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To: Jack Lew
Fr: Bruce King
Re: Comments on draft addendum
Date: May 10, 1997

The following are our comments on your May 8 draft addendum. In addition to this cover sheet, there are four pages.

We received your May 9 revision after the staff departed last night. We will try to review the revision quickly on Monday, and will get back to you with any additional comments.

For your information, Senator Lautenberg talked today with Senator Domenici, who said that he did not intend to mark up a budget resolution before we have an agreement.

Thanks.

COMMENTS ON DRAFT ADDENDUM
DEMOCRATIC SENATE BUDGET COMMITTEE STAFF

5/9/97 4:45

The following highlights some of our concerns about the draft addendum, but should not be considered as an exclusive list.

1. Domestic discretionary priorities

Protection of domestic discretionary priorities is a central element of the proposed budget agreement. We are concerned that the Administration has so substantially reduced its list of priority spending items, and that the draft addendum fails to adequately specify the procedures for enforcing this element of the agreement.

Our preference would be to return to the original list of priorities, with few modifications. In addition, the following items should be added:

1) Amtrak capital grants, including funding for the Northeast Corridor Improvement Program.
2) Mass transit discretionary and formula grants.
3) Superfund (which was dropped from the original list)
4) Juvenile Mentoring Program (OJJDP).

In addition, we propose that the agreement include specific procedures for enforcing the agreement on domestic discretionary priorities. Democrats need to be assured that appropriations bills will include the items agreed upon. The draft addendum calls for "remedial efforts," including "Leadership amendments as necessary." This vague language is insufficient.

We propose, first, that the agreement include a specific commitment by the Majority Leader of the Senate and the Speaker of the House not to schedule for floor consideration any legislation that violates the agreement, except with the agreement of the Democratic leader in the respective house. This seems the most effective means to ensure that committees abide by the agreement.

In the alternative, the agreement should include a commitment by the Majority Leader and the Speaker to offer amendments to restore funding for any priority items that are not fully funded in accordance with the agreement in any bill reported to the full Senate or House. All such amendments should be developed in conjunction with the Democratic leadership, which must agree to all the terms of the remedial amendment, including any offsets.

2. Transportation Funding Levels

We believe that the proposed funding levels for Function 400 are seriously insufficient. We propose that outlays for Function 400 be increased over the President's request by a total of $12.47 billion over five years. Attached please find a table that outlines the basis for this proposal. The proposed increase could be offset by increasing the residual cuts in nonpriority functions.

As Senator Lautenberg discussed, and the other negotiators agreed, the agreement does not assume that funding provided for transportation would be used to implement a mechanism, such as the Chafee-Bond bill, that equates spending and receipts from transportation trust funds. We should make clear that all funding in Function 400 can be used for the entire range of transportation programs.

3. Scoring of tax legislation

Our expectation was that the agreement would establish a procedure for reconciling any differences in the scoring of revenue legislation between Treasury and the Joint Committee on Taxation. The draft addendum fails to include such a procedure, and calls only for consultation. Given the critical importance of scoring tax legislation, and the broad range of estimates for given tax proposals, we believe this is a significant omission.

4. Defense spending

The draft addendum continues to include spending levels for 2001 and 2002 that are higher than those advocated by any of the Republican or Democratic congressional negotiators.

5. Domestic/defense "walls"

The date for which walls are effective is unclear. We propose that they remain in effect for no longer than the next two fiscal years (FY98 and FY99). We understand that Senator Byrd also has endorsed this approach.

6. Capital gains taxes

We disagree with the statement that "Any capital gains relief should be provided in a generally uniform manner relative to income tax brackets." This seemingly would prevent Congress from adopting a capital gains tax cut that provides relatively greater benefits to low- and middle-income individuals. It also would prevent Congress from reducing or eliminating the benefits of a capital gains tax cut in the case of taxpayers with very high incomes. We see no justification for precluding such outcomes. However, we would agree with a statement intended to ensure that any capital gains tax cut does not provide disproportionate benefits to those with higher incomes.

7. Asset sales rule revision

We are concerned about a revision in the asset sales rule and would like to see an explicit written explanation of any change that is contemplated.

8. Medicare

a) We would like information regarding the policies assumed in constructing the 10-year stream for Medicare.

b) We propose that you insert ",but not limited to," after "including" in the last bullet on page 16.

9. Children's Health

We propose that item (2) under Children's Health read as follows: "A program to provide health insurance coverage for uninsured children, through capped mandatory grants to states or through Medicaid expansions."

Function 400 - Transportation

Discretionary Outlays	1997	1998	1999	2000	2001	2002	Total (98-02)	
Shuster		51.5	51.1	51.2	51.5	51.8	257.1	
Warner-Baucus		43.5	43.1	43.2	43.5	43.8	217.1	
CBO Baseline	36.9	37.7	38.4	39.3	40.5	41.7	197.6	
Admin. Request	37.0	37.5	37.1	37.2	37.5	37.8	187.1	
Bond-Chafee		0.20	1.00	1.70	2.20	2.70	7.80	
Amtrak Capital		0.13	0.32	0.33	0.35	0.37	1.49	
Transit Disc. Grants		0.01	0.05	0.10	0.14	0.16	0.46	9.75
Transit formula		0.02	0.11	0.19	0.27	0.37	0.97	10.72
AIP		0.09	0.30	0.41	0.47	0.49	1.75	
Total Add-on		0.45	1.78	2.73	3.42	4.09	12.47	
New Total		37.9	38.9	39.9	40.9	41.9	199.6	

Budget Authority (Disc. +Mand.)	1997	1998	1999	2000	2001	2002	Total
CBO Baseline	43.9	45.6	46.7	47.9	49.1	50.4	239.7
Admin. Request	43.9	44.2	42.7	43.0	43.3	43.5	216.7
Bond-Chafee		1.27	2.00	2.60	3.10	3.50	12.47
Amtrak Capital		0.31	0.33	0.34	0.36	0.37	1.72
Transit Disc. Grants		0.20	0.20	0.20	0.20	0.20	1.00
Transit formula		0.22	0.22	0.22	0.22	0.22	1.08
AIP		0.50	0.50	0.50	0.50	0.50	2.50
Total Add-on		2.50	3.24	3.86	4.37	4.79	18.76
New Total		46.7	45.9	46.9	47.7	48.3	235.5

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Bipartisan Budget Agreement

May 15, 1997

I. Bipartisan Budget Agreement between the President and the Leadership of Congress

II. Summary Tables

III. Description of Agreement by Major Category
   A. Discretionary Programs
   B. Mandatory Programs

IV. Budget Process

V. Letters pertaining to tax issues

Bipartisan Budget Agreement between the President and the Leadership of Congress

1. The elements of this Bipartisan Budget Agreement provide for deficit reduction amounts that are estimated to result in a Balanced Budget by fiscal year 2002.

2. The Bipartisan Budget Agreement is approved by the President, the Speaker of the House of Representatives, the Senate Majority Leader, and the Senate Minority Leader. The President and the Congressional leadership agree to engage in a coordinated effort seeking to enact the Bipartisan Budget Agreement. Their coordinated effort shall seek to produce support for the Agreement by a majority of Democrats and Republicans in both the House and the Senate. This agreement represents commitments to good faith efforts; it does not purport to amend or suspend rules of the House or Senate. If bills, resolutions, or conference reports are deemed to be inconsistent, remedial efforts shall be made by all parties to assure consistency. Such efforts shall include bipartisan Leadership consultation and concurrence on amendments and scheduling as necessary.

3. Agreed upon budget levels are shown on the tables included in this agreement, including deficit reduction levels, major category levels for discretionary, mandatory, and tax and receipt changes.

4. Discretionary priority spending will be protected by the amounts set forth in this Agreement.

5. Agreed budget process items will be included in the budget resolution (as appropriate) and reconciliation, and are set forth in the budget process description included in this Agreement.

6. An increase in the debt limit sufficient to extend the limit at least to December 15, 1999 will be included in a reconciliation bill carrying out this Agreement.

7. Both Houses shall pass the 1998 budget resolution with reconciliation instructions fully reflecting the Bipartisan Budget Agreement. Such budget resolution shall contain 602(a) allocations consistent with this Agreement and shall instruct appropriate Committees to report, with or without a recommendation, legislation necessary to implement this Agreement. Conference reports on the reconciliation bills and appropriations bills that reflect the Bipartisan Budget Agreement shall be voted in both houses of Congress.

8. It is the intention of the leaders that Congress shall present the revenue reconciliation bill to the President after the spending reduction reconciliation bill. This assumes a good faith effort by all parties to enable such a legislative process to succeed.

9. If during the reconciliation process it is determined that the target of a balanced budget in fiscal year 2002 cannot be achieved, all parties to the agreement commit to seeking additional savings necessary to achieve balance.

10. To the extent possible, efforts will be exercised to exclude other mandatory savings and appropriations riders unacceptable to the Congressional Leadership or the Administration, as so identified in official Administration announcements, letters, Statements of Administration Policy, or other communications.

SUMMARY OF DEFICIT REDUCTION IN BUDGET RESOLUTION MARK

(Dollars in billions)

	1997	1998	1999	2000	2001	2002	5-Yr Total
Baseline deficits a/	67	89	109	121	95	105	
Discretionary:							
Defense	--	-3	-10	-18	-18	-28	-77
Nondefense	--	-1	-3	-8	-17	-32	-61
Mandatory:							
Presidential initiatives	--	6	6	7	7	6	31
Medicare	--	-7	-17	-23	-29	-40	-115
Medicaid	--	--	-2	-2	-4	-6	-14
Other mandatory	--	-1	-6	-14	1	-19	-40
Revenues:							
Net tax relief	--	7	11	22	23	21	85
Total policy changes	--	1	-19	-36	-37	-99	-190
Debt service	--	0	-0	-2	-4	-7	-14
Total deficit reduction	--	1	-19	-38	-41	-106	-204
Resulting deficit/surplus	67	90	90	83	53	-1	

NOTE: Details may not add to totals due to rounding. All totals shown on a unified budget basis. Revenue reduction shown as positive because it increases the deficit.

a/ Baseline includes fiscal dividend, CBO revenue update, and assumes discretionary spending increases at the rate of inflation.

