

DRAFT

**PRESIDENT CLINTON
DELIVERS THE FIRST
BALANCED BUDGET IN A
GENERATION**

*THIS HISTORIC AGREEMENT
PROMOTES THE COUNTRY'S
PRIORITIES*

MAY 2, 1997

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President Clinton Delivers the First Balanced Budget in A Generation Historic Agreement Promotes the Country's Priorities

May 2, 1997

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.

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.

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.

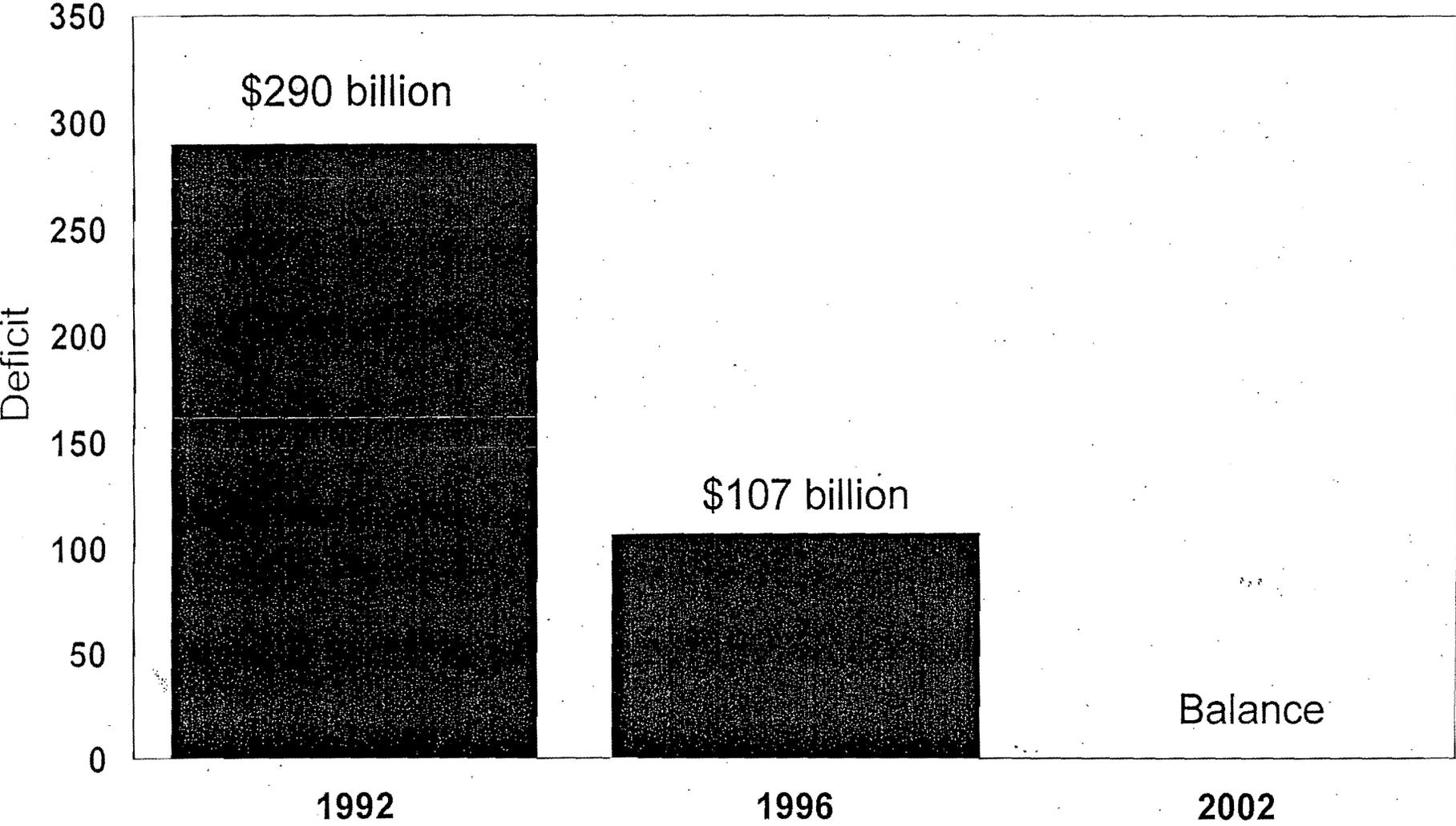
GOAL: Move people from welfare to work and treat legal immigrants fairly

- ✓ 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 Finishes The Job: First Balanced Budget in a Generation



President Worked to Expand Educational Opportunity for All

The President would not accept any balanced budget agreement that does not expand educational opportunities in America.

THE 1995 REPUBLICAN BUDGET, UNFORTUNATELY, WOULD HAVE CLOSED COLLEGE DOORS TO MANY AMERICANS. IT WOULD HAVE:

- ✂ **Frozen Pell Grant funding** -- because of increasing college enrollment, the Congress would have been forced to reduce the size of the grants -- while tuitions still increase -- in order to stay within the budget.
- ✂ **Increased the cost of student loans**, and cut off streamlined direct loan options to 2.5 million students in the first year alone.

INSTEAD, TO OPEN THE DOORS OF COLLEGE, THIS BUDGET INCLUDES:

- **Pell Grant Expansion.** Includes the largest increase in two decades -- a funding boost of 25%. The maximum award will reach \$3,000, an increase of \$300. In the 1998 budget alone, an additional 348,000 students will receive grants: 130,000 young people from moderate-income families, and 218,000 low income students over the age of 24.
- **Tax cuts for higher education.** To help make college affordable for all American families.
- **Work-Study.** Will continue to expand the availability of work-study jobs, including an increasing number of community service positions, moving closer to the President's commitment to 1 million work-study jobs by the year 2000.

EXPAND ACCESS TO HEAD START AND EARLY HEAD START

- **A Commitment to Enrolling 1 million children in Head Start in 2002.** The President has long been committed to making Head Start, and now Early Start, available to more children. The agreement adopts that goal, accepting the President's proposal for increases from 1998 to 2002.

THE 1995 REPUBLICAN BUDGET WOULD REQUIRE A CUT OF 150,000 CHILDREN FROM HEAD START BY 2002.

- **Over the past 4 years, the President, working with allies in Congress, has secured a 43% increase in funds for Head Start.** The program will serve 800,000 in 1997, and the 1998 budget will bring in 86,000 more children.

America Reads Challenge

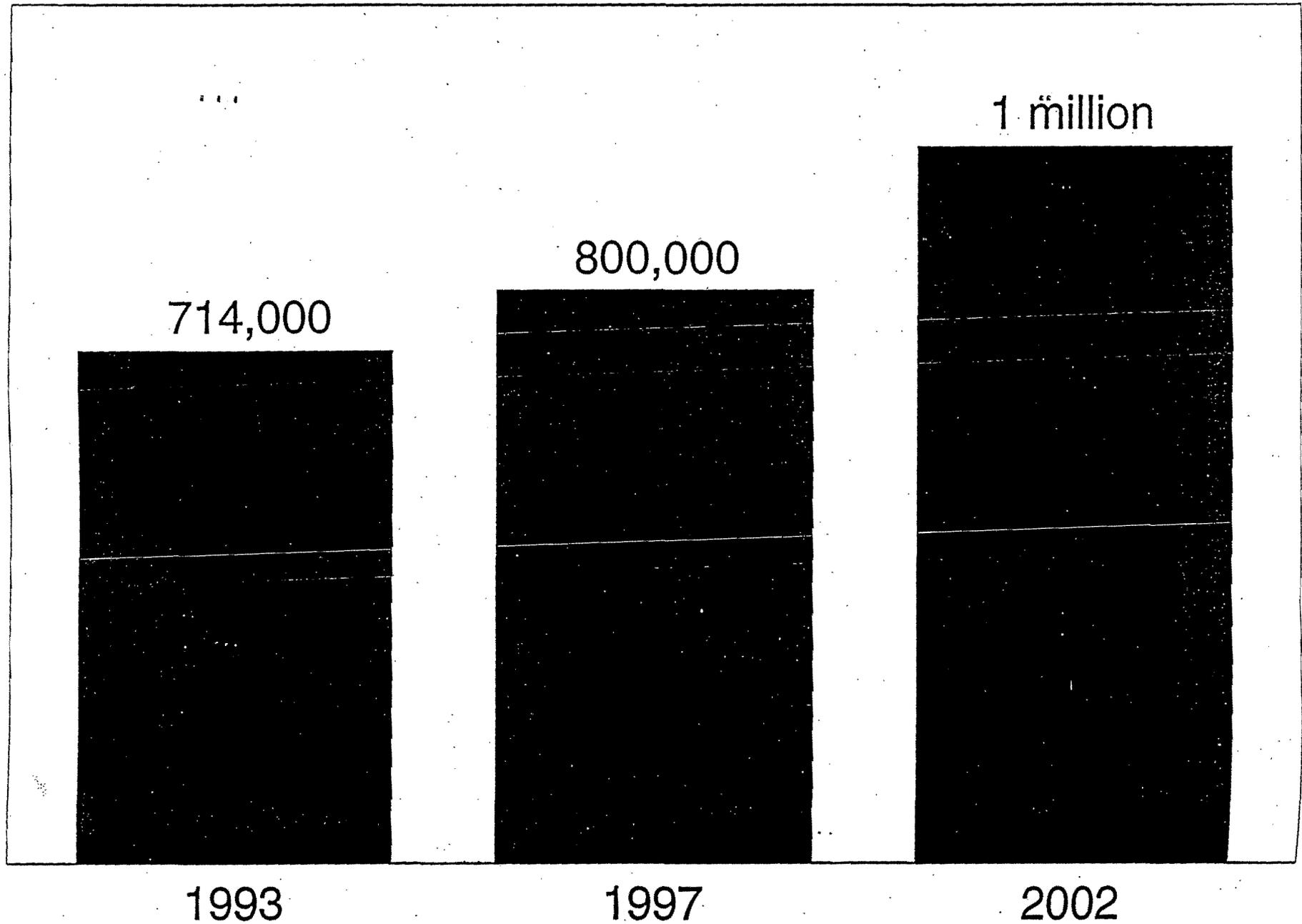
- **The President has launched the America Reads Challenge to ensure that all kids read well and independently by the end of the third grade.** This commitment includes:
 - ✓ **America's Reading Corps.** Will provide individualized after-school and summer help for over three million children in grades K-3. Federal aid would be used to help communities recruit and train over 1 million tutors.
 - ✓ **Parents as First Teachers.** Because research shows that the first three years of life are so important to development, a grant fund will expand successful programs that provide parents help and information in teaching their children to read.

