion |

- What is the difference between OMB and CBO scoring of the BBA Medicare provisions?

  OMB (the HCFA Actuaries) scored $149.8 billion in savings over five-years and $513.0 billion in savings over ten-years to the BBA Medicare policies. CBO scored the same policies at $112.1 billion ($37.7 billion less than OMB) over five-years and $386 billion ($127 billion less than OMB) over ten-years.

- Compare OMB savings to the savings in the Vetoed 1995 Conference Agreement.

  The initial seven year savings (FY96-FY02) attributable to the vetoed 1995 Conference Agreement, as scored by CBO, totaled $226.8 billion. Adjusting those policies forward, OMB estimates that the Conference Agreement would have reduced CBO's Medicare baseline by 17 percent, or $336.7 billion, over the seven-year period FY98-FY04. By contrast, the savings over the same seven-year period attributable to the BBA policies will reduce the OMB baseline by only 14 percent, or $270.3 billion.

- Explain the difference between OMB and CBO scoring.

The bulk of the difference occurs in the estimates for Medicare+Choice and hospitals.

**Medicare+Choice.** OMB scores $23.8 billion more savings to Medicare+Choice than does CBO ($45.5 billion from OMB vs. $21.7 billion from CBO). Disagreement about the effects of the BBA's mandated risk adjustment of Medicare+Choice payments accounts for $10 billion of this difference: OMB scores $10 billion in savings to this provision, while CBO scores no savings. Most of the remaining difference can be explained by larger OMB savings from fee-for-service providers. Due to the link between fee-for-service growth and Medicare+Choice payments every cut to a fee-for-service provider also results in a cut in managed care payments. Thus, OMB's higher level of fee-for-service savings automatically results in a higher level of managed care savings.

**Hospitals.** OMB scores $16.4 billion higher savings from the hospital provisions than does CBO ($56.3 billion from OMB vs. $39.9 billion from CBO). CBO and OMB scoring differed significantly for 4 of the approximately 20 hospital policies in the BBA.

31 vs 3.0$

-- *The PPS update* (+$5.7 billion over CBO). OMB assumes a higher hospital market basket than CBO, thus achieves more savings from a freeze in hospital payments than CBO (savings from a freeze are equal to the hospital market basket).
-- *PPS capital* (+$1.9 billion over CBO). CBO appears to attribute a higher percentage of their hospital baseline to operating costs than OMB, thus a capital cut achieves lower savings off of their baseline.
-- *Hospital Transfers* (+$3.9 billion over CBO). The final BBA policy was limited to 10 DRGs for two years. OMB assumes that this policy will be expanded beyond 10 DRGs after two years, whereas CBO believes that the policy will remain limited for a longer period of time.
-- *Graduate Medical Education* (+$3.1 billion over CBO). The main focus of the GME policy is a cap on residents. OMB assumes that resident slots will grow by between 3-4 percent per year while CBO assumes a growth rate of approximately 2 percent. Thus, OMB achieves more savings.

# MEDICARE GROWTH RATES

## Comparison of OMB and CBO BBA Impacts on Net and Per Capita Spending

*Five and Ten Years, All Mandatory Outlay, $s in billions*

| CBO January Baseline | FY 1997 - FY 2002 | FY 1997 - FY 2007 |
|---|---|---|
| Baseline Spending | 1,418.5 | 3,290.7 |
| *Spending Growth* | *8.8%* | *8.6%* |
| *Per Capita Growth* | *7.5%* | *7.2%* |
| Post-BBA Spending | 1,306.4 | 2,904.4 |
| *Spending Growth* | *5.6%* | *7.1%* |
| *Per Capita Growth* | *4.3%* | *5.6%* |
| Spending Difference | (112.1) | (386.3) |
| *Spending Growth (pct pt)* | *(3.3)* | *(1.6)* |
| *Per Capita Growth (pct pt)* | *(3.3)* | *(1.5)* |

| OMB FY 1998 MSR Baseline | FY 1997 - FY 2002 | FY 1997 - FY 2007 |
|---|---|---|
| Baseline Spending | 1,432.7 | 3,262.8 |
| *Spending Growth* | *8.9%* | *8.7%* |
| *Per Capita Growth* | *7.6%* | *7.2%* |
| Post-BBA Spending | 1,282.9 | 2,749.0 |
| *Spending Growth* | *4.9%* | *6.2%* |
| *Per Capita Growth* | *3.6%* | *4.8%* |
| Spending Difference | (149.8) | (513.8) |
| *Spending Growth (pct pt)* | *(4.0)* | *(2.5)* |
| *Per Capita Growth (pct pt)* | *(4.0)* | *(2.5)* |

| OMB/CBO Difference, Pct. Point | FY 1997 - FY 2002 | FY 1997 - FY 2007 |
|---|---|---|
| Baseline Spending | 14.2 | (27.9) |
| *Spending Growth* | *0.1* | *0.1* |
| *Per Capita Growth* | *0.1* | *0.1* |
| Post-BBA Spending | (23.5) | (155.4) |
| *Spending Growth* | *(0.7)* | *(0.9)* |
| *Per Capita Growth* | *(0.7)* | *(0.9)* |
| Spending Difference | (37.7) | -127.5 |
| *Spending Growth (pct pt)* | *(0.8)* | (1.0) |
| *Per Capita Growth (pct pt)* | *(0.7)* | (0.9) |

**MEDICARE: Comparison of 1995 Conference Agreement (CBO) and 1997 BBA (OACT) Seven Year Scoring** DRAFT

*(fiscal year, dollars in billions)*

| Fiscal Year | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | Total FY96-FY02 | Total FY98-FY04 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***CBO -- SEVEN YEAR SAVINGS FROM 1995 VETOED CONFERENCE AGREEMENT*** | | | | | | | | | | | | |
| Net Mandatory Outlays, CBO 12/95 /1 | 157.0 | 176.6 | 194.9 | 213.1 | 233.3 | 254.7 | 278.3 | 303.7 | 328.3 | 356.5 | 1,654.6 | 1,967.9 |
| *Growth* | - | *12.5%* | *10.4%* | *9.3%* | *9.5%* | *9.2%* | *9.3%* | *9.1%* | *8.1%* | *8.6%* | *9.9%* | *9.0%* |
| Per Capita | $ 4,180 | $ 4,632 | $ 5,039 | $ 5,448 | $ 5,897 | $ 6,363 | $ 6,872 | $ 7,415 | $ 7,922 | $ 8,496 | | |
| *Growth* | - | *10.8%* | *8.8%* | *8.1%* | *8.2%* | *7.9%* | *8.0%* | *7.9%* | *6.8%* | *7.2%* | *8.5%* | *7.7%* |
| Net Medicare Cut /2 | - | 6.4 | 13.8 | 22.8 | 34.2 | 41.8 | 50.0 | 57.8 | 62.4 | 67.7 | 226.8 | 336.7 |
| *Percent of Baseline* | - | *3.6%* | *7.1%* | *10.7%* | *14.7%* | *16.4%* | *18.0%* | *19.0%* | *19.0%* | *19.0%* | *13.7%* | *17.1%* |
| Revised Net Mandatory Outays | 157.0 | 170.2 | 181.1 | 190.3 | 199.1 | 212.9 | 228.3 | 245.9 | 265.9 | 288.8 | 1,427.8 | 1,631.2 |
| *Growth* | - | *8.4%* | *6.4%* | *5.1%* | *4.6%* | *6.9%* | *7.2%* | *7.7%* | *8.1%* | *8.6%* | *6.6%* | *6.9%* |
| Per Capita | $ 4,180 | $ 4,464 | $ 4,683 | $ 4,865 | $ 5,032 | $ 5,319 | $ 5,637 | $ 6,004 | $ 6,417 | $ 6,882 | | |
| *Growth* | *0.0%* | *6.8%* | *4.9%* | *3.9%* | *3.4%* | *5.7%* | *6.0%* | *6.5%* | *6.9%* | *7.2%* | *5.3%* | *5.7%* |
| *Spending Growth Rate Change* | - | *(4.1)* | *(4.0)* | *(4.3)* | *(4.9)* | *(2.2)* | *(2.0)* | *(1.4)* | *0.0* | *0.0* | *(3.3)* | *(2.1)* |
| *Per Capita Growth Rate Change* | - | *(4.0)* | *(3.9)* | *(4.2)* | *(4.8)* | *(2.2)* | *(2.0)* | *(1.4)* | *0.0* | *(0.0)* | *(3.2)* | *(2.1)* |
| ***OACT -- SEVEN YEAR SAVINGS FROM 1997 BBA*** | | | | | | | | | | | | |
| Net Mandatory Outlays, OACT FY 98 MSR | 159.8 | 174.2 | 187.8 | 204.7 | 224.0 | 243.6 | 264.9 | 287.8 | 312.4 | 339.0 | 1,586.9 | 1,876.4 |
| *Growth* | - | *9.0%* | *7.8%* | *9.0%* | *9.4%* | *8.8%* | *8.7%* | *8.7%* | *8.6%* | *8.5%* | *8.8%* | *8.8%* |
| Per Capita | $ 4,254 | $ 4,569 | $ 4,856 | $ 5,233 | $ 5,661 | $ 6,087 | $ 6,541 | $ 7,027 | $ 7,539 | $ 8,079 | | |
| *Growth* | - | *7.4%* | *6.3%* | *7.8%* | *8.2%* | *7.5%* | *7.5%* | *7.4%* | *7.3%* | *7.2%* | *7.4%* | *7.5%* |
| Net Medicare Cut | - | - | - | 8.7 | 18.7 | 31.4 | 41.3 | 49.6 | 56.5 | 64.1 | 149.8 | 270.3 |
| *Percent of Baseline* | - | - | - | *4.2%* | *8.4%* | *12.9%* | *15.6%* | *17.2%* | *18.1%* | *18.9%* | *9.4%* | *14.4%* |
| Revised Net Mandatory Outays | 159.8 | 174.2 | 187.8 | 196.0 | 205.2 | 212.2 | 223.5 | 238.2 | 256.0 | 274.9 | 1,437.2 | 1,606.1 |
| *Growth* | *0.0%* | *9.0%* | *7.8%* | *4.4%* | *4.7%* | *3.4%* | *5.4%* | *6.6%* | *7.5%* | *7.4%* | *5.9%* | *5.6%* |
| Per Capita | 4,254 | 4,569 | 4,856 | 5,012 | 5,188 | 5,301 | 5,520 | 5,816 | 6,176 | 6,552 | | |
| *Growth* | *0.0%* | *7.4%* | *6.3%* | *3.2%* | *3.5%* | *2.2%* | *4.1%* | *5.4%* | *6.2%* | *6.1%* | *4.6%* | *4.4%* |
| *Spending Growth Rate Change* | - | - | - | *(4.6)* | *(4.7)* | *(5.4)* | *(3.4)* | *(2.1)* | *(1.1)* | *(1.1)* | *(2.9)* | *(3.2)* |
| *Per Capita Growth Rate Change* | - | - | - | *(4.6)* | *(4.7)* | *(5.3)* | *(3.3)* | *(2.1)* | *(1.1)* | *(1.1)* | *(2.9)* | *(3.2)* |
| Enrollment | 37.6 | 38.1 | 38.7 | 39.1 | 39.6 | 40.0 | 40.5 | 41.0 | 41.4 | 42.0 | | |