Prepared by SBC Majority Staff, 15-May-97

Long Range Summary, 1997-2007
(In billions of dollars)

	Agreement					Projections					Totals	
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	'98-'02	'98-'07
Current Services Deficit..............	67.2	69.0	109.1	121.3	94.5	104.9	103.2	108.6	133.3	127.8	117.0		
Discretionary savings:													
Defense..............................	--	-3.0	-9.9	-17.9	-18.3	-27.7	-32.1	-33.0	-34.0	-35.0	-36.1	-76.8	-247.0
Nondefense..........................	--	-1.0	-2.5	-8.0	-17.4	-32.3	-36.5	-39.9	-42.6	-45.1	-47.5	-61.2	-272.8
Subtotal, discretionary savings.....	--	-4.0	-12.5	-25.8	-35.7	-59.9	-68.6	-72.9	-76.6	-80.1	-83.6	-138.0	-519.9
Mandatory savings:													
Medicare, net.........................	--	-6.5	-16.8	-22.7	-28.0	-40.0	-50.0	-60.0	-65.0	-70.0	-74.0	-115.0	-434.0
Medicaid, net.........................	--	--	-1.5	-2.4	-3.6	-6.2	-7.1	-8.6	-10.2	-12.0	-13.8	-13.7	-65.5
Other mandatory													
Spectrum..........................	--	--	-3.5	-3.6	-4.6	-14.8	-1.9	-1.0	-1.0	-1.0	-1.0	-26.3	-32.2
Other................................	--	-1.3	-2.1	-10.9	5.5	-4.4	-1.6	-3.2	-17.7	-4.9	12.3	-13.3	-28.2
Subtotal, mandatory savings.........	--	-7.8	-23.9	-38.5	-31.6	-65.4	-60.6	-72.8	-93.9	-87.9	-76.6	-168.3	-559.9
Debt service, net........................	--	0.0	-0.5	-2.0	-3.8	-7.4	-12.5	-18.2	-25.0	-32.5	-39.9	-13.6	-14'.6
Subtotal, savings proposals..........	--	-11.8	-36.8	-67.4	-71.1	-132.8	-141.6	-163.9	-195.6	-200.5	-200.0	-319.9	-1,221.4
Domestic Initiatives......................	--	5.9	6.1	6.7	6.5	6.0	6.6	7.0	7.0	7.0	7.0	31.2	65.8
Net tax cut..................................	--	7.4	11.3	22.4	23.4	20.5	27.2	28.6	31.4	36.2	41.6	85.0	249.8
Total changes.............................	--	1.5	-19.4	-36.3	-41.2	-106.3	-107.8	-128.4	-157.1	-157.3	-151.4	-203.7	-905.7
Resulting deficit/surplus (-)..........	67.2	80.4	89.7	83.0	53.3	-1.3	-4.6	-19.8	-23.9	-29.5	-34.4		

NOTE: 2000 and 2005 have 13 benefit payments and 2001 and 2007 have 11. The baseline has been adjusted to reflect normalization to 12 benefit payments in each year.

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Domestic Initiatives and Restorations in Agreement

(in billions of dollars)

	1998	1999	2000	2001	2002	5-year total
Assistance to immigrants:						
Elderly/Disabled						
Medicaid	0.4	0.4	0.3	0.3	0.3	1.7
SSI	1.7	1.6	1.6	1.2	1.2	7.5
Disabled kids (SSI only)[1]	0.1	0.1	0.1	0.1	0.1	0.3
Refugees/asylees	0.0	0.0	0.0	0.0	0.0	0.2
Subtotal, immigrants	2.2	2.2	2.0	1.7	1.6	9.7
Nutrition assistance:						
Add work slots for 18-50's	0.2	0.2	0.2	0.2	0.2	1.0
15% exemption for 18-50's	0.1	0.1	0.1	0.1	0.1	0.5
Subtotal, nutrition assistance	0.3	0.3	0.3	0.3	0.3	1.5
Welfare to work add to TANF	0.7	0.7	1.0	0.6	--	3.0
Subtotal, immigrants, nutrition, and work	3.2	3.3	3.4	2.4	2.0	14.2
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0
Federal land acquisition & exchange[2]	0.3	0.2	0.2	0.1	--	0.7
Environmental reserve	0.2	0.2	0.2	0.2	0.2	1.0
Offset low-income Medicare premiums	0.2	0.3	0.3	0.3	0.4	1.5
Total, Domestic Initiatives and restorations	6.3	6.6	7.3	7.0	6.5	33.6

1/ Medicaid costs reflected in elderly/disabled medicaid line

2/ Discretionary

Agreement on Discretionary Funding

(In millions of dollars)

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For functions specified below, implementing legislation will protect the function levels.

	FY 1998 BA	FY 1998 OL	FY 1999 BA	FY 1999 OL	FY 2000 BA	FY 2000 OL	FY 2001 BA	FY 2001 OL	FY 2002 BA	FY 2002 OL
-- National Defense	269,000	266,823	271,500	266,518	275,367	268,995	281,847	270,68	289,610	273,100
Non-Defense Discretionary	257,857	286,445	261,499	292,803	261,826	295,270	260,186	293,73	261,464	287,699
Total Discretionary	526,857	553,269	532,999	559,321	537,193	564,265	542,032	564,318	551,074	560,799
Protected Functions:										
150 -- International Affairs	19,038	19,179	18,601	18,842	18,533	18,809	18,348	18,5G	18,218	18,442
300 -- Natural Resources and Environment	22,807	21,393	22,222	21,657	21,568	21,944	21,185	21,82	21,152	21,472
400 -- Transportation	13,556	38,267	14,974	38,933	14,788	39,310	15,066	39,418	15,347	39,418
500 -- Education, Training, Employment and Social Services	46,721	43,185	47,015	46,107	47,858	47,065	48,478	47,78	49,199	48,559
750 -- Administration of Justice	24,405	22,170	24,795	24,191	23,887	24,996	24,094	25,68	24,675	24,713
Subtotal, Protected Functions	126,527	144,194	127,607	149,730	126,632	152,125	127,170	153,2[illegible]	128,591	152,604
All Other	400,330	409,074	405,392	409,591	410,561	412,140	414,862	411,1[illegible]	422,483	408,195
Total Discretionary Spending	526,857	553,268	532,999	559,321	537,193	564,265	542,032	564,318	551,074	560,799
Anomalies Included Above:										
Subsidized Housing (Function 600)	5,682	---	9,652	---	12,047	---	13,295	--	14,504	---
Fixed Assets (Up-Front Funding and Advance Appropriations):										
050 -- Defense	2,218	---	---	---	---	---	---	--	---	---
250 -- General Science, Space, and Technology	---	---	2,735	---	2,226	---	1,817	--	1,271	---
270 -- Energy	110	---	52	---	8	---	---	--	---	---
300 -- Environment	51	---	581	---	458	---	253	--	84	---
370 -- Commerce and Housing Credit	---	---	724	---	551	---	460	--	375	---
400 -- Transportation	---	---	675	---	724	---	424	--	206	---
650 -- Health	---	---	129	---	71	---	---	--	---	---
750 -- Administration of Justice	---	---	48	---	---	---	---	--	---	---
800 -- General Government	---	---	500	---	---	---	---	--	---	---
Total, Anomalies	8,061	---	15,096	---	16,085	---	16,269	--	16,440	---
Total Discretionary Less Anomalies	518,796	553,268	517,903	559,321	521,108	564,265	525,763	564,316	534,634	560,799

Protected Domestic Discretionary Priorities

(Funded at levels proposed in the President's FY 1998 budget.)

Department of Commerce
- National Institute of Standards and Technology (NIST)

Department of Education
- Education Reform (includes Technology Literacy Challenge Fund)
- Bilingual and Immigrant Education
- Pell ($300 increase in 1998 maximum award amount, to $3,000)
- Child literacy initiatives consistent with the goals and the concepts of the President's America Reads program.

Department of Health and Human Services
- Head Start

Department of the Interior
- National Park Service: Operation of the National Park System, Land Acquisition and State Assistance, and Everglades Restoration Fund (including Corps of Engineers).
- Bureau of Indian Affairs, Tribal Priority Allocations

Department of Labor
- Training and Employment Services, including Job Corps

Department of Treasury
- Community Development Financial Institution Fund

Environmental Protection Agency
- EPA Operating Program
- Superfund appropriations will be at the President's level if policies can be worked out.

Violent Crime Reduction Trust Fund, including COPS

Spectrum Auctions

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Spectrum	---	-3.5	-3.5	-4.5	-14.8	-26.3	-32.3

Note: Estimates for 1998-2002 were developed by the Congressional Budget Office (CBO). CBO has not formally provided estimates for 2003-2007. Tentative estimates for 2003-2007 are provided.

Four auction proposals and a penalty fee are assumed with expected receipts totaling $26.3 billion over five years and $32.3 billion over ten years (CBO scoring).

1. Auction of 78 Megahertz (MHz) of spectrum currently allocated to analog broadcasting: Codify current Federal Communications Commission (FCC) plans to reclaim surplus "analog" broadcast spectrum after broadcasters have migrated to new digital channels.

2. Auction of 36 MHz of spectrum currently allocated to television channels 60-69: 24 MHz will be reserved for public safety uses (e.g., police and emergency vehicle communications).

3. Broaden and Extend FCC Auction Authority: Expand the FCC's current authority to auction non-broadcast spectrum and extend FCC auction authority beyond 1998, when it currently expires. This proposal continues a policy to allocate spectrum via auctions.

4. Auction "Vanity" Toll Free Telephone Numbers: Authorize the FCC to award new generations of toll-free vanity telephone numbers (e.g., 1-888-BALANCE) through an auction.

5. Spectrum Penalty: 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.

Student Loans

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Total, Student Loan savings	- 241	- 240	- 151	- 81	- 1,050	- 1,763	- 1,996

The Agreement provides for outlay savings of $1.763 billion over five years and $1.996 billion over ten years from the student loan programs:

- savings will be achieved without increasing costs, reducing benefits, or limiting access to loans for students and their families
- savings will be derived as follows:

  (a) $1,000 million over five years from guaranty agency reserves

  (b) $603 million over five years, and $606 million over ten years, from section 458.