Promote Educational Improvement and High Standards

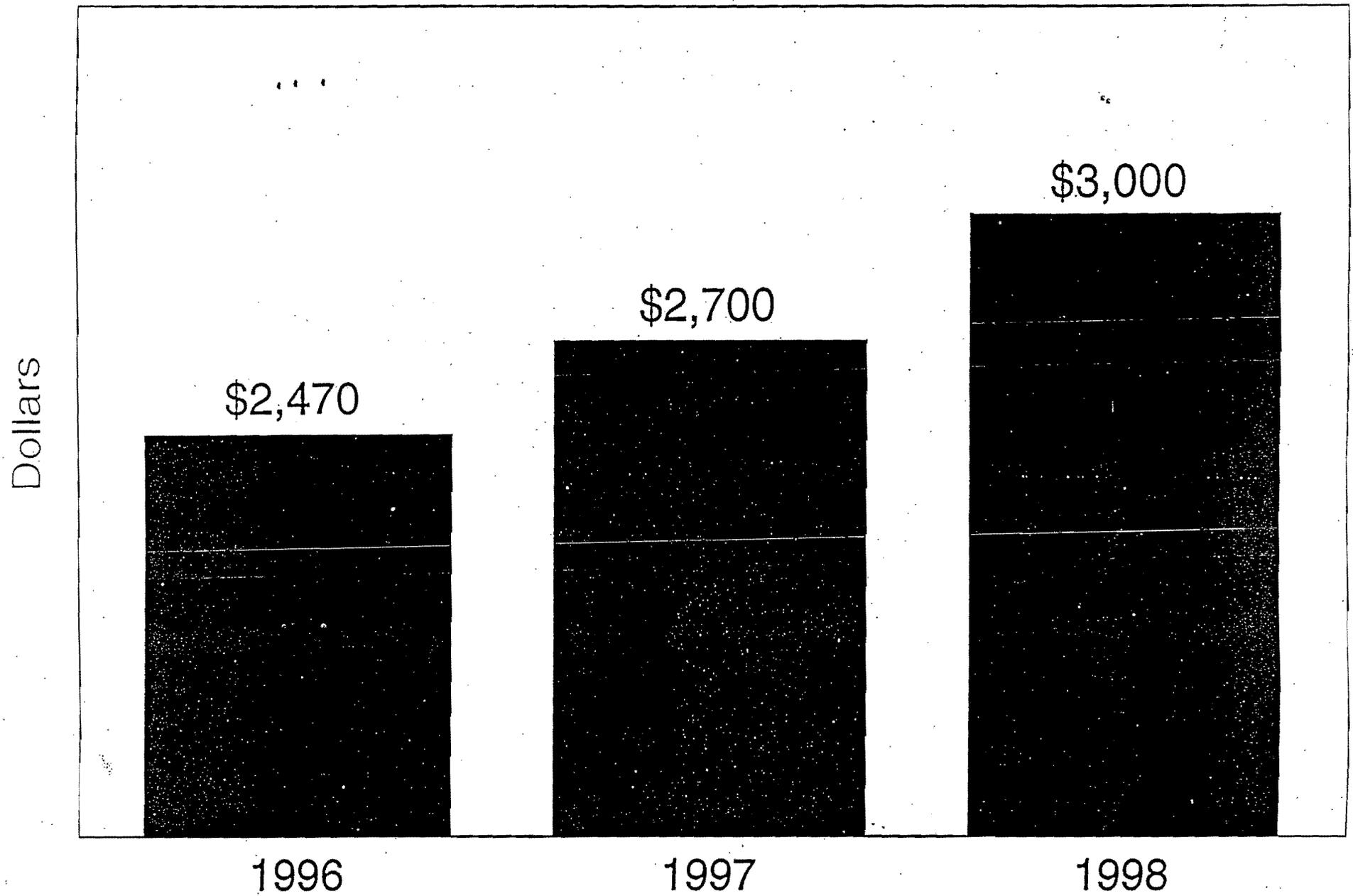
- **Technology Literacy.** Doubles funding to help ensure that computers are in every classroom, every classroom is connected to the Internet, all teachers are trained, and that high quality software and on-line resources are available to help schools integrate technology into the curriculum so that students can become technologically literate.
- **Goals 2000.** A 26% increase will help 4000 additional schools move toward higher academic standards for all students.
- **Charter Schools.** \$100 million -- about double the 1997 level -- to support planning and start-up costs for 1100 schools that increase student and family choice among public schools.
- **Bilingual Education.** \$199 million for Bilingual Education in FY 1998, a 27% increase over 1997, to help improve the quality of instruction for limited-English proficient children, teaching them English and preparing them to meet the same challenging academic standards as all other students.
- **Immigrant Education.** A 50% increase for Immigrant Education, to help States with large concentrations of recent immigrants to offset the financial impact of immigrant students on school systems.
- **Title I.** \$8.1 billion -- a 5% increase -- to help low-income children meet challenging academic standards, and to hold schools accountable for progress toward those standards.
- **Safe & Drug-Free Schools.** A 12% increase to help 97% of school districts implement anti-drug and anti-violence programs.

Presidential Priority Increase Head Start Enrollment

Number of children enrolled



Presidential Priority Increase Maximum Pell Grant



THE PRESIDENT WORKED TO EXPAND COVERAGE FOR CHILDREN

TEN MILLION AMERICAN CHILDREN TODAY
LACK HEALTH CARE COVERAGE.

THE 1995 REPUBLICAN BUDGET WOULD HAVE MADE THE PROBLEM WORSE. IT WOULD HAVE:

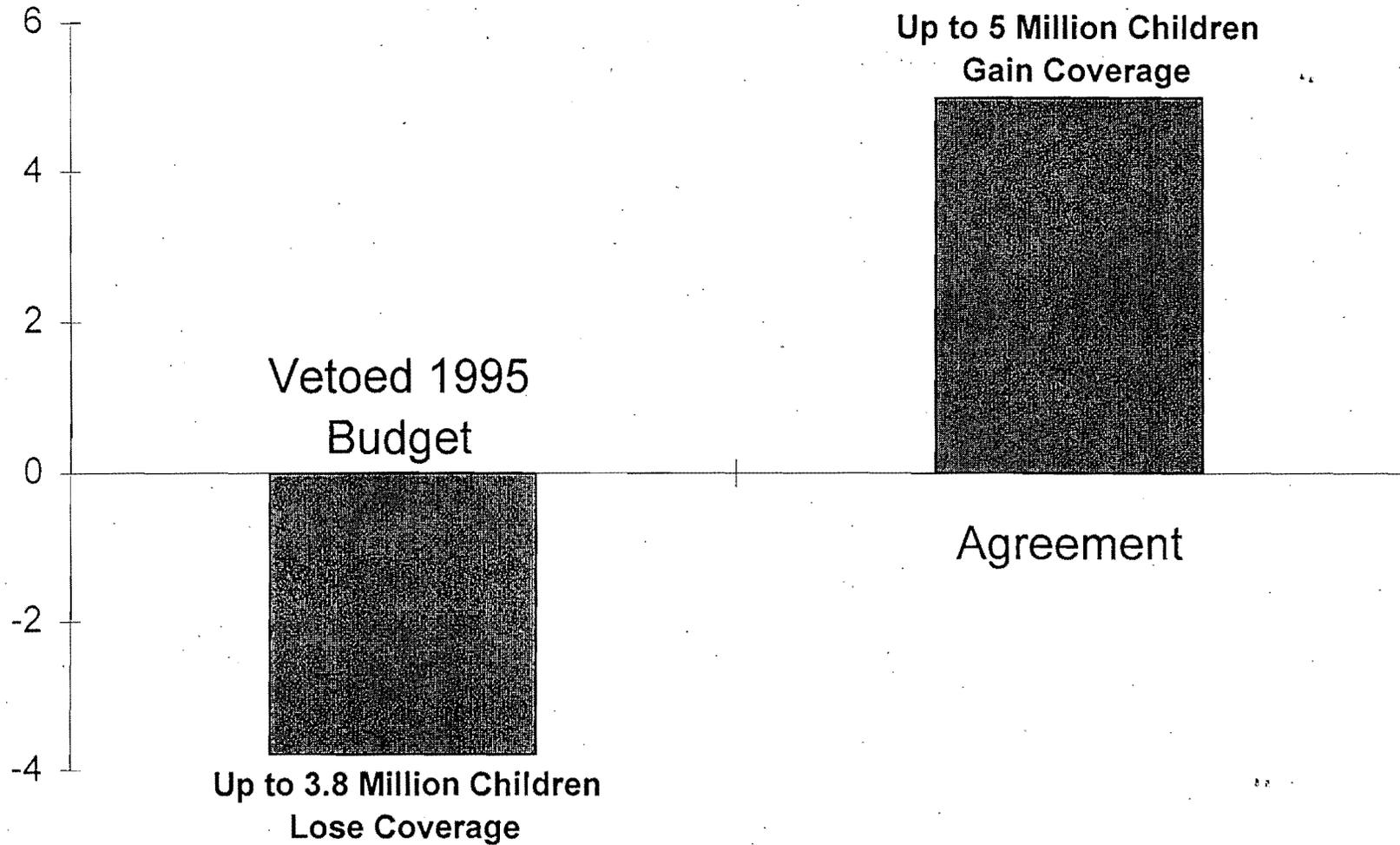
- ✂ **Created Block Grant that would have increased the number of uninsured children.** The 1995 Republican budget even failed the “do no harm” in the areas of children’s health. That budget eliminated the guarantee of a meaningful Medicaid package for poor children and attempted to replace Medicaid with an insufficiently funded block grant program.
- ✂ **Would have forced states to decrease the number of insured children** by as many as 3.8 million due to a lack of sufficient funds, according to a study by the Department of Health and Human Services.
- ✂ **Eliminated the Medicaid phase-in for children between the ages of 13 and 18.**

THE PRESIDENT'S CHILDREN'S HEALTH INITIATIVE EXPANDS
HEALTH CARE COVERAGE FOR MILLIONS OF CHILDREN.

THE PRESIDENT FOUGHT TO ENSURE THAT ANY BALANCED BUDGET AGREEMENT EXPANDS CHILDREN'S HEALTH COVERAGE. HIS CHILDREN'S HEALTH INITIATIVE PROVIDES HEALTH COVERAGE FOR AS MANY AS FIVE MILLION ADDITIONAL CHILDREN BY:

- ✓ **Improving Medicaid and Adding Medicaid Investments.** The budget agreement works to enroll many of the 3 million children who are eligible but not enrolled for Medicaid, to expand coverage to children who are above the current income eligibility standards, to provide additional coverage to children and legal immigrants.
- ✓ **A New Capped Mandatory Grant Program That Provides Additional Dollars to Supplement States Efforts** to cover uninsured children in working families.

Improvement in Children's Health Coverage



DHHS estimates of November 1995 Vetoed Balanced Budget Act's Medicaid Block Grant effects & the President's 1997 Children's Health Initiative

President Clinton Worked for Stronger Environmental Enforcement and Protection

PRESIDENT CLINTON WOULD NOT ACCEPT ANY BUDGET THAT DOES NOT INCREASE ENVIRONMENTAL PROTECTION

THE 1995 REPUBLICAN BUDGET WOULD HAVE MOVED THE COUNTRY BACKWARD IN OUR QUEST FOR A CLEANER ENVIRONMENT:

- ✂ **Took Environmental Cop off the Beat.** It would have cut the enforcement of environmental laws by a quarter and let polluters off the hook.
- ✂ **Slowed toxic waste cleanups.** It slashed funding -- 25 percent in the first year -- for toxic waste cleanup efforts. In all the Republican Budget would have cut EPA's budget by 22 percent.

President Clinton is working to move the country forward toward a cleaner environment.

ACCELERATE TOXIC WASTE CLEANUPS

- **Double the Pace of Superfund Cleanups.** In contrast to earlier Republican efforts to slow cleanups down, the President has achieved a near doubling of the pace of Superfund cleanups. The budget provides for:
 - ✓ **The cleanup of 500 additional sites** by the end of the year 2000 so millions of Americans can enter the next century in healthier neighborhoods.
 - ✓ **A \$650 million increase over 1997 for Superfund**, bringing total funding to \$2.1 billion in 1998.

EXPAND BROWNFIELDS REDEVELOPMENT INITIATIVE

- **Tax Incentives for Distressed Areas.** The President's Brownfields Initiative helps communities cleanup and redevelop contaminated areas with grants and targeted tax incentives, creating jobs and protecting public health.
 - ✓ **Funding is boosted \$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.

IMPROVE AMERICANS' RIGHT TO KNOW ABOUT TOXICS

- **Expanding Community Right-to-Know.** The agreement includes \$49 million to expand the information people get about toxic threats to their families and communities.

MORE AGGRESSIVE CRIMINAL ENFORCEMENT OF POLLUTERS

- **Stepped-Up Enforcement.** President Clinton is committed to more aggressive enforcement efforts against polluters. The budget agreement provides:
 - ✓ **Increased funding** to train state and local officials who work at the local level to enforce environmental laws.
 - ✓ **A 9 percent increase** to the account which funds EPA enforcement.

BETTER PROTECTION OF NATIONAL PARKS

- **Helping Preserve our National Heritage.** The agreement provides a 6 percent (\$66m) increase for national park operations to help improve park facilities and further protect our natural treasures. The agreement also includes:
 - ✓ **An 8 percent increase (\$14m) for wildlife refuge operations**
 - ✓ **A 163 percent increase (\$205m) for Everglades restoration**
 - ✓ **Funding for the new Grand Staircase-Escalante National Monument** which comprises more than one and a half million acres encompassing hundreds of millions of years of geological and cultural history.

PROMOTE ENERGY EFFICIENCY AND RENEWABLE ENERGY

- The agreement contains **\$688 million for energy efficiency** and **\$330 million for solar and renewable energy**, increases of **25 percent** and **22 percent**, respectively, over 1997.

President Worked to Modernize and Strengthen Medicare and Medicaid

THE PRESIDENT REJECTED THE 1995 REPUBLICAN BUDGET IN LARGE PART BECAUSE OF DEEP CUTS IN MEDICARE AND MEDICAID.

THE 1995 REPUBLICAN BUDGET CONTAINED DANGEROUS MEDICARE STRUCTURAL REFORMS THAT WOULD HAVE UNDERMINED THE PROGRAM AND IMPOSED PREMIUMS AND BURDENS THAT WOULD HAVE HURT OLDER AND DISABLED AMERICANS. IT WOULD HAVE:

- ✂ **Increased premiums from 25% of Part B program costs to 31.5%.** These higher costs would have placed a large financial burden on Medicare beneficiaries -- three-quarters of whom have incomes below \$25,000. In 1996 alone, this would have increased costs per elderly couple by \$268.
- ✂ **Eliminated balance billing protections,** allowing doctors in the new private fee-for-service plan options to overcharge above Medicare's approved amount leaving the elderly vulnerable to higher costs and giving doctors in the fee-for-service program an incentive to switch to private health care plans, reducing access for beneficiaries in the traditional plan.
- ✂ **Encouraged "Cherry Picking" that would have harmed beneficiaries and damaged the Medicare program.** The Republican proposals would have introduced nationwide health plan options, such as medical savings accounts and risky "association" plans, that would have led to risk selection, thereby increasing the costs of what would be a sicker and weaker traditional Medicare program.
- ✂ **Included only \$100 million in investments in preventive benefits.**
- ✂ **Repealed the Medicaid program and replaced it with a block grant.** The plan would have eliminated the Federal guarantee Medicaid provides to poor families. In 2002 alone, 8 million people could have lost their health coverage, because of inadequate funding. In addition, as many as 330,000 people could have been denied nursing home coverage.
- ✂ **Eliminated the guarantee of Medicaid coverage of Medicare deductibles, copayments, and premiums** for older Americans and people with disabilities near or below the poverty line known as "Qualified Medicare Beneficiaries (QMBs)". They set aside less than half the money needed to cover premiums for QMBs and set aside no funding for deductibles or copayments. More than 5 million elderly and disabled poor Americans would have lost their guarantee that Medicaid covers Medicare cost-sharing.

