Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. note	Phone No. (Partial) (1 page)	n.d.	P6/b(6)
002. memo	Laura D. Tyson to President Clinton. Subject: Monday's budget speech and our budget campaign (1 page)	07/21/1995	P5 4105

COLLECTION:
Clinton Presidential Records
Speechwriting
David Shipley
OA/Box Number: 10706

FOLDER TITLE:
Boys Nation [4]

Jamie Metrailer
2006-1734-F
jm280

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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THE WHITE HOUSE

WASHINGTON

July 21, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON Laura D. Tyson

RE: MONDAY'S BUDGET SPEECH AND OUR BUDGET CAMPAIGN

As you know, the White House Working Group to promote the Clinton Budget is now up and running. Both the members of the Working Group and the principals, who comprise the NEC Budget Strategy Group and advise the Working Group, agree that you should give a speech on Monday, July 24, 1995 to re-introduce your balanced budget plan to the American people and to kick off our concerted campaign to promote it around the country.

The principals of the NEC Budget Strategy Group believe that this campaign is of critical importance because it is our only real source of leverage to realize an ultimate budget deal which reflects your priorities and which can be used to define the Clinton economic vision during the 1996 election year. We must make the case for our budget consistently, forcefully and clearly to the American voters during the next few weeks so that they strongly prefer it to the Republican alternative. Their active support is essential if we are to succeed in realizing a compromise we can accept sometime during the fall.

Many of the NEC principals also believe that we must find opportunities to express our concern about a likely budgetary train wreck this fall. One possibility would be to voice such concern in your Monday speech. The press currently seems quite interested in the train wreck story, and your speech could key into this interest with a multi-part message: "I am concerned and disappointed that the Congress is far behind schedule on the reconciliation process; I exhort them to accelerate the pace of their work, so that the American people have time to understand and evaluate the profound budgetary choices confronting them; I am prepared to do everything I can to avoid a train wreck; But I will not sacrifice my priorities and vision to do so; and I will not allow the American people to be blackmailed into accepting huge cuts in Medicare, education and training and a huge tax cut for the wealthy."

Several of your advisers believe that a strong message along these lines will increase our leverage to avoid a train wreck both by alerting the American people to the budgetary game of chicken which some Republicans wish to play and by indicating to the Congress that you will not blink in such a game. Right now many of your advisers fear that Congressional Republicans do not take our veto threats seriously because they believe that we have more to

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Kitty Higgins to President Clinton. Subject: Hot issues in Tennessee (1 page)	10/09/1996	P5 4106
002. memo	re: Campaign (2 pages)	10/09/1996	Personal Misfile
003. memo	re: Campaign (4 pages)	10/09/1996	Personal Misfile
004. memo	re: Campaign (3 pages)	10/08/1996	Personal Misfile
005. memo	re: Campaign (3 pages)	10/09/1996	Personal Misfile

COLLECTION:

Clinton Presidential Records
Speechwriting
David Shipley
OA/Box Number: 10705

FOLDER TITLE:

Internet [4]

Jamie Metrailer
2006-1734-F
jm271

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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THE WHITE HOUSE

WASHINGTON

October 9, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: KITTY HIGGINS

SUBJECT: HOT ISSUES -- TENNESSEE

Nashville Football Stadium Minority Contracts: African-American members of the Nashville City Council are concerned that less than 1 percent of the work at the $130 million Nashville Arena project went to minority contractors. These members withheld their support for the football stadium -- to be the home of the relocating Houston Oilers -- until the mayor agreed to fund a $500,000 study of city contracting disparity. (DOC)

Death of Knoxville Two-Year-Old Who Was Denied Hospital Admission: In August, Danielle Sara Lynn Davis died after being denied admission to St. Mary's Hospital emergency room in Knoxville. Initial reports indicated that the child was in cardiac arrest when she was denied admission. It has also been reported that the Knox County Medical Examiner stated that the girl had been dead for two hours before her grandfather found her and called an ambulance. The Tennessee State Survey Agency investigated a possible "dumping" violation, but determined that the case did not violate COBRA requirements because admission was denied when the patient was in the ambulance and not physically on the grounds of the hospital. HCFA's Regional and Central Offices conducted a physician review because of concerns that the hospital might have failed to meet the Medicare Conditions of Participation for Hospitals, but reached the same result. Physician reviewers employed by the state Peer Review Organization concurred. There has been significant media coverage, including *Geraldo Rivera* and *Inside Edition*. (HHS)

Phillips Electronics Layoffs: The Phillips Electronic Company is stationed in three locations in Tennessee. One of the three plants, in Greeneville, TN, will lay-off 2,000 employees with no plans to re-hire. It is DOL's concern that the POTUS does not mention this company as an outstanding employer due to this recent development.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Dick Morris to President Clinton, Don Baer, and David Shipley. Subject: Draft of Michigan speech (1 page)	05/04/1995	P5 4107
002. memo	Dick Morris to Don Baer. Subject: Vision (Annotations) (13 pages)	02/14/1995	P5

COLLECTION:

Clinton Presidential Records
Speechwriting
David Shipley
OA/Box Number: 10708

FOLDER TITLE:

Michigan State Commencement [1]

Jamie Metrailer
2006-1734-F
jm796

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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65709

TO: THE PRESIDENT
Don Baer
David Shipley

From: Dick Morris

Re: Draft of Michigan Speech

Date Thursday, 230 PM

I've read the draft David and Don prepared and I think it is excellent. Just the right tone.

But I'd like a sharper hit on the militia. I want to sharpen the "how dare they" section a bit. I think it should be how dare you--that will make much better TV -- as if the President is talking directly to them.

I'd propose tougher language --

This is a free country. We have the vote. We have free speech. We have an active investigative media. We have the right to print what we want and send it to whomever we want. So I say to the militas:

How dare you say that violence is the only way to make change. when you can go to a voting booth on election day and make any change you want.

How dare you say that the government is in a conspiracy to take your freedom. This is the government you helped elect and you can change. This is the government of the people, by the people and for the people. How dare you say that its like some vision from Stalinist Russia or Nazi Germany. Those are the kind of governments who plot against their people, not a democracy like the United States of America.

How dare you treat law enforcement officers like some kind of enemy army, to be suspected. derided, and as you turn the other way, murdered. These men and these women risk their lives to protect us all and keep us all free. They help us, they shelter us, the guard us. How dare you impugn them and threaten them.

How dare you appropriate to your paranoid ways, our sacred national symbols. How dare you compare yourselves to colonial militas who fought for democracy, which you fight against.

How dare you invoke the Founding Fathers who created the elective government you claim as your persecutor

How dare you suggest that we, in the freeest nation on earth. live under tyranny

How dare you call yourselves patriots! How dare you call yourselves heros!

We have more freedom.......

minor points --p2 paragraph 3. don't seem to belittle the "hundreds of thousands" of American dead by seeming to compare them with the 27 million dead in Russia

p2 para 4 don't draw a pre and post WWII distinction It sounds like we considered the fear of fascism more real than the fear of communism. it is all a seamless web of external threats

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. statement	re: Fundraiser (2 pages)	04/04/1995	Personal Misfile
002. memo	Paul Begala to Don Baer and Doug Sosnick. Subject: American Society of Newspapers Editors speech (4 pages)	04/03/1995	P5
003. memo	Working Group to President Clinton. Subject: Communications plan (4 pages)	03/31/1995	P5 4108

COLLECTION:

Clinton Presidential Records
Speechwriting
David Shipley
OA/Box Number: 10705

FOLDER TITLE:

American Society of Newspaper Editors

Jamie Metrailer
2006-1734-F
jm260

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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March 31, 1995

Memorandum for the President

From: **Working Group**

Subject: Communications Plan

This memo presents for your review and comment a communications plan for April and May. The following plan reflects the consensus of your senior staff.