  (c) $160 million over five years and $390 million over ten years from elimination of the $10 per loan fee paid to institutions participating in the direct loan program.

Civil Service Retirement

(deficit reduction in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Increased Agency Contributions	-597	-591	-586	-582	-577	-2,933	-2,933
Increased Employee Contributions	---	-214	-423	-571	-621	-1,829	-1,985

- Increase agency contributions (except Postal Service and D.C.) for Civil Service Retirement System (CSRS) by 1.51 percentage points effective October 1, 1997 through September 30, 2002.
- Phase in increased employee contributions to the Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS).
- Employee contributions would increase 0.25 percentage points January 1, 1999; an additional 0.15 percentage points January 1, 2000; and a final 0.10 percentage points for a total cumulative increase of 0.50 percentage points January 1, 2001. Increased contributions remain in effect through December 31, 2002.
- Legislation provides that agency contributions to FERS would remain unaffected by this change.
- The CBO March Baseline is explicitly assumed for all Civil Service Retirement options, including any potential FEHB options.

U.S. Postal Service

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
End Transitional Payment for Worker's Compensation	---	-25	-33	-32	-31	-121	-261

- The proposal would repeal the payment to the U.S. Postal Service (USPS) to finance workers compensation benefits for employees injured before the USPS was created in 1971. USPS would be required to pay these costs out of the Postal Fund.

Veterans Home Loan Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Allow VA to use refund offset to collect deficiency balances...	-90	0	0	0	0	-90	-90

- This provision would allow VA to collect outstanding VA loan guaranty debts by Federal salary offset or Federal income tax offset. Currently VA is prohibited from using non-VA Federal offsets to satisfy debts unless the debtor consents in writing, or if a court has determined that the debtor is liable to VA for the deficiency.
- This will save the program $90 million in outlays in the first year of implementation.

Veterans Compensation Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Round down monthly compensation benefits after applying COLA	-23	-51	-88	-101	-128	-391	-1,469

- Authorizes VA to permanently round-down monthly compensation benefit payments to the nearest dollar after applying the annual COLA in each year, an extension of current law.
- The practice of rounding down monthly benefit checks is consistent with all other major pension programs including veterans pensions and military and civilian retirement benefits.

Medical Care Cost Recovery

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Mandatory Admin. Savings from moving receipts to discretionary	-118	-123	-128	-133	-139	-641	-1,427

- This proposal allows Medical Care to retain user fees to offset the cost of care provided in VA facilities. Currently, all receipts in excess of administrative costs are returned to Treasury. Under this structure, the administrative costs of debt collection are mandatory spending. Allowing the discretionary VA Medical Care account to retain all of these receipts and fund the cost of this activity out of its collections will result in a mandatory savings of $641 million over five years and $1,427 million over ten years.

Veterans Pension Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extension of OBRA Provisions for VA Pensions (See Note 1)	---	-133	-211	-143	-190	-677	-1,866

There are two OBRA savings provisions related to the veterans pension program. The overwhelming majority of the above savings are attributed to the $90 benefit limit described below.

- This provision extends the current limitation on VA pension benefits to Medicaid-eligible recipients in nursing homes. Under this provision veterans get to keep a greater monthly benefit (the $90 VA benefit). The full cost of the beneficiaries' nursing home care would be paid by the Medicaid program, where costs are shared with the states.

- This provision extends the authorization for VA to match income information submitted by beneficiaries with IRS and SSA records.

Note 1: The savings reflected in the table are net of Medicaid costs.

Veterans Housing Benefit Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Loan Asset Sale Authority	-5	-5	-5	-5	-5	-25	-50

- This provision would extend VA's authority to guarantee VA securities issued in the secondary market directly, thereby enhancing their value.

- To cover obligations of VA's home loan program, VA secures its direct or "vendee" loans and guarantees the certificates sold to investors. VA has its own securitization vehicle which issues multiple-class pass-through securities and is taxed as a Real-Estate Mortgage Investment Conduit (REMIC). VA's REMIC currently carries the full faith and credit of the United States.

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Higher Loans Fees/Resale Loss Provisions (OBRA) & increase home loan fees for non-veterans	-11	-228	-227	-224	-219	-909	-1,993

This includes two proposals—extend OBRA provisions and increase the fee for non-veterans financing through "vendee" loans.

- The OBRA provisions permanently extend three provisions that sunset September 30, 19998. This extends VA's authority to:

  1) charge borrowers using VA's home loan guaranty program a 2% instead of a 1.25% fee,
  2) charge veterans who use the loan guarantee benefit more than once a funding fee of 3 percent to reduce losses, and
  3) include expected losses on the resale of foreclosed properties.

- Second, this provision increases the fee for non-veterans using VA's vendee loan program to match FHA fees. When VA takes possession of properties resulting from defaulted veterans loans, the homes are ultimately sold to the general public. VA finances these properties through its vendee loan program, charging fees that are lower than those offered to veterans. This provision would raise these fees to 2.25% -- the same up-front funding fee that the general public pays for FHA loans.

FHA Assignment Program

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend FHA Assignment	-136	-145	-147	-128	-110	-666	-1,126

- This assumes continuation of current law policy to provide FHA with tools to encourage lenders to forbear for only up to 1 year. This would improve the targeting and efficiency of HUD's current program, and allow FHA homeowners experiencing temporary economic distress to stay in their homes.

Vessel Tonnage Duties

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Extend Vessel Tonnage Fees	---	-49	-49	-49	-49	-196	-441

- This proposal would extend vessel tonnage duties at their current levels through 2002. These duties, which would otherwise be reduced after 1998, are collected by the U.S. Customs Service from commercial vessels entering U.S. ports from foreign ports, based on their cargo-carrying capacity.

Lease of Excess Strategic Petroleum Reserve Capacity

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Lease Excess SPR Capacity	---	-1	-2	-4	-6	-13	-43

- Proposal would lease excess Strategic Petroleum Reserve storage capacity to foreign nations for storage of their crude oil.
- Proposal assumes that a total of five million barrels of oil are stored with a fee of $1.20 per barrel.

Unemployment Trust Fund

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Raise UTF Ceilings	---	---	-200	-208	-216	-624	-624

- Increases the ceilings of the Federal FUTA-funded accounts in the Unemployment Trust Fund to increase trust fund solvency.

Unemployment Benefits

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
UI Benefits Integrity	-118	-158	-160	-162	-165	-763	-1,658

- Provides 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.

VA Medical Care Cost Recovery and SSA User Fees

(in millions of dollars)

		1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Estimated spending associated with the VA user fee proposal:								
	BA	604	628	654	681	710	3,277	7,282
	OL	544	620	651	678	707	3,200	7,788
Estimated spending associated with the SSA user fee proposal:								
	BA	35	75	80	90	100	380	1,065
	OL	33	73	80	89	99	374	1,054

The proposals described below are included in the 1998 Budget and are assumed in the Budget Agreement.

<u>VA Medical Care Cost Recovery Fees</u>

- The 1998 Budget included a proposal to shift existing offsetting receipts from the mandatory side to the discretionary side. The Agreement assumes that Medical Care Cost Recovery fees are available to support domestic discretionary spending associated with VA Medical Care.

- The shift of the offsetting receipts from mandatory spending to discretionary spending has been incorporated into the Budget Committee's adjusted baseline.

<u>SSA Fees</u>

- The Agreement assumes a proposal to increase existing fees to offset SSA-related spending.

Earned Income Tax Credit

(deficit reduction savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Earned Income Tax Credit	---	-13	-36	-37	-38	-124	-332

- Treasury announced a package of legislative initiatives in April concurrent with the release of an IRS study on EITC noncompliance levels. Final scoring is not available.
- Other mutually acceptable EITC reforms targeted to reducing noncompliance and fraud may also be considered within these total savings targets.

The Smith-Hughes Act of 1918

(outlay savings in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Repeal appropriations under Smith Hughes	-1	-7	-7	-7	-7	-29	-64

- Eliminate the mandatory appropriation under the Smith-Hughes Act of 1918 in favor of increased discretionary spending on job training and vocational education in the Administration's GI Bill for America's Workers.
- Eliminating this program would save $29 million over five years and $64 million over ten years.
- Activities funded under the Smith-Hughes Act can be supported by the Department of Education's vocational education program.

Environmental Reserve Fund

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Orphan share spending	200	200	200	200	200	1,000	2,028

- The proposal would provide new mandatory spending for orphan shares at Superfund hazardous waste cleanup sites. Orphan shares are portions of financial liability at Superfund sites allocated to non-Federal parties with limited or no ability to pay.

- The funds will be reserved for this purpose based on the assumption of a policy agreement on orphan share spending.

Priority Federal Land Acquisitions and Exchanges

(outlay increases in millions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Priority Federal Land Acquisitions and Exchanges	300	150	150	100	--	700	700

- Under this proposal, up to $315 million would be available from the Land and Water Conservation Fund (LWCF) to finalize priority Federal land exchanges in FY 1998 and FY 1999.

- Funding from the LWCF for other high priority Federal land acquisitions and exchanges (totaling $385 million) would be available in fiscal years 1999 through 2001.

- The funding will be allocated to function 300 as a reserve fund exclusively for this purpose.

Major Mandatory Programs

Medicare

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicare, net	-6.5	-16.8	-22.7	-29.0	-40.0	-115.0	-434.2

- Reduce projected Medicare spending by $115 billion over five years.
- Extend solvency of the Part A Trust Fund for at least 10 years through a combination of savings and structural reforms (including the home health reallocation).
- Structural reforms will include provisions to give beneficiaries more choices among competing health plans, such as provider sponsored organizations and preferred provider organizations.
- The Medicare program reforms provide beneficiaries with comparative information about their options, such as now provided Federal employees and annuitants in the FEHB program.
- Maintain the Part B premium at 25 percent of program costs and phase in over seven years the inclusion in the calculation of the Part B premium the portion of home health expenditures reallocated to Part B.
- Reform managed care payment methodology to address geographic disparities.
- Reform payment methodology by establishing prospective payment systems for areas such as home health providers, skilled nursing facilities, and outpatient departments.
- Funding for new health benefits including: (1) expanded mammography coverage; (2) coverage for colorectal screenings; (3) coverage for diabetes self-management; and (4) higher payments to providers for preventive vaccinations to the extent it will lead to greater use by beneficiaries. Invest $4 billion over five years (and $20 billion over ten years) to limit beneficiary copayments for outpatient services, unless there is a more cost-effective way to provide such services to beneficiaries as mutually agreed.