TO MODERNIZE THE MEDICARE PROGRAM AND BRING IT INTO THE 21ST CENTURY, THIS BUDGET

- ✓ **Extends the life of the Medicare Trust Fund at least a decade.**
- ✓ **Makes positive structural reforms.** The President's budget contains a series of structural reforms which modernize the program, bringing in line with the private sector and preparing it for the baby boom generation. It:
 - ☞ ***Increases the number of health plan options*** -- including Preferred Provider Organizations and Provider Sponsored Organizations -- available to seniors and people with disabilities.
 - ☞ ***Improves Medicare managed care payment methodology and informed beneficiary choice.*** The President's budget addresses geographic disparities in payments; removes graduate medical education and disproportionate share hospital payments from managed care rates; and adjusts managed care rates for overpayments due to favorable selection.
 - ☞ ***Guarantees that beneficiaries can enroll in Medigap plans annually without being subject to preexisting condition exclusions,*** enabling beneficiaries to enroll in managed care without fearing that they would not be able to re-enroll in traditional Medicare.
 - ☞ ***Builds on the successful hospital prospective payment system model,*** implementing prospective payment systems for skilled nursing home facilities, home health, and hospital outpatient departments.
 - ☞ ***Adopts successful approaches to purchasing other types of services,*** including: competitive pricing for durable medical equipment; laboratories; other items and supplies; expanded "centers of excellence"; and increased flexibility from program rules in negotiating rates.
- ✓ **Expands preventive benefits.** This budget agreement:
 - ☞ ***Waives cost-sharing for mammography services and provides annual screening mammograms*** for beneficiaries age 40 and older to help detect breast cancer;
 - ☞ ***Establishes a diabetes self-management benefit;***
 - ☞ ***Covers colorectal screening*** (early detection of cancer can result in less costly treatment, enhanced quality of life, and, in some cases, greater likelihood of cure);
 - ☞ ***Increases reimbursement rates for certain immunizations*** to protect seniors from pneumonia, influenza, and hepatitis.

President Clinton Fought to Protect The Most Vulnerable People

Out of Date

Several provisions in last year's welfare reform bill had nothing to do with the goals of welfare reform. The President said so at the time and promised to work to correct these provisions. He fought to ensure that any agreement protects the most vulnerable in our society.

THE PRESIDENT FOUGHT TO BETTER PROTECT:

CHILDREN

- ✓ **Keeping the Guarantee to Medicaid.** Preserves the Federal guarantee of Medicaid coverage for the vulnerable populations who depend on it.
- ✓ **Medicaid for Legal Immigrant Children.** For nondisabled immigrant children arriving after the welfare bill date of enactment, sponsor deeming will be applied for purposes of Medicaid eligibility--the income and resources of the sponsor will be counted as the immigrant child's in making the eligibility determination.

LEGAL IMMIGRANTS WITH DISABILITIES

- ✓ **Current Recipients.** Restores both SSI and Medicaid benefits for immigrants now receiving assistance who became disabled after entry, ensuring that they will not be turned out of their apartments or nursing homes or otherwise left to an uncertain fate.
- ✓ **Current Resident Nonrecipients.** Does not change the rules retroactively. Immigrants who were in the country prior to the date of enactment of the welfare bill (August 22, 1996), are not now receiving benefits and subsequently become disabled will also be fully eligible for SSI and Medicaid benefits.
- ✓ **New Entrants.** Restores SSI and Medicaid benefits for those entering after the date of enactment who become disabled, with the proviso that sponsor deeming will be applied with respect to both programs.
- ✓ **Children.** Provides SSI (and Medicaid) benefits for disabled legal immigrant children who arrived before the welfare bill date of enactment. For disabled children arriving after that date, sponsor deeming will be applied with respect to both SSI and Medicaid eligibility.

Refugees and Asylees. Extends the SSI and Medicaid eligibility period for refugees and asylees from 5 years after entry (the limit in the welfare bill) to 7 years, in order to give these residents more time to naturalize.

PEOPLE WHO WANT TO WORK BUT CAN'T FIND A JOB

- ✓ **Childless adults.** Last year's welfare reform bill harshly restricted food stamps for able-bodied childless adults to only 3 out of every 36 months, unless they are working. This move ignored the fact that finding a job often takes time. The budget agreement adds \$375 million to the Food Stamp program, and redirects \$470 million in existing program funds, to create 120,000 new work slots for food stamp recipients subject to the "3 in 36" time limit.
- ✓ **Allows States to exempt up to 20 percent of the food stamp recipients who would otherwise be denied benefits as a result of the "3 in 36" limit.** These two provisions would preserve food stamps for a total of 160,000 persons who want to work but have not, through no fault of their own, yet succeeded in finding employment.
- ✓ **Expand the Work Opportunity Tax Credit.** Expands the existing work opportunity tax credit (WOTC) to include, as one of the eligible populations, individuals subject to the "3 in 36" limit.

FINISH THE JOB OF WELFARE REFORM

- ✓ **Additional resources for areas of particular need.** Adds \$1.6 billion to the Temporary Assistance for Needy Families (TANF) block grant, to be targeted to high-poverty, high-unemployment areas. A share of the additional dollars will go directly to cities with large poverty populations. These resources will give States and cities the help they need to place welfare recipients living in the most disadvantaged areas into lasting jobs.

These funds could be used for wage subsidies to private employers, transportation and other post-employment supportive services essential for job retention, and other effective job creation and placement strategies.

- ✓ **Extra incentive for employers.** Most welfare recipients want to work. The agreement establishes an enhanced welfare-to-work tax credit, to provide private employers with an incentive to give recipients a chance.

The welfare-to-work tax credit in the budget agreement would allow employers to claim a credit of up to 50 percent of the first \$10,000 in wages paid during a year to a worker who had been on welfare for a prolonged period of time. The credit is available for up to two years per worker, giving employers an incentive to not just hire, but make efforts to retain long-term welfare recipients.

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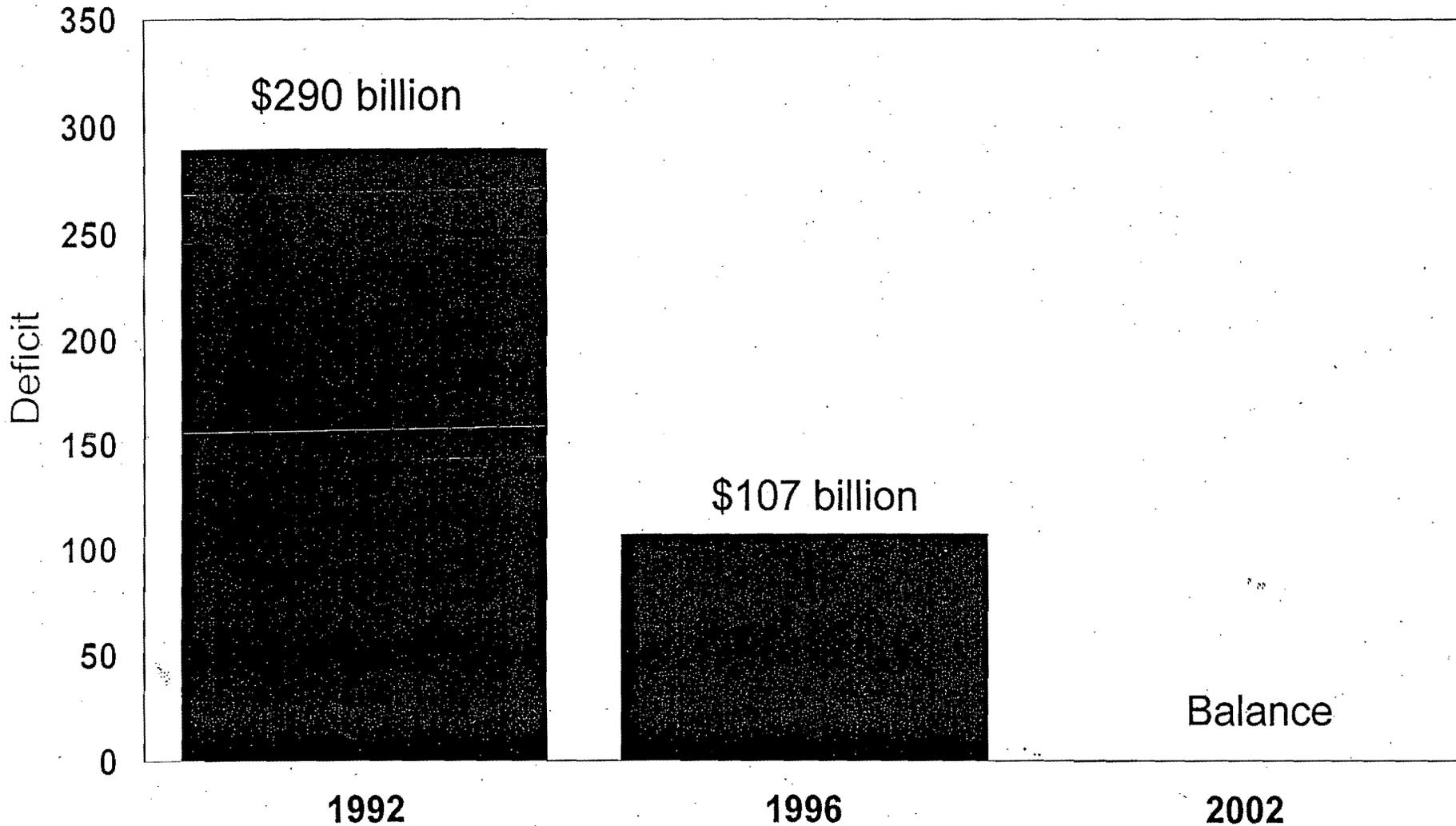
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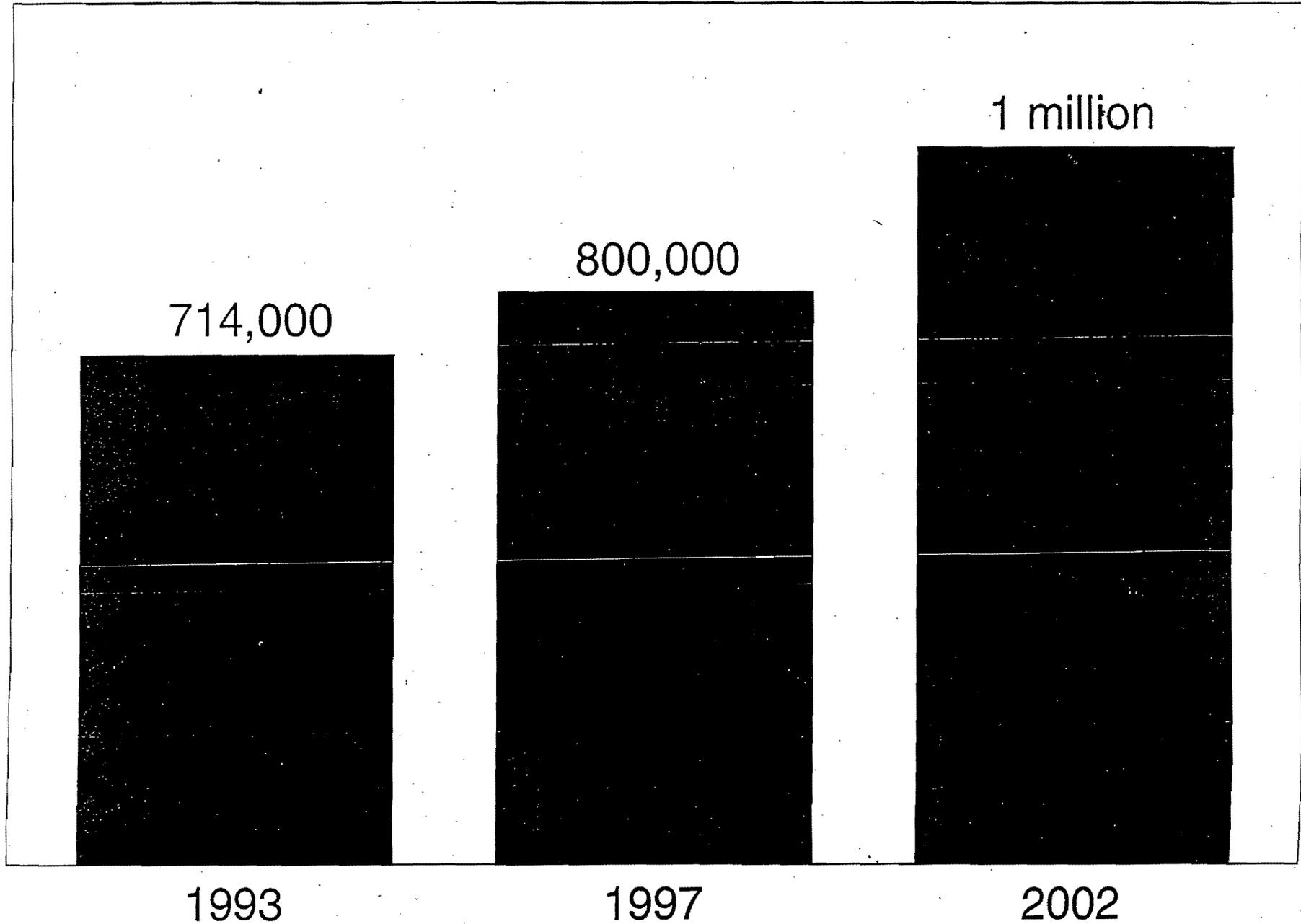
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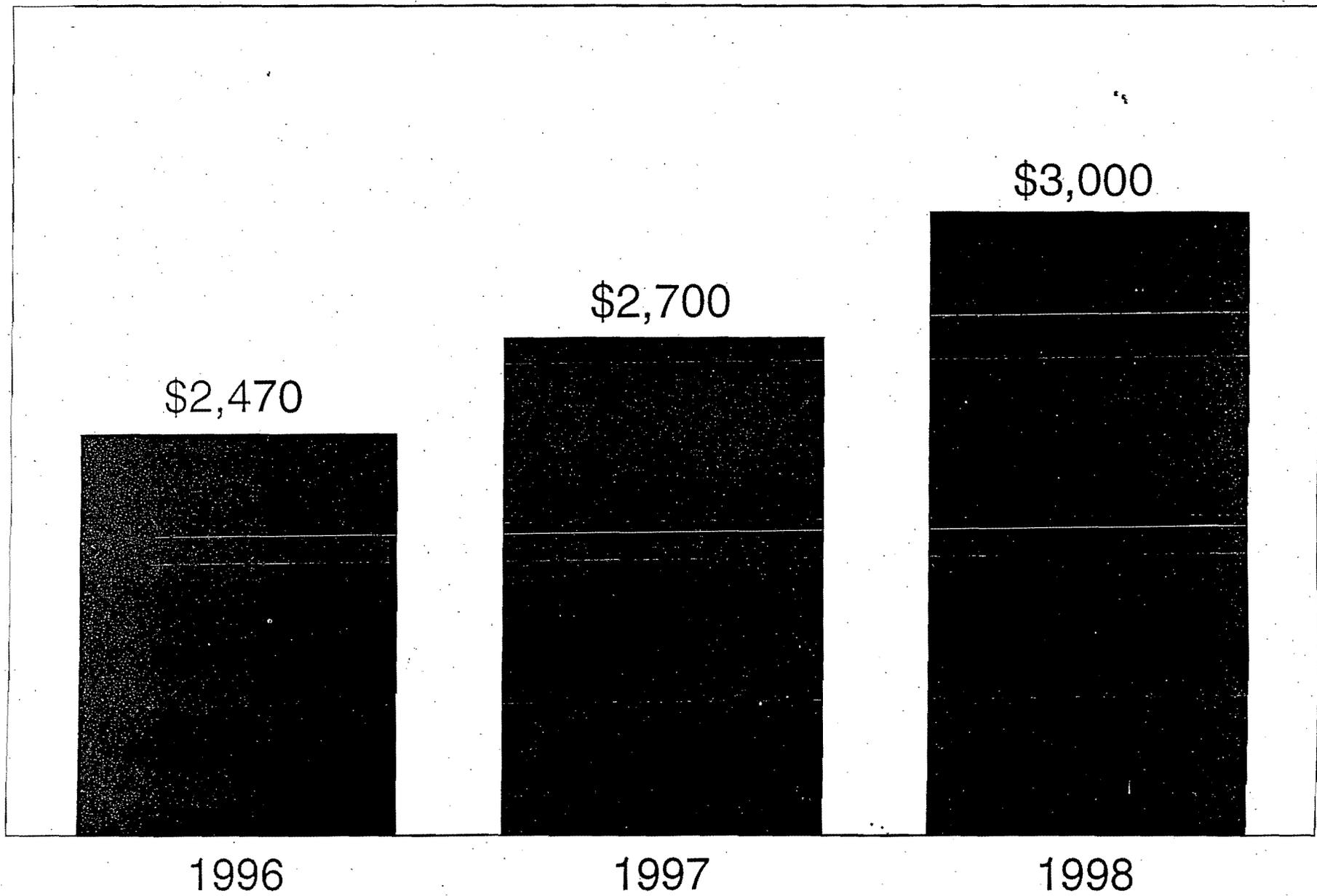