Four Major Speeches

We propose that we designate four of your upcoming speeches as the building blocks of our message in the months ahead:

- American Society of Newspaper Editors, April 7, 1995
  Dallas, Texas
- Michigan State University Commencement, May 5, 1995
  East Lansing, Michigan
- US Air Force Academy Commencement, May 31, 1995
  Colorado Springs, Colorado
- Dartmouth College Commencement, June 11, 1995
  Hanover, New Hampshire

In these speeches, we propose that you outline your vision to renew the American Dream as we approach the 21st century.

The commencement addresses, in particular, offer you an opportunity to spell out for the next generation the realities of the new world they will inherit -- the challenges they will face, the opportunities they will enjoy, and the responsibilities they must assume to achieve the American Dream. Like the Georgetown speeches, the three commencement speeches should each address a distinct part of that vision, e.g. the challenges of the new economy, American leadership in the new world, and the mainstream values -- opportunity, responsibility, family -- that must guide us. Unlike Georgetown, the speeches need not outline our policies; those polices are on the table already. Instead, the speeches should allow you to articulate your vision for the future and describe for Americans their common mission as we approach the next century.

The speech to the American Society of Newspaper Editors -- which occurs next Friday -- serves a more tactical purpose and warrants a separate discussion.

Speech to the American Society of Newspaper Editors

We propose that this speech serve two purposes:

- Set the Stage for a Month-Long Focus on Education as the Key to Economic Growth.

- Suggest the Major Contrast Between Our Values and Those of the Republicans.

This speech must serve as a pivot away from the next week's focus on the New Congress's achievements -- a mixed record -- to your thoughtful vision for the future, a vision that links education to the economy. It will be followed throughout the month of April by events demonstrating our commitment to improving education. We will use the ASNE speech to move away from criticism to our positive education message in April. The basic elements of that message follow:

- Education and lifelong learning are the key to opportunity in the new economy. Individuals, local communities, private institutions, and business all share responsibility for this effort. **So does the federal government.**

- **Cutting education in this era of global competition is like cutting defense during the Cold War.** That's why we must preserve the gains we have made to improve education and training and move forward on the rest of our agenda.

Unlike the ACE Speech in February and the PTA remarks in March, this speech should not focus on a vow to protect education programs. Instead, it should **implicitly** contrast your vision for the future with that of the Republicans.

Opportunities and Dangers. The audience, major newspaper editors, virtually guarantees that the ASNE speech will be treated seriously. However, the Q&A session following the speech poses a major trap. Last year, you delivered a thoughtful speech to the ASNE that was drowned out by your assessment of the press's coverage of Whitewater in response to a question. As we saw this week, there is enough "hot news" out there, e.g. Guatemala, Iraq, etc., to divert attention from a serious, positive speech. Your responses to Q&A should be perfunctory enough to keep attention where it belongs: on the speech.

100 Days. Friday, April 7 is the day Speaker Gingrich has chosen to celebrate the 100 Days of his "Contract with America." He has planned a flag-waving rally at the Capitol and a live evening address to the nation that CNN will broadcast. The networks will broadcast their evening news from the Capitol on both Thursday and Friday. The speech to the ASNE is your response. By not attacking the Contract head-on, you can rise above the hoopla around the 100 days, while allowing others to drive home the contrast.

The basic thrust of that contrast is between our commitment to education and the Republican effort to cut education to pay for tax cuts for the wealthy. This contrast will pain a larger picture about what we as Democrats stand for, what we consider important. That effort begins next week. The Vice President will kick it off in a speech on Monday, while Democrats in the House, Senate, Governors, mayors, local officials and interested groups will amplify your message and drive the contrast throughout the week and month.

Other Education Events

The following is a preliminary sketch of April events designed to show your commitment to education as the key to renewing the American Dream.

April 1, 1995	**Radio Address on Education**. Allows you to follow-up on message of the Economic Conference and kick off the month by previewing education and economy theme.
April 3, 1995	**Arkansas School Dedication**. Allows you to highlight commitment to education at the beginning of a week when Senate Republicans vote on education cuts and House Republicans vote on tax cuts for the wealthy.
April 7, 1995	**ASNE Speech**. Previously discussed.
	Local Event. Reinforce and echo ASNE speech with Dallas residents. Designed not to make news and "trump" the ASNE speech.
April 8, 1995	**Speech to the National Education Association**. Focus on challenges and solutions that schools, parents, students, communities and government face in creating safe schools where children can learn.
	Radio Address on Education. Excerpts from NEA speech.
	Please Note. NEA speech is after deadline, so we must approve excerpts in advance and use radio address to move the story.
April 12, 1995	**Primetime Press Conference**. Lead with the announcement of 500+ new institutions admitted into the third year of direct lending.
April 13, 1995	**Local Event on Middle Class Bill of Rights**. Event with young people highlighting the education provisions of the Middle Class Bill of Rights.
April 15, 1995	**Radio Address on Education**. Conicides with taxes and College Admissions Day. Summarize the week, with anecdotes from "people events." Restate the case for lifelong learning.
April 24, 1995	**American Association of Community Colleges**. Focus on advanced training as the key to opportunity to the new economy.
April 25, 1995	**National Rural Conference**. Devote some segment of the program to highlight rural education, including the role of telecommunications.
April 27, 1995	**Teacher of the Year**. Focus on White House agenda for world-class public education, including reform, investment and choice.

Other Message Events -- Opportunities

There are several other message events we will do in April. Given the high concentration of education events, the likelihood that these other events will dilute our focus is somewhat diminished. Unlike the education events which we will designate publicly as the main thrust of our activity, the following events -- grouped thematically -- should be seen as attempts to lay down markers -- in some cases for future fights.

Reinventing Government. Two events.

- Social Security on April 13, 1995. Message is that we are fixing government and preserving Social Security for the next generation.

- Missouri on April 26, 1995. Highlight our effort to cut red tape and allow states to reform welfare, move people to work.

Protecting the Environment and Public Health.

- Earth Day on April 21, 1995. Chance to lay down a strong marker against GOP efforts to roll back environmental protection.

Dangers

The Political - Campaign Stories.

More dangerous than events on other initiatives is the danger that our efforts be portrayed against the back-drop of the nascent presidential campaign. We have already seen coverage of your trip to the South colored by political reporting. With Republicans up and running, reporters are increasingly likely to cast all our efforts as political and diminish their significance. We can counter that tendency in part by avoiding heated rhetoric and partisan challenges. However, it will be difficult to paint a contrast between our vision and that of the Republicans is that contrast is too flat.

Distractions from The Non Message Events

Throughout the month, you will be addressing groups before the press in settings where we would prefer not to make news, e.g. the American Jewish Congress, the California Democratic State Convention, the Construction and Trade Workers, etc. We must be careful not to allow these secondary, political events to "trump" our public message. That is best done by keeping the rhetoric and partisan nature of these speeches unusually muted.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. note	SSN's (Partial) (1 page)	n.d.	P6/b(6)
002. notes	re: Draft radiation statement (2 pages)	n.d.	P5
003. memo	Phil Caplan thru Leon Panetta to President Clinton. Subject: Advisory Committee on Human Radiation Experiments (4 pages)	09/29/1995	P5 4109

COLLECTION:

Clinton Presidential Records
Speechwriting
David Shipley
OA/Box Number: 10709

FOLDER TITLE:

Radiation [1]

Jamie Metrailer
2006-1734-F
jm328

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
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September 29, 1995

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN

THROUGH: LEON PANETTA

RE: Advisory Committee on Human Radiation Experiments

I. ACTION-FORCING EVENT

To approve several recommended actions to be taken on Tuesday, October 3, when you are scheduled to receive the Advisory Committee's final report.