Medicaid

(outlay savings in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Savings	10-Year Savings
Medicaid, net	0.0	-1.5	-2.4	-3.6	-6.2	-13.6	-65.5

- Include net Medicaid savings of $13.6 billion over five years.

- Net Medicaid savings include a higher match for D.C., an inflation adjustment for programs in Puerto Rico and other territories, Part B premium interactions, and $1.5 billion to ease the impact of increasing Medicare premiums on low-income beneficiaries.

- The $13.6 billion in Medicaid savings do not reflect the health care investments for children's coverage, protections for legal immigrants under welfare reform, or the extension of veterans' Medicaid income protections.

- Savings derived from reduced disproportionate share payments and flexibility provisions.

- Include provisions to allow States more flexibility in managing the Medicaid program, including repeal of the Boren amendment, converting current managed care and home/community-based care waiver process to State Plan Amendment, and elimination of unnecessary administrative requirements.

Immigration, Nutrition Assistance and Work

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	**5-Year Spending**	**10-Year Spending**
Immigrants	2.2	2.1	2.0	1.6	1.6	9.7	16.5
Nutrition Assistance	0.3	0.3	0.3	0.3	0.3	1.5	3.1
Welfare to Work	0.7	0.7	1.0	0.6	---	3.0	3.0
Total	3.2	3.3	3.4	2.5	2.0	14.2	22.5

Immigrants

- Eligibility for legal immigrants. Restore SSI and Medicaid eligibility for all disabled legal immigrants who are or become disabled and who entered the U.S. prior to August 23, 1996. Those disabled legal immigrants who entered the U.S. after August 22, 1996, and are on the rolls before June 1, 1997 shall not be removed.

- Refugees and asylees. Lengthen the exemption for refugees and asylees from the first 5 years in the country to 7 years in order to provide SSI and Medicaid.

Nutrition Assistance

- Redirect existing food stamps employment and training funds and add $750 million in new capped mandatory funding to create additional work slots for individuals subject to the time limits.

- Permit States to exempt 15 percent of the individuals who would lose benefits because of the time limits (beyond the current waiver policy), at a total cost of $0.5 billion.

Welfare to Work

- Add $3.0 billion in capped mandatory spending through 2001 to TANF, allocated to States through a formula and targeted within a State to areas with poverty and unemployment rates at least 20 percent higher than the State average. 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.

Children's Health

(outlay increases in billions of dollars)

	1998	1999	2000	2001	2002	5-Year Spending	10-Year Spending
Children's Health	2.3	2.7	3.2	3.7	3.9	16.0	38.9

- Spend $16 billion over five years (to provide up to 5 million additional children with health insurance coverage by 2002)

- The funding could be used for one or both of the following, and for other possibilities if mutually agreeable:

  1. Medicaid, including outreach activities to identify and enroll eligible children and providing 12-month continuous eligibility; and also to restore Medicaid for current disabled children losing SSI because of the new, more strict definition of childhood eligibility; and

  2. A program of capped mandatory grants to States to finance health insurance coverage for uninsured children.

- The resources will be used in the most cost-effective manner possible to expand coverage and services for low-income and uninsured children with a goal of up to 5 million currently uninsured children being served.

Budget Process

- Extend discretionary caps to 2002.
  - Extend and revise discretionary caps for 1998-2002 at agreed levels shown in tables included in this agreement, and extend current law sequester enforcement mechanism.
  - Within discretionary caps, establish separate categories (firewalls) for Defense and Non-Defense Discretionary (NDD) at agreed levels shown in agreement tables for each year 1998-1999 with associated sequester firewall enforcement as provided in BEA for 1990-93.
  - Retain current law on separate crime caps (VCRTF) at levels shown in agreement tables.
  - Extend and update special allowance for outlays; extend existing adjustment for emergencies.
  - Cap adjustment for exchanges of monetary assets, such as New Arrangements to Borrow, and for international organization arrears.
- Extend PAYGO to 2002.
- Revise the asset sales rule, which prohibits scoring the proceeds of asset sales, to score if net present value of all associated cash flows would not increase the deficit; scoring, if allowed, based on cash effect, not NPV.
- The Superfund tax shall not be used as a revenue offset.
- Reduce paygo balances to zero, including those derived from budget agreement.
- Provide for debt limit increase sufficient to extend limit to December 15, 1999.

Congress of the United States
Washington, DC 20515

May 15, 1997

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20515

Dear Mr. President:

We would like to take this opportunity to confirm important aspects of the Balanced Budget Agreement. It was agreed that the net tax cut shall be $85 billion through 2002 and not more than $250 billion through 2007. We believe these levels provide enough room for important reforms, including broad-based permanent capital gains tax reductions, significant death tax relief, $500 per child tax credit, and expansion of IRAs.

In the course of drafting the legislation to implement the balanced budget plan, there are some additional areas that we want to be sure the committees of jurisdiction consider. Specifically, it was agreed that the package must include tax relief of roughly $35 billion over five years for post-secondary education, including a deduction and a tax credit. We believe this package should be consistent with the objectives put forward in the HOPE scholarship and tuition tax proposals contained in the Administration's FY 1998 budget to assist middle-class parents.

Additionally, the House and Senate Leadership will seek to include various proposals in the Administration's FY 1998 budget (e.g., the welfare-to-work tax credit, capital gains tax relief for home sales, the Administration's EZ/EC proposals, brownfields legislation, FSC software, and tax incentives designed to spur economic growth in the District of Columbia), as well as various pending congressional tax proposals.

In this context, it should be noted that the tax-writing committees will be required to balance the interests and desires of many parties in crafting tax legislation within the context of the net tax reduction goals which have been adopted, while at the same time protecting the interests of taxpayers generally.

We stand to work with you toward these ends. Thank you very much for your cooperation.

Sincerely,

Newt Gingrich
Newt Gingrich
Speaker

Trent Lott
Trent Lott
Senate Majority Leader

Congress of the United States
Washington, DC 20515

May 15, 1997

Mr. Erskine Bowles
Chief of Staff to
the President
The White House
Washington, D.C. 20502

Dear Mr. Bowles:

We are writing to express our desire for continued cooperation between Congressional staff and the staff of the various Administration agencies during the development of the current budget agreement.

Much of the most difficult work in connection with the budget agreement will involve the development of the revenue provisions that will satisfy the parameters of the agreement. Historically, the staff of the Joint Committee on Taxation has provided technical legal and quantitative support to the House and Senate. The Budget Act *requires* the use of Joint Committee on Taxation revenue estimates. Ken Kies and his staff are committed to facilitating our work on the tax provisions of this budget agreement. You can be assured that they will cooperate with Administration counterparts in receiving Administration input as they carry out their statutory responsibilities.

The revenue estimating staffs of the Joint Committee on Taxation and the Office of Tax Analysis at Treasury have a long history of cooperation and communication among analysts. It is our understanding that steps have already been taken to insure that the cooperative efforts of these two staffs will be intensified during the current budget process. It is also our understanding that the professional staffs at the Office of Tax Analysis at Treasury and the Joint Committee on Taxation will consult and share information necessary to understand fully the basis of their revenue estimates and to minimize revenue estimating differences. The proposal shall not cause costs to explode in the outyears.

Now that we have agreed upon the overall parameters of this significant agreement, an inordinate number of details concerning specific provisions must be drafted and analyzed by the JCT and the committees of jurisdiction. We look forward to working with the Administration.

Sincerely,

Newt Gingrich
Newt Gingrich
Speaker

Trent Lott
Trent Lott
Senate Majority Leader

$\boxed{3.8}$ = ~~New Estim~~ * DHHS Estimates of the IMPACT OF THE VETOED REPUBLICAN Balanced Budget Act.

Impact of Cli' - health coverage

DHHS Estimates of KIDS COVERAGE UNDER THE PRESIDENT'S CHILDREN Health Initiative

President Clinton Delivers the First Balanced Budget in A Generation

Historic Agreement Promotes the Country's Priorities

May 2, 1997

DRAFT

President Clinton has achieved a balanced budget agreement that includes 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 63% – from $290 billion in 1992 to $107 billion last 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.

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.

- ✔ Largest Pell Grant Increase in Two Decades -- 4 million students will receive a grant of up to $3,000, an increase of $300 in the maximum grant.
- ✔ Tax cuts targeted to higher education to make college more affordable for America's families.
- ✔ An America Reads initiative to mobilize a million tutors to help three million children learn to read by the end of the third grade
- ✔ Expansion of Head Start -- to achieve goal of one million kids in 2002.
- ✔ Doubles funding to help schools integrate innovative technology into the curriculum.

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

- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

long-over-due

GOAL: Secure and strengthen Medicare and Medicaid thru '86 reform

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007. & modernizes the program
- ✔ Expands coverage of critical preventive treatments ~~of diseases such as diabetes and breast cancer~~
- ✔ Maintains the commitment to preserving the federal Medicaid guarantee.

GOAL: Strengthen environmental protection and enforcement

- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

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.
- ✔ Restores disability and health benefits for legal immigrants.
- ✔ Restores Medicaid coverage for poor legal immigrant children.
- ✔ Preserves food stamp benefits for people willing to work.
- ✔ Provides States and cities with additional resources to move disadvantaged recipients into jobs.

GOAL: Cuts taxes for America's hard working families

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

President Clinton Delivers the First Balanced Budget in A Generation

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- ✔ Medicaid improvements and added Medicaid investments.
- ✔ A new capped mandatory grant program that provides additional dollars to supplement states efforts to cover uninsured children in working families.

GOAL: Secure and strengthen Medicare and Medicaid

- ✔ Extends the solvency of Medicare Trust Fund to at least 2007 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.

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- ✔ Accelerates Superfund cleanups by almost 500 sites by the year 2000.
- ✔ Expands the Brownfield Redevelopment Initiative to help communities cleanup and redevelop contaminated areas.
- ✔ Boosts environmental enforcement to protect public health from environmental threats.