Notes:
1/ FY 03 and FY 04 CBO 12/85 baseline grown by growth rates for those years in the 1/97 CBO baseline
2/ FY and FY 04 savings amounts are estimated as the same baseline reduction from FY 02 (19 percent).
All per capitas are calculated using OACT's unduplictated count of beneficiaries.

27% Kuhn cut

13.7% $226.8 off of CBO
10.6% $222.1

**Questions & Answers on Medicaid and Children's Health in the Mid-Session Review**

- What are the differences in OMB and CBO scoring of the Medicaid provisions?

  Net Medicaid savings from the BBA are $14 billion over five years under CBO scoring and $8.8 billion over five years under OMB scoring. The scoring of four policies (DSH, Boren Amendment, FQHC reimbursement, and Medicaid rates for Medicare cost sharing) contribute to most of the difference in the savings estimates. In general, the savings are lower under OMB scoring because the OMB Medicaid baseline is lower than the CBO baseline.

- Explain the Children's Health estimates.

  Both OMB and CBO scored the Children's Health provisions with $24 billion in costs over five years. Of the $24 billion, roughly $20 billion is for grants to States for the new program and $4 billion is from Medicaid interactions with the new program.

- Why are five-year Medicaid savings $0 in the Mid-Session Review?

  The Balanced Budget Agreement format was a convenient way for the Administration and Congress to track the major categories of spending and savings during the budget negotiations. In addition to the Medicaid savings policies, many other parts of the budget (e.g., changes for immigrants and Veterans' programs) affected Medicaid indirectly. At the time, these effects were tracked separately.

  When you shift to a more traditional budget accounting structure, with all of the changes to Medicaid tracked on a unified basis, OMB estimates that the total net effect on the Medicaid baseline will be $0 over five years. CBO would estimate that the total net effect on the Medicaid baseline would be approximately $7.2 billion in savings over the same period.

**Medicaid and Children's Health**
(Costs/Savings, $ in Billions)

| | Budget Agreement | | CBO Scoring of BBA | | OMB Scoring of BBA | |
|---|---|---|---|---|---|---|
| | 98-02 | 98-07 | 98-02 | 98-07 | 98-02 | 98-07 |
| **Medicaid** | -13.6 | -65.5 | -14.0 | -48.0 | -8.8 | -31.0 |
| **Children's Health** | 16.0 | 38.9 | 23.9 | 48.1 | 24.3 | 51.5 |
| **Medicaid Immigrants** | 1.7 | 3.0 | 2.0 | 3.5 | 3.5 | 8.0 |
| **VA-Medicaid Costs** | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 |

- The Budget Agreement called for net Medicaid savings of $13.6 billion over five years. CBO scored net Medicaid savings of $14.0 over five years from the BBA. OMB (the HCFA Actuaries) scored net Medicaid savings of $8.8 billion over five years.

- Four Medicaid savings proposals contribute to most of the difference in OMB and CBO scoring. Because the OMB Medicaid baseline is lower than the CBO baseline, the HCFA Actuaries assume less savings from: the new disproportionate share hospital (DSH) payment limits; the repeal of the Boren Amendment; the elimination of 100 percent of cost reimbursement for Federally-qualified Health Centers; and allowing States to pay Medicaid rates for Medicare cost-sharing obligations.

- OMB and CBO scoring of the Children's Health proposals is roughly the same. Of the $24 billion in spending on children's health over five years, approximately $20 billion is for grants to States and approximately $4 billion is from increased Medicaid spending related to children's health. The Budget Agreement called for $16 billion in spending over five years. The BBA included a tobacco tax, which increased spending on Children's Health to $24 billion over five years.

- The FY 1998 Mid-Session Review will include OMB scoring of Medicaid and Children's Health provisions in the BBA. Medicaid and Children's Health scoring will be displayed two different ways in the document. The document will show savings and spending that match the categories outlined in the Budget Agreement. The document will also show a total Medicaid savings estimate that includes the effects of all of the BBA proposals (Medicaid, Children's Health, Immigration, and Veterans' proposals) on Medicaid.

- The following tables show the two ways Medicaid savings will be displayed.

**Display Similar to the Budget Agreement (Costs/Savings, $ in Billions)**

| | **1998- 2002** | **1998-2007** |
|---|---|---|
| Net Medicaid Savings | -8.8 | -31.0 |
| Children's Health* | 24.3 | 51.5 |
| Immigration<br>(total will include Medicaid and SSI costs) | total will include 3.5 in Medicaid | total will include 8.0 in Medicaid |
| Net Savings from Veterans' Proposals<br>(total will include VA savings and Medicaid costs) | total will include 1.2 in Medicaid | total will include 1.2 in Medicaid |

* Children's Health total includes $4 billion in Medicaid costs over five years, and $11.8 billion over ten years.

**Display Showing a Comprehensive Medicaid Total (Costs/Savings, $ in Billions)**

| | **1998-2002** | **1998-2007** |
|---|---|---|
| Total Medicaid Savings | 0.0 | -10.0 |
| Children's Health | 20.3 | 39.7 |

## Medicaid Baseline Comparison - OMB and CBO Post-Reconciliation Baselines
### (Fiscal Years, $ in Billions)

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Total 98-02 | Growth 97-02 | Total 98-07 | Growth 97-07 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **OMB Baseline** | | | | | | | | | | | | | | | |
| FY 1998 Mid-Session Review Baseline | 97.5 | 103.7 | 110.7 | 119.2 | 128.6 | 138.6 | 150.3 | 163.1 | 177.3 | 192.5 | 209.0 | 600.8 | | 1,493.0 | |
| Growth | | 6.3% | 6.8% | 7.6% | 7.9% | 7.8% | 8.4% | 8.5% | 8.7% | 8.5% | 8.6% | | 7.3% | | 7.9% |
| Total Medicaid Effects of 1997 BBA* | 0.0 | 1.1 | 0.7 | -0.1 | -0.7 | -1.1 | -1.6 | -1.8 | -2.0 | -2.1 | -2.3 | 0.0 | | -10.0 | |
| FY 98 MSR "Post-BBA" Baseline | 97.5 | 104.8 | 111.5 | 119.0 | 127.9 | 137.6 | 148.7 | 161.3 | 175.3 | 190.3 | 206.7 | 600.7 | | 1,483.0 | |
| Growth | | 7.4% | 6.4% | 6.8% | 7.5% | 7.5% | 8.1% | 8.5% | 8.7% | 8.6% | 8.6% | | 7.1% | | 7.8% |
| **CBO Baseline** | | | | | | | | | | | | | | | |
| January 1997 CBO Baseline | 98.6 | 105.3 | 113.6 | 122.9 | 132.8 | 143.8 | 155.9 | 168.7 | 183.1 | 198.9 | 216.2 | 618.4 | | 1,541.2 | |
| Growth | | 6.8% | 7.9% | 8.1% | 8.1% | 8.3% | 8.4% | 8.2% | 8.6% | 8.6% | 8.7% | | 7.8% | | 8.2% |
| Total Medicaid Effects of 1997 BBA* | 0.0 | 0.6 | -0.4 | -1.4 | -2.9 | -3.7 | -4.5 | -5.2 | -5.8 | -6.7 | -7.7 | -7.7 | | -37.7 | |
| CBO "Post-BBA" Baseline | 98.6 | 105.9 | 113.2 | 121.4 | 129.9 | 140.1 | 151.3 | 163.5 | 177.3 | 192.2 | 208.6 | 610.6 | | 1,503.5 | |
| Growth | | 7.4% | 6.9% | 7.3% | 7.0% | 7.9% | 8.0% | 8.1% | 8.4% | 8.4% | 8.5% | | 7.3% | | 7.8% |