II. BACKGROUND

Jan - Mar - April 94

You appointed this Committee in January 1994 after Secretary O'Leary made public a number of revelations of the government's conduct during the 1940s and 50s with regard to radiation experiments using human research subjects. You issued an Executive Order charging the Committee with reviewing the records of the Federal agencies and providing expert advice on many issues, including 1) whether human radiation experiments sponsored or conducted by the government from 1944-1974 met the ethical and scientific standards of the time and those that exist today; and 2) whether current human subject research safeguards are adequate to prevent recurrence of such ethical abuses.

The Committee's work essentially falls into three categories: 1) a review of experiments from the Cold War, 2) a survey of current human subjects research and 3) a review of secrecy and openness guidelines.

1) Cold War: 1944 - 1974: The Committee found conclusive evidence that the government sponsored a very large number of human radiation research experiments f om 1944-1974. Because of the large number, the Committee focused on identifying the ethical standards that applied to the government and the medical profession, not the particulars of the hundreds of experiments, although they focussed on a few in-depth. The basic storyline here is that the Committee found that the vast majority of the experiments they examined in-depth were not harmful to the subjects, but, nevertheless, the government did not effectively implement policies to ensure that consent was obtained from the subjects.

The Committee will recommend financial compensation for the families of the 18 subjects of the plutonium injection experiments (the experiments for which the *Albuquerque Tribune* won the Pulitzer) because this was the most egregious example of the government keeping secret an experiment, although it was unlikely physical harm resulted from the experiment itself. The Committee will also recommend compensation for another larger class of people who were subjects of experiments; approximately 4,000 may deserve compensation, but the number is very, very difficult to determine. These people were harmed to some degree, were not in a position to benefit medically, and the experiments were not ethically proper. Experiments in this category include the testicular irradiation of prisoners, and the total body irradation in Cincinnati. **OMB is working with the agencies on several options for a compensation scheme. It is premature for you to comment with any specificity.**

2) Current Human Subject Research: 1974 - present: The Committee reviewed 125 current or recently Federally-funded studies (not limited to radiation research) and 1) interviewed patients at leading hospitals in order to gauge the adequacy of procedures for obtaining informed consent from subjects, 2) evaluated the research risks of the experiments and 3) sampled attitudes towards human subject research.

The Committee found that most of the protections and informed consent were up to standard. However, the Committee did find that about 25% of the experiments were "troubling" in terms of the informed consent and the risks involved in the research. The Committee has notified each of the sponsoring institutions (usually a university research hospital) of these problems and asked each of the institutions to strenuously review their procedures. **You will issue an Executive Order directing the agencies to review their policies and procedures.**

3) Secrecy and Openness: The Committee's recommendations in this section fall generally into two categories: 1) additional safeguards for the protection of human subjects involved in classified research, and 2) environmental oversight of classified programs. The Committee's recommendations are geared to preventing 40s and 50s-style experiments from ever happening again.

III. RECOMMENDATIONS

The Administration is *officially* seeing the final report for the first time, although we have been working closely with the Committee. It would not be correct for you to respond with a great deal of specificity about the Committee's recommendations, but rather lay out a set of principles and then ask the Cabinet to work on implementing the Committee's recommendations. **The theme of your remarks will be that your Administration has "done the right thing," lifted the veil of secrecy on the government's conduct during the Cold War -- your Administration has taken a risk of exposing deficiencies in the protection of human research subjects in order to improve the system and help restore the trust in government.**

Therefore, we recommend you take the following actions at the event on October 3rd:

1) apologize: there will be representatives of victims rights groups at the event. We recommend that, while you don't individually apologize to those present, you issue a heartfelt apology on behalf of the nation to those who were harmed by participating in unethical experiments.

2) Endorse the Committee's notion that people who were harmed as subjects in unethical experiments should be compensated, and pledge that your Administration work closely with the Congress to establish a streamlined compensation scheme. **This will be the first time you have substantively commented on this subject and your comments will receive the most media attention out of the event.**

3) Issue an Executive Order that 1) directs all federal agencies to review their policies and procedures with regard to human subject research and 2) establishes the National Bioethics Advisory Committee to look at, among other things, the whole of issue of human subjects research, and lay out new guidelines for informed consent to fill in the gaps that the Committee has found to exist.

_____ Accept general outline

_____ Reject general outline

_____ Discuss further

[BACK]

In med. cutting sci. was good. Presumption but it alwys created progress + good. From everything pollution to thinking tools, technology + sci shall not be tempered of consciousness + respons. toward human lives.

As we continue to have more + more dilemmas as sci + tech evolve, our ethical consc. must grow accordingly. The ascendancy of informed consent as a med. value in the 20th cent. is a sign of that consciousness rising to meet increasingly seductive + sophisticated technologies.

Informed consent less [illegible] now.
Doctors as gods.
Now enriched by knowing that they're only human. ~~[illegible]~~ More important in 20th cty.

Community Right to Know is to the govt as a patient is to a doctor.
The Hippocratic oath begins: "First do no harm"

Hippocratic Oath, which every doctor swears, requires that he prescribe treatments only for curative purposes.

Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Kevin Sullivan to Michael Waldman and Jonathan Prince. Subject: NEA speech (2 pages)	06/18/1996	P5
002. memo	Laura Tyson to President Clinton. Subject: Educational infrastructure and offsets (16 pages)	07/05/1996	P5 4110
003. schedule	Phone No.'s (Partial) (1 page)	07/10/1996	P6/b(6)

COLLECTION:

Clinton Presidential Records
Speechwriting
David Shipley
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FOLDER TITLE:

School Reconstruction [1]

Jamie Metrailer
2006-1734-F
jm350

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
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Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
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THE WHITE HOUSE

WASHINGTON

July 5, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Laura Tyson

SUBJECT: Educational Infrastructure and Offsets

Your economic advisers have been meeting to review and develop options for a possible federal government initiative to support construction, renovation, and/or repair of the nation's elementary and secondary public schools. On Monday, a group of your advisers will meet with you to discuss how you might pay for such an initiative, should you choose to go forward with it. An attachment describes the pay-for options that were prepared for your consideration. Our Monday discussion of these options will also be relevant to any other new policy initiatives you might wish to consider between now and the November election -- initiatives such as capital gains tax relief and simplification for homeowners, or a new proposal to stimulate job creation in urban areas.

Monday's meeting is planned to focus on pay-fors, not on the general pros and cons of an educational infrastructure initiative nor on the design elements of such an initiative. Since your economic team has not yet had an opportunity to meet with you on these issues, I thought it would be useful to provide this background memo indicating some of our concerns. (I mentioned some of these to you on Wednesday in our Oval Office discussion.) Two different kinds of concerns have surfaced in our discussions: concerns about the effectiveness of a federal program to support educational infrastructure; and concerns about the political advisability of such a program.