Presidential Priority Increase Head Start Enrollment

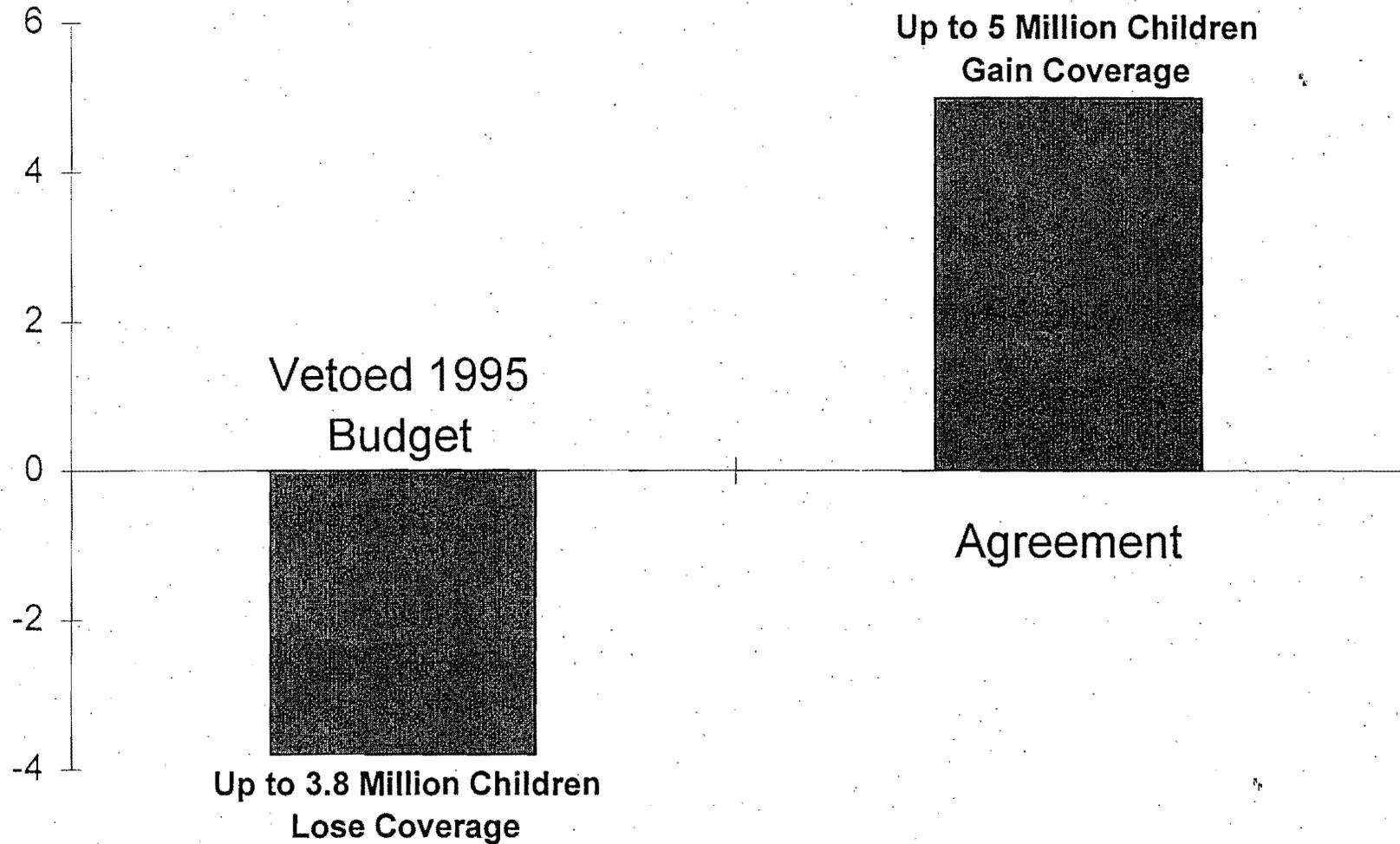
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Improvement in Children's Health Coverage



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TREATING LEGAL IMMIGRANTS FAIRLY: SUMMARY

"We must join together to do something else, too, something both Republican and Democratic Governors have asked us to do: to restore basic health and disability benefits when misfortune strikes immigrants who came to this country legally, who work hard, pay taxes and obey the law. To do otherwise is simply unworthy of a great nation of immigrants."

-President Clinton, 1997 State of the Union.

Restoring fair treatment for legal immigrants is a key part of the President's agenda this year.

The President's budget proposal makes good on his promise to correct the welfare law's harsh provisions on legal immigrants -- provisions that punish children and legal immigrants with severe disabilities, and burden State and local governments. The welfare law denies most legal immigrants access to fundamental safety net programs unless they become citizens -- even though they are in the U.S. legally, are responsible members of our communities, and in many cases have worked and paid taxes. These provisions have nothing to do with the real goal of welfare reform, which is to move people from welfare to work.

- The President's budget proposes to restore Supplemental Security Income (SSI) and Medicaid to legal immigrants who become disabled after they entered the country and to legal immigrant children. This country should protect legal immigrants and their families -- people admitted as permanent members of the American community -- when they suffer accidents or illnesses that prevent them from earning a living. Similarly, the country should provide Medicaid to legal immigrant children if their families are impoverished.
- The President proposes to extend the SSI and Medicaid eligibility period for refugees and asylees from 5 to 7 years, to give that vulnerable group additional time to naturalize.
- Finally, the budget proposes to delay the ban on Food Stamps for legal immigrants from April to September 1997 to provide more time for immigrants who are in the process of naturalizing to complete the process.

The President's proposal would reinstate SSI eligibility for approximately 320,000 severely disabled legal immigrants. Of these 320,000 immigrants, the budget restores Medicaid coverage to 195,000 disabled legal immigrants. In addition, the proposal restores Medicaid coverage to about 30,000 non-disabled legal immigrant children. The cost of these immigrant proposals is \$14.6 billion over 5 years -- \$9.7 billion in SSI costs, and \$4.9 billion in Medicaid costs.

In January, the National Governors' Association agreed that the legal immigrant provisions of the welfare law will cause a considerable cost shift to some states and expressed concerns about the effect of the law on aged and disabled legal immigrants. Providing state-funded benefits to this needy population will divert resources from job training and child care -- which are critical to moving people from welfare to work. The NGA passed a resolution asking Congress and the President to work together to find an equitable solution for states and vulnerable legal immigrants without reopening the welfare reform debate. The President's proposal would do just that.

**TREATING LEGAL IMMIGRANTS FAIRLY:
RESTORING BENEFITS FOR LEGAL IMMIGRANTS WITH SEVERE DISABILITIES**

The President's budget would restore SSI benefits for 312,000 legal immigrant adults who become disabled after their entry into the U.S., in recognition of the fact that they cannot provide for their own support through work. Of those 312,000 legal immigrant adults, approximately 195,000 adults would have Medicaid coverage restored.

Denying SSI eligibility to aged and disabled legal immigrants has nothing to do with welfare reform. Barring legal immigrants who played by the rules and entered the country according to our laws from programs available to all other taxpayers is unfair and shortsighted.

- Approximately 900,000 SSI recipients are now receiving notices that they are at risk of losing their benefits, unless than can show that they are citizens or are in one of a narrow group of exceptions. Under current law, over 400,000 legal immigrants will lose their SSI benefits in August and September of this year.
- Disabled legal immigrants who have sponsors can turn to them for assistance, but many sponsors can't afford the extra costs associated with a disability. In addition, an estimated 44% of legal immigrants, such as refugees, never had sponsors in the first place. Others had sponsors who have died or ceased to support them.
- Many disabled legal immigrants are elderly and reside in nursing homes or assisted living facilities. Without SSI cash assistance, they may face eviction from assisted living arrangements. About 39,000 legal immigrants are in nursing homes and a large number have difficulties with the activities of daily living.
- Nearly 70% of legal immigrants on SSI are over age 65; nearly 30% are over 75 years of age.
- Without SSI payments, state and local governments and private charities will become the prime source of assistance to legal immigrants with severe disabilities.
- In addition, under current state Medicaid plans, it appears that some states may have no provision to continue Medicaid coverage for legal immigrants who lose their SSI. In some states, disabled recipients who lose their SSI may also be without any help for medical expenses.