*Includes Medicaid effects of Children's Health, Welfare, Medicare, and Veterans' Provisions

Cost on Budget. Sof array_ default goal: Seek up.
cat are much, here..

3.1 vs 5

Policy Assumptions

- Risk adjustment - $10 billion
$5 Indirect
$4 Baseline

$5 billion
MSA & FFS enrollment
self selection

- Hospital Transfer - 10 DRGs - $3.9 billion
6.0 wrote
3.0 GME

OPO

Priority:

$600 million vs $3.0 billion

Lab, oxygen, outpatient therapy

6 yr
7 yr

If 95 BBA then . . . .

395-3729

~~Sherry~~

DRAFT
7/15/97 - 3 p.m.

# MAJOR POLICY ISSUES TO BE RESOLVED IN RECONCILIATION CONFERENCE

Prepared by the Majority Staffs, House and Senate Committees on the Budget
15 July 1997

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
|---|---|---|---|---|
| | **MEDICARE** | | | |
| | **MedicarePlus/Medicare Choice** | | | |
| **Payments to MedicarePlus Health Plans** | Carves out of amounts attributable to disproportionate share hospitals [DSH], indirect medical education [IME] costs, and direct medical education [DME] costs.<br><br>- COMMERCE — Phases out amounts over 5 years.<br><br>- WAYS AND MEANS — Maintains amounts in MedicarePlus payments. | Carves out DSH, IME, and DME from the Medicare Choice payment over 4 years. | Supports Senate and House Commerce provisions on carve-out. | No explicit assumption. |
| **Capitation Payment Rate** | Derive from a blend of local and input price-adjusted national costs, with provisions for the Secretary to devekop and implement risk adjustment by 2000.<br><br>- COMMERCE — 70 percent local, 30 percent national.<br><br>- WAYS AND MEANS — 50-50 blend, updates links to growth in FFS Medicare. | Uses a 50-50 blended payment of local and national costs that are not input price-adjusted. Growth in payments tied to GDP growth. Establishes "new enrollee" risk adjustment. | Supports Commerce 70/30 blend. Also supports House links to fee-for-service payments and House approach to risk adjustment. | Assumes reforming managed care payment methodology to address geographic disparities. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
|---|---|---|---|---|
| | **MEDICARE [MedicarePlus/Medicare Choice] (continued)** | | | |
| **Minimum Monthly Payment/ Minimum Update** | - COMMERCE — Floor of $350 in 1998. Sets payment at 100 percent of 1997 rate for 1998, 101 percent for 1999-2000, 102 percent for 2001 and beyond.<br><br>- WAYS AND MEANS — Floor of $350 for 1998; minimum payment increase of 102 percent of the prior year's rate. | Initially sets $350 payment floor and minimum increase, but provides for adjustment to increase floor to 85 percent of national average (over $400), financed by reducing minimum increase to zero. | Supports Commerce floor. | Assumes reforms to address geographic disparities. |
| **MSA's** | Provides for medical savings account demonstration, allowing 500,000 individuals to enroll. | Allows 100,000 enrollees. Limits cost-sharing to amounts allowed under HIPAA. | Supports Senate with current law "balance billing" limitations. Demo should be as small as possible and limited geographically for a trial period (e.g., two States for 3 years). | No explicit assumption. |
| **Private fee-for service** | No provision. | Private fee-for-service option. Allows beneficiaries to add funds for health care services. | Strongly opposes any provision to allow "balance billing." | No explicit assumption. |
| | **Other Medicare Issues** | | | |
| **Home Health Spending Transfer** | Transfers home health spending (after 100 visits or not following a hospitalization) from Part A to Part B.<br><br>- COMMERCE — Makes entire transfer immediately.<br><br>- WAYS AND MEANS - Phases in transfer over 6 years. | Phases in transfer over 7 years. | Supports House Commerce Committee provision because it is explicitly consistent with the Agreement and extends the life of the Trust Fund by 2 additional years. | Assumes extending solvency of the Part A trust fund for at least 10 years through a combination of savings and structural reforms (including the home health transfer). |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
|---|---|---|---|---|
| | **MEDICARE [other Medicare issues] (continued)** | | | |
| **Eligibility Age** | No provision. | Conforms Medicare eligibility age to Social Security's normal retirement age, saving $10.2 billion from 2003-2007 and reducing Medicare's long-term deficit by 0.2 percent of payroll. | Strongly opposes. | No explicit assumption. |
| **Income-Related Premium** | No provision. | Phases up premium from current 25 percent of program costs to 100 percent, saving $3.9 billion over 5 years, $19.6 billion over 10 years. Phase-in would be over income ranges: for single persons with incomes of $50,000 to $100,000; for couples with incomes of $75,000 to $125,000. | Supportive in concept but oppose how policy is structured in the Senate. Prefer 75-percent phaseout, indexing income thresholds to account for inflation. Administration by IRS is the only feasible option. | No explicit assumption. [OMB wants to add that: "policy would create incentives for beneficiaries to leave Medicare and would lose significant revenue due to administrative inefficiency"] |
| **Home Health Copayment** | No provision. | $5 dollar copayment applying only to home health visits paid from Part B; capped at annual hospital deductible; saves $4.7 billion over 5 years. | Strongly opposes. | No explicit assumption. |
| **Medical Malpractice** | - COMMERCE — Limits noneconomic damages to $250,000; implements other reforms.<br><br>- WAYS AND MEANS — Limits noneconomic damages to $250,000; implements other reforms. | No provision. | Strongly opposes House provisions. | No explicit assumption. |
| **10-Year Savings** | WAYS AND MEANS — $386 billion. (Commerce does not have jurisdiction over the full amount.) | Saves $447 billion over 10 years. | Believes Senate bill falls 1 year short of the Agreement 10-year trust fund solvency. | Assumes net 10-year savings of $434.0 billion, and extending trust fund life by at least 10 years. |
| **VA/DoD Medicare Subvention Demonstrations** | No provision. | Requires managed care and fee-for-service demonstrations of Medicare reimbursement to the Departments of Veterans Affairs and Defense. | Supports inclusion of VA and DoD subvention demonstrations, but wants changes to address concerns with fee for service and payment rate components of the DoD demonstration. | No explicit assumption. |

[OMB says CBO scoring shows Senate 1 year short of 10-yr. solvency. Greg says not so.