I. CONCERNS ABOUT EFFECTIVENESS

1. **Is There A Better New Education Proposal?** Although there is compelling evidence that a large number of the nation's public schools are in need of repair or replacement, the evidence linking educational infrastructure to student performance is tenuous at best. Given the tight constraints on education spending, your advisers question the wisdom of spending resources on school construction--which is already tax-advantaged under current law--as opposed to some other educational program whose effects on educational outcomes are stronger and more reliable. For example, why not call for an equally bold proposal on pre-school and Head Start, or on student loans, or on teacher computer training? One possibility, described in the attached preliminary proposal, would be a federal commitment to set a new standard of two years of preschool for all children, starting with adequate funding so that all eligible children could attend at least one full year of Head Start, a program with a

proven track record. Your advisers would be happy to develop this proposal further if you are interested.

2. **Will We Spur Additional School Construction?** Your advisors generally agree that aid would be given in the form of a credit subsidy approach because it would require the local community to share in the responsibility for financing school construction by voting to borrow and repay funds. Several of your advisers are concerned, however, that federal support for educational infrastructure would simply substitute for local support that would otherwise be forthcoming, without any significant increase in the overall amount of construction that is financed. We have been working on a program design that in principle should address this problem--by fashioning federal support in the form of a credit subsidy for incremental spending.

Matching funds

An incremental approach is somewhat more feasible if it is applied at the state level. At this level, we can try to focus on a federal subsidy for incremental expenditures over and above the average annual amount spent on school construction in the state during some previous period. But it is nearly impossible to apply an incremental approach at the local level because it would simply disadvantage districts that have financed high levels of construction in recent years and because the timing and amount of school bond issues can be quite erratic over time. For this reason, most of your advisors believe that if we try to apply an incremental approach, a substantial share of any federal credit subsidy program would have to take the form of challenge (block) grants to states based on state averages of recent construction efforts. Others believe the difficulty of implementing such a standard makes it advisable to focus only on a needs analysis.

The problem is that it is that even with our best efforts at design, it would be impossible to know with any certainty how much construction would occur anyway, and very difficult to design an incremental plan that we know would be effective. The Treasury, in particular, believes that there is no way to design a federal program to guarantee that it leverages additional construction financing rather than substituting for state/local financing that would have otherwise occurred. At the very least, a federal program to subsidize educational infrastructure will be subject to a fair amount of criticism on this ground.

3. **How To Target and Who Should Do it?** States and local school districts have very different school construction needs and financing capabilities. Ideally, one would want to concentrate scarce federal dollars on where the needs are greatest, the capabilities are the most restricted, and the additional infrastructure spending would have the greatest impact on educational performance. Targeting federal dollars to districts on the basis of income and demographic characteristics and/or targeting federal dollars for repair rather than construction or for classroom space rather than gymnasium space might be reasonable approaches. But this kind of detailed targeting would require that the federal government have the ability to evaluate and adjudicate among requests from thousands of local school districts. Moreover, it is by no

means certain that the credit subsidy approach would effectively mobilize local financing efforts in the neediest districts or for the most pressing educational needs.

In light of these difficulties, your advisers have developed a hybrid approach that would channel some of the federal support to the states, which in turn would have the task of dividing it among local school districts, and would channel the remainder of the funds for allocation by the Department of Education to the largest--and most of the neediest--school districts in the country. An alternative approach, favored by the Department of Education, would have all of the federal money allocated by the Department but would limit such money to school repair projects or projects necessary to meet environmental or technology goals or other federal priorities. The third option would be, as mentioned above, to simply give the funding to the states to allocate -- either at their discretion or consistent with federal targets.

II. POLITICAL CONCERNS. Your economic advisers have also raised several political concerns about a new federal program to support educational infrastructure.

1. School construction has traditionally been a local government issue in which the federal government has not been involved. It is also often an intensely charged political issue at the local level. As the Secretary of Education said at one of our meetings, the federal government should avoid being thrown into the briar patch of local politics over school construction.

2. A new federal program in this area, especially one which is financed by revenue-raisers, could be fairly characterized as a traditional big-government, tax and spend approach.

3. In 1992, you proposed significant new infrastructure investment at the federal level. Budgetary constraints have prevented us from delivering on this promise. On one hand, an education infrastructure program could be seen as taking a more targeted approach to meeting your infrastructure goals. On the other hand, a new infrastructure initiative in a new area might focus criticism on our failure to deliver on an earlier commitment and could be greeted with skepticism.

4. While a $5 billion program could increase yearly spending on construction by a sizable percentage for a year or two -- if we are actually able to leverage net incremental spending -- a federal infrastructure program of about $5 billion is not likely to sound like much compared to an estimated price tag of $112 billion to bring the nation's schools into good overall conditions. Will a new program make the federal government responsible for the solution to a problem which it cannot solve because it does not have adequate resources?

5. A federal program to support local school construction could raise concerns about federal government interference in local school decision-making, which is a hot-button issue with many right-wing groups. Targeting federal support would likely aggravate such concerns.

Two Attachments:

Two Years of Pre-School: This is an alternative proposal to spur two years of pre-school -- with the federal contribution coming through expanded Head Start and possibly parenting education.

Offset List: Over the last week, NEC, OMB and Treasury have been searching for offsets that could be used not only for this initiative, but for any additional ideas you might wish to announce over the summer. Leon and the economic team both feel that it is important for you need to review the entire list of options so that you have a sense of the difficulties involved in financing any new spending proposals in the current budgetary environment.

As you will see, the list includes two revenue increases from limiting or ending tax preferences to multinationals that have income in foreign countries. While both of these policies may be good policy and good message and less difficult than the other options, Bob Rubin feels we must also calculate the degree to which such proposals inspire the business community to mobilize against us as they did in health care. Another option seen as less politically onerous than others is corporate jet subsidies, yet Leon fears that this might trigger the type of reaction that took place with the luxury boat tax. There is also an apparently painless Federal Reserve option, but it is not clear it would score, and many feel that it would be labeled a gimmick and would undermine our credibility on the budget.

NEW NATIONAL NORM FOR ALL YOUNG AMERICANS

TWO YEARS OF PRE-SCHOOL, TWO YEARS OF COLLEGE

Visions: The President would set a new national standard: all young children would go to quality pre-school for two years.

The President's vision for the nation: every child should have two years of pre-school: every young person two years of college.

Challenge:

As with the Hope Scholarship, where the President sought to make two years of college a new national standard, so two his proposal would be designed to establish two years of pre-school as a new national norm. In doing so, he would speak to all Americans: He would

Challenge all parents to be their child's first teachers and help them be ready to learn

Challenge parents to use their $500 tax credit to help them get their children quality pre-school education.

Challenge states to expand pre-school programs and to open more community schools that allow pre-school in their activities.

Challenge more day care centers to teach children and not just baby sit.

Initiative: $6-8 Billion Head Start/Pre-School Initiative: Because this national norm will only be reached with a nationwide mission, to ensure that even the poorest children have the chance and that all parents have the skills to be first teachers, the President proposes the following three-part initiative:

Fully Fund Head Start for 4 Years-Olds: While our goal should be two years of pre-school for all children, we could take a huge step by ensuing that all children get at least one year of Head Start -- by doubling the number of Head Start recipients from 750,000 to 1.5 million by the year 2002.

Head Start 0-3: A new Clinton initiative has been Head Start for 0-3. Currently, we spend only $140 million a year. We should make a major step by moving to $500 million a year, so that more and more young people can get the help they need from the start, and more poor working mothers will find it easier to be both parents and workers.

Parents as First Teachers: Building off the bipartisan efforts of Hillary Clinton, Barbara Bush and Kit Bond, the President calls for a national effort for local community programs modeled after Arkansas and Missouri and other states to help parents get the help they need to be their child's first teacher — a concept Barbara Bush also promoted.