TREATING LEGAL IMMIGRANTS FAIRLY: PROTECTION FOR LEGAL IMMIGRANT CHILDREN

The President proposes to restore SSI and Medicaid for legal immigrant children.

- The welfare reform law denies SSI and Medicaid to many legal immigrant children who become seriously ill, or have an accident and become disabled, and whose families fall on hard times. It also denies preventive services under Medicaid to legal immigrant children, likely leading to more costly health problems in the future. This policy threatens the health and well-being of a very vulnerable population -- legal immigrant children of low-income parents who need medical services or cash assistance (if disabled), and cannot work their way out of need. We all lose if we deny future citizens the care and support that all children need.
- Under the President's proposal, legal immigrant children would continue to be eligible for SSI and Medicaid. In FY 1998, this proposal would protect SSI and Medicaid eligibility for about 8,000 disabled legal immigrant children, and ensure medical care for about another 30,000 non-disabled children. Existing program income eligibility rules are not affected; only legal immigrant children who are members of low-income families would be eligible for the restored SSI and Medicaid.
- The President's proposal does not undermine or "reopen" welfare reform. The welfare reform provisions denying assistance to legal immigrant children have nothing to do with the central goal of welfare reform: moving people from welfare to work. Instead, the President's proposal protects access to health care for vulnerable low-income children who are permanent members of this nation's communities, cannot work, and do not have any other means of health care. It also protects cash assistance for low-income immigrant children with severe disabilities.
- It is important to note that legal immigrant children cannot become naturalized citizens unless both parents are citizens, or the surviving or custodial parent is a citizen. Therefore, unlike adult legal immigrants, children immigrants do not have an independent avenue to naturalization. For example, orphaned immigrant children must be adopted by a U.S. citizen in order to be classified as a citizen.
- The SSI and Medicaid costs associated with these immigrant children are about \$400 million over 5 years. This policy will ensure that low-income immigrant families with severely disabled immigrant children continue to have a safety net of SSI and Medicaid. It also guarantees that non-disabled legal immigrant children are protected by the Medicaid benefit package, which provides on-going assistance for children suffering from chronic asthma, screening for developmental disabilities, and well-child and preventive care to prevent the need for intensive and costly care in the future.

TREATING LEGAL IMMIGRANTS FAIRLY: EXTENDING ELIGIBILITY FOR REFUGEES

- As a nation of immigrants, this country has a long-standing policy of welcoming to this country refugees and asylees who are fleeing persecution in their home country, and helping them resettle in their new home.
- Under the welfare law, refugees and asylees are exempt from SSI and Medicaid eligibility restrictions for the first 5 years that they are in the U.S. However, after 5 years, needy refugees and asylees would be denied SSI benefits, and Medicaid coverage is a state option rather than guaranteed.
- The President's proposal would extend from 5 to 7 years the period of SSI and Medicaid eligibility for refugees and asylees. This extension would alleviate current hardships while providing elderly refugees an extra 2 years to learn English well enough to naturalize. This policy would cost about \$700 million over 5 years, and protect eligibility for about 17,000 refugees and asylees in FY 1998.
- Few refugees arrive with any financial assets that can be used for self-support. In addition, refugees do not have sponsors.
- Refugees and asylees need a longer eligibility period for assistance than other legal immigrants because of the circumstances that bring them to this country in the first place. Refugees and asylees come to the U.S. with a history of persecution in their country of origin. These individuals frequently experience greater difficulties putting their lives together and becoming self-supporting than other legal immigrants. About one-half of refugees speak little or no English when they arrive here; only about one-tenth speak English fluently.
- Elderly refugees are a particularly vulnerable group. SSA data indicate that of the estimated 58,000 elderly refugees who will lose their SSI eligibility in August/September 1997, 24,000 are aged 75 or older. An estimated two-thirds (38,000) of the 58,000 are severely disabled.
- Generally, refugees and asylees may apply for citizenship after residing in the United States for 5 years. However, the naturalization process can take up to a year, or more. Therefore, individuals who entered the U.S. as refugees or asylees will lose their SSI -- and potentially their Medicaid -- before completing the application process for citizenship, even if they apply for citizenship as soon as they meet the 5 year residency requirement. Also, many elderly refugees are not able to acquire sufficient English language skills in this period of time to pass the citizenship test.
- In refugee communities, the pending loss of SSI and Medicaid and the inability to become naturalized citizens is a major concern. Elderly refugees are understandably terrified that they will be left destitute and homeless.

TREATING LEGAL IMMIGRANTS FAIRLY: THE FOOD STAMP PROGRAM

The welfare reform law made most legal immigrants ineligible to participate in the Food Stamp Program. It was effective immediately for new applicants and at the next recertification for already participating non-citizens.

Concerned about the impact of the law on legal immigrants, who are in the country legally and, in many cases, work and pay taxes, the Administration has worked since the passage of the law to ensure fairer treatment for legal immigrants.

- As an immediate first step, on the day he signed the law the President signed a directive instructing USDA to allow states to extend the certification periods (the time during which people are authorized to receive benefits) of currently participating non-citizens in order to ensure that their recertification be made fairly and accurately. USDA responded by issuing a memorandum to all state agencies on August 26, 1996 that waived Food Stamp regulations and allowed state agencies to extend the certification periods of all households containing participating noncitizen members up to the maximum time permitted by law -- 12 months (24 months in the cases of households with all elderly or disabled adult members), though not beyond August 22, 1997.
- The President then signed the Omnibus Consolidated Appropriations Act on September 30, 1996, which delayed implementation of the welfare law's provisions for participating legal immigrants until April 1, 1997. As a result, state agencies must redetermine the eligibility of all legal immigrant recipients between April 1, 1997 and August 22, 1997. USDA provided written guidance on implementing the new law to State agencies on October 2, 1996.
- On October 18, 1996, USDA provided written guidance to State agencies on how to implement the provision allowing legal immigrants who have worked or can be credited with 40 quarters of qualified work to receive food stamps. USDA authorized certification pending verification for immigrants who, alone or in combination with parents and/or spouse, have spent sufficient time in the U.S. to have acquired 40 quarters of coverage. These individuals need only to attest to 40 quarters of qualifying work at the time of application to meet the 40 quarters test, with subsequent verification by SSA.
- USDA has been working closely with states to develop ways to manage certification periods to ensure that legal immigrants can continue to participate in the Food Stamp Program through August 1997. Thirty-eight states continue to use the certification period waiver to extend benefits.
- Finally, the President's budget includes a provision that would extend participation of certified legal immigrants through the end of fiscal year 1997, thus providing them more time to naturalize or to achieve the needed 40 quarters of work to qualify for the program.

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- Meets the President's commitments in priority areas, including Superfund and brownfields
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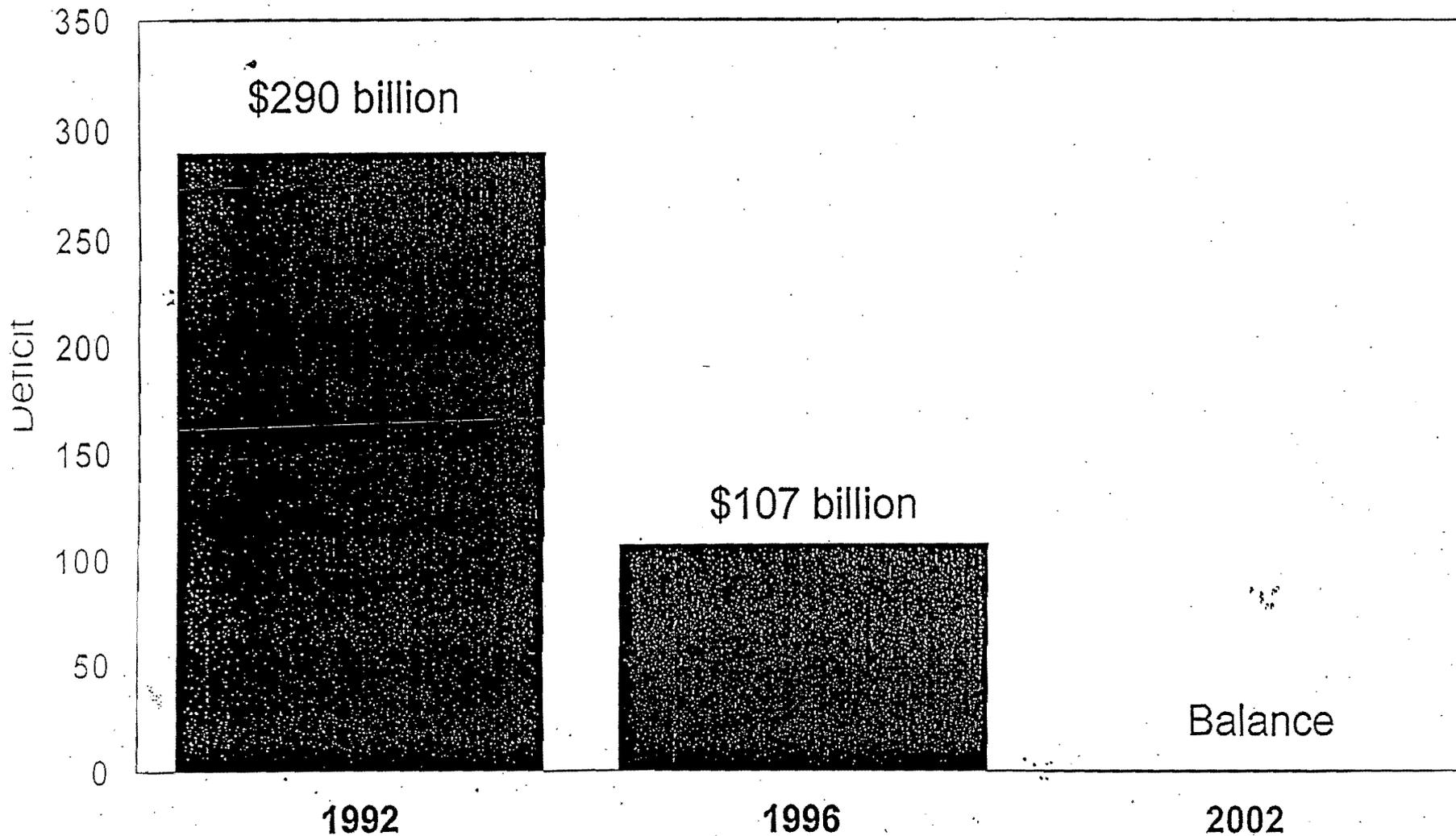
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- Congress will incorporate the impact of expected ongoing improvements at the BLS