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
|---|---|---|---|---|
| **MEDICAID** | | | | |
| **Total Savings** | Saves $12.9 billion, after adjusting the CBO-reported savings for Medicaid-related changes because of the child health insurance initiatives. | Saves net of $14.7 billion over 5 years. | Supports $13.6 billion in net savings and spending on new initiatives described in the Agreement. | Assumes net Medicaid savings of $13.6 billion over 5 years. |
| **DSH Reductions** | Reduces disproportionate share hospital [DSH] payments by $15.3 billion gross over 5 years by establishing additional caps on State DSH allotments for fiscal years 1998-2002. The State DSH allotments for States in which 1995 DSH payments were less than 1 percent of total medical assistance spending would be frozen at the level of payments for DSH adjustments in those States in 1995. For States classified as "high" DSH States for fiscal year 1997, DSH allotments would be reduced from the higher of 1995 or 1996 payment levels. The reduction percentage for "high" DSH States would be equal to 2 percent in 1998, 5 percent in 1999, 20 percent in 2000, 30 percent in 2001, and 40 percent in 2002. All other States' DSH payments would be equal to the higher of 1995 or 1996 DSH payments levels reduced by one half of the reduction percentages for "high" DSH States. | Reduces disproportionate share hospital [DSH] payments by $16.0 billion gross over 5 years by establishing additional caps on State DSH allotments for fiscal years 1998-2002. Freezes very low DSH States for 5 years (below 3 percent DSH); low-DSH (above 3 percent but below 12 percent) get phased-in 15-percent reduction from their allotments; high DSH (above 12 percent) get a phased-in 20-percent reduction and a phase-out of any spending for mental health facilities from their base DSH allotments. Also applies new restrictions on using DSH for mental health facilities and requires States to prioritize payments to hospitals based on their low-income utilization rate. | As in OBRA 1993, DSH policy should be designed to avoid undue hardship on any State:<br><br>- Supports President's 1998 budget proposal, which takes an equal percentage reduction from a State's total DSH spending, up to an "upper limit."<br><br>- DSH savings should be linked to a Federal standard for targeting remaining DSH funds to needy hospitals.<br><br>- Supports House provision requiring States to make DSH payments directly to qualifying hospitals (rather than through managed care payments). | Assumes savings are derived from reduced DSH payments and flexibility provisions. |
| **DC and Puerto Rico** | No provision. | Increases FMAP for DC to 60 percent for 1998 through 2000; increases payment for Puerto Rico by $30 million in fiscal year 1998 plus increases for other territories. | D.C. — Opposes Senate sunset in 2000 and supports increasing match rate to 70 percent (as in President's 1998 budget).<br><br>Puerto Rico — Supports adjustments for PR and the territories in the President's 1998 budget. | Assumes a higher match for DC and an inflation adjustment for Puerto Rico and other territories. |



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| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| **MEDICAID (continued)** | | | | |
| **Medicare Part B Premium Protection** | Spends $1.5 billion over 5 years in Medicaid for premium assistance for seniors with incomes of 120 percent to 175 percent of poverty. Covers the full Medicare premium for those with incomes up to 135 percent of poverty. For seniors with incomes between 135 and 175 percent of poverty, the assistance covers that portion of the Medicare Part B premium increase attributable to the home health spending transfer. | Creates a new Medicare block grant, $1.5 billion over 5 years, to States to provide premium assistance for beneficiaries between 120 percent and 150 percent of poverty. | Supports financing the cost of the full Medicare premium through Medicaid.<br><br>Objects to Senate provision that uses a Medicare grant for this assistance that sunsets in 2002. | Assumes $1.5 billion over 5 years to ease the impact of increasing Medicare premiums on low-income beneficiaries. |
| **Medicaid Cost Sharing** | No provision. | Allows States to require limited cost sharing for optional benefits; prohibits cost sharing for children under 18 in families with incomes below 150 percent of poverty. | Strongly opposes Senate provision for optional benefits. The Administration is concerned that the Senate bill could compromise beneficiary access to quality care. Strongly supports Senate provision limiting cost-sharing for children. | No explicit assumption. |
| **1115 Waivers and Provider Tax Waivers** | Extends expiring 1115 Medicaid waivers. | Extends expiring 1115 Medicaid waivers without regard to budget neutrality. Also deems provider taxes as approved for one State. | Supports continuing policy of budget neutrality. | No explicit assumption. |
| **Return-to-Work** | No provision. | Allows States to allow workers with disabilities whose earnings are below 250 percent of poverty to buy into Medicaid. (Under current law, States may exceed 250-percent-of-poverty level for Medicaid eligibility.) | Supports President's 1998 budget proposal, which would not limit eligibility to people whose earnings are below 250 percent of poverty. | No explicit assumption. |
| **Criminal Penalties for Asset Divestiture** | Amend Section 217 of HIPAA to provide sanctions only against those who help people to dispose of assets in order to qualify for Medicaid. | Amend Section 217 of HIPAA to provide sanctions only against those who help people to dispose of assets in order to qualify for Medicaid. | Supports repeal of this section. | No explicit assumption. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| | | **MEDICAID (continued)** | | |
| **Medicaid Management Information** | Requires States to show that their State-designed Medicaid management systems meet outcome-based performance standards and would permit the collection and analysis of person-based data. | No provision. | Supports House provision. | No explicit assumption. |
| **Alaska Medicaid Match Rate** | No provision. | Increases Federal Medicaid matching rate for Alaska. | Opposes change to single-State FMAP in the absence of efforts to examine broader alternatives. | No explicit assumption. |
| **Payment Rates for QMB's and Dual Eligibles** | No provision. | Allows States to use Medicaid payment rates when determining whether any cost-sharing is owed for QMB's and dual eligibles, for net savings of $2.1 billion over 5 years ($5 billion in Medicaid savings, $2.9 billion in Medicare costs.) | No position. | No explicit assumption. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| | **WELFARE-TO-WORK** | | | |
| **Fair Labor Standards Act and Other Worker Protections** | Applies language from the 1988 law creating AFDC JOBS to indicate that participants in public sector or non-profit workfare activities are not employees under the Fair Labor Standards Act and other employment laws.<br><br>Specifies maximum number of hours states can require beneficiaries to work by counting TANF and Food Stamp benefits as wages for purpose of the minimum wage, and letting States count additional time spent in activities, such as search, toward the wage requirements.<br><br>Provides limited nondiscrimination and grievance procedure guidelines and other worker protections to TANF work activities for workfare. | No provision.<br><br>No provision.<br><br>Provides grievance procedures and other worker protections to WTW grant funds. | Supports Senate position and strongly opposes minimum wage and welfare work requirement proposals in House bill.<br><br>[OMB wants to say "In order to retain welfare laws strict emphasis on work"<br><br>Supports allowing States to count TANF and food stamps as wages, as currently allowed.<br><br>Supports extending Senate provisions on grievance procedures and worker protections to all working welfare recipients under TANF. | No explicit assumptions. |
| **Grant Distribution Formula** | - WAYS AND MEANS — Provides 50 percent of funding through formula grants and 50 percent through competitive grants awarded by Labor.<br><br>- EDUCATION AND THE WORKFORCE — Provides 95 percent of funding through formula grants and 5 percent through competitive grants awarded by Labor. | 75 percent of funding by formula, 25 percent through competitive grants. | Supports Ways and Means provision in House bill.<br><br>[OMB wants to add 'which best accomplishes goal in the agreement that funds be allocated and targeted to areas with high poverty and unemployment'] | Assumes funds allocated to States through a formula and targeted within each State to areas with poverty and unemployment rates at least 20 percent higher than the State average. Assumes a share of funds would go to cities/counties with large poverty populations commensurate with the share of long-term welfare recipients in those jurisdictions. |
| **WTW Federal Administering Agency** | Department of Labor. | HHS. | Department of Labor. | No explicit assumptions. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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**WELFARE-TO-WORK (continued)**