Offsets: **No Trade-off Between Young and Old:** Many have stated that the only way we can properly invest in the young is by forcing a trade-off between childrens programs and harsh cuts to Medicare. That is not so. This proposal shows that by cutting unnecessary subsidies in the budget we can help make two years of pre-school education a new national norm without gutting Medicare or Social Security.

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POTENTIAL OFFSETS - SUMMARY
(in billions of dollars)

Category 1	6-Year Savings
Limit availability of tax deferral for controlled foreign corporations (CFCs)	5.0
Replace sales source rules with activity based rule	4.0
Tighten the substantial understatement penalty	0.2
Deny dividends-received deduction (DRD) for portfolio preferred stock	0.2
Impose aviation fees on corporate owned jets	1.8
Limit annual investment in annuities with tax deferrals	1.3
Require the Federal Reserve to transfer surplus reserve holdings to Treasury	1.7
Prorate reduction in percentage depletion benefits	3.0
Repeal tax exemption for large credit unions	2.4
Total, Category 1	19.6

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POTENTIAL OFFSETS - SUMMARY
(in billions of dollars)

	6-Year Savings
Category 2	
Auction digital broadcast spectrum	12.5
Reduce FSC benefits	2.5
Apply the lower tax brackets to income excluded by Americans working abroad (section 911)	1.2
Disallow deduction for certain entertainment expenses	1.3
Impose a cost of capital offset fee for Fannie Mae and Freddie Mac	4.2
Double flood insurance premiums	1.1
Repeal deductibility of advertising costs for tobacco and hard liquor	3.0
Sell three power marketing administration	1.9
Total, Category 2	27.7
Category 3	
Begin deeming sponsor's income to determine eligibility for Medicaid for legal immigrants	1.5
Require amortization of exploration and development costs	3.0
Require capitalization of multi-period timber growing costs	3.5
Expand current .25 percent gambling excise tax to casino games, bingo, keno, etc	4.0
Phase-out the dependent care credit for AGI $90,000-$100,000	1.0
Impose inland waterways user fees	2.5
Total, Category 3	15.5

Potential Offsets
(in billions of dollars)

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	6-year savings
Category I	
Limit availability of tax deferral for controlled foreign corporations	5.0

Under the controlled foreign corporation ("CFC") rules of the Internal Revenue Code, U.S. shareholders of CFCs are treated as receiving an annual distribution of their pro rata share of the CFC's "subpart F" income. Subpart F income generally consists of highly mobile income, including passive income and income from certain third-country sales and services activities.

Under current law, shareholders of a CFC are permitted to defer U.S. tax on CFC's income that is Subpart F income. The proposal would require that a CFC's Subpart F income be decreased by half of its non-Subpart F earnings and profits. This proposal would reduce the extent to which foreign tax holidays or other incentives could distort the allocation of capital between U.S. and foreign investment.

The proposal will be strenuously opposed by U.S.-based multinationals on the grounds that it would harm their ability to compete against foreign-based multinationals conducting the same operations in the same foreign countries. International competitiveness, however, is based less on the applicable rules of international taxation than it is on non-tax issues such as the cost of capital, the use of advanced technology, and the level of education and training in the labor force.

Replace sales source rules with activity-based rule	4.0

Currently, exporters that have excess foreign tax credits can take advantage of a safe harbor rule that permits them to treat 50 percent of their foreign sales as foreign source income, when in fact the actual percentage of foreign source income is much lower. In proposing the tuition tax credit, the Administration proposed reducing this safe harbor from 50 percent to 25 percent.

In fact, no safe harbor is appropriate; rather, the sales income should be sourced according to where the economic activity occurs that produces the income. Accordingly, this proposal would completely eliminate the fixed-percentage safe harbor with an activity-based test.

This proposal will be opposed by U.S.-based multinationals that both conduct high-taxed foreign operations and export products from the United States. The Administration believes that export benefits should apply in a neutral manner to all exporters, rather than provide special benefits to only those exporters that also have excess foreign tax credits generated by other foreign operations.

Impose aviation fees on corporate-owned jets 1.8

Currently, most of the revenues derived from aviation is from the ticket tax. In addition to fuel excise taxes of 15-17.5 cents per gallon, fees of $ 5 per aircraft are paid by general aviation (small private aircraft). To better reflect the cost of the services provided by the FAA (as well as air traffic control services provided by the Defense Department) to these users, the fees paid currently could be expanded or increased. In particular, additional fees should be imposed on corporate-owned jets.

The proposal targets principally large businesses, who might argue that they are being unfairly singled out for additional charges. Opponents would likely describe it as a job killer.

Limit annual investment in annuities with tax deferrals 1.3

Deferred annuities are a tax-favored investment because the "inside buildup" of investment earnings is not taxed until the policyholder begins to receive the payout of the cash value of the contract. This proposal would impose an excise tax of 6 percent on contributions of more than $50,000 ($100,000 for married taxpayers filing jointly) made to tax-deferred annuities during the taxable year. (A similar tax already applies to nondeductible contributions over $2,000 made annually to an individual IRA.)

This proposal will likely be vehemently opposed by the insurance industry, for fear that this proposal would make inroads into taxing currently exempt inside buildup in insurance products generally.

Require the Federal Reserve to transfer its surplus reserve account holdings to the Treasury 1.7

Currently, the Federal Reserve has a $3.5 billion surplus reserve that represents retained earnings of the Fed that have not been transferred to the Treasury as deposits of earnings. The Fed argues it needs this "rainy day account" to insulate it from risk of loss in international currency and other monetary transactions.

Congress has directed CBO, in recent budget resolutions, not to score any savings from legislation that required transfer of these surplus earnings. In addition, the proposal would be viewed as a gimmick because additional Fed payments now would be offset by lower Fed payments later.

Prorate reductions in percentage depletion allowance 3.0

Currently, certain producers of natural resources may deduct a portion of their sales proceeds, regardless of their investment in the property. The proposal would reduce this tax subsidy. Producers, particularly independent oil and gas producers, will be hit hardest. They will argue that this subsidy is an important incentive for domestic exploration and development, enhancing our energy security and keeping product prices low.

Repeal tax exemption for large credit unions 2.4

Currently, credit unions are exempt from tax, even though they are virtually indistinguishable from a bank or thrift. The tax exemption for credit unions with assets of more than $100 million would be repealed. The proposal would subject such credit unions to tax under the rules that apply to large commercial banks.

The proposal will likely be vehemently opposed, including significant grassroots efforts, as the credit unions stir up their depositors.

Tighten the substantial understatement penalty.. 0.2

Currently, taxpayers may be penalized for erroneous, but non-negligent, return positions only if the amount of the understatement is "substantial" and the taxpayer did not disclose the position in a statement with the return. For this purpose, substantial is defined as 10 percent of the taxpayer's total current tax liability, which for very large corporate taxpayers can be a very sizable amount.

This ability to comfortably avoid any penalties on aggressive positions with quite substantial potential liabilities at risk has led many large corporations to take very aggressive positions with large amounts at stake, in effect playing the audit lottery without any downside risk. Recognizing that a large deficiency can be considered substantial even when it is less than 10 percent, the proposal would consider any deficiency greater than $10 million to be substantial.

The proposal is targeted at taxpayers that have tax liabilities of $100 million or more, who will argue that the penalty should continue to reflect a relative notion, even where very large amounts are involved.