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- ✔ A Welfare-to-Work tax credit to help long-term welfare recipients get jobs.
- ✔ Establishes additional Empowerment Zones and Enterprise Communities.

Fact Sheet on the Budget Agreement
May 2, 1997

- Budget balances by 2002 -- for the first time since 1969

New initiatives

- Agreement provides $34 billion over 5 years for new initiatives, including:

  -- Full funding ($16 to $17 billion over 5 years) to provide health insurance for as many as 5 million children

  -- Restoring medical and disability benefits to legal immigrants

Discretionary spending

- Non-defense discretionary outlays are within 1 percent of the President's FY 1998 Budget request over 5 years -- protecting education, the environment, international and other priorities

- Defense spending meets President's FY 1998 Budget request (on budget authority)

Entitlement savings

- Medicare savings of $115 billion over 5 years and long overdue structural reforms, extending the life of the Trust Fund until at least 2007

  -- Modernizes Medicare by providing new incentives for managed care and new preventive care benefits (such as for diabetes and breast cancer)

  -- Gradually phases in, over time, cost of home health care into Part B premium

  -- Expands Medicare low-income protections to 150 percent of poverty threshold

- Reduces Medicaid spending through reductions in DSH payments and increased state flexibility, while maintaining the Federal guarantee. Per capita cap eliminated.

Education

- Largest increase in education spending in 30 years

- $35 billion for education tax cuts, including the Hope Scholarship and the $10,000 tax deduction

- Increases maximum Pell grant award to $3,000
- Fully funds the President's America Reads initiative

Environment

- Meets the President's commitments in priority areas, including Superfund and brownfields
- Invests in National Parks and Federal land management

Tax cuts

- $85 billion in net tax cuts, including $135 billion in gross tax cuts and $50 billion from revenue raisers and extensions of expiring tax provisions ($30 billion of which is the extension of the airline ticket tax)
- A majority of the $135 billion in tax cuts is directed towards middle-income tax relief.

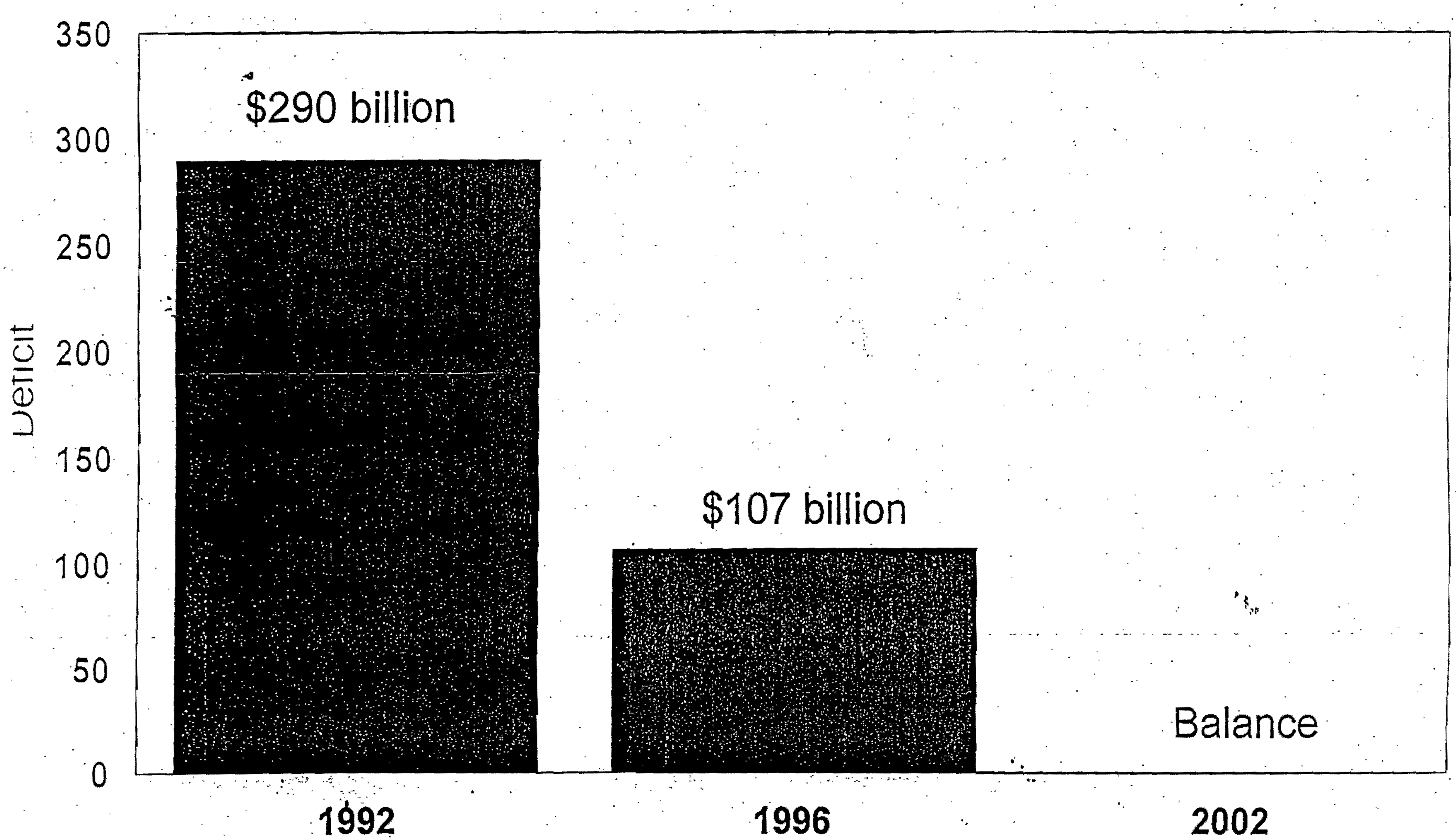
COLAs

- Congress will incorporate the impact of expected ongoing improvements at the BLS

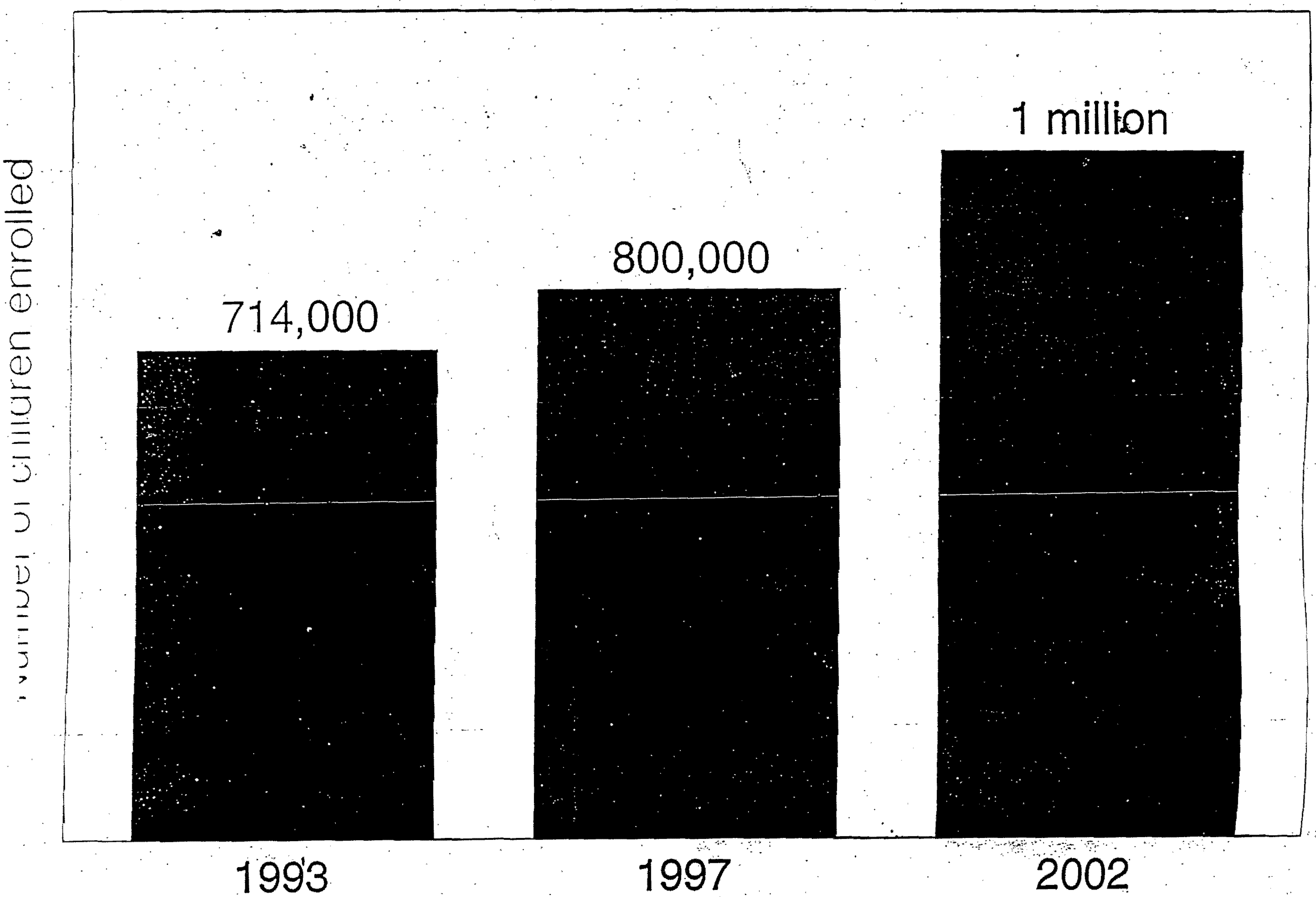
Welfare reform

- A welfare-to-work tax credit to help long-term welfare recipients get jobs
- New flexibility for states to provide benefits for poor families