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| **Welfare-to-Work Nondisplacement** | Provides certain nondisplacement protections to all welfare-to-work grant funds. [per Smith to say "(not all categories of protections in Senate bill.)"] | Provides broader nondisplacement protections to recipients under welfare-to-work funds (and not TANF). | Supports extending Senate provisions on nondisplacement to all working welfare recipients under TANF. | No explicit assumptions. |
| **WTW Local Program Administration** | Private Industry Councils (PIC's) | Local TANF agency | Supports House position (PIC's) that cities and other local areas should manage a substantial amount of all WTW funds. | No explicit assumptions. |
| **Performance Fund** | No provision. | Provides a performance bonus to States that are successful at moving welfare recipients into work by augmenting the existing TANF performance bonus fund in fiscal year 2003. | Supports mechanism to provide incentives and rewards for placing the hard-to-serve. One approach would require Governors to use a share of their discretionary funds and the Secretary of Labor to use a share of competitive funds to reward high-achieving welfare-to-work programs. | No explicit assumptions. |
| **Vocational Education Counted as Work Under TANF Work Requirements** | - WAYS AND MEANS — Limits TANF beneficiaries counted toward meeting work participation requirements to 30 percent of the total number of persons meeting the requirement rather than 20 percent of total TANF caseload. Teen parents in high school are not required to be counted within the 30 percent.<br><br>- EDUCATION AND WORKFORCE — Limits TANF beneficiaries a State can count who are in vocational education to 20 percent of the total number of persons meeting the work requirement rather than 20 percent of the total TANF caseload. Teen mothers in high school continue to be counted under the 20 percent cap. | Continues to permit States to calculate up to 20 percent of their TANF caseloads participating in vocational education as meeting the work requirement, but eliminates current requirement that teen mothers attending high school be counted as part of that 20 percent cap. | The Administration urges the Conferees to drop these provisions. | No explicit assumptions. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| | | **WELFARE-TO-WORK (continued)** | | |
| **SSI State Supplements** | Eliminates "maintenance-of-effort" requirement that prevents States from lowering or eliminating State supplemental SSI payments. (No State is known to be seeking elimination.) | No provision. | Strongly opposes repeal of the MOE provision. | No explicit assumptions. |
| **TANF Transfers to Title XX** | Removes the requirement that States transfer $2 to child care activities for every $1 in TANF block grant funds that they transfer to the Title XX Social Services Block Grant. | No provision. | Opposes House provisions. | No explicit assumptions. |
| | | **IMMIGRANTS** | | |
| **Alien Eligibility for SSI and Medicaid** | Restores eligibility for SSI and Medicaid for qualified aliens who were in the country and on the benefit rolls receiving SSI as of August 22, 1996. Legal aliens who were in the U.S. but not receiving SSI benefits are ineligible for benefits if they become disabled in the future. Total cost is $9 billion over 5 years. Specifies that Cuban/Haitian entrants and Amerasians are "qualified aliens." | Restores eligibility for SSI and Medicaid for qualified aliens who were in the country and on the benefit rolls receiving SSI benefits as of August 22, 1996. Provides eligibility for SSI benefits to legal aliens who entered the U.S. prior to August 23, 1996 and who are or who become disabled in the future.<br><br>Gives States the option to exempt immigrant children from the 5 year ban on Medicaid. Exempts immigrants from SSI ban who are so severely disabled they are unable to naturalize. Total cost is $11.6 billion over 5 years. | Supports Senate provision. (The President stated in a June 20 letter that he will not sign legislation that does not include the policy that protects immigrants who are or become disabled.)<br><br>Supports Senate provisions. | Assumes restoring SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who entered the United States prior to August 23, 1996. Those disabled legal immigrants who entered the United States after August 22, 1996, and are on the rolls before June 1, 1997, shall not be removed. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| | | **WELFARE PRIVATIZATION** | | |
| **Welfare Privatization** | Permits any State to contract with a private sector entity to conduct income verification and eligibility determinations for Food Stamps and Medicaid. (A similar provision for Medicaid is included in the Commerce Committee title.) | No provision. | Strongly opposes House provision and urges the Conferees to follow the approach taken by the Senate (i.e., no provision). | No explicit assumption. |
| | | **FOOD STAMPS** | | |
| **Work Slots** | Provides States with $680 million in new funding over 5 years for Education and Training activities within Food Stamps. At least 80 percent of the total Food Stamp E&T funding of $1.1 billion would be earmarked to able-bodied adults subject to the work requirement. Job search and job search training would not be an allowable use of the funding earmarked for able-bodied adults. CBO assumes the policy will generate 205,000 work slots that keep able-bodied adults subject to the work requirement eligible for benefits over 5 years. But other activities that do not meet the work requirements would be permissible. Requires States to maintain 100 percent of 1996 levels in order to receive new 100 percent Federal funds. | Provides $640 million in funding to create additional Education and Training positions within food stamps. Requires the Secretary of Agriculture to establish two different reimbursement rates for States accessing these funds. A higher rate will be paid to states drawing down funding for placing persons subject to the work requirement in work slots which keep those persons eligible for food stamps. A lower reimbursement rate will be paid to states that use funding on activities that do not keep persons subject to the work requirement eligible for benefits. CBO assumes this policy generates 250,000 work slots over 5 years that keep people eligible for benefits meet the work requirements. Requires States to maintain 75 percent of 1996 levels in order to receive new or existing 100 percent Federal funds. | Administration endorses Senate reimbursement structure and House provisions for maintenance of effort in order to ensure that the maximum number of slots are created. | Assumes for additional and redirected E&T funds "to create additional work slots for individuals subject to the time limits" to maximize the number of new slots. |

OMB wants to strike — we don't

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| | | **CHILDREN'S HEALTH** | | |
| **Total Spending** | Spends $15.9 billion over 5 years for children's health insurance or services. | Spends $24 billion (preliminary scoring) for children's health insurance, including the $8 billion added from the tax bill (see below). | Supports: Senate definition of benefits, limits on cost-sharing; State option in House bill to spend grant money on grants, Medicaid, or a combination of the two (Senate requires States to choose only one); strong maintenance of effort provision and the Senate bill prohibition on using provider taxes and donations to fund States' share; using same match rate for Medicaid and grant programs, as in Senate bill.<br><br>Opposes: provisions that allow States to pay for family coverage or pay the employee's share of employer-sponsored insurance in the House bill. | Assumes spending $16 billion over 5 years. |
| **Extra $8 Billion** | No provision. | Provides an additional $8 billion in the tax bill. | Supports using all of the revenue from the tobacco tax for initiatives that focus on the needs of children and health. Opposes sunset in this funding after 2002. | Assumes spending $16 billion over 5 years. |
| **Medicaid Benefits for Children Losing SSI Benefits** | Allows, but does not require, States to restore Medicaid benefits for children losing SSI benefits because of new, tighter SSI standards for childhood eligibility. | No provision. | Agreement calls for the restoration of these benefits. The Administration supports fiscal year 1998 President's budget provision, which guarantees Medicaid coverage for these children. | If mutually agreeable, the funding could be used to restore Medicaid for ~~current disabled~~ children losing SSI. [OMB wants to say "shall." "Could" is correct.] |
| **Direct Provision of Services** | Allows States to use grant funds for for the direct provision of health care services. | Does not allow States to use grant funds for the direct provision of health care services. | Strongly opposes House direct services option. | Assumes funds to provide up to 5 million additional children with health insurance coverage by 2002. Also assumes the revenues will be used in the most cost-effective manner possible to expand coverage and services. |



OMB wanted only this.

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| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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**CHILDREN'S HEALTH (continued)**

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| **Funding Structure** | Allows States to spend grant funds on Medicaid, a grant program, or a combination of the two. | Requires States to choose between Medicaid and a grant option. | Supports House provision. | Assumes funding could be used for Medicaid, capped grants, or both. |
| **Eligibility** | Defines targeted low-income children as those whose family income exceeds the Medicaid applicable levels but does not exceed an income level 75 percentage points higher than the Medicaid applicable income level. | Includes a ceiling of 200 percent of poverty for eligibility. | Opposes Senate provision. ~~[illegible]~~ [OMB wants to add "and any other previously/no eligibility ceiling."] | Assumes resources will be used for low-income and uninsured children. |
| **Hyde Amendment** | Extends to children's health initiative funding the Medicaid appropriations prohibitions on Medicaid payment for abortion services. | Same as House. Also includes in the Medicaid section a managed care sanction provision to change the definition of "medically necessary" to exclude abortion services except under certain circumstances. | Strongly opposes limiting access to medically necessary benefits, including abortion services. | No explicit assumption. |

**HEALTH INSURANCE FOR SMALL BUSINESSES**

| | | | | |
|---|---|---|---|---|
| **MEWA** | Includes legislation allowing small businesses and organizations to offer health insurance, extending ERISA preemptions and State regulations, requiring solvency standards for association health plans, and other regulations. | No provision. | Strongly opposes House provision. | No explicit assumption. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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**SPECTRUM AUCTIONS**