Deny dividends-received deduction (DRD) for portfolio preferred stock.. 0.2

Currently, corporate holders of stock in other corporations generally are entitled to deduct at least 70 percent of any dividends received on that stock. The Administration's FY 1997 Budget proposed to reduce this deduction to 50 percent in the case of portfolio stock. Passive stock investments that have priority over the common shareholders, however, arguably are indistinguishable from other passive, non-stock investments (for example, corporate debt). Accordingly, the proposal would eliminate the DRD on portfolio preferred stock.

As with the Budget proposal, this proposal will be strongly opposed by corporate issuers, financial intermediaries, and investors, who will argue that since dividends are not deductible by the paying corporation, the proposal results in multiple taxation of the same income.

Category II

Auction digital broadcast spectrum.. 12.5

This proposal would auction the portion of the spectrum that was to be used for broadcasting digital TV, instead of giving it to the broadcasters in exchange for the spectrum they currently use as proposed in the budget. The FCC could auction the digital channel spectrum within the next two years.

While this proposal makes broadcasters pay for a very valuable public resource, there would be vehement opposition from many members of Congress -- especially those from rural areas, the broadcasters , the public and the companies developing technology for digital TV.

While this proposal makes broadcasters pay for a very valuable public resource, there would be vehement opposition from many members of Congress -- especially those from rural areas, the broadcasters , the public and the companies developing technology for digital TV. The American firms spending billions on digital TV R&D would feel that they no longer have a guaranteed market for their product.

Reduce FSC benefits.. 2.5

There are two principal export tax incentives, the foreign sales corporation (FSC) provisions and the "sales source" rules. The Administration recently proposed reducing the beneficial sales source rules (in the context of the tuition tax credit proposal), but did not address the FSC rules.

Treasury studies have indicated that the cost of the FSC program is very high compared to the amount of additional exports created. Accordingly, the FSC benefits would be reduced by 20 percent. However, we recently proposed expanding FSC to cover software. In addition, this proposal would be viewed as unwisely discouraging exports. However, there may be more efficient export-incentive programs.

Reform taxation of Americans working abroad by applying lower brackets to excluded income (stacking).............. 1.2

The foreign earned income exclusion under present law applies to income that otherwise would be taxed at the taxpayer's highest marginal rate. Thus, taxable (non-excluded) income drops into the lowest brackets and is taxed at lower rates.

To more equitably tax U.S. persons who elect the foreign earned income exclusion, one could apply the lower brackets to currently excluded income and tax any additional income beyond the income eligible for the exclusion at the higher rate brackets that would apply if the excluded income were not excluded. A similar proposal was floated in early January during the budget negotiations and was met with strong opposition, including direct responses from affected workers.

They argue the incentive is necessary to allow America to compete in overseas hardship ports. The main effect is on the wages the multi-nationals have to pay their workers, which would increase without the tax exemption.

Disallow deduction for certain entertainment expenses.. 1.3

No deduction would be allowed for the cost of tickets to entertainment events, including sporting events, concerts, theater, and other performances, or for the cost of renting a skybox or other private luxury box (regardless of the period of the rental). The current exception for certain charitable sports events would still apply (so those costs would remain fully deductible).

The proposal will likely be strongly opposed by a wide range of constituencies, since it affects performing arts, sporting events, and other entertainment. The opposition likely will argue that the premise is incorrect that business-related activities do not occur at these events. However, while there is the ability to conduct some amount of business activity at these events, it is generally nominal.

Impose a cost of capital offset fee for Fannie Mae and Freddie Mac.. 4.2

Because of their affiliation with the Federal Government, CBO estimates Fannie Mae and Freddie Mac probably avoid over $1.5 billion per year in interest costs. This is because their status as Government sponsored enterprises (GSEs) probably saves them more than 30 basis points on the long-term debt that they issue, and about 5 basis points on the mortgage-backed securities they guarantee. Yet they do not pay the Government a fee or any other compensation for the reduced cost of capital they enjoy because of their status as GSEs.

Imposing an offset fee equal to one-half of the savings they derive from their Federal affiliation would raise $4.2 billion over 6 years. Initially the fee would reduce the GSEs' earnings, but the fee could also raise interest rates on mortgages with a face value below $200,000. If the entire fee were passed on, home buyers could face interest rates that were up to 0.1 percentage points higher.

Critics would call this a tax on homeownership, although CBO would likely score it as a fee rather than a revenue increase. HUD and Treasury are currently considering whether to recommend privatizing these GSEs or imposing these types of fees. If they were privatized one could no longer apply the fee. It appears likely their reports will recommend against privatizing or imposing these fees.

Double flood insurance premiums	1.1

Doubling flood insurance premiums would reduce the Federal Subsidy by 50%. This proposal, which is assumed in the FY 1997 Budget Resolution, will be opposed by FEMA, Congressional delegations from TX, LA, FL and elsewhere, plus the policyholders and insurance companies. In addition, nonscorable disaster costs would increase as policyholders cancel policies.

Repeal deductibility of advertising costs for tobacco and hard liquor	3.0

Currently, all advertising, marketing and promotional expenses are deductible from taxable income. Recognizing the substantial social costs that are attributable to these products, the Federal Government should not be viewed as subsidizing these products through deductibility of the costs of encouraging their consumption. The proposal, thus, would repeal any deduction for this type of advertising, promotion, etc.

The tobacco companies, in particular, will vehemently oppose this proposal, citing loss in output and jobs. Other industries may also oppose this proposal based on the concern that they may be next to be viewed as socially undesirable.

Sell three power marketing administrations	1.9

The Administration proposed sale of three PMA's (Southeastern, Southwestern, and Western) in the 1996 but not in the 1997 Budget. There was broad opposition to the FY1996 Budget proposal, particularly in the Senate, including Senators Daschle, Baucus and Hatfield. Their claim will be in part that it will raise utility bills. The net proceeds shown above assume that Southeastern is sold at the end of FY97, Southwestern at the end of FY98 and Western at the end of FY99.

Category III

For legal immigrants begin deeming sponsor's income to determine eligibility for Medicaid.................................. 1.5

SSI, Food Stamps and AFDC now count ("deem") a portion of sponsor's income to the immigrant to determine eligibility. This option would begin deeming in Medicaid, with the same exemptions as in current law. This policy is included in the immigration bills passed by the House and Senate and will most likely become law.

This is a more desirable policy than is in Congressional welfare reform bills, which would ban legal immigrants from key safety net programs. However, the Administration has opposed deeming in Medicaid. Strong opposition can be expected from the Hispanic Caucus and many in the Democratic party. It is very hard for low income immigrants to get health care coverage on their own. This policy could leave many indigent elderly and children without health coverage and could shift costs to public hospitals.

Require amortization of exploration and development costs for all minerals.. 3.0

An independent oil company can expense 100 percent of intangible drilling and development costs (IDCs). An integrated oil company can expense only 70 percent of its IDCs, with the remaining 30 percent recoverable ratably over 60 months. In addition, to avoid tax preference treatment for alternative minimum tax purposes, taxpayers may elect to amortize IDCs paid or incurred after 1989 over 5 years.

Non-corporate mining companies can deduct all domestic exploration and development costs. Corporate mining companies can deduct only 70 percent of these expenses, with the remaining 30 percent deductible ratably over 60 months. In addition, to avoid tax preference treatment for alternative minimum tax purposes, all mining companies may elect to amortize these expenses over 10 years.

The proposal would require capitalization and amortization of exploration and development expenditure for all minerals over 10 years. Alternatively, the proposal could be limited to non-fuel minerals only ($100 million).

The proposal will be strongly opposed by virtually all natural-resource companies, who will argue that these provisions are appropriate incentives to stimulate exploration and development, especially of domestic properties.