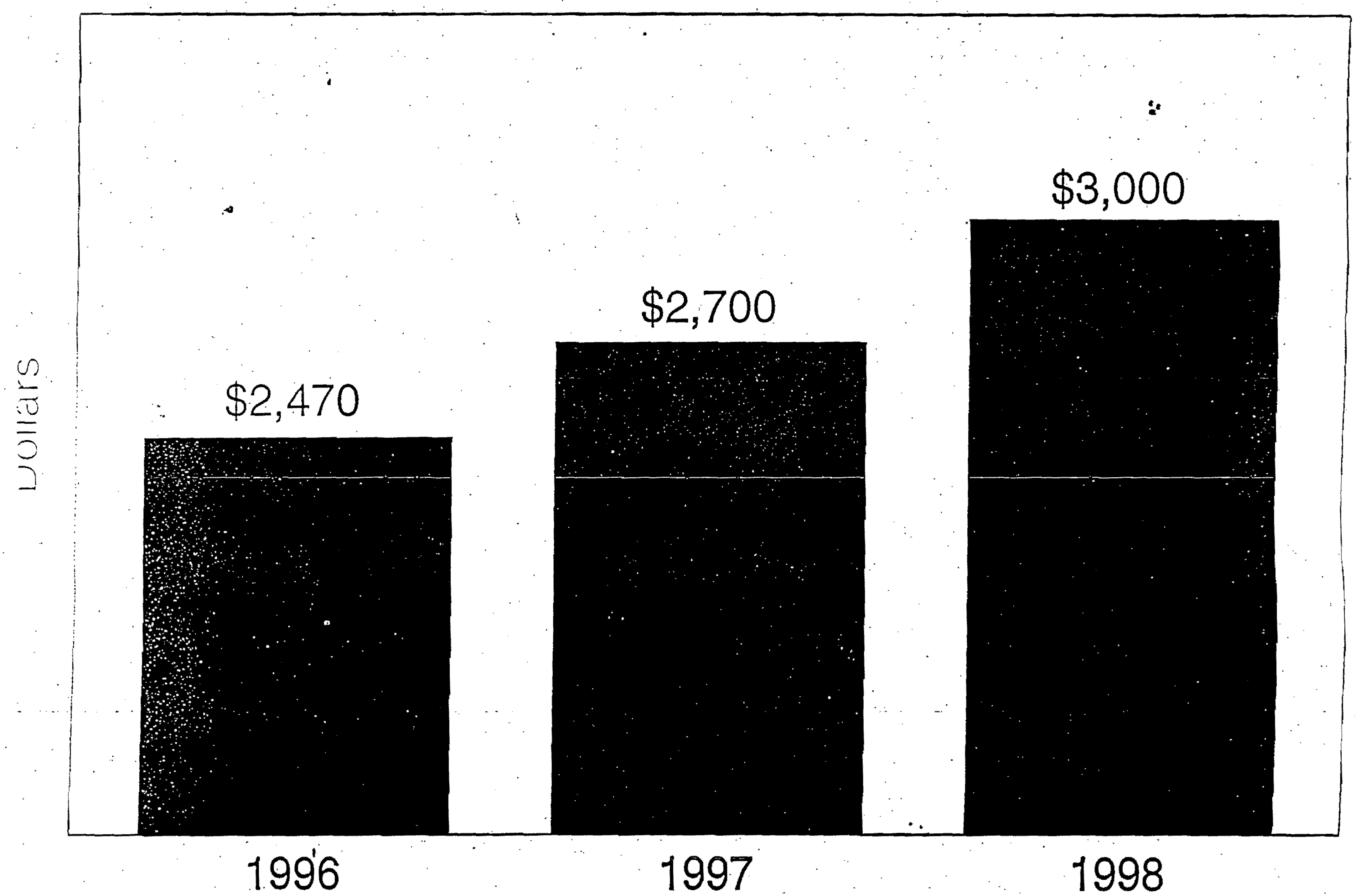
President Clinton Finishes The Job: First Balanced Budget in a Generation



Presidential Priority
Increase Head Start Enrollment



Presidential Priority
Increase Maximum Pell Grant



MEMORANDUM

April 22, 1997

TO: Chris J

FR: Sarah B.

RE: Immigrant Provisions

Exempt Certain SSI Disabled Legal Immigrants - current (2nd Highest Priority)

-- The new welfare law places a 5-year Medicaid ban on <u>all</u> legal immigrants. This proposal would exempt current disabled legal immigrants from this five year ban and from the new deeming laws.

-- **Costs:** **$3.7 billion between 1998 and 2002 and $.7 in 2002.**

-- **Costs with Reg:** **$2.0 billion**

-- **Costs w/o per capita cap** **$1.7 billion**

Exempt Disabled Legal Immigrants from 5-year Ban and Deeming - future (5th priority)

-- This proposal would maintain the ban from Medicaid coverage for people with disabilities coming into the country but would permit Medicaid coverage for legal immigrants who <u>become disabled</u> after they enter this country.

-- Those who became disabled after entering the country would be exempt from the new deeming requirements.

-- **Costs:** **$1.8 billion between 1998 and 2002 and $.8 in 2002.**

-- **With Deeming -- No Ban:** **$.4 billion.**

-- **Costs w/o per capita cap:** **$.9 billion.**

Total Coverage of Disabled Immigrants: These two proposals would provide Medicaid coverage for 195,000 disabled legal immigrants in 1998 -- the vast majority of which coming from the retrospective protections.

Exempt Current and Future Legal Immigrant Kids from 5-year Ban and Deeming Law **(3rd Highest Priority)**

-- Under the new welfare law legal immigrant children could lose coverage for 5 years and will be subject to deeming requirements.

-- The President's budget proposes to exempt children from the bans on future and current "legal immigrants." It also exempts kids from the p
new deeming requirements that require the income and resources of an immigrants sponsor to be counted when determining income eligibility.

-- This proposal would retain Medicaid to approximately 30,000 non-disabled legal immigrant children. It would also ensure coverage for future immigrants.

-- **Costs:** **$.4 billion between 1998 and 2002 and $.1 in 2002.**

-- **Costs With Just Deeming:** **$0**

-- **Costs w/o per capita cap:** **$.2 billion**

Retain Medicaid for Disabled Kids Who Lose Their SSI (4th Priority)

-- The President's budget would retain Medicaid coverage for about 30,000 disabled children currently receiving Medicaid who will lose their SSI as a result of the tightened definition of SSI eligibility.

-- The new welfare law provides a new definition of disability for children separate of that from adults. Many of these disabled children could lose their Medicaid coverage if they lost their SSI cash assistance due to the new definition and could not requalify based on poverty standards. (OACT estimates that about 120,000 kids will no longer meet the disability standards. However, there are only an estimated 30,000 who will not requalify for Medicaid based on poverty).

-- CBO estimates that this proposal **costs $1.0 billion between 1998 and 2002 and $.2 in 2002.**

The Medicaid Bucket Issue

Medically Needy Regulation. HCFA has proposed a regulation that would broaden the definition of medically needy which would allow states to provide Medicaid coverage for aged and disabled individuals that are losing Medicaid coverage because they are losing SSI.

-- 34 states have medically needy programs, however, most of these states could find ways to restore Medicaid coverage to these individuals without the regulation. (Most states could cover them through other options in their Medicaid programs).

-- Only eight states (Georgia, Kansas, Kentucky, North Carolina, Wisconsin, Arkansas, and California) that cannot cover disabled or qualified aliens except through the state's medically needy program.

-- **Seven** states do not have a medically needy program or another optional eligibility category necessary to provide Medicaid coverage to qualified aliens losing SSI benefits. (Alabama, Delaware, Louisiana, Nevada, New Mexico, Texas, and Wyoming). To help this population, HCFA is proposing a "Delay" Regulation which is discussed below.

**** **Our top legislative priority is finding coverage for disabled immigrants in these seven states** who will not be helped by the medically needy regulation and have no other recourse in their existing Medicaid program to cover these legal immigrants.

-- **Costs:** $505 million in Federal Medicaid costs from FY 1998 to FY 2002 and $95 million in FY 1998.

"Delay" Regulation. To help the seven states who cannot be impacted by the medically needy regulation, HCFA is proposing a "delay" regulation, which is intended to delay the proposed Medicaid bans.

-- Justification Although the welfare law denies SSI coverage to qualified aliens who lose SSI, the law is silent on the impact of their Medicaid coverage. HCFA believes they need to promulgate a regulation to give them authority to remove recipients from Medicaid when they lose their SSI benefits in those states with no other optional Medicaid eligibility category.

-- Proposal HCFA has proposed to publish a Notice of Proposed Rule Making (NPRM), which would provide for a public comment period. HCFA believes that until the regulation is final (possibly one year) states could continue to provide Medicaid coverage for those individuals who lost their SSI. In effect, HCFA would be using the regulatory process to help the seven states without a medically needy program or other optional category delay the impact of denying Medicaid coverage.

Different Populations Covered By Legislative Initiatives and Regulations

Non-Disabled Elderly -- only retain coverage through reg -- The regulations would cover some non-disabled elderly that the legislative proposals in the President's FY 1998 Budget would not cover.

Children. -- only retain coverage through legislation -- While the President's legislative proposals restore Medicaid coverage for legal immigrant children, the only children who would retain Medicaid coverage under the regulations are disabled children. The reason being that the medically needy regulation is targeted to those individuals who would lose SSI under Medicaid, and most non-disabled legal immigrant children are not on SSI.

Disabled -- retain coverage through both reg and legislative proposals -- The disabled (both children and adults) would be covered both by the President's budget initiatives and by the regulations. Once the regulations are in place, our legislative policy that extends coverage for disabled individuals will be duplicative. Therefore, we will get some savings off of our legislative package. Although it is important to keep in mind that not all of the states will be taken care by the medically needy regulation and will need the legislation.

State Option vs. Requirement. It is also important to remember that under the regulation, restoring benefits to the disabled and aged population would be a state option. Our legislative proposals restore eligibility for all of this population.

Hearing Summary
House Committee on the Budget
"President's Budget for Fi cal 1997"
March 21, 1997

Members Present:
Republicans: Chairman Kasich (OH), Walker (PA), Kolbe (AZ), Shays (CN), Smith (TX), Miller (FL), Lazio (NY), Largent (OK), Franks (NJ), Neumann (WI), and Myrick (NC).

Democrats: Sabo (MN), Stenholm (TX), Orton (UT), Pomeroy (ND), Olver (MA), Roybal-Allard (CA), Meek (FL), and Rivers (MI).