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| **Analog Return** | Authorizes the FCC to auction frequencies that are currently allocated for analog television broadcasting. Imposes a time limit on the television licenses that authorize analog television services. Allows the FCC to extend the time limit if more than 5 percent of the households in a market rely exclusively on analog television signals. | Comparable provision, except that the FCC is required to delay the return it the 5-percent test is not met. | Supports hard cutoff date with authority to extend for small and rural markets. Agreement assumed that this auction would take place in 2001 with a firm cutoff date for analog broadcasting in 2006. | Assumes codifying current FCC plans (which include a 2006 firm date for analog cutoff) to reclaim surplus "analog" broadcast spectrum after broadcasters have migrated to new digital channels. |
| **Vanity Numbers** | Does *not* authorize the FCC to auction the so-called vanity telephone numbers. | Does *not* authorize the FCC to auction the so-called vanity telephone numbers. | Supports authorizing FCC to auction vanity telephone numbers. | Assumes authorizing the FCC to award new generations of toll-free vanity telephone numbers through an auction. |
| **Bankruptcy** | No provision. | No provision. | Seeks authority to allow the FCC to revoke and reauction a license when a licensee declares bankruptcy. | No explicit assumption (but implicitly assumed in the estimates). |
| **Federal Reimbursement** | No provision. | Authorizes reimbursement of Federal agencies for the costs of relocating to new spectrum bands so that spectrum they are now using may be made available by the FCC for auction for commercial use. | Administration supports reimbursement. | No explicit assumption. |
| **Spectrum Penalty** | Does not include a penalty fee that would be levied against those entities who received "free" spectrum for advanced, advertiser-based television services, but failed to utilize it fully. | Does not include this penalty fee. | Proposes a fee to be levied against entities that received spectrum at no charge for digital broadcasting, but opted to utilize it for ancillary services. | Assumes that, as authorized by current law, a penalty fee would be levied against those entities who received "free" spectrum for advanced, advertiser-based television services but failed to utilize it fully. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| **STUDENT LOANS** | | | | |
| **Administrative Cost Allowance** | Requires payment to guaranty agencies of 0.85 percent of the principal of all new loans. Capped at $170 million for 1998 and 1999 and $150 million for 2000-2002. | Same provision. | Opposes this provision. Administration believes this would create a new entitlement for guaranty agencies. | No explicit assumption. |
| **Smith-Hughes Act** | Eliminates the Smith-Hughes Act, the original vocational education program. | No provision. | Supports House provision, which is consistent with the Agreement. | Assumes elimination of Smith-Hughes. |
| **Retention Allowance** | Allows guaranty agencies to retain 18.5 percent on payments received when a defaulted loan is consolidated. | No provision. | Opposes this provision, which would provide funding to guaranty agencies without regard to expenses incurred. Interprets amendment to have only prospective, not retrospective, application. | No explicit assumption. |
| **VETERANS' BENEFITS** | | | | |
| **Medical Care Cost Recovery** | Replaces the existing Medical Care Cost Recovery Fund with a new fund into which monies recovered or collected for medical care would be deposited and would be available, *subject to appropriations*, to pay for the expenses associated with veterans' medical care.<br><br>Also includes a "failsafe" provision authorizing additional funds in the event there is a shortfall in anticipated collections in excess of $25 million. | Replaces the existing Medical Care Cost Recovery Fund with a new fund into which monies recovered or collected for medical care would be deposited and would be available, *subject to appropriations*, to pay for the expenses associated with veterans' medical care.<br><br>No "failsafe" mechanism. | Concurs with Senate position. | Assumes replaing the existing Medical Care Cost Recovery Fund with a new fund into which monies recovered or collected for medical care would be deposited and would be available, *subject to appropriations*, to pay for the expenses associated with veterans' medical care.<br><br>No explicit assumption on "failsafe." |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| **HOUSING** | | | | |
| **Mark to Market** | No Provision. (Representative Lazio has introduced, by request, the Administration's bill and there is at least one other house version introduced so far.) | FHA Multifamily Mortgage Restructuring: Net savings would be $240 million between 1997 and 2002. The reform would reduce the rents on Section 8 Housing contracts and use a new capital grant program out of the FHA in order to avert large defaults on federally insured mortgages. There are several different versions of this legislation. Without these provisions, the Banking Committee would still exceed its target reconciliation savings of $1.5 billion over 5 years. | Supports the following changes to Senate bill:<br><br>- Allow for the conversion of subsidies to portable tenant-based assistance, allowing tenants to seek out the best available housing and permitting projects to develop a more diverse mix of income levels. (Senate maintains low-income rental assistance as project-based, tied to specific properties.)<br><br>- Give HUD more flexibility to design the most effective partnerships. (Senate establishes a preference for delegating restructuring tasks to housing finance agencies.)<br><br>- Amend tax code to allow for tax amortization in exchange for long-term affordability restrictions. (Senate attempts to address tax issues through the use of "soft" second mortgages which, as interpreted by IRS, may not have the desired effect of deferring tax consequences.)<br><br>(CBO scores $326 million in savings over 1997-2002 from the Administration's bill.) | No explicit assumption. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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## OTHER ISSUES

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| **SSI User Fee** | Authorizes an increase to the fee States pay when they enter into agreements to have SSA administer State supplemental payments (i.e., State payments that are supplemental to the Federal SSI payment) and makes the funds from the increase available to SSA for administrative expenses, subject to appropriations action. | No provision. | Supports the House language. Because the Budget Agreement anticipated revenue from this proposal over the entire period of the agreement, and an authorization in appropriations language is only effective for the fiscal year addressed by that appropriations bill, authorization of the fee increase must be in the reconciliation bill to be consistent with the Budget Agreement. | Assumes increasing the existing fees to offset SSA-related spending in each of the 10 years of the agreement. |
| **4.3 cents motor fuel tax transfer** | No provision. | Transfers 4.3 cents motor fuel taxes from the General Fund to the Trust Fund.<br><br>Creates an Intercity Passenger Rail Fund [IPRF] to fund AMTRAK. This $2.3 billion fund is capitalized by a smaller tax cut in the Senate and is subject to appropriation. | Objects to Senate proposal to transfer 4.3 cents to the HTF. The Agreement assumes that these taxes will continue to go to the General Fund for deficit reduction. The growth in HTF balances will generate significant pressure to increase spending above the levels assumed in the Agreement. Shifting the 4.3 cents to the HTF will increase the fiscal year 2002 balance from $34 billion to over $72 billion, assuming the Agreement spending levels.<br><br>Objects to this proposal, which provides funds to AMTRAK above those in the Agreement. Expenditure from the IPRF should be limited to capital only and contingent upon AMTRAK reform legislation. | No explicit assumption. |

| | HOUSE-PASSED BILL | SENATE-PASSED BILL | WHITE HOUSE POSITION | BUDGET AGREEMENT |
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| **OTHER ISSUES (continued)** | | | | |
| **UI Integrity** | Ways and Means - Includes authorization of UI program integrity activities. | No provision. | Supports House provision, along with budget process reforms in order to achieve savings assumed in the Agreement. | Assumes savings in mandatory unemployment insurance [UI] benefits due to increased discretionary spending on UI integrity activities (e.g. increased eligibility reviews, tax audits). Assumes President's budget requested level of funding for UI integrity ($89 million in 1998) is provided in addition to continuing integrity activities already funded in the base UI administrative grants to obtain these savings. |

3

# House Budget Committee
# Democratic Caucus

Congressman John M. Spratt, Jr., Ranking Minority Member
222 O'Neill House Office Building, Washington, DC 20515 • 202-226-7200

## FAX COVER SHEET

DATE: ______________

TO: Jack Lew

FAX NUMBER: ______________

FROM: Tom Kahn

PAGES FOLLOWING THIS COVER ______

SPECIAL INSTRUCTIONS:

Thought it was easier to give you written comments. Please give me a call. Thanks.

PLEASE CALL 226-7200 IF YOU HAVE PROBLEMS WITH THIS FAX.

TO: Jack Lew
CC: Frank Raines, Gene Sperling, Martha Foley, Barry Anderson
FROM: HBC Democratic Staff
DATE: May 11, 1997

**Comments on the "Bipartisan Budget Agreement" draft dated 5/9/97 (12:53 pm version)**

These comments reflect major policy concerns, technical questions or corrections, and purely editorial improvements. The items are discussed in page order.

**Page 1.**

( 1.) References to "Leadership of Congress" probably should be changed to something like "congressional leaders listed below." It is still not clear who will be a party, or indeed, if anything at all is to be formally signed, as opposed to being drafted for inclusion in the Budget Resolution.

( 2.) ¶ 5 — a single budget resolution. Also see subsequent paragraphs.

( 3.) ¶ 7 — You do not list any "major category levels" for user fees. More broadly, it seems counterproductive to list any of the agreement levels (as opposed to deltas from baseline) except for discretionary programs. See p. 3.

( 4.) ¶ 8 was dropped, was it not?

**Page 2.**

( 5.) ¶ 10 refers to budget process changes "in the budget resolutions." **We shouldn't do that.** The only major process changes we are discussing are BEA caps and Paygo extension, which must be done statutorily; smaller items, such as an improved asset sales rule, should be done statutorily too, for the purposes of the BEA, and that statute can make conforming changes if necessary to House & Senate rules. The Byrd Rule will give Democrats leverage to stop any egregious rules changes. The only process changes that can be accomplished through a budget resolution are changes to House and Senate rules, which we do not want to encourage, especially in a document that does not go to the President.

( 6.) ¶ 11 should refer to the first reconciliation bill. We don't need to raise the debt limit twice, and would rather see it in the first bill than the tax bill.

( 7.) ¶ 12 says "all" legislation needed to carry out the agreement should go through reconciliation. It is my understanding that Superfund reauthorization, including orphan share funding, is envisioned as separate legislation; this is a good idea. (You'd make room on the re-based PAYGO scorecard for it — see p. 30, bullet 6.)

( 8.) ¶ 12 and 13 are redundant.

( 9.) What is the point of ¶ 15 and ¶ 16 – "shall be voted in both House of Congress." If one house passes an acceptable bill, cannot the other agree to it by UC? Are you demanding a roll-call vote?

( 10.) ¶ 18 commits us to support "*all* amendments consistent with the Agreement." One can imagine competing amendments, both of which are consistent, such as competing designs of the agreed-upon level DSH cuts, or a Democratic substitute or alternative to the tax bill. Drop "all," and bear in mind that Gephardt and House Democrats definitely want to offer a competing tax bill.

( 11.) ¶ 19 says that the Budget Resolution must set forth this addendum. (P.S. It is not an addendum to anything.) Is it sufficient to include it in the Report, and incorporate the Report by reference in the Budget Resolution? The point is that it should be in writing in some official document.