Welfare reform

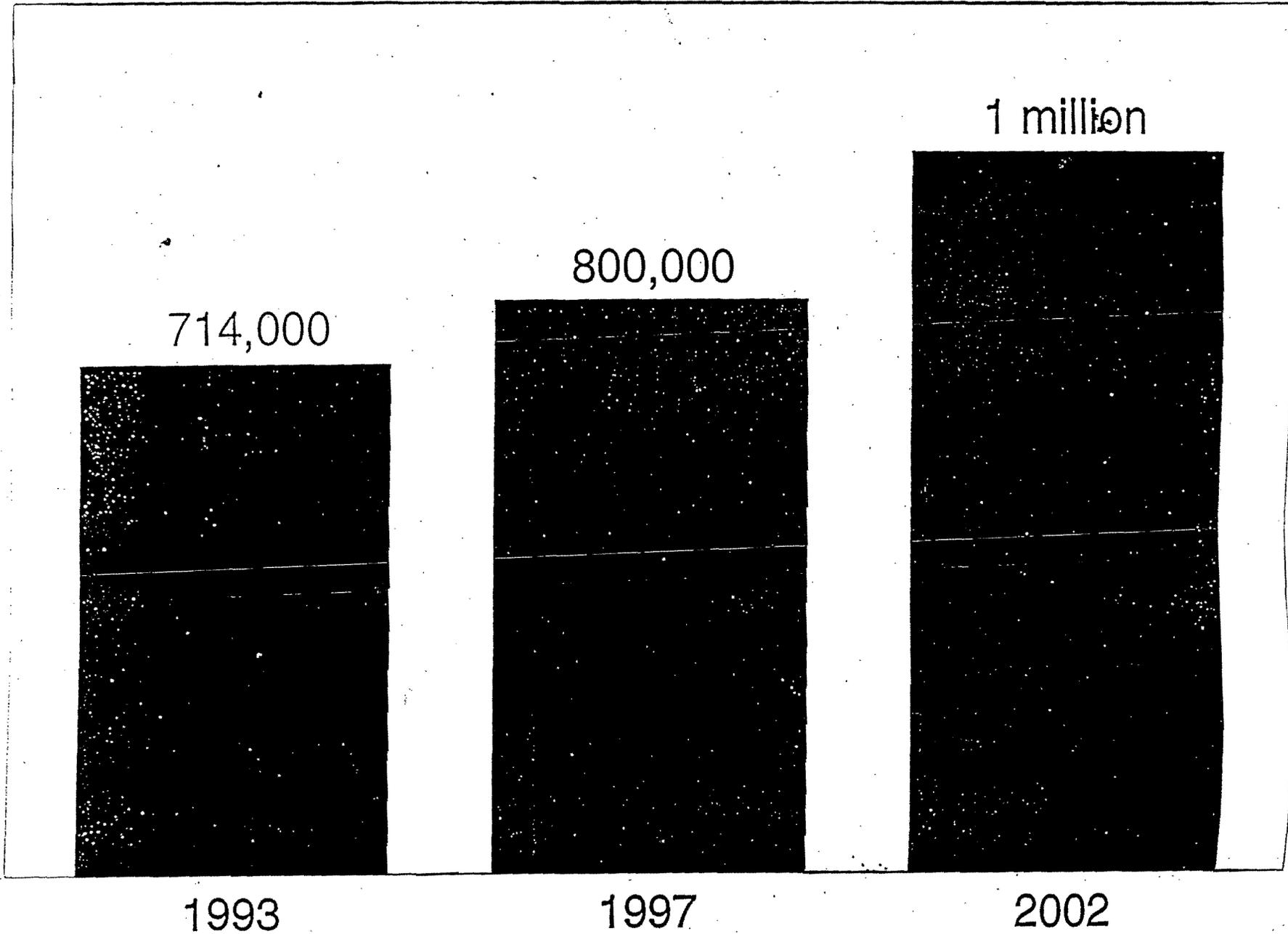
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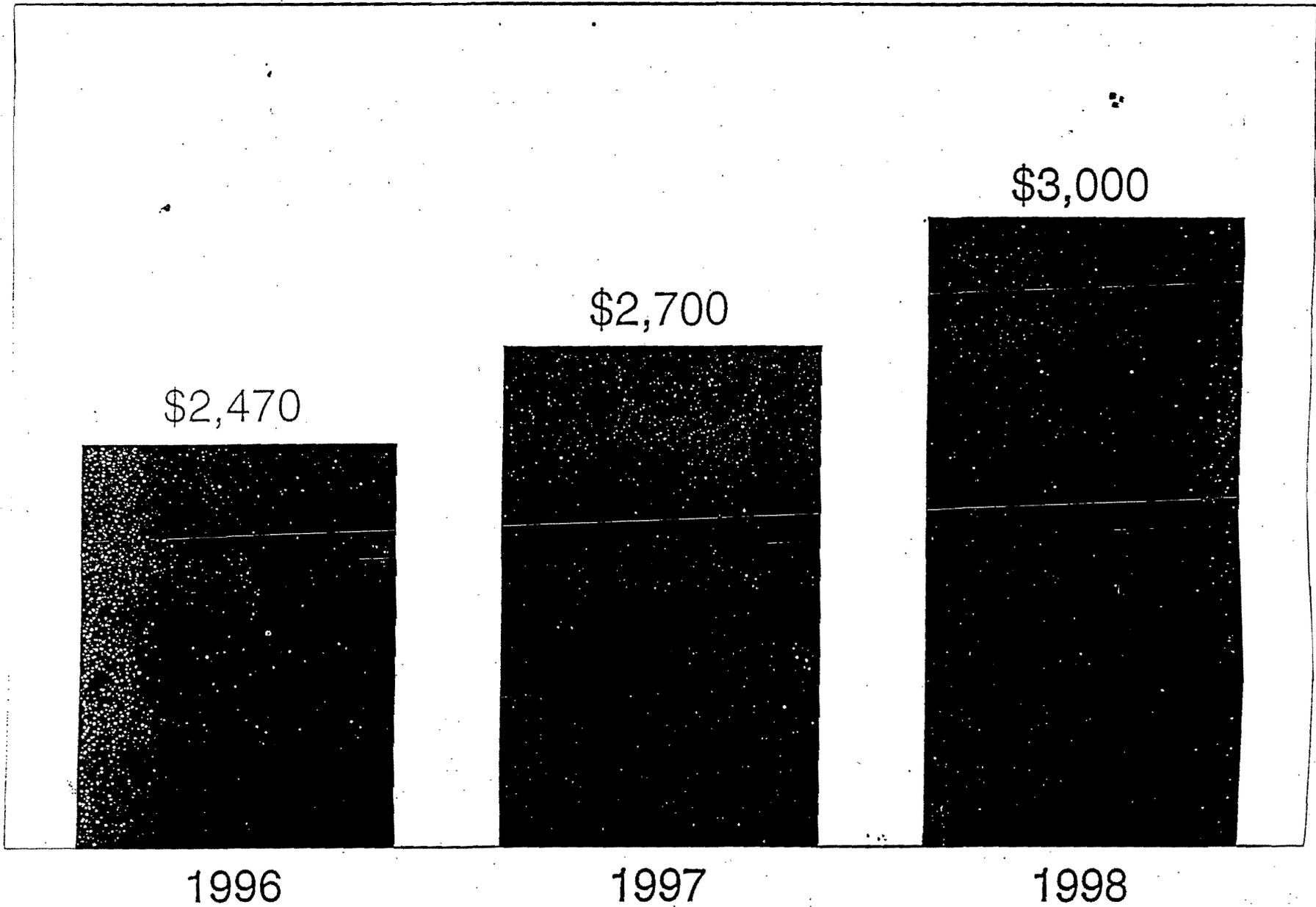
Presidential Priority

Increase Head Start Enrollment



Residential Priority Increase Maximum Pell Grant

Dollars



Welfare Reform
(outlay savings in billions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	5-Year Savings	10-Year Savings
Immigrants	--	2.3 2.7	2.2	2.1	1.6	1.4	1.8	1.8	1.8	1.7	1.9	9.9	18.9
Food Stamps	--	0.3 0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	5 2.5	5 5.7
Welfare to Work	--	0.4 0.4	0.6 0.6	0.8 0.8	0.2	--	--	--	--	--	--	1.6	2.0
Welfare reform, net	--	3.3 3.1	3.4 3.3	3.4	2.5	2.4	2.4	2.3 2.4	2.3 2.3	2.3 2.3	2.3	15.0 14.4	26.5
					2.3			2.4	2.4	2.4	2.5		

(Numbers may not add due to rounding)

Description

Immigrants

- **Current recipients and new applicants.** Restore SSI and Medicaid benefits for all legal immigrant adults who are currently receiving SSI and Medicaid who became disabled after entering the U.S. Provide access to SSI and Medicaid to all legal immigrants who became disabled after entering the U.S. and who are not currently receiving benefits if the immigrant entered before their sponsor was required to sign a legally binding affidavit of support (May, 1997).
- **New entrants.** Retain SSI and Medicaid for new entrants who become disabled after entering the U.S. New entrants who apply for disability benefits and have legally binding affidavits of support from their sponsors would have the income of their sponsor deemed to them.
- **Children.** Restore SSI for approximately 6,000 legal immigrant children currently receiving SSI. Provide access to SSI and Medicaid for legal immigrant children who are not currently receiving benefits and do not have legally binding affidavits of support. New entrant children who have legally binding affidavits of support would have the income of their sponsors deemed for SSI and Medicaid.
- **Refugees and asylees.** Lengthen the exemption for refugees and asylees from the first 5 years in the country to 7 years for SSI and Medicaid.

Food Stamps

- Retain "3 in 36" time limit but redirect \$470 million in existing Food Stamp Employment and Training Program funds and add \$375 million in new funding to create an additional 120,000 work slots monthly for individuals subject to the time limits (includes the cost of providing on-going benefits to individuals fulfilling the work requirements)

Permit States to exempt 15 percent of the individuals who would lose benefits because of the time limit, enabling States to exempt 40,000 individuals who want to work but are unable to find a job within the three-month time limit.

Welfare to Work

- Add \$2.6 billion 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 with large poverty populations commensurate with the share of long-term welfare recipients in those cities. Eligible activities include job retention services; job retention or creation vouchers; and private sector wage subsidies for new jobs lasting 9 months.
- [Include tax incentives to create job opportunities for long-term welfare recipients. The new credit would give employers a 50% credit on the first \$10,000 a year of wages for up to 2 years. Also expand the existing WOTC to able-bodied childless adults ages 18-50 who face work and time limit requirements.]