Require capitalization of multi-period timber growing costs.. 3.5

Currently, the costs of raising timber and evergreen trees generally are excepted from the application of the uniform capitalization rules. Thus, the indirect costs of growing these trees, such as for fertilizer, pest control and other maintenance, may be deducted as incurred. The proposal would repeal this exception for large C corporations.

As a result, both direct and indirect costs incurred during the pre-productive period would be required to be capitalized and could not be recovered until the trees are harvested or otherwise sold. Timber companies, whose major holdings are in the Pacific Northwest, Southeast Alaska, and the Southeast United States, will strongly oppose the proposal. They will likely describe it as a job killer.

In addition, they will likely argue that these costs are properly viewed as period costs that are deductible when paid. However, that argument has little technical merit.

Expand current .25 percent excise tax on gambling to casino games, bingo, keno etc.. 4.0

Currently, a .25 percent excise tax is imposed on most state authorized wagers. The tax could be expanded or increased in a number of ways.

The proposal would be strongly opposed by Nevada and New Jersey, as well as by Indian Nations that have casinos, bingo, keno, etc. They will describe it as a job killer. It likely will also be viewed warily by the states that have, or are contemplating, a state-run lottery.

Phase out dependent care benefits through cafeteria plans for AGI, \$90,000-100,000... 1.0

Currently, the dependent care credit is never less than 20 percent of qualifying costs, regardless of the taxpayer's income. The credit could be reduced or eliminated above certain high-income thresholds.

At certain income levels, however, it is unnecessary for the Federal government to subsidize the taxpayers' child care costs. Thus, the proposal would phase out the credit for taxpayers whose adjusted gross income is \$90,000-\$100,000.

Impose inland waterway user fees.. 2.5

The Administration proposed applying an inland waterways user fee in 1993 but received little support. Charging \$1.75 per 1000 ton-miles would raise \$2.3 billion over 6 years, and would cover the Federal cost of inland waterway operations, maintenance, and construction. CBO could count it as a spending cut -- an offsetting receipt -- rather than a tax.

The barge industry would strongly oppose it, arguing that it is a job killer. But their true power is the agriculture industry behind them. In addition, it affects some key states like Illinois and Missouri -- and anyone on the Mississippi.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION	
001. memo	Laura Tyson and Gene Sperling to President Clinton. Subject: School construction initiative (4 pages)	07/09/1996	P5	4111

COLLECTION:
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Speechwriting
David Shipley
OA/Box Number: 12006

FOLDER TITLE:
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Jamie Metrailer
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THE WHITE HOUSE

WASHINGTON

July 9, 1996

MEMORANDUM FOR THE PRESIDENT

CC: LEON PANETTA

FROM: LAURA TYSON
GENE SPERLING

SUBJECT: Decisions on the substance of the school construction initiative

In order to move forward on school construction, we need guidance on six key issues, which are laid out below.

The first four are interrelated issues of targeting: (1) eligibility; (2) purposes; (3) degree of subsidy; and (4) targeting by effort. Decision (5) is on who should administer the program. Decision (6) is the off-sets we will use.

There is also a new proposal from the Treasury Department that would allow Connie Lee to guarantee all school construction. The volume would make this bold, but the degree of subsidy for any specific city would be shallow in comparison to the proposals we have been working on. This new proposal is also attached.

<u>**DEGREE OF TARGETING.**</u> Any initiative will have a mechanism to ensure that the largest cities will get a fair share of funding because they have the greatest need. Beyond the issue of large cities, the degree of targeting will affect how we describe the proposal, the breadth of its appeal, how it could be administered, and the depth of the subsidy provided to each recipient.

1. **Eligibility:** Should the assistance be targeted based on some measure of need and past effort, or should it be available to all school districts? If eligibility is limited, one viable measure of need is income-based, such as the number of children in poverty or eligibility for Title 1 funding.

   a. **Targeted to Poorest Districts:** This proposal would target the neediest school districts. It would address schools in the worst conditions in the areas which could least afford to improve them.

   b. **Universal:** Allow all schools districts to apply. Funds could still be targeted -- so that the neediest were given the largest subsidies -- but all schools could apply.

   c. **95% of All School Districts:** This would be the same as the proposal listed above except it would exclude those school districts like Bloomfield Hills, Beverley Hills and other well-off school districts that do not need a federal subsidy.

2. **Purposes:** To prevent stories about the federal government subsidizing new swimming pools, all options would at least limit eligibility to projects that fit one of the following categories:

1) Fixing or modernizing classrooms or academic setting;

2) Safety;

3) Disability access;

4) Environmental hazards or energy efficiency;

5) Facilitating technology and modernization.

Nonetheless, there is still a question of whether we should limit the construction to repair, renovation and modernization or whether we should include the building of new schools. Limiting eligibility to renovation rather than construction of additional schools would target funds on the repair problems described in the GAO report rather than on the needs of school districts with growing populations on the grounds that they are also likely to have growing resources. Limiting the subsidy to renovation and repair would allow more school districts to be helped and would limit the federal role. Those supporting the inclusion of new school building feel that the federal government should not encourage a school district to rebuild a crumbling building when it would be best to build a new school.

a. **Any eligible school construction or renovation project.** yes____

b. **Only eligible renovation or rebuilding of an existing school.** yes____

3. **Targeting of Subsidy.** Another way of targeting is the degree of the subsidy given. We could say that all winners are given a certain amount -- 25% of financing or interest costs. Or we could provide a sliding scale of 10-50% of financing costs depending on need. That way, a poor school district could be given a significant subsidy, while an upper-middle class suburban school district might get only 10%. The actual scale could be given on a formula basis or left to the discretion of the decisionmaker -- such as the Department of Education or the State education department depending on what model we choose. If we chose a highly targeted eligibility criteria -- only poor school districts -- than it may make sense to simply have one subsidy award. If, however, we allow broad eligibility, a sliding scale approach would be a way to make the proposal universal while still allowing funds to be targeted based on need.

a. **Target poorest schools with single subsidy rate** yes____

b. **Universal proposal with single subsidy rate** yes____

c. **Universal proposal with sliding scale (10%-50% financing)** yes____

4. **Target By Effort and Incremental Effort:** Clearly, our goal is to leverage new net school construction. Yet, there is a serious question as to how strict we should be on this. On one hand, we would like to show that every dollar we spend is leveraging new net construction. On the other hand, it is hard to devise a realistic way to say that a state would not get any funds until they show that all the localities in their state have spent their historical average. The two options you could choose are therefore to apply the strict incremental formula or to simply say that it will be a criteria we will build into the decisionmakers process -- whether it is the Department of Education or the state education agency. Under the latter approach, we would say that we would build in criteria that calls for consideration of incremental net construction as a key criteria for deciding how much credit subsidies to give. However, this position may mean we would have to soften our claims on how much we are leveraging, or simply describe it as a goal.

   a. **Strict Net Incremental Formula** yes____

   b. **Key Criteria** yes____

5. ADMINISTRATION CONNECTION TO TARGETING. The degree of targeting directly affects the program's administration because the Education Department would find it difficult to administer a program to which a large share of the nation's 15,000 school districts could apply.

Model 1. ***State as Recipient:*** In this model the state is eligible for a proportionate share of funds that it can draw down once it meets its "incremental addition" criteria and ensures that major cities will not be left out. This approach allows for state and local control of the allocation of school construction dollars, subsidized by the federal government. It also avoids criticism -- however unfair -- that the Department of Education would not be able to administer such a complicated program with thousands of individual applicants. Mostly, however, it avoids criticism that this is an inroad into federal control of local education functions. The major downside is that even with a formula it puts most of the program in the hands of governors who may be hostile to the program simply because it is proposed by the President.