Witness:
OMB Director Alice Rivlin

Opening Statements:

Chairman Kasich welcomed Director Rivlin. He indicated the importance of having a budget that meets the needs of the 21st Century. He explained that there are no fundamental changes to entitlements. Therefore, the President's budget lacks vision, maintains the status quo, and will not balance the budget in the next century. Kasich recommended shifting entitlement programs to the states as recommended by the Governors. He added that the Administration lacks trust in the ability of the American people to run their lives. Kasich complimented the Director for her efforts to reduce the deficit. He concluded that a return to high deficits is not acceptable, and a return of power to the states is inevitable.

Ranking Minority Member **Sabo** indicated his opposition of the Committee using the Minority's names to support the Committee's analysis of the President's budget. He also stated that the Administration has successfully reduced the high deficits of the 1980s with an increase in jobs and a strong economy. There has also been a reduction in federal government jobs. However, he spoke out against the bashing of government employees. Sabo added that the Administration is turning the chaos of the 1980s around and reforming the government. Sabo expressed hope that a balanced budget would be achieved before the election.

Testimony of the Witness:

OMB Director Rivlin stated the President's budget for fiscal 1997 is a good budget and should be passed. However, she hoped that Congress would first complete the FY '96 budget before it resolves the FY '97 budget. Director Rivlin stated that the President's budget would achieve a balanced budget by 2002. It reforms entitlement spending by requiring work and achieving savings. Medicare is strengthened, and the solvency of the Part A Hospital Insurance Trust Fund is extended through the next decade. The President's budget also slows the growth rate of provider payments, expands managed care, and attacks fraud and abuse. It increases state flexibility for Medicaid and ensures guarantees. It repeals AFDC, imposes time limits for cash assistance, promotes work, protects children, and provides an increase for Head Start. Director Rivlin indicated that the budget strengthens education and environment programs. It includes tax relief for the middle class and small business. Rivlin concluded that the President wants to work with Congress to achieve a balanced budget before the election.

Questions and Answers:

Chairman Kasich requested a list of all program terminations because only a small amount of savings have been achieved. He also referred to the transfer of $68 billion in Medicare's trust fund and inquired how long it would remain solvent. Rivlin replied that it would be solvent for another decade and that the transfer from Part A to Part B was similar to a provision in the Republican's legislation. She explained that home health care was originally in Part A, but over the years Congress has loosened home health care provisions. Kasich stated that the transfer of funds was a show game which fails to extend the life of the trust fund and places a financial burden upon the shoulders of our children. Kasich also inquired about the use of generational accounting. Rivlin replied that generational accounting was misleading because it assumes no benefit from government programs. The Chairman indicated that the President's budget promotes addiction to welfare. However, Rivlin indicated that the budget provides reform, promotes work, enforces time limits, and protects children. She stated that the Administration is working with the Governors to achieve welfare reform.

Sabo commended the Director for her work to reduce the high deficits inherited from the 1980s. He stated that we need welfare reform which promotes work and reduces poverty. Sabo indicated that the Governors' welfare reform plan would increase federal spending and allow states to cut benefits, particularly to children. He concluded that the Governors' plan would allow states to use federal funds without any guarantees to beneficiaries. Therefore, he urged that welfare reform measures be revised to address these deficiencies. **Director Rivlin** agreed with Sabo's concerns regarding the Governors' plan and that these problems should be corrected.

Orton indicated his hope that agreement can be reached before the election to reform entitlement programs such as Medicare and Medicaid. He expressed concern with placing the future of children against today's seniors. **Miller** inquired how long Medicare would have before it went bankrupt. Director Rivlin replied that it would be solvent at least another decade and legislative language providing more details is forthcoming. Miller indicated his concern with providing increases followed by decreases in health care provisions. Director Rivlin responded that the President's priorities include health, education, and the environment which have received increases, and other programs have decreased.

Neumann stated that the President's budget provides cuts in Medicare/Medicaid, yet there are increases in federal funding. Director Rivlin responded that these are savings rather than cuts. Neumann concluded that the insurance trigger in the budget should not allow an increase in discretionary spending which would only add our children's future debt. **Shays** stated that the

Republican bill provided for a cut of $168 billion in Medicare, however, the President's budget claims to cut $124 billion with increases in federal spending. Director Rivlin explained that there are savings in both plans because reductions would be achieved to avoid previously scheduled increases from occurring. Therefore, savings would be achieved. Shays concluded that the President's budget is unfair to our children.

Kasich stated that we are dealing with a sleeping giant because during the next century entitlements will contribute to escalating deficits. Director Rivlin responded that the President's budget is a good approach because it is important to have a balanced budget in seven years. It is also true that by 2010 we will have a major change in our demographics which will result in larger deficits. We will be in a position to hold down discretionary spending. However, in the next century, we will have to decide how much to hold down federal spending. Kasich stated that Medicare spending needs to slow down. Director Rivlin indicated that we should pass the President's budget which would achieve savings in Medicare of $124 billion. Kasich responded that Director Rivlin should recommend to the President that he accept the Republican's plan to save $168 billion in Medicare spending. Director Rivlin replied that the President wishes to reach agreement but that the Republicans walked away from earlier discussions. She explained that the President's budget provides more for seniors. Kasich concluded that the Administration does not wish to change entitlement spending, supports strengthening HCFA, seeks to maintain the status quo, and distrusts the American people. **Shays** stated that we need honest dialogue to reach agreement, and the numbers are not that far apart. He concluded, however, that this debate may very well become an election issue.

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

THE DIRECTOR

May 16, 1996

The Honorable John R. Kasich
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear ~~Chairman~~ John Kasich:

Attached please find a supplement to the letter I sent on May 15 regarding Administration concerns with H.Con.Res. 178, the House Budget Committee's concurrent resolution on the budget for fiscal years 1997-2002. This supplement contains a more detailed discussion of the concerns raised in that letter.

Sincerely,

Alice

Alice M. Rivlin
Director

Attachment

IDENTICAL LETTER SENT TO THE HONORABLE MARTIN O. SABO

Attachment: Additional Concerns with H.Con.Res. 178 as Reported by the House Budget Committee

MEDICARE

The Medicare cuts are too large. The resolution would cut Medicare by $161 billion -- almost $45 billion more than the President's budget, according to CBO.

As the President's budget shows, cuts of this magnitude are unnecessary to balance the budget in 2002. The President's budget would reduce projected growth in Medicare costs by a reasonable amount while still achieving a balanced budget in 2002 and extending the life of the Hospital Insurance (Part A) Trust Fund to about 2006.

The resolution drops the proposal to raise the Part B premium to 31.5 percent of program costs. But to achieve $123 billion in Part A savings without a premium increase, the resolution reportedly assumes $24 billion more in Part A savings than the Republicans assumed last winter. Such savings are achievable only by: further cutting hospital payments; cutting disproportionate share payments to hospitals that serve a large indigent population; or cutting payments for home health services, skilled nursing facilities, and hospices. All of these steps could seriously, and adversely, affect beneficiaries. If all additional Part A savings come from hospitals, the cut in hospital payments is 18 percent over the hospital cuts in the vetoed bill. Cuts of this magnitude could place tremendous stress on hospitals and limit beneficiaries' access to hospital-based health services.

The Committee report assumes the establishment of medical savings accounts (MSAs) for Medicare beneficiaries. As CBO concluded last fall, MSAs would likely attract healthier Medicare beneficiaries for whom Medicare now spends very little. If so, MSAs could cost Medicare substantial amounts of money, speeding the depletion of the Part A Trust Fund.

Other Republican proposals would permit physicians who participate in a private, fee-for-service plan to charge beneficiaries extra through "balance billing," which would raise out-of-pocket costs for beneficiaries and seriously threaten the viability of the traditional Medicare system.

MEDICAID

The resolution would cut Medicaid by $72 billion -- far more than needed to balance the budget in 2002. The latest Republican offer called for $85 billion in savings off CBO's December 1995 baseline; but, off of CBO's new March 1996 baseline, the same policies would save only $60 billion. The resolution, thus, cuts more from Medicaid because it has more savings off of a lower baseline.

Moreover, under the budget resolution, Medicaid cuts could far exceed $72 billion if States spend only the minimum amounts needed to receive their full block grant allocation. Last year's vetoed reconciliation bill called for cutting State matching requirements. Republicans in the House Budget Committee mark-up defeated efforts to add language to the resolution urging States to retain their current funding levels for Medicaid.

But more than dollars are at stake. The resolution gives no indication that Republicans plan to withdraw their proposal to block grant Medicaid. If a block grant were enacted, funding levels would no longer automatically respond to economic crises, such as recessions; millions of people could lose their guaranteed access to health care, and those who do receive coverage would no longer have a Federal guarantee to a basic level of benefits.

We understand that under the Republican plan, phase-in coverage for poverty-level children aged 13-18 could end. In addition, if Republicans retain their elimination of Federal disability guidelines, millions of people with disabilities could be at risk of losing their current guarantee to coverage.

Nor does the resolution provide any assurance of continued federal enforcement of nursing home quality standards, which have dramatically improved the quality of nursing home care. Although the Committee adopted a non-binding amendment regarding current federal protections, the resolution provides no assurance that current federal nursing home quality standards, spousal impoverishment protections, and provider tax and donation laws will remain in place.

By contrast, the President's budget gives States unprecedented flexibility to manage their programs but preserves the guarantee of health coverage for millions of children, people with disabilities, and older Americans. We can balance the budget without leaving States, and the families they serve, vulnerable to factors beyond their control.

WELFARE

The resolution cuts in welfare programs -- $53 billion, not counting interactions with Medicaid -- match those in the vetoed welfare bill and are much deeper than in the recent NGA proposal. The resolution cannot both meet the $53 billion savings target and provide child care and other funding to move families from welfare to work unless it cuts Food Stamps, SSI, benefits to immigrants, and other programs even more deeply than the vetoed welfare bill. With these cuts, a large majority of disabled children coming on the SSI rolls could have their benefits reduced, the national nutrition safety net could be jeopardized, and legal, tax-paying immigrants could be banned from most means-tested programs.