May 1, 1997

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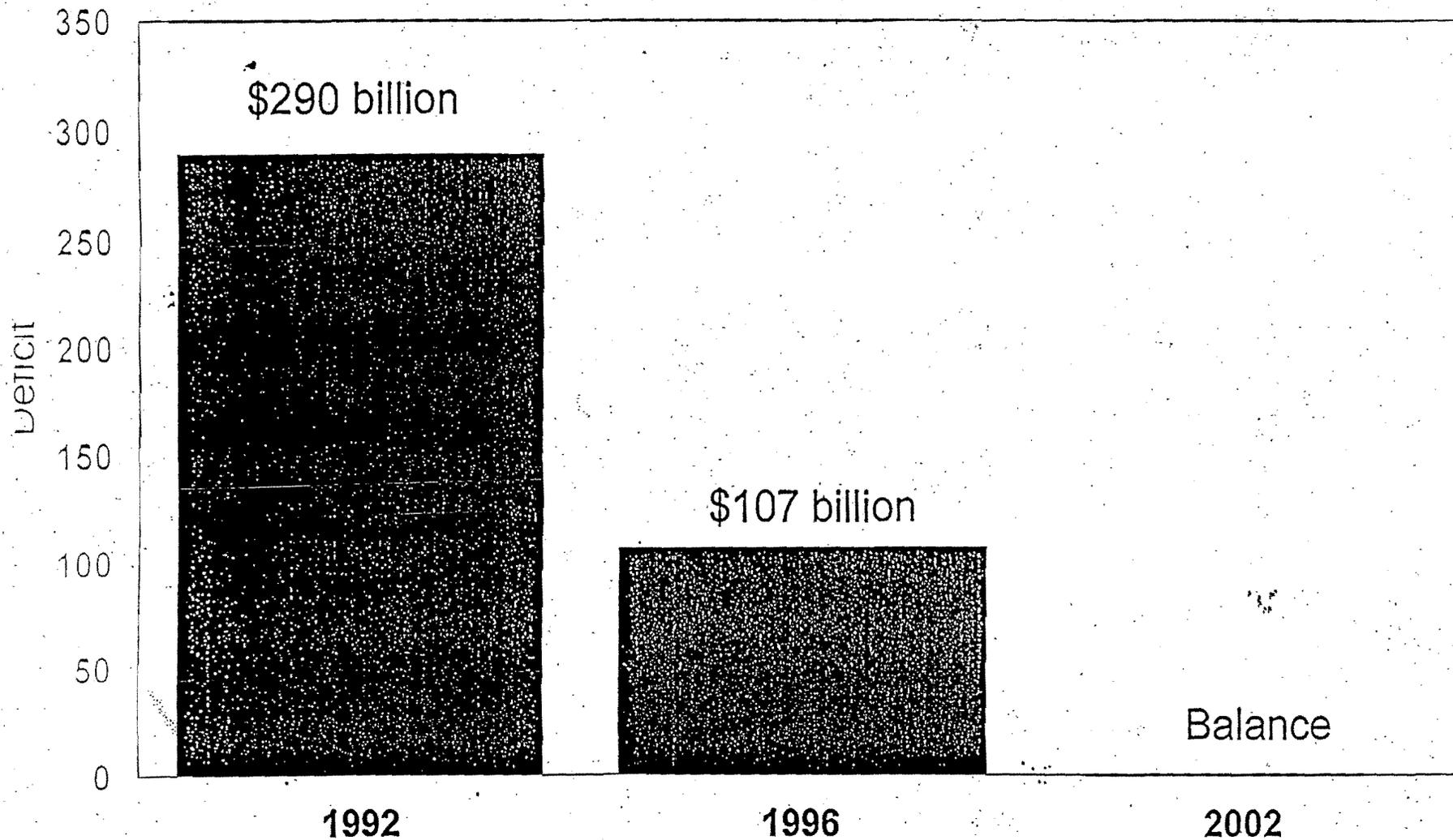
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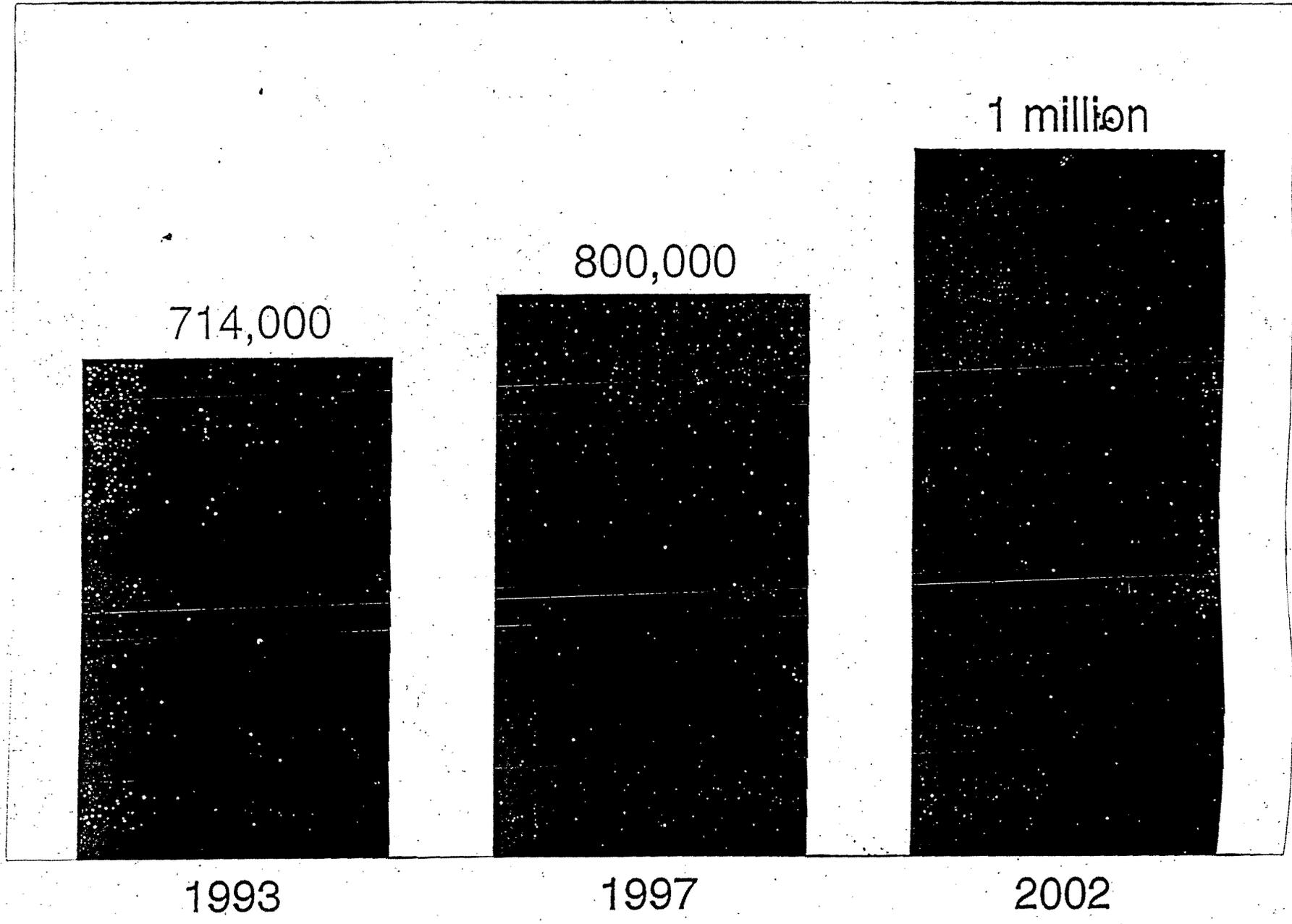
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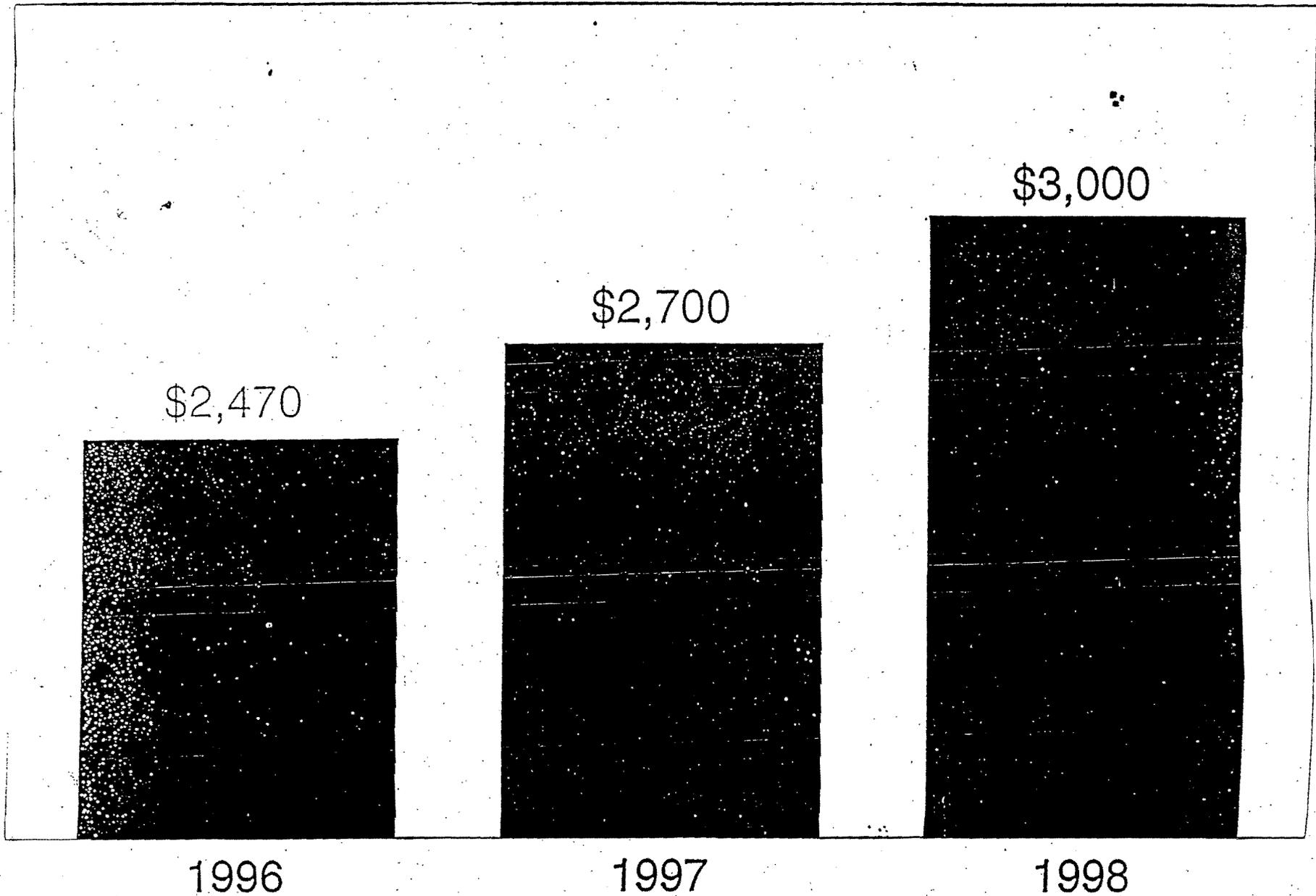
Increase Head Start Enrollment

Number of children enrolled



Increase Maximum Pell Grant

Dollars



President Clinton Fought to Protect The Most Vulnerable People

Several provisions in last year's welfare reform bill had nothing to do with the goals of welfare reform. The President said so at the time and promised to work to correct these provisions. He fought to ensure that any agreement protects the most vulnerable in our society.

THE PRESIDENT FOUGHT TO BETTER PROTECT:

CHILDREN

- ✓ **Food Stamps.** Helps put food on the table for ten million American children each month. Last year's welfare reform bill cut food stamps too deeply -- especially for families with children with high housing costs. To help ameliorate these cuts, President Clinton restores the link between benefits for such families and housing costs.
- ✓ **Keep Medicaid Coverage.** President Clinton fought to allow children now receiving Medicaid to keep their coverage if they lose their SSI eligibility following last year's definitional change.
- ✓ **Medicaid for Legal Immigrant Children.** Because it is the right thing to do, the President worked to ensure that Medicaid covers legal immigrants' children whose families are impoverished.

LEGAL IMMIGRANTS WITH DISABILITIES

- ✓ **Restore SSI and Medicaid.** President Clinton believes, as many Americans do, that people who come to this country legally, pay taxes, play by the rules, but then become disabled should have access to the basic benefits of SSI and Medicaid.

PEOPLE WHO WANT TO WORK BUT CAN'T FIND A JOB

- ✓ **Food Stamps for Childless Adults.** Last year's welfare reform bill harshly restricted food stamps to unemployed childless adults to three months over a 36 month period. This time restriction ignores that finding a job takes time. President Clinton proposes an alternative six month out of 12 restriction. Additionally, this budget establishes new funding to support close to an additional 400,000 more work slots from 1998 to 2002.

FINISH THE JOB OF WELFARE REFORM

- ✓ **Give States and cities the help they need to place the most disadvantaged welfare recipients in lasting jobs.** The Welfare-to-Work Jobs Challenge created by the President would make available the resources needed for States and cities to move one million of the hardest-to-serve recipients into paid employment and keep them there. States and localities could use the WTW Jobs Challenge funds for wage subsidies to private employers, transportation and other post-employment supportive services essential for job retention, and other effective job creation and placement strategies.

- ✓ **Provide incentives for private employers to give welfare recipients the chance they need.** Most welfare recipients very much want to work. The President's welfare-to-work tax credit allows employers to claim a credit of up to 50 percent of the first \$10,000 in wages paid during a year to a worker who had been on welfare for a prolonged period of time. The credit is available for up to two years of work, giving employers a considerable incentive to not just hire but make efforts to retain long-term welfare recipients.

EXPAND CHILD HEALTH COVERAGE TO AS MANY AS 5 MILLION CHILDREN

- **Children's Health Initiative.** President Clinton has proposed measures that would lead to health coverage for as many as 5 million additional children and includes:
 - ✓ **Parents in-Between Jobs Initiative** to provide up to 6 months of premium assistance that will add 700,00 kids to the private sector's insurance rolls.
 - ✓ **Innovative State Programs** which will provide \$750 annually to states to help an estimated 1 million uninsured children.
 - ✓ **Medicaid Outreach** to enroll as many of the 3 million who are eligible for Medicaid.
 - ✓ **Continuous Medicaid Coverage** to give states the option to allow 12 months of continuous Medicaid coverage for all children who are eligible -- reducing paperwork and increasing access of kids to their doctors.

STRENGTHENED AND MODERNIZED MEDICARE AND MEDICAID

- **Comprehensive Structural Reforms and Improvements.** The President's Medicare proposals make the changes necessary to modernize Medicare and prepare it for the retirement of the baby-boom generation while placing no undue burdens on beneficiaries.
 - ✓ **Extends the solvency of Medicare Trust Fund for at least a decade**
 - ✓ **Provides beneficiaries more options and better information**
 - ✓ **Expands coverage of critical preventive treatments of diseases such as diabetes and breast cancer.**
 - ✓ **Contain important structural reforms that will modernize the Medicare program, preparing it for the Baby Boom generation.**
- **The President remains strongly committed to preserving the federal Medicaid guarantee, while**
 - ✓ **Giving states increased flexibility, and**
 - ✓ **Protecting the Federal Treasury from increased Medicaid costs.**

STRONGER ENVIRONMENTAL PROTECTION AND ENFORCEMENT

- **Increasing our Efforts to Safeguard our Resources.** President Clinton is committed to increasing our efforts to safeguard our natural resources as well as ensuring the public health. He has proposed to:
 - ✓ **Accelerate Superfund cleanups** by almost 500 sites by the year 2000.
 - ✓ **Expand the Brownfields Redevelopment Initiative** to help communities cleanup and redevelop contaminated areas with grants and targeted tax incentives.
 - ✓ **Boost environmental enforcement by 9 percent** to protect public health from environmental threats.
 - ✓ **Better protect national parks** through increased funding and improvements.

PROTECT THE MOST VULNERABLE

- **Doing What's Right to Help our Most Vulnerable People.** The Welfare Reform Bill signed last year included overly deep cuts -- unrelated to welfare reform -- that affect legal immigrants, children, and individuals looking for, but unable to find work. President Clinton is seeking to address these problems.
 - ✓ **Restore basic health and disability benefits for immigrants unable to work due to disability.**
 - ✓ **Restore Medicaid coverage for poor legal immigrant children, and children (including citizens) who lose SSI benefits as a result of changes in the definition of childhood disability.**
 - ✓ **Give refugees and asylees more time to naturalize.**
 - ✓ **Delay imposition of the food stamp ban until October 1, 1997** to give immigrants who are attempting to naturalize time to complete the process.

States

- A state may apply for funds if: the state meets some general state plan requirements; if total state spending on work programs in the prior fiscal year exceeded state spending on JOBS programs in FY 1996; if a state certifies it needs additional funds to meet the TANF work requirements; and if a state has met its program performance goals in the prior year or has a corrective actions planned.
- Seventy percent of state funds would be allocated based on the state percentage of the national TANF and food stamp caseloads covered by work requirements.
- States would receive \$2,000 for each projected job placement
- A 20 percent state match would be required for the basic funds only (not performance funds).
- Thirty percent of the state funds would be paid based on performance measures including the unemployment rate in the area of placement, the length of time a person has been on assistance, barriers to employment, and earnings of the person placed. No state match is required.
- Funds may be used for job placement vouchers; contracts with placement agencies or public job placement programs; work supplementation in private sector jobs; job creation; microenterprise, and; support services for the first six months of employment.

Grants to Cities and Communities

- The Secretary of HHS may make grants to communities for innovative welfare to work programs that move welfare recipients into private sector work.
- Grants up to \$10,000,000 will be awarded on a competitive basis in a way that will leverage private funds as well as state and local resources.
- Preference will be given to organizations which receive more than 50 percent of their funding from the state government, local government or private sources.
- Twenty percent of the funds will go to cities with populations greater than 1,000,000; 25 percent to cities with populations between 250,000 and 1,000,000; and 25 percent to cities with populations under 250,000.