**Page 3.**

( 12.) Drop this page. See ( 3.) In any case, the Medicaid figures on this page are probably wrong. The CBO baseline minus the "net savings" on p. 4 (and p. 23) do *not* equal these figures. You can get very close to the p. 3 levels in 1999-2002 if you also add back the Medicaid costs of the VA pension provision (p. 15), but that doesn't explain the 1998 figure.

**Page 4.**

( 13.) See comment about tax cuts, p. 5.

**Page 5.**

( 14.) The tax cuts total $84.2 billion over the first five years and $165.3 billion over the second. As you know, it is important to limit the tax cuts to $85 billion over the first five years *and $165 billion over the second five.* This is *not* the same as $250 billion over ten years — under the latter formulation, the agreement could be achieved by $70 billion in tax cuts over the first five years and $180 billion over the second five. But the revenue implications of this latter stream are unacceptable. You imply that such a result is acceptable by exceeding $165 billion in your own stream. **DON'T.**

( 15.) How about "normalizing" the baseline for 13-month-per-year and 11-month-per-year SSI and Vets payments (and inserting a footnote to that effect)? That way you won't have to show a deficit in 2005.

**Page 6.**

( 16.) How about titling these "Restorations and Initiatives"? (Likewise for preceding pages.)

( 17A.) **There is a technical problem with your display of the immigrant initiatives that must be fixed.** It has to do with the line labeled "Disabled kids (SSI only)." The labeling clearly implies that the policy is to restore SSI *but not Medicaid*. Worse, this omission of Medicaid is reinforced on p. 24, bullet #3, which says "Restore SSI for legal immigrants children currently receiving SSI." Every other restoration of SSI on p. 24 says "restore SSI and Medicaid." Thus, your stated policy denies Medicaid to currently disabled immigrant children. (Cost — about $0.1 billion over 5 years)

Additionally, the $0.3 billion 5-year cost for SSI for these children may already be included in the $7.4 billion in costs under the item for elderly/disabled SSI a few lines above. (CBO never split children from adults in its estimate of restoring SSI and Medicaid to immigrants currently on the roles.) Thus, you may have double-counted this $0.3 billion in SSI costs. Whether or not you have, your approach should be as follows:

— the first entry should read "Disabled Immigrants." You would follow that with two lines of figures, one for Medicaid, the other for SSI. (Adjust the figures if necessary.)

— then you should include the entry for new arrivals (if we win...)

— you should *not* include a separate listing for immigrant children, since your policy is identical for them and disabled adults. Thus, your next line should be the immigrant subtotal.

Also see comments re p. 24.

( 17B.) We want continuation of NAFTA TAA in the agreement, especially as CBI parity is advocated by the Administration. This should be shown on the list of initiatives, or built into the baseline and explicitly footnoted.

( 18.) Drop the note at the bottom re SLMB expansions. The new total of $33.4 billion in addbacks over 5 years does not tie to the previous pages, which say $31.4 billion; highlighting this item and the larger figure complicates the job of gaining Republican votes; and the SLMB figures are wrong. The correct figures are $1.2 billion over five years if the federal government pays only its matching share, and $2.5 billion (not $2.0) over five years if the federal government pays both the state and federal part — CBO assumes more eagerness by states to enroll SLMBs if it is free. Since you bury the SLMB cost on p. 23, you should not highlight it here.

<u>Page 7.</u>

( 19.) We have not accepted the defense figures in 2002; we support a total of $285.5 in BA and $274.1 in outlays.

( 20.) In the discussion of anomalies, drop the remark "(Alternative)."

( 21.) What are the Advance Appropriations and why do they need to be listed? Have they been agreed to?

( 22.) A scorekeeping adjustment for defense has only been agreed to for FY 1998. And you should either be more explicit about the 1998 adjustment or not mention it.

( 23.) The 1998 defense BA figure of $269 must include the up-front funding of the DoE projects shown in the anomalies. If the R's don't agree to that up-front funding, we must lower the defense BA figure for 1998 by $1.5 billion. Also see p. 9.

**Page 8.**

( 24.) On May 8 you had the correct CBO estimate of the President's budget. But in this version, the numbers for the CBO reestimate have changed slightly, and your bottom line has consequently changed (your cuts remained the same). Most notable is the 1999 BA figure, which is now too high.

( 25.) Footnote 2 should say "Reflects" special treatment for NAB.

**Page 9.**

( 26.) Title should be "protected *discretionary* priorities." And it no longer makes sense to say that the amounts will be provided "at the levels proposed in the President's FY 1998 budget" since you are showing cuts in priority functions on page 8.

( 27.) As part of the Pell entry, insert "and increased eligibility" or some similar phrase.

( 28.) Footnote "Third Grade Literacy" to say that it includes amounts proposed in the Budget as mandatory.

( 29.) Under Energy, add a new line saying "Full funding of defense capital asset acquisitions." See item 23.)

( 30.) Under Labor, insert "UI integrity activities." See p. 18.

( 31A.) Insert an entry (and some description) for the Department of Transportation.

( 31B.) Consider mentioning Veterans. See comments re p. 15.

**Page 11.**

( 32.) ¶ 3 should include a reference to "120 MHZ of directed allocations." CBO assumes you are not including that item unless you say so.

( 33.) ¶ 5 must *not* say "impose spectrum-related fee." That policy is dynamite, even in a reduced figure. Try something like "Assumes $2.0 billion in 2002 and 2003 from nonbroadcast uses of digital TV allocations." Such a policy is consistent with the existing Telecommunications Act. The estimate is unsupportable, but isn't the agreement that the Budget Committees will assert the savings regardless of what CBO says? **<u>If not, we need to know ASAP.</u>**

**<u>Page 13.</u>**

( 34.) 2d bullet: Don't hyphenate "phase in;" it's a verb phrase, not a noun. Combine the 2d and 3d bullets.

( 35.) It would be clearer if you listed the "Paygo" portion of this policy as "on-budget" or "Treasury costs" and the non-paygo portion as "off-budget" or "Postal Service Fund."

**<u>Page 14.</u>**

( 36.) Home Loan Benefits. Keep the first sentence of the explanation; drop the rest.

**<u>Page 15.</u>**

( 37.) Drop the last sentence in the bullet. Then add another bullet saying something like "This assumes additional resources to the VA totaling ____ over five years because of substantial increases in VA collections from collateral sources. These amounts will be available to VA in addition to the appropriations otherwise available in the Veterans' budget function. It is assumed that if these increased collections do not materialize, Congress will compensate for the shortfall."

This is politically important. If you want to know why, look at the level of discretionary BA and outlays in Function 700 under the agreement, then figure out what you intend to say to the veterans organizations.

**<u>Page 16.</u>**

( 38.) Drop 2d bullet. In the 4th bullet, drop all but the first sentence.

**<u>Page 17.</u>**

( 39.) Drop the 2d sentence of each of the first two bullets.

**<u>Page 18.</u>**

( 40.) Drop the 2d bullet.

( 41.) Under unemployment benefits, we are not actually doing anything other than assuming higher funding for integrity efforts. The new cap adjustment mechanism was not agreed to. So the first bullet should say "Assumes savings..." The second bullet should be dropped. See item 30.)

**Page 19.**

( 42.) The parenthetical remark under EITC should say "deficit reduction in millions of dollars." Also, drop the last two sentences in the bullet.

( 43.) Eliminate the 2d Smith-Hughes bullet.

**Page 20.**

( 44.) If this indeed is supposed to be outside reconciliation, we should say so. See item 7.)

**Page 21.**

( 45A.) We want, for our own use, a list and estimates of what you are assuming, especially with respect with the year-by-year ten year figures. We'd like to be able to defend the increase in 10-year scoring from $386.9 B to $403.7 B, but we need backup.

( 45B.) The 2d bullet should refer to the reallocation of "post-acute care beyond 100 visits." The risk is that the R's could reallocate even more, thus increasing the hit on the Part B premium.

( 46.) How about this: "Limit increased beneficiary contributions to a) maintaining the Part B premium at 25% of program costs, and b) phasing in over seven years ..."

Additionally, we suggest being silent about the issue of the 100% federal reimbursement for the SLMB add. If the Committees have the ability to make states pay their share, so much the better — that will leave more money for other purposes. This issue is discussed at more length in 50) below.

( 47.) The last bullet should start "Fund new health benefits..." Remember parallelism.

**Page 22.**

( 48.) Last bullet: close quote after *lookback*.

( 49.) On the list of exclusions, just say "medical savings accounts." If the reference to HIPAA is not meaningless, it implies that we agree to a Medicare "demonstration" MSA program, which we don't. Better to be silent than to concede Medicare MSAs in writing.

**Page 23.**

( 50.) The Medicaid numbers are curious. If you really mean to include the DC FMAP ($0.9 billion over 5 years), Puerto Rico ($0.3 billion), the Part B premium interaction ($1.5 billion) now that we have the HH shift, and SLMBs (either $1.2 billion or $2.5 billion — see item 18), then your total addbacks are either $3.9 billion or $5.2 billion. Thus your gross cuts are either $16.0 billion or $17.3 billion. While we agree you should not specify which SLMB policy you mean, **do you really intend gross cuts of this size?** You understand that the President's DSH policy w/o a per-capita cap only generates $12.4 billion in savings.