Model 2. ***Direct Application to the Federal Government:*** Under this model, thousands of applicants would be able to apply directly to the Department of Education for funding. The advantage here is that the Mayors and superintendents who would be most supportive of this new initiative would be able to apply directly for funds and would be very vocal in their support. Anywhere any Administration official went they could speak directly to the people of that town and say that if you do the right thing on school construction, we will be your partner. The downside, as mentioned above, is that it could be called "big government" and the federal government could be criticized for putting strings on money in an effort to impose its values or standards on local districts. It could make the Department of Education a greater target -- with criticisms (justified or not) that it will not be able to handle the Administration of this program. In addition, while direct applications would allow closer review of individual meritorious projects, it would make an overall incremental standard very difficult to develop.

Model 3. ***Hybrid:*** Under this proposal, the top 100 largest school districts would apply to the federal Department of Education for credit subsidy assistance. The Department of Education would set aside some amount of funds (perhaps about 25%-35% of the funds) for large city applicants; these cities make up about 25% of national enrollment. The rest of the funds would go to states who would then have the discretion to give out credit subsidies to smaller communities who met the given criteria. The advantage of this proposal is that big-city mayors would not feel dependent on potentially hostile governors to get their funds, while the overall program would still be left to state discretion. This can be justified by our desire to ensure that the large cities -- where the need is the greatest -- would be treated comparably. The Education Department would not be open to criticism for being overburdened since it would have to handle only 100 -- not 10,000 applicants. The downside of the hybrid proposal is that it may seem more complicated, and some may see it as simply designed to protect friendly Mayors.

6. OFF-SETS

Vice President's Spectrum Initiative Alone: This would likely generate $3-4 billion. The advantage is that this is a single spending savings -- a one-time savings -- funding a one-time school construction program. The disadvantage is that it may generate less than $4 billion.

VP Spectrum and Sales Source: This would give us more funds -- well over $5 billion -- and would just complete the elimination of a savings we have already started to eliminate -- but would bother some because it would be a tax savings to pay for a spending program.

VP Spectrum and DARS Radio Spectrum -- and Rearrange Hope Scholarship Funding: The Hope Tax Cut was paid for by three measures: an international ticket tax, DARS radio spectrum, and sales source. One proposal that OMB is considering is to change our Hope Financing and say that all of it will be paid for by eliminating all -- not half -- of the sales source subsidy. Then the radio spectrum and the channel 60-69 television spectrum auction would fund the education infrastructure. The advantage of this is that we would have a tax provision funding a tax cut, and only spectrum proposals funding the education construction. The disadvantage of this proposal is that the rearranging and changing of the financing for the Hope Scholarship would probably be met with significant skepticism by the press.

Other Savings: Corporate Jet Subsidy or Controlled Foreign Corporations: Two savings proposals that have been off the table are the corporate jet subsidy and the controlled foreign corporation provision. The corporate jet subsidy affects mostly two states -- Kansas and Georgia and is scored as a spending cut. Some fear, however, that a job loss argument could be launched against it. The controlled foreign corporation provision has the advantage of being a provision that could contain an attractive political message: taking away tax incentives and tax havens that encourage American companies to move jobs and production overseas. The disadvantages are that it is a tax savings, companies would argue that they were made less competitive in foreign countries with adverse impact on jobs at home, and that together with the sales source multinationals might rebel.

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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

July 9, 1996

MEMORANDUM FOR THE PRESIDENT

From: Katie McGinty

Subject: Environmental issues in North Carolina

ENVIRONMENTAL JUSTICE

This issue might come up at the NAACP gathering; it had been a priority for Benjamin Chavis: In the first year of your Administration, you issued an executive order that directed all federal agencies make environmental justice a part of their mission. Under the executive order, each Federal agency must review its programs, policies, and activities to address disproportionate and adverse effects on low-income or minority communities. Pursuant to this order, each agency has developed its own environmental justice strategy, and must consider impacts on minority and low-income communities when preparing environmental impact statements. EPA has taken the lead in working with low income and minority communities on a range of environmental justice issues, from regulatory standards to brownfields redevelopment. The executive order was well received in the community, but there is a general feeling amoung EJ activists that we have not made this a high enough priority. (Some also may feel that they were promised a White House summit with you on the subject. This was something of a misunderstanding.)

BEACH RESTORATION

For many years the Army Corps of Engineers has funded projects to repair beach erosion, typically by dredging sand from offshore and using it to build up beaches. These projects can be very expensive and ongoing, since they are fighting the natural erosion process. The Corps' current position is that, given Congressional budget cuts and the need to prioritize existing funds, it will honor all existing commitments (including those that involve ongoing periodic replenishment of beaches) but will not typically consider new projects. The Corps notes that new projects to create or enhance recreational or tourist destinations should not be a high federal priority, since the economic benefits of such areas to the state and local economy typically justify funding such work with state and local funds. However, the Corps takes no position on the propriety of beach restoration generally, and emphasizes that each state has the authority to maintain its shoreline as it sees fit.

This is a highly-charged issue in coastal states including North Carolina and Florida.

Both Democrat and Republican officials, including Gov. Chiles of Florida, insist that the federal funding of new projects must continue. They argue that federal funding is justified to enhance economic growth through tourism, as well as to protect inland areas from more costly storm damage. Senators Mack and Bradley have introduced legislation directing Corps policy in the area, and other pending legislation earmarks funds for particular restoration projects.

While supporting current Corps policy, you should emphasize that this policy encompasses a willingness and desire to work with state and local officials, and to continue substantial federal expenditures for this purpose. In FY 1997 the Corps expects to obligate $83 million for shoreline projects, the largest annual expenditure to date. In addition, there is flexibility in the current policy. Each new proposal will be considered on its merits, and limited exceptions can be made to allow new projects to protect permanent existing residential, commercial or industrial areas. We would expect to work closely with state and local officials to determine these needs, and meetings with OMB and state officials on these issues already have taken place and will continue as necessary. **Do not commit yourself to any specific project or to changing Corps policy. But, leave room for that possibility.** (I am concerned that this may blow up in key states.)

HOG WASTE

There was recently a major spill of hog waste into the Neuse River, in Eastern North Carolina. This spill resulted from lax management of facilities regulated by Clean Water Act permits, and was the most recent of several spills that have raised concerns about the adequacy of regulation of hog waste and agricultural pollution sources generally. Although the relevant permits for these hog wastes are issued under Federal law, the permits are issued and overseen by the state of North Carolina, so it is largely a state issue. EPA, though, has been working with the state to improve permit oversight. Note too that these spills reinforce the importance of your stand against the House "Dirty Water Bill" and the Dole Regulatory Reform bill, either of which would have made it almost impossible to regulate pollution sources like these. This issue is important enough that the Raleigh News and Observer won a Pulitzer Prize for a series on the subject.

OFFSHORE OIL DRILLING

As you know, the Administration has long supported the moratorium on new offshore oil drilling in sensitive areas. This annual moratorium was extended with the Omnibus Appropriations bill. However, the Outer Banks Protection Act -- which essentially made the moratorium permanent -- was repealed in the same bill. Governor Hunt opposed the repeal and supports the moratorium; both Senators took the opposite position. Repeal of the OBPA was not particularly controversial because the one-year moratorium was still in place and because no sales are proposed by DOI for the planning period that runs through 2002.