Welfare to Work and Low-Income Programs

Welfare Reform

- The structure of welfare block grant as it was enacted is not changed in any way. The budget does not re-open the enacted welfare reform bill.

Reserve Fund for Welfare to Work Activities

- Establishes a \$3.6 billion reserve fund lock box that could be made available if states demonstrate that they need additional funds to put welfare recipients to work. States must provide additional state spending to match additional federal funds. States may use funds for any programs or policies designed to move welfare recipients to work. Funds in the reserve fund that are not needed would be applied to additional deficit reduction.

Dependant Care Tax Credit

- Phases out the Dependent Care Tax Credit for couples with adjusted gross incomes between \$100,000 and \$125,000 a year and makes the credit refundable for low income families with no tax liability.

Benefits to legal residents

- Reserves funding to allow vulnerable immigrants who were legally residing in the United States prior to the enactment of the welfare reform bill to continue to receive SSI and food stamps for two years before losing benefits to provide time for state and local governments to prepare for the impact of this provision, reducing savings from the denial of benefits by \$3.5-\$4 billion.

Housing

- Limits increases in Section 8 subsidies to operating costs and limits increases in Section 8 subsidies for units with tenant turnover.

Supplemental Security Income

- Adopts proposal of Slattery Commission establishing a sliding scale for family benefits under SSI children's program for families with more than one eligible child.

Taxation of benefits

- Includes cash benefits from SSI and food stamps in adjusted gross income for determining taxes so that a dollar from welfare isn't worth more than a dollar from work in the tax code.

Earned Income Tax Credit

- Applies rule requiring a Social Security number to receive the Earned Income Tax Credit to the Dependant Care Tax Credit as well.



CENTER ON BUDGET AND POLICY PRIORITIES

MEMO

To: Congressional budget and tax staff
From: Ellen Nissenbaum and Karen Lightfoot
Subject: New Analysis of Senate Republican Leadership tax proposals
Date: March 21, 1997

On February 26, the Center released at a press conference a new report analyzing the Senate Republican Leadership's tax cut proposals. We were joined at the press conference by Martha Phillips of the Concord Coalition and by Bob Reischauer, former CBO director.

Shortly thereafter, the Joint Tax Committee released its cost estimate of the revenue proposals in the Administration's FY 1998 budget. We revised the initial report released at the press conference to integrate this new information. I've enclosed a copy of the final, expanded report.

For those of you who attended the press conference or had received a copy of the report released on February, please note the revisions in the summary and appendix.

We hope this report is useful.



CENTER ON BUDGET AND POLICY PRIORITIES

Robert Greenstein
Executive Director

Iris J. Lav
Associate Director

FOR IMMEDIATE RELEASE:
February 26, 1997
Revised March 7, 1997

CONTACT: Iris Lav, Robert Greenstein
Herb Schaffner, Michelle Bazie
(202) 408-1080

SENATE LEADERSHIP TAX CUTS SWELL AFTER 2002, COST MORE THAN TAX CUTS IN VETOED 1995 BUDGET BILL

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William Julius Wilson
Harvard University

Proposal also Skewed More Toward the Affluent than the 1995 Plan

The tax cuts the Senate Republican Leadership unveiled last month would cost more and direct a larger share of their benefits to high-income individuals than the "Contract with America" tax cuts in the Republican budget that President Clinton vetoed in late 1995, according to a study the Center on Budget and Policy Priorities issued today.

The study also finds the Senate leadership's tax cuts are designed in such a fashion that the costs are kept artificially low during the five years ending in 2002, the year the budget is supposed to be balanced, but mushroom after that. Relying on official cost estimates of these bills from the Joint Congressional Committee on Taxation, Congress' official scorekeeper on tax matters, the Center found the cost of the tax cuts would rise from \$201 billion over the first five years to \$325 billion in the second five years, for a 10-year total of \$526 billion. As a result, the tax cuts would cost 60 percent more in the five years after 2002 than in the five years ending in 2002.

The Center reported that the cost of the tax cuts would reach \$73 billion a year by 2007, the tenth year the tax cuts were in effect, and continue rising after that. The cost of the Leadership tax proposals would exceed \$750 billion in subsequent 10-year periods, the Center concluded.

The Center released its analysis at a press conference in Washington, where it was joined by Martha Phillips, executive director of the Concord Coalition, and Robert Reischauer, a budget expert at The Brookings Institution who formerly directed the Congressional Budget Office.

Mushrooming Tax Cuts Place Deficit Reduction Goals at Risk

"These tax cuts are being advanced at a time when there is growing bipartisan agreement on the desirability of reaching budget balance and keeping deficits under control as the retirement of the baby boom generation approaches," said Iris Lav, the report's author and the Center's associate director. "The larger and more backloaded the tax cuts enacted this year, the more difficult it will be to attain

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these goals in years after 2002 and the more adverse the nation's long-term fiscal outlook will be."

"These new tax cut proposals are of particular concern," Lav added, "because they are built around a series of devices that keep their costs artificially low between now and 2002. Their burgeoning costs after 2002 would mean either that deficits returned in those years, partially undoing prior deficit reduction achievements, or that basic programs serving millions of Americans would be subject to deeper cuts in those years than leaders of either party now acknowledge favoring."

The Center's analysis found that keeping the budget in balance in 2007 if these tax cuts become law would entail reductions in federal programs 50 percent larger than the reductions that would be needed to balance the budget in that year if the tax cuts were not enacted. The budget cuts required to balance the budget in 2002 would need to be 39 percent deeper if the leadership tax proposals became law, the study said.

"It is unlikely that budget cuts of the magnitude needed to maintain budget balance if these tax cuts are approved would be achievable and sustainable," said Robert Greenstein, the Center's executive director. "The result could be rising deficits in the very years we need to make the greatest progress on the deficit, the years before the baby boom generation begins to retire."

"Inclusion of tax cuts make the politics of balancing the budget far more difficult and risk the possibility that balance will not be achieved at all," stated Martha Phillips during the press conference. "Balance the budget first. Save tax cuts until this formidable task has been accomplished."

Leadership Tax Cuts Exceed Those Congress Approved in 1995 and 1996

The analysis also found the Senate leadership tax cuts would cost more over the next 10 years than the tax cuts in the budget President Clinton vetoed. The new tax cuts also would cost nearly twice as much as the tax cuts assumed in the budget resolution the Republican Congressional majority approved in 1996. Last year's budget resolution assumed tax cuts of \$122 billion over *six* years, the Center noted, while the new proposals total \$201 billion over five years.

The reason the new tax proposals would cost more than those Congress passed in 1995, the analysis found, is that the new legislation contains larger and costlier versions than the 1995 bill of three major tax breaks primarily benefitting upper-income taxpayers — a capital gains tax cut, expansion of tax preferences for Individual Retirement Accounts, and provisions cutting taxes on large estates passed on to heirs. The 10-year cost of these three tax cut provisions is \$120 billion larger in the new plan than in the vetoed legislation.

The increase in the size of these three tax cuts also results in the Leadership plan being more heavily tilted toward high-income households than the 1995 legislation, which itself heavily favored such households, the Center found. The Center's analysis shows that because the capital gains, IRA, and estate tax cuts mushroom in cost after 2002, the tax package becomes increasingly skewed toward high-income households with each passing year.

Tax cut provisions that confer a majority of their benefits on *middle-class* households account for 61 percent of the revenue loss from the Leadership tax proposals during the first five years, the Center found, but only 33 percent of the tax cut benefits in the second five years and just 30 percent by the tenth year. When the tax cuts take full effect, they primarily benefit the well-to-do rather than middle-income households, the analysis noted.

The analysis also found that the 30 percent of the tax cut benefits that would go for middle-income relief in the tenth year is far below the 46 percent of tax cut benefits that would have gone for such relief under the legislation Congress passed and President Clinton vetoed in 1995.

The Center's findings on the extent to which the Leadership tax cuts would primarily benefit high-income households when the tax cuts are phased in fully is consistent with the findings of a recent study by Citizens for Tax Justice. Citizens for Tax Justice found that when S. 2, the principal Leadership tax bill, is phased in fully, the bottom 80 percent of households would receive only 25 percent of the tax cut benefits. The top five percent of households would garner 51 percent of the benefits.

Leadership Tax Cuts Three Times Larger than Clinton Tax Cuts, But Clinton Cuts Grow Rapidly After 2002

The Center's analysis also found that the Leadership tax cuts have more than three times the cost of the Clinton tax cut proposal over the first 10 years. The analysis notes that the net cost of the tax changes in the Administration's budget, after accounting for offsetting revenue-raising measures, is \$131 billion over the ten years through 2007. (This is the Joint Committee on Taxation estimate, assuming budget targets are met and tax cuts therefore do not sunset.)

If one assumes the Senate Republican Leadership would support the Administration's proposals to extend several expired taxes and nets the resulting savings against the cost of the Leadership tax plan, the Leadership tax cuts still cost \$440 billion over 10 years, more than three times the cost over the next ten years of the Administration proposals, the analysis finds.

Nevertheless, the Administration tax proposal — like the Leadership plan — is substantially backloaded; it grows rapidly in cost after 2002. The Clinton proposal, net of offsets, would cost twice as much in 2007 as in 2002 — nearly \$21 billion in 2007 compared to just over

\$10 billion in 2002. As a result, the Administration's tax cuts, like the Leadership proposals, would increase the difficulty of budgeting prudently for the approaching retirement of the baby boom generation.

Tax Cuts Primarily Benefitting the Affluent Grow Rapidly

The analysis assesses the extent to which the three Leadership tax cut provisions that primarily benefit upper-income households — the capital gains, IRA and estate tax cuts — would grow sharply in cost. It finds:

- The capital gains provisions in the bill would cost \$33 billion in the first five years, according to the Joint Tax Committee estimates, but \$96 billion in the second five years. In subsequent 10-year periods, the cost of the capital gains tax cuts would exceed \$200 billion.

A large volume of studies has found that capital gains tax cuts are heavily skewed toward high-income investors. Households with incomes exceeding \$100,000 a year receive approximately three-quarters of all capital gains income and would receive the lion's share of the benefits from these tax cuts. While a growing number of middle-income households hold some investments that yield capital gains, the average amount of their capital gains income tends to be small and is dwarfed by the levels of capital gains income that wealthy investors receive.

- The Individual Retirement Account proposals in the Senate leadership package, which provide IRA tax breaks to upper-middle and high-income individuals already covered by tax-favored retirement plans through their employers, would cost \$33 billion during the first five years but \$80 billion in the second five. By 2007, the IRA proposals would cost \$19 billion a year, with their cost still rising. Like the capital gains proposals, the IRA proposals would cost more than \$200 billion in subsequent 10-year periods.

Studies of earlier proposals to grant IRA tax advantages to upper-middle and high-income individuals with employer-sponsored retirement plans found that 95 percent of the tax benefits from such proposals would go to the top fifth of taxpayers.

- A proposal to raise from \$600,000 to \$1 million the size of an estate that can be passed to heirs free of estate tax — coupled with a proposal to exempt from the estate tax an additional \$1.5 million of family-owned business interests — would cost \$18 billion in the first five years. But it would cost \$48 billion in the second five years. In subsequent 10-year periods, the cost would likely exceed \$120

billion. This provision benefits only the top one percent of estates, those valued at more than \$600,000.

While tax breaks primarily benefitting high-income households would mushroom in cost, the Center found, the principal tax proposal conferring the majority of its benefits on middle-income households — the \$500 child credit — would *decline* in cost and value over time. This is primarily because the \$500 credit level would not be indexed for inflation.

It is because the capital gains, IRA and estate tax cuts explode in cost after 2002 while the cost of the child credit declines that the Leadership tax package is, over the long term, primarily a tax relief package for high-income households, the analysis said.

Commenting on the Leadership tax proposals, Greenstein observed that some Members of Congress who argue the federal government cannot afford to extend health insurance to uninsured children or to expend \$2 billion to \$3 billion a year to retain subsistence benefits for legal immigrants who are old and disabled are proposing to spend \$73 billion a year by 2007 on tax cuts primarily benefitting the well-off. He added that some who have criticized the Clinton budget for backloading its spending cuts are proposing to backload tax cuts they favor.

These tax proposals almost certainly would widen the already-large gaps between the wealthy and other Americans, Greenstein added, both because the well-to-do would secure the lion's share of the tax cut benefits and because the burgeoning tax cuts would result in substantially deeper cuts than otherwise would be needed in basic programs upon which both middle-class families and the poor rely.

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, and specializes in issues related to fiscal policy, social welfare and nutrition policy. It is supported primarily by foundation grants.

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SENATE LEADERSHIP TAX PROPOSALS:

**MUSHROOMING TAX CUTS FOR HIGH-INCOME TAXPAYERS WOULD
JEOPARDIZE LONG-TERM BUDGET INTEGRITY**

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