( 51.) The 3d bullet should include, after the reference to DSH, a phrase like "as proposed in the President's budget," or "proportionate reductions with an upper limit." **This is very important to us.** Among other things, no one wants a free-for-all on the DSH formula fight — some guidance will be appreciated.

( 52.) Combine bullets three and four. Add at the end of this combined bullet some exclusions, such as "No diminution of existing federal entitlements respecting coverage, benefits, or access." This is very important now that you've introduced the general concept of state flexibility. The last thing we can accept is flexibility with respect to existing entitlements.

**Page 24.**

( 53.) If we win the second bullet, then a parenthetical "post 9/30/97" should be included after the phrase "new entrants."

( 54.) The third bullet ***must*** start as follows: "Restore SSI **and Medicaid** for legal immigrant children currently receiving SSI." See item 17).

( 55.) Third bullet, second sentence: include "Sept. 30, 1997" after "affidavits of support," to clarify the deadline date for arrival in the US of legal immigrants who would retain eligibility for disability and Medicaid.

**Page 25.**

( 56.) Re work slots, you don't need numbers — how about "create additional work slots for individuals"? The important part is the money: $750 million and $2.0 billion.

( 57.) Re the hardship exemption, strike everything from "enabling States..." on.

( 58.) In the welfare-to-work section, change "cities" to "jurisdictions." **This is important.**

**Page 26.**

( 59.) Go with Sen. Lautenberg's suggestion to refer to Medicaid in ¶ 2.

**Pages 27 & 28.**

( 60.) We are attaching a draft letter we'd like the President to send. In general, we need you to ask for what we really want, and drop the rest. Specifically:

— You can describe the education tax cuts much more generally, but you should specify both a minimum $35 billion for the first five years and if possible, calculate and specify a minimum for the second five. At least you should specify that the benefits will not be diminished in the second five years. Further, you must refer to *post-secondary* education if you become more general. And you failed to say that the education tax cuts should be permanent!

— Re cap gains, why a "generally uniform manner relative to tax brackets?" Eliminating the 28% cap and inserting a 50% (or 40%) exclusion is a greater percentage cut for the lower brackets, and is by far the simplest approach. Why preclude the best? Why not just say that it must provide at least as great a percentage cut for the lower brackets? For the second, third, and fourth paragraphs under capital gains, in each case the first sentence says all that needs to be said.

— There is no reason to specify $50 billion in revenue raisers. If Ways and Means does less, and has smaller gross cuts, so much the better. The key points are that the raisers must be permanent and must not include EITC cuts, low-income housing credit cuts, or pension reversions.

— You are right to insist that the child credit be stacked before the EITC, but you should try to say that in English.

— In the final bullet, decide what you really need that you won't get without specifying. And isn't Superfund supposed to move separately?

— Drop all mention of IRAs! IRAs do not crowd out worse proposals -- they are every bit as bad as those the Rs will do. If you must mention IRAs, how about the following: "If the bill contains IRA provisions, they shall be limited to liberalizations of existing withdrawal penalties to permit ...."

— Under "Additional necessary provisions in the package," an assortment of other tax measures is referred to in beltway jargon that trails off vaguely with "et cetera." These measures should be better identified. More importantly, how are these tax measures to be treated? Are the tax raisers treated as offsets in calculating the net revenue loss? Are the tax cuts counted as tax losses in calculating the gross revenue loss? Are these tax measures to be enacted permanently or temporarily? Is it commonly agreed that all of these measures go in the tax package?

<u>Page 30.</u>

This needs a total rewrite. Expect to see a draft by noon Monday, 5/12/97.

**MEMORANDUM**

| | | |
|---|---|---|
| TO | : | Erskine Bowles<br>Frank Raines<br>Jack Lew |
| FROM | : | John Spratt |
| RE | : | Draft Letter from President to Republican Leaders to Warn of Tax Bill Veto if Conditions Not Kept |
| DATE | : | May 11, 1997 |

The tax provisions of the Budget Addendum are reasonably specific, but the Republicans are unlikely to agree to much of what OMB has laid out; and even if they agree to everything, enforcement is still a problem.

As we tried in vain a week ago to nail down details, I called you to say that we needed a letter from the President making our conditions about the tax bill clear and warning of a veto if those conditions were not met. I have taken the liberty of drafting such a letter, which follows this covering memo. Janice Mays, chief of Democratic staff on the Ways and Means Committee, has made comments on the first draft; Charlie Rangel, Sander Levin, and Bob Matsui have not seen it, but I am sharing copies with them. I think they all agree that such a warning needs to be issued.

I think we should hold fast to the Budget Addendum and insist (1) that it be incorporated in the report and (2) that the report be incorporated by reference in the Budget Resolution. But as prescriptive as it may sound, the Addendum will be honored in the breach. The President needs to warn the Republicans firmly that he will veto a tax bill that does not meet our understanding, and it is better to warn them now than later.

I have mentioned the need for this letter to Frank Raines and Jack Lew, and I am sending them a copy of the draft letter along with this memo.

[DRAFT LETTER FROM PRESIDENT TO REPUBLICAN LEADERS RE TAX BILL]

Gentlemen:

In entering into a budget agreement, my overriding objective is to eliminate the deficit by 2002. In our five-year budget, we have agreed to limited tax reduction. If the tax reduction bill passed by Congress exceeds these limits and undercuts our objective, I will have to veto the bill.

To avoid misunderstanding, I want to make clear what a tax bill must and must not contain in order to be acceptable:

First, I will not sign into law any tax bill generating net revenue losses of more than $85 billion during fiscal years 1998 through 2002 or net revenues losses of more than $165 billion during fiscal years 2003 through 2007. To be assured of enactment, any tax bill presented to me must adhere to the ten-year revenue streams set forth in our budget agreement and must not make use of "revenue bubbles" in a particular year to meet budget targets. To understand fully all revenue estimates, the professional staffs at the Office of Tax Analysis at Treasury and the Joint Committee on Taxation will consult, share all information necessary, and endeavor to minimize revenue estimating differences. If Treasury's estimate of net revenue losses deviates significantly from the Joint Tax Committee's estimate and exceeds either of the specified limits, I will follow Treasury's estimate and not sign the bill into law.

Second, I will not sign into law any tax bill that does not help moderate- and middle-income Americans afford the cost of post-secondary education. For the tax bill to be acceptable, it must include the $10,000 tuition deduction and the $1,500 HOPE Scholarship credit requested in my budget. The amount of tax relief, measured by revenues lost, shall be at least $35 billion during fiscal years 1998 through 2002, and the benefits to taxpayers shall not be diminished from 2003 through 2007. Tuition tax deductibility may be phased in as proposed in my budget request, and if necessary to stay within the revenue limits, the HOPE credit may be reduced, but to no lower than $1,000.

Third, the tax bill shall contain a child tax credit with income caps, and the credit shall be stacked before the taxpayer's EITC is calculated. The tax bill should also include: [Here cite the items listed in the Addendum under "Additional necessary provisions in the package." Question: Are these tax cuts agreed upon, and if enacted, how are the revenues lost treated in calculating the permissible net tax cuts?]

Fourth, if a reduction in the capital gains tax rate is included, I will not sign the bill into law if an exclusion or preferential rate is coupled with indexing of investment basis; nor will I sign into law any tax bill that grants corporations an exclusion or preferential rate for capital gains or allows corporations to index their investment basis when assets are sold or exchanged.

Fifth, I expect any tax bill to contain revenue raisers, and I understand that these will be counted as an offset to gross revenues in calculating the net revenue loss limits we have agreed upon. These revenue raisers will include the renewal of expired and expiring taxes. But these and other revenue-raising measures will be counted as offsets only if they are enacted permanently. None of the revenue raisers in the tax bill shall alter the tax or outlay aspects of the Earned Income Tax Credit, except for the compliance initiatives proposed by Treasury in April and any other compliance measures that we may jointly agree upon. We have agreed that the revenues gained from any such changes in the EITC will not be used as an offset in calculating net revenue losses. The bill shall not change the tax consequences of pension fund reversions or withdrawals, or reduce low-income housing credits, or restrict or repeal other tax measures designed to benefit lower-income individuals.

Finally, the tax bill should not deal with extraneous issues such as tax amnesty, the burden of proof borne by the Internal Revenue Service in litigation, regulatory sunsets, or tax credits for contributions to poverty organizations.

Secretary Rubin, Director Raines, and I have made all of the above clear in our discussions of the budget and the tax measures it may contain. I write this letter in the spirit of comity to make my position unmistakable and in the spirit of fair warning to make my intentions known if the tax bill does not conform to these conditions.