The plan folds 20 separate child protection programs into two block grants at a time when the General Accounting Office and others report that current resources are not keeping pace with the needs of a national child protection system in crisis. Under this plan, funds could be inadequate to respond to rapidly rising reports of abuse and neglect, and insufficient to protect abused children and find them safe, loving, and permanent adoptive homes. The plan potentially guts accountability for State child protection systems, over 20 of which now operate under court mandates for failing to provide adequate service to abused and neglected children.

STUDENT LOANS

Like last year's House resolution, this plan calls for eliminating direct lending. Over 2.8 million students now in direct lending would be denied access to direct loans and "pay-as-you-can" repayment options. The 1,300 colleges and universities now in the program would be forced out, and the 450 others planning to enter direct lending on July 1 would be shut out.

ARCTIC NATIONAL WILDLIFE REFUGE

The House resolution again calls for opening the Arctic National Wildlife Refuge, a national treasure, to oil and gas development -- a proposal that the President has said he would veto.

TAXES

With this resolution, Republicans continue to raise income taxes on millions of working Americans by cutting the Earned Income Tax Credit (EITC). The EITC helps low-income working families stay off welfare and out of poverty. The resolution calls for $20 billion of cuts. Though scaled back from last year's House proposals, they are $5 billion higher than the last Republican offer and are still too high.

Over 4 million workers who do not reside with children would lose their entire credit, and see their net income taxes increase, on average, by $174 a year. Millions of families with children might see a cut in their EITC due to, among other things, a more rapid phase-out of the EITC for families in income ranges where they likely would benefit from the child tax credit. At the same time, many other working families with children would lose part or all of their EITC, but not receive any child tax credit.

In addition, the resolution purportedly contains tax cuts of $122 billion over 6 years -- specifically, a child tax credit that costs $23 billion a year. But the resolution assumes -- without saying why -- that the cost of the credit would mysteriously fall to $16 billion in 2002. Either the revenue estimate for the credit is too low, or part of the credit itself disappears in the last year.

More generally, the resolution conceals the exact nature of the tax cuts; moreover, the statements by House and Senate leaders have exposed sharp differences over how much revenue will be lost. The Committee's markup materials, however, suggest the tax cut could be as high as $185 billion and that the Ways and Means Committee bill will contain capital gains tax relief and other changes. The capital gains proposal in last year's reconciliation bill was too expensive, and was heavily targeted to the most well-to-do. Furthermore, the costs would have exploded in later years, according to Joint Tax Committee estimates.

In the resolution, the revenue line itself is a smoke screen: It allows for another "deficit neutral" tax relief bill, financed through revenues that Republicans apparently have held in reserve. Not only does the resolution omit $36 billion in revenues from extending expiring provisions in last year's vetoed reconciliation bill, it also omits $26 billion in revenues from closing corporate loopholes and other tax measures from the last Republican offer..

Rather than use these dollars to mitigate the excessive cuts in Medicare, Medicaid, and welfare, the resolution makes those funds available for more tax cuts. If such tax cuts mirrored last year's vetoed reconciliation bill, they would favor the well-off; that bill devoted about half of its tax cuts to people making over $100,000.

DISCRETIONARY SPENDING

The "savings" in this resolution may appear smaller due to the new baseline. In fact, however, the Republican plan proposes <u>lower</u> discretionary spending over the next six years than in their January offer, making it even harder to finance important priorities in education and training, the environment, science and technology, and law enforcement. In fact, the House resolution is worse than the Senate; it shifts even more resources into short-term defense procurement than needed for a strong defense, while reducing critical out-year procurement requested in the President's budget. And it calls for eliminating such valuable non-defense investments as AmeriCorps, Goals 2000, and the Advanced Technology Program -- and for eliminating the Energy and Commerce Departments.

Although described as a freeze from 1996, the non-defense spending level is actually over $3 billion below that level. The 1996 Omnibus Appropriations bill included one-time savings to finance a higher level of spending for education and training, the environment, and anti-crime efforts that cannot be, or are not expected to be, repeated in 1997.

Education and Training. The resolution cuts education and training by $27 billion compared to freezing 1995 funding through 2002, and provides $61 billion less in budget authority from 1997 to 2002 than the President's budget. In 2002, this would represent a 25 percent cut below the 1995 level, when adjusted for inflation.

The resolution seeks to end AmeriCorps, denying 200,000 youth the chance to serve their communities by 2002 while earning money for college, compared to the President's budget. It eliminates Goals 2000, which supports all States in efforts to establish high standards and innovative reform in every school. It terminates Bilingual Education, eliminating help for nearly 530,000 limited English proficient students in learning English and succeeding in school compared to 1996. And it freezes funds for Title 1, meaning that 400,000 fewer children would receive services in 1997, compared to the President's budget.

The resolution freezes funds for Head Start, eliminating up to 20,000 slots next year for children now receiving services (presuming program quality is maintained).. It would deny summer jobs to about 600,000 youths over the next six years, and eliminate job training or related services for over 340,000 low-income adults and 560,000 dislocated workers.

Finally, under the resolution, 2.7 million fewer students would receive Pell grants over the next six years, 191,000 fewer in 1997 alone. Nor does the resolution provide resources to increase the number of students who could participate in college work study.

Natural Resources and the Environment. The resolution effectively cuts the Environmental Protection Agency's operating budget by 14 percent in 1997 and 25 percent by 2002, compared to the President, impairing EPA's ability to protect public health and the environment -- significantly cutting EPA and state enforcement actions and facility inspection (i.e., taking environmental cops off the beat); preventing the U.S. from meeting its international commitments to cut greenhouse gas emissions that affect global climate change; and ending efforts to spur new technologies to protect public health, cut costs, create jobs, and increase exports. The resolution uses these cuts to let polluters off the hook by financing taxpayer spending for Superfund cleanups, rather than require responsible parties to pay the cost.

The resolution provides far less than the President to improve National Parks. The funding levels likely would force reductions in resources for the Agriculture Department's Forest Service and Natural Resources Conservation Service, thus cutting conservation of our natural resources and forests.

We continue to oppose termination of the GLOBE program. GLOBE promotes partnerships involving over 1,500 U.S. schools and 35 other countries and gives thousands of students across the U.S. and worldwide an important educational experience.

Technology Programs. The resolution would end technology programs that work with industry to promote economic growth. It repeats earlier efforts to end the Advanced Technology Program (ATP), and also would end the Manufacturing Extension Partnership (MEP), the Technology Administration, and the National Information Infrastructure (NII) Grants Program. With these eliminations, the resolution would cut $330 million from federal research and development, compared to 1996.

The resolution also would cut NASA's budget by over $300 million, likely falling heavily on important environmental observations provided by NASA's Mission to Planet Earth as well as important aeronautics research and the Space Shuttle in 1997. Cuts in Solar and Renewables and Conservation would eliminate top Administration priorities, such as the Partnership for a New Generation of Vehicles and the Climate Change Action Plan. Virtually all technology transfer and information-sharing activities would end immediately.

Once again, the resolution proposes to eliminate the Commerce and Energy Departments, which the Administration strongly opposes. Termination of these Departments would disrupt and damage key national services, including environmental clean-up, technology, and nuclear weapons safety. Moreover, just moving the components of these agencies elsewhere in the government will not save money and could create more government with less efficiency.

Anti-Crime Programs. At $22 billion, the resolution provides $2 billion less than the President's request, sharply cutting the President's proposals to fight crime -- including funds for drug enforcement on the Southwest Border, gang violence investigations and prosecutions, and law enforcement technology.

The resolution provides only $4.1 billion for the Violent Crime Reduction Trust Fund, $900 million less than the President's request, jeopardizing such important anti-crime initiatives as Violence Against Women grants, Violent Offenders and Truth in Sentencing grants, and drug courts. Also, the resolution sharply cuts funds for the Legal Services Corporation in 1997 and eliminates it fully in 1998, thus drastically reducing access to the judicial system for the poorest Americans.

Defense. The resolution provides $13 billion in budget authority above the President's budget in 1997, and roughly $25 billion above the President over the next six years. Such increases are unnecessary. The President's plan for defense provides the funds necessary for readiness and modernization of our forces without these unjustified add-ons.

At the same time, the resolution provides about $6 billion less in budget authority from 2000 to 2002, the critical years for defense recapitalization. Among other problems with the resolution, it calls prematurely for deployment of a U.S.-based system for national missile defense; sets the military retiree COLA date equal to the civilian date from 1997 to 2002; and terminates the Dual Use Applications Programs that will bring cutting-edge commercial technologies into the defense sector to cut costs, increase performance of defense systems, and strengthen the defense industrial base.

International Affairs. The resolution would cut spending on international affairs by 8 percent in 1997, and nearly a third by 2002, compared to the President's request. Although supporting materials indicate that USAID and USIA would be "consolidated" into the State Department, the cuts would effectively eliminate the programs, making this resolution even more extreme than earlier Congressional attempts at consolidation that the Administration strongly opposed.

By nearly eliminating USAID programs and ceasing to support concessional lending by the multilateral development banks by 2002, the resolution would end nearly all U.S. development assistance to the world's poorest countries. It would cut the State Department's operating expenses by over a third, forcing a withdrawal from many diplomatic activities of importance to U.S. security and prosperity. Further, it would cut export promotion programs about 40 percent from the President's request by 2002, just as export competition will be intense. In short, the resolution would place the United States in an isolationist stance in world affairs.

OTHER AREAS OF CONCERN

Among the Administration's other concerns, the resolution or the report would call to: eliminate the National Institute for Occupational Safety and Health; unwisely alter the role of the Food and Drug Administration; consolidate the Indian Health Service and the Bureau of Indian Affairs programs into a proposed Native American Block Grant by 2000 while cutting funds for the programs; assume the elimination of grants that increase access to health care services for rural Americans; reduce assistance to rural areas by creating a Rural Development Block Grant Program; repeal the Davis-Bacon and the Service Contract Acts; eliminate the Office of Labor Management Standards; cut funds for Labor Department health and safety agencies; eliminate funds for the Trade Adjustment Assistance Program; terminate funds for the National Endowment for the Arts and National Endowment for the Humanities; reform the Federal Employees' Compensation Act; consolidate the Community Development Block Grant program, HOME program, and Community Development Financial Institutions program into one fund and reduce funds for them; eliminate the Council of Economic Advisers; and effectively dismantle the Office of Personnel